



Dear Shareholders,

**COMMITTED TO BUILDING
TOMORROW'S ENERGY SYSTEMS,
TODAY**

Building on its position as the pre-eminent Independent Power Producer ("IPP") in Malaysia, Malakoff Corporation Berhad ("Malakoff") has applied its inherent skills and strengths honed in the domestic market to invest in a wide range of power and water assets overseas. Global energy and water demands are rising and so are consumer expectations for constant availability on tap. As the world shifts towards a new, low-carbon energy future, Malakoff is taking steps today to help build the energy systems of tomorrow by introducing the latest clean-burning coal technologies and exploring innovative renewable energy solutions such as wind and solar power.

DATUK WIRA AZHAR ABDUL HAMID

Group Managing Director

GROUP MANAGING DIRECTOR'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS

Malakoff has grown from strength to strength since its inception and is today a global energy and water company in more than seven countries in Southeast Asia, the Middle East and North Africa, and Australia. Malakoff aims to help meet the energy needs of society in ways that are economically, environmentally and socially responsible by working together with all stakeholders in productive partnerships and by being a responsible operator and a good corporate citizen in all the communities where the Group operates.

Malakoff has successfully transitioned from being a local operator to becoming a respected firm developing our business internationally. It is also satisfying to know that even as we hold ourselves to the highest standards of quality, our facilities are being operated and maintained in a manner which is both highly efficient and economical. All 1,074 of our people, at all levels of our organisation, have played a vital part in ensuring our success. I applaud the team for their commitment and dedication in ensuring we move forward as one company despite the challenges present in our operating environment. It is now my duty to continue to manage and promote the active stewardship of our assets at home and abroad to the highest standards in order to continue to create long-term value for our shareholders.

STEADFAST PROGRESS AMIDST CHALLENGING MARKET CONDITIONS

Overall, market conditions in Malaysia remained competitive in 2016. Despite the challenges of a slowing economy and declining exchange rate for the Malaysian Ringgit, Malakoff continued to maintain its position as the leading power generation company in Malaysia and the underlying strong operational performance during the year was maintained at home and abroad.

In Malaysia, GDP growth slowed to 4.2 percent in 2016 (2015: 5%). The inflow of foreign direct investment eased in comparison to previous years. A relatively stable political environment and strong economic fundamentals underpinned the economy with continuing emphasis placed on transport infrastructure, services and exports. Opportunities for private sector led growth leveraged on the proximity to Singapore and key South East Asian markets. On the downside, potential investors saw risks of burgeoning inflation and a widening budget deficit which was mainly due to the impact of lower oil prices and a weakening Ringgit.

Domestic energy demand in Malaysia slightly levelled in 2016 at 17,500 megawatt ("MW"), while installed capacity rose to 23,000 MW providing a reserve margin of 29 percent. The government has set a target to achieve a cumulative solar capacity of 1000 MW by 2020, commencing with 350 MW in 2017.

While 2016 has proven to be a challenging year for Malakoff, three important milestones were attained to strengthen the Group's operations, one on the international scene and two here at home in Malaysia.

The Group achieved a major milestone when the newly built 1,000 MW coal-fired Tanjung Bin Energy ("TBE") Power Plant, completed testing and commissioning and subsequently achieved its commercial operations date ("COD") on 21 March 2016. Located on a 65 hectare parcel of land in the south-western region of Johor adjacent to the existing 2,100 MW Tanjung Bin ("TBP") Power Plant, this plant is currently supplying

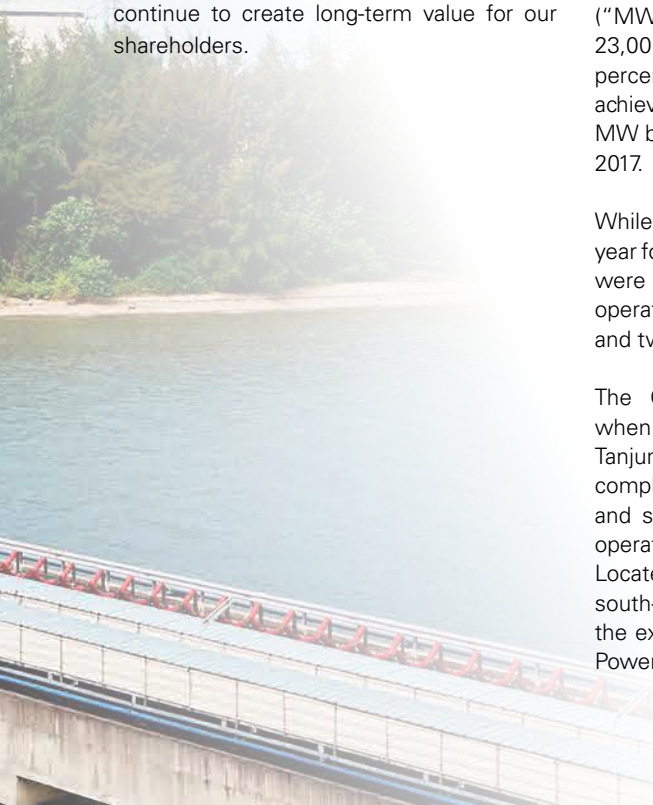
its generating capacity to Tenaga Nasional Berhad ("TNB"), under a 25-year Power Purchase Agreement ("PPA").

The TBE Power Plant is utilising ultra-supercritical technology, the most efficient coal combustion technology commercially available. Low nitrogen oxide ("NOx") burners, a seawater flue gas desulphurisation system, and a high-ratio fabric filter offer state-of-the-art emissions control. This technology has been known to achieve efficiencies of up to 47 percent, well above the global average rate of existing power plants of about 30 percent, while lowering fuel consumption and emissions.

As testament to its advanced design, technology and successful timely completion, the TBE Power Plant was hailed the Coal Power Project of the Year (Gold) at the *Asian Power Awards* event in September 2016. It also received the Coal Top Plant 2016 Award from *Power Magazine* a month later.

The Port Dickson ("PD") Power Plant, on the West Coast of Peninsular Malaysia, was awarded a three-year extension period in relation to its existing PPA in December 2015. The extension came into effect in March 2016. The 436 MW OCGT gas turbine power plant that supplies electricity to the national grid for peaking and emergency requirements is 100% owned via our wholly owned subsidiary, Hypergantic Sdn Bhd. Over the past 22 years, it has repeatedly set exemplary performance standards in terms of its availability and commercial starting reliability.

Our new venture in Oman on the southern Arabian Peninsula reached a major milestone during the year. The Al Ghubrah Independent Water Project (Sultanate of Oman) achieved COD on 19 February 2016. Malakoff International Limited ("MIL") led the consortium that was awarded the contract to build, own and operate the plant using reverse osmosis technology. The project is expected to deliver up to 191,000 m³/day of water over a period of 20 years. Since operations commenced the plant has been performing as anticipated with a recorded average availability of 88 percent.



GROUP MANAGING DIRECTOR'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS

OUR BUSINESS AND STRATEGIES FOR SUSTAINABLE GROWTH

Malakoff is a leading independent power and water producer in Asia with core businesses that include power generation, water desalination and operation and maintenance services. In Malaysia, we own an effective generation capacity of 6,346 MW comprising seven power stations that run on gas, oil and coal. On the international front, we own an effective capacity of 690 MW of power and 444,800 m³/day of water desalination. These projects are located in Saudi Arabia, Bahrain, Algeria, Oman and Australia. Furthermore, Malakoff provides services through its wholly-owned subsidiary companies in operation and maintenance services ("O&M"), electricity and chilled water distribution and project management services for in-house and external projects.

Malakoff's IPP energy assets in Malaysia are still the mainstay of the business yielding the lion's share of the Group's profits. As we anticipate pressure on margins owing to rivalry among existing competitors, the prospect of PETRONAS entering into vertical integration with gas-to-power, and Sabah and Sarawak being heavily influenced by local participants, we are implementing a strategy of business diversification beyond power generation to service new customers in O&M services, electricity distribution, district cooling, property and other related ventures.

In the shorter-term there are limited new opportunities in the domestic power generation industry. However, the government's progressive direction towards achieving a cumulative solar capacity of 1000 MW by 2020, commencing with 350 MW in 2017 is providing new opportunities for the Group. As a result of the limited prospects at home, even after taking into account a limited diversification programme and our entrance into renewable energy, there is a need to aggressively explore opportunities overseas, focusing on mergers and acquisitions to ensure profitable and sustainable growth.

FINANCIAL PERFORMANCE

For the financial year ended 31 December 2016 ("FY2016"), the Group's revenue increased by 15 percent to RM6,098.4 million from RM5,302.0 million in FY2015. This increase came on the back of revenue contributions by Tanjung Bin Energy Sdn Bhd pursuant to the commencement of its COD on 21 March 2016.

The Group turned in a Profit after Tax and Minority Interest ("PATMI") of RM355.5 million, a 21 percent drop from RM452.4 million in FY2015. The lower result was mainly attributable to additional depreciation due to the change in estimated residual values of gas-fired power plants, plus a lower contribution from Port Dickson Power Berhad due to lower tariff of the extended PPA. The year's performance was also affected by higher maintenance costs offset by higher contributions from our associates, insurance claims on rotor replacement, and lower finance costs following the redemption of the unrated Junior Sukuk Musharakah in 2015.

As at 31 December 2016, the cash and cash equivalents of the Group increased to RM3,006.8 million from RM2,853.3 million as at 31 December 2015. Other investments which represents deposit placements with more than three months maturity, increased to RM1,403.8 million from RM629.2 million. The increase was mainly due to the cashflow generated from operations of RM2,364.6 million against RM1,899.3 million in the preceding year. The increase in cash came on the back of contributions from TBE Power Plant which commenced operations in March 2016. There was also a decrease in cash used for investing activities mainly due to the lower capital expenditure ("CAPEX") incurred in FY2016.

We incurred CAPEX of RM468.9 million for FY2016 in comparison to RM1,430.4 million incurred in FY2015. The majority of our CAPEX expenditure was related to our power plants, in particular for the final phase of construction and development of the TBE power plant as well as C-inspection costs for Segari Energy Ventures Sdn. Bhd. ("SEV") power plant.

As at the year's end, the Group's gearing ratio stood at 2.86 times in comparison to 2.90 times as at end December 2015. This gearing ratio is calculated as total debts divided by total equity.

The Group's shareholders' equity as at 31 December 2016 stood at RM5,915.7 million, an increase of RM150.6 million over the previous financial year. The increase was mainly due to net profit for the year and reserves offset by total dividend payment.

Moving forward, there are certain transactions that will affect the Group's results for the financial year ending 31 December 2017, among which is the expiry of the existing SEV PPA in June 2017. The new SEV PPA, which will take effect upon expiration of the existing SEV PPA stipulates lower levelised tariffs as compared to the existing SEV PPA. Notwithstanding the above, the Group continues to implement strategic initiatives to secure growth opportunities for the future. In addition, the Group is focusing on enhancing efficiencies throughout its operations and hence expects the results to be sustainably positive for the financial year ending 31 December 2017.

As at end 2016, the Group had authorised CAPEX amounting to RM559.1 for property, plant and equipment but has not contracted this out as yet. Some of this CAPEX is being apportioned for improvements that are being made to the coal handling facilities in Tanjung Bin as a measure to reduce long-term costs.

BUSINESS SEGMENT AND OPERATIONS REVIEW

The Malakoff Group is helping to power Malaysia towards attaining its vision of becoming a fully industrialised and developed nation. This section of the annual report records the hard-earned successes we have achieved in improving operational efficiency in the power plants and the breakthroughs we have made in the international arena.

GROUP MANAGING DIRECTOR'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS

DOMESTIC POWER GENERATION

Malakoff continues to hold its position as the largest Independent Power Producer ("IPP") in Malaysia. The year 2016 saw a great leap forward in Malakoff's effective domestic power generation capacity from 5,346 MW to 6,346 MW when the new 1,000 MW coal-fired TBE Power Plant started feeding into the national grid, supplying electricity to TNB on its commercial operation date ("COD") of 21 March 2016. Taking into account this added generating capacity, we now command a respectable 27.8 percent market share of the total installed generating capacity in Peninsular Malaysia.

Inclusive of the TBE Power Plant, our domestic power generation assets comprise two coal-fired thermal plants, three combined-cycle gas turbine ("CCGT") power plants, and an open-cycle gas turbine ("OCGT") power plant. We also have a 40 percent stake in one power plant with multi-fuel generation facilities, namely Kapar Energy Ventures Sdn Bhd ("KEV"). Our coal-fired power plants, account for approximately 38 percent of Peninsular Malaysia's total installed coal-fired generation capacity.

Malakoff sells all the power generated by domestic plants to TNB under long-term Power Purchase Agreements ("PPAs").

OVERVIEW OF MALAKOFF'S DOMESTIC AND INTERNATIONAL POWER AND WATER ASSETS AS AT 31 DECEMBER 2016

Plant Name	Location	Plant type	PPA expiration	Generating Capacity	Effective Equity Participation	Effective Capacity
Tanjung Bin Energy Power Plant	Malaysia	Coal	2041	1,000.0 MW	100.0%	1,000.0 MW
Tanjung Bin Power Plant	Malaysia	Coal	2031	2,100.0 MW	90.0%	1,890.0 MW
SEV Power Plant	Malaysia	CCGT	2027	1,303.0 MW	93.75%	1,221.6 MW
Kapar Power Plant	Malaysia	Multi-Fuel	2019/29	2,420.0 MW	40.0%	968.0 MW
GB3 Power Plant	Malaysia	CCGT	2022	640.0 MW	75.0%	480.0 MW
Port Dickson Power Plant	Malaysia	OCGT	2019	436.0 MW	100.0%	436.0 MW
Prai Power Plant	Malaysia	CCGT	2024	350.0 MW	100.0%	350.0 MW
Shuaibah Phase 3 Expansion IWP	Kingdom of Saudi Arabia	Water	2029	150,000m ³ /day	11.9%	17,850 m ³ /day
Shuaibah Phase 3 IWPP	Kingdom of Saudi Arabia	Water & Power	2030	880,000m ³ /day 900.0 MW	12.0%	105,600 m ³ /day 108.0 MW
Souk Tleta IWP	Algeria	Water	2036	200,000 m ³ /day	35.7%	71,400 m ³ /day
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 Independent Water Project	Sultanate of Oman	Water	2034	191,000 m ³ /day	45.0%	85,950 m ³ /day
Total Effective Power Generation Capacity						7,036.0 MW
Total Effective Water Production Capacity						444,800m³/day

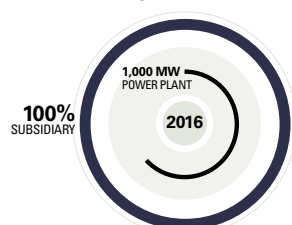
CCGT: Combined Cycle Gas Turbine

OCGT: Open Cycle Gas Turbine

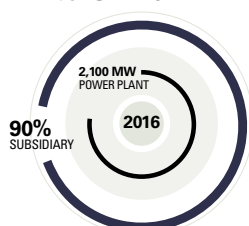
The TBP, Prai, PD, SEV and GB3 power plants are all compliant with the MS ISO 9001 Quality Management System, OHSAS 18001, MS 1722 Occupational Safety and Health Management System as well as ISO 14001 Environmental Management System and ISO 27001 Information Security Management System standards.

GROUP MANAGING DIRECTOR'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS

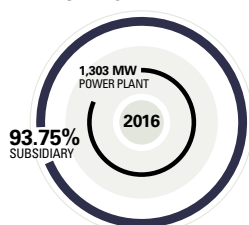
TANJUNG BIN ENERGY
POWER PLANT



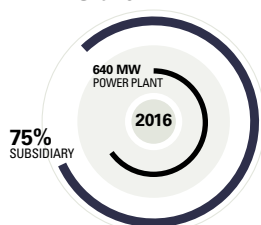
TANJUNG BIN POWER PLANT



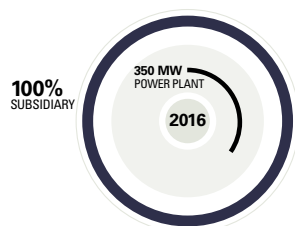
SEV POWER PLANT



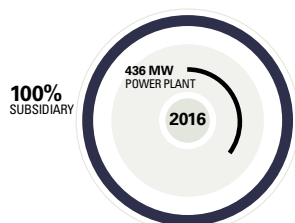
GB3 POWER PLANT



PRAI POWER PLANT



PORT DICKSON POWER PLANT



SUBSIDIARY-OWNED POWER PLANTS

Tanjung Bin Energy ("TBE") Power Plant

In March 2016, Malakoff successfully completed the construction of its new 1,000 MW coal-fired TBE Power Plant. The new plant is located on 65 hectares of land in the southwestern region of Johor, adjacent to the existing 2,100 MWTBP Plant. The testing and commissioning activities were completed successfully between October 2015 and March 2016 and the plant subsequently achieved its commercial operation date ("COD") on 21 March 2016.

The construction was undertaken by a consortium comprising Alstom Power System SA, Alstom Services Sdn Bhd, Shin Eversendai Sdn Bhd and Mudajaya Corporation Bhd under a turnkey Engineering, Procurement and Construction ("EPC") contract. The operation and maintenance of the plant is being undertaken by Malakoff Power Berhad, a wholly-owned subsidiary of Malakoff and the same Operation & Maintenance ("O&M") contractor for the existing TBP Plant. The plant is currently supplying its generating capacity to the offtaker, TNB, under a 25-year PPA with TNB.

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 thereby minimising the plant's impact on the environment. The timely completion of the plant enables Malakoff to capitalise on increasing electricity demand as well as the increasing role of coal fired power generation in Malaysia. In recognition of its advanced design and technology and successful timely completion, TBE Power Plant won the Coal Top Plant 2016 Award by *Power Magazine* in October 2016.

In its first year of commercial operation, the plant delivered a total of 4,786.9 gigawatt-hours ("GWh") of electricity to the national grid, achieving an average capacity factor of approximately 69.74 percent for 2016. The plant recorded an average equivalent availability factor of 79.72.

Tanjung Bin Power ("TBP") Plant

Malakoff has a stake in the TBP Plant through our 90 percent subsidiary, Tanjung Bin Power Sdn Bhd. The 2,100 MW power plant is the first private coal-fired power plant in Malaysia and one of the biggest independent coal-fired power plants in SEA based on generation capacity. It consumes various types of bituminous and sub-bituminous coal imported from Australia, Indonesia, Russia and South Africa and is installed with clean coal technologies including an electrostatic precipitator and flue gas desulphurisation units. The TBP Plant continues to play a vital anchor role supplying power to the national grid.

Since the successful completion of the plant's turnaround upgrade, involving major modification works to the boilers and the overhaul of the steam turbine over the course of 2015 up until February 2016, it has maintained a commendable performance. In terms of electricity generation, the TBP Plant supplied approximately 15,263 GWh of electricity to the national grid in 2016, at an average capacity factor of 82.74 percent. The plant's equivalent availability factor, improved from 77.80 percent in the previous year to 83.71 percent in 2016 and the unplanned outage rate ("UOR") of 4.79 percent was well-maintained below the threshold under the PPA, signifying improved reliability at the plant as a result of the successful turnaround.

In 2016, several major improvement projects in relation to coal handling began in phases to ensure the uninterrupted supply of coal to the TBP Plant and the adjacent new TBE Power Plant.

SEV Power Plant

We have a stake in the 1,303 MW SEV Power Plant via Malakoff's 93.75 percent-owned subsidiary, Segari Energy Ventures Sdn Bhd ("SEV"). Now in its 21st year of commercial operation, this plant is the largest CCGT power plant owned by an IPP in Malaysia. The SEV Power Plant is set to continue selling its 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. In the year under review, it achieved an average capacity factor of approximately 63.90 percent and delivered approximately 7,313 GWh of electricity to the national grid. The

GROUP MANAGING DIRECTOR'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS

plant also registered an availability factor of 89.76 percent, thereby exceeding the threshold under the PPA with TNB.

GB3 Power Plant

Malakoff has a stake in the GB3 Power Plant through 75 percent-owned subsidiary, GB3 Sdn Bhd. Located adjacent to the SEV Power Plant, GB3 is another CCGT power plant. In its 15th year of commercial operation, the plant delivered a total of 1,138 GWh of electricity to the national grid, achieving an average capacity factor of approximately 20.24 percent in 2016, which is a decline from the previous year's generation. However, the plant maintained a high equivalent availability factor of 95.08 percent, a distinct improvement from the previous year.

The lower generation dispatch in 2016 from the SEV and GB3 power plants, collectively known as the Lumut Power Plant, was due to the commercial operations of newer and more efficient neighbouring power plants which put both SEV and GB3 power plants lower in the merit order of dispatch. Nevertheless, the Lumut Power Plant continued to demonstrate its proven reliability dispatching power on demand.

Prai Power Plant

Through the Group's wholly owned subsidiary Prai Power Sdn Bhd, Malakoff owns the combined cycle 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. This plant is known to be one of the most efficient natural gas-fuelled power plants in Malaysia. In 2016, it recorded a net efficiency (lower heating value) of 51.10 percent.

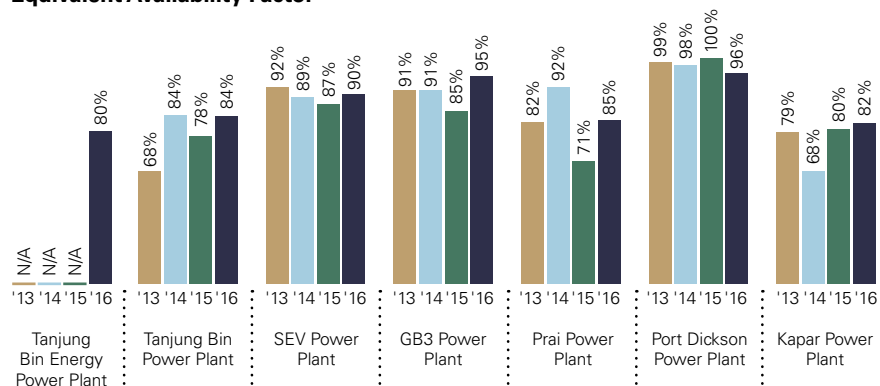
In commercial operation since 2003, the Prai Power Plant delivered a total of 1,481 GWh of electricity to the national grid in 2016. It also recorded an average capacity factor of 48.88 percent while registering an equivalent availability factor of 84.93 percent.

As a testament to the Prai Power Plant's high level of health, safety, security and environment ("HSSE") awareness, the plant has again marked a major HSSE milestone after accomplishing an impressive record of 4.004 million man-hours worked without a single Lost Time Injury ("LTI") for the past 13 consecutive years since its COD.

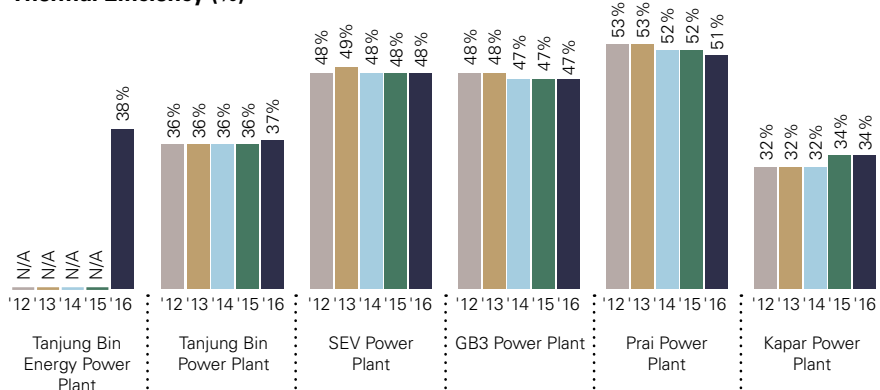
Port Dickson ("PD") Power Plant

The Group's PD Power Plant is a 436 MW OCGT gas turbine power plant that supplies electricity to the national grid for peaking and emergency requirements. Following the acquisition in May 2014 of the remaining 75 percent equity interest in the facility via our wholly owned subsidiary, Hypergantic Sdn Bhd, Malakoff now has a 100 percent stake in the plant.

Equivalent Availability Factor



Thermal Efficiency (%)



Total Electricity Sold

Power Plants	2013 (TWh)	2014 (TWh)	2015 (TWh)	2016 (TWh)
Tanjung Bin Power Plant	11.8	15.3	14.2	15.3
Tanjung Bin Energy Power Plant	NA	NA	NA	4.8
SEV Power Plant	8.0	8.0	7.8	7.3
GB3 Power Plant	2.0	1.9	2.5	1.1
Prai Power Plant	2.0	2.1	1.6	1.5
Port Dickson Power Plant	0.6	0.6	0.5	0.2

1TWh = 1000GWh

GROUP MANAGING DIRECTOR'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS

Over the past 22 years, the PD Power Plant has repeatedly set exemplary performance standards in terms of its availability and commercial starting reliability. In 2016, the PD Power Plant delivered a total of 179.0 GWh of electricity to the national grid. Being an open cycle power plant, the facility recorded an average capacity factor of 4.06 percent while registering an equivalent availability factor of 95.88 percent.

On 14 December 2015, the PD Power Plant received a conditional letter of award for a three-year extension period effective 1 March 2016 following the expiry of the existing PPA on 21 January 2016. On 12 February 2016, a new PPA was executed, marking the extension for the PD Power Plant.

ASSOCIATE-OWNED POWER PLANT

Kapar Power Plant

Malakoff has a 40 percent stake in the Kapar Power Plant via KEV. Also known as the Sultan Salahuddin Abdul Aziz Power Plant, the plant boasts a total generating capacity of 2,420 MW comprising the following facilities utilising multi-fuel sources:

- 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)
- Generating Facility 4 (GF4): 2x110 MW Open Cycle Gas Turbine

In 2016, the plant delivered a total generation of 11,474 GWh to the national grid and recorded an equivalent availability factor of 81.57 percent.

INTERNATIONAL ASSETS

Macarthur Wind Farm (Australia)

The acquisition of a 50 percent interest in the Macarthur Wind Farm in 2013 marked the Group's first venture into the renewable energy ("RE") market as well as its entry into the Australian continent. The Macarthur Wind Farm is located in the state of Victoria and is the largest wind farm in the southern hemisphere.

The state-of-the-art Macarthur Wind Farm features 140 Vestas V112 – 3.0 MW wind turbines, the largest wind farm installed in Australia. With a capacity of 420 MW, this is sufficient to power more than 220,000 average sized homes in Victoria and avoid the emission of 1.7 million tonnes of greenhouse gases annually. This is in line with the Australian government's Renewable Energy Target ("RET") of about 23.5 percent of Australia's electricity to come from renewable resources by 2020. In 2016, the plant achieved an equivalent availability factor of 97.9 percent.

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

In the gulf region, Malakoff has a 12 percent effective stake in the Shuaibah Phase 3 Independent Water and Power Project ("IWPP"), which is located near Jeddah in the Kingdom of Saudi Arabia. The project is the Group's first overseas venture and consists of a 3x300 MW crude oil-fired power plant and 880,000 m³/day Multi-Staged Flash Distillation Unit for the desalination of sea water. The project was executed on a Build, Own and Operate ("BOO") basis under a 20-year Power and Water Purchase Agreement ("PWPA") with the Water and Electricity Company of Saudi Arabia. Now in its seventh year of operation, two scheduled outages of the boiler for major works and a scheduled outage of the steam turbine for major overhaul were implemented to maintain the plant's reliability. During the year in review, the plant recorded an availability factor of 91.3 percent for both power generation and water production respectively.

Shuaibah Phase 3 Expansion Independent Water Project (Saudi Arabia)

Malakoff expanded its market share in the water production business with an 11.9 percent interest in the Shuaibah Expansion Project Company Ltd. The Shuaibah Phase 3 Expansion Independent Water Project has a capacity of 150,000 m³/day and utilises reverse osmosis technology to desalinate sea water. Since its commissioning in 2009, the plant has continued to perform well. In 2016 it recorded a high availability factor of 96.1 percent.

Souk Tleta Independent Water Project (Algeria)

The Group made its maiden foray into the North African region via an effective 35.7 percent stake in the Souk Tleta Independent Water Project. The 200,000 m³/day plant which is located in the Wilaya of Tlemcen in Algeria, uses reverse osmosis technology to desalinate sea water. Since achieving its COD in April 2011, Malakoff has invested significant resources and technical expertise in ensuring that the plant maintains an optimal performance availability rate of 95 percent.

Al Hidd Power Generation and Water Desalination Plant (Bahrain)

The 40 percent stake held in the Al Hidd Independent Water and Power Plant is the Group's largest overseas investment in water desalination. Comprising three phases, including a gas-fuelled combined cycle gas turbine, the plant has a total power generation capacity of 929 MW and a water production capacity of 410,000 m³/day, using Multi Stage Flash ("MSF") and Multi Effect Distillation ("MED") technology. The plant continued to perform steadily and has achieved an average availability factor of 97 percent and 94.5 percent for power generation and water production respectively in 2016.

GROUP MANAGING DIRECTOR'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS



Al Ghubrah Independent Water Project (Sultanate of Oman)

Malakoff International Limited ("MIL") led a consortium that was awarded the contract to build, own and operate the Al Ghubrah Independent Water Project using reverse osmosis technology. The consortium consists of Malakoff and Sumitomo which each hold a 45 percent interest in Muscat City Desalination Company SAOC ("MCDC"), while Cadagua owns the remaining 10 percent. Under a Water Purchase Agreement ("WPA") with the Oman Power and Water Procurement Co, the project is designed to deliver up to 191,000 m³/day of water over a period of 20 years. The project achieved its COD on 19 February 2016. Since operations commenced the plant has been performing as anticipated with a recorded average availability of 88 percent.

OPERATION AND MAINTENANCE

The Group's portfolio of power generation and water production assets is complemented by our strong Operation and Maintenance ("O&M") capabilities. Today, we deliver O&M services through our wholly-owned subsidiaries Malakoff Power Berhad ("MPower") and Teknik Janakuasa Sdn Bhd

("TJSB"). While MPower is responsible for servicing the Group's power plants in Malaysia, TJSB is tasked with looking after the Group's associates, joint venture partners as well as third-party clients, both locally and abroad.

To date, the Group has 21 years of O&M experience under its belt and a proven track record of operating different types of power plants. These include CCGT, OCGT and coal-fired plants as well as multi-stage flash desalination plants, reverse osmosis plants and multi-effect distillation and co-generation plants. We approach O&M performance improvement activities in a systematic manner centering our efforts on strengthening capability development. Our continual improvement efforts all aim to ensure that our assets perform at sustainable, world-class standards.

Domestic O&M Business

On the home front, we continue to make long-term investments in cutting-edge O&M tools and methodologies such as Reliability-Centred Maintenance and Root Cause Analysis. As usual, 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.

International O&M Business

Building upon over a decade of O&M experience on the domestic front, Malakoff continues to strengthen its O&M foothold in the international arena. Our efforts to date have seen us successfully securing and executing O&M contracts with a range of third party clients, notably in the Middle East and North Africa ("MENA") region. The Group's wealth of O&M experience encompasses O&M services for coal-fired, CCGT and OCGT power plants, the provision of technical, simulator and audit training as well as overhaul services. Through expanding our O&M business in a particular market or region, we have the benefit of familiarising ourselves with the local business environment before committing to any capital investment. This entry strategy has proven to be a fruitful one thus far.

In 2016, TJSB continued to meet clients' O&M needs throughout Asia and the Middle East. TJSB through its subsidiary, TJSB Middle East Ltd. The latter operates and maintains the 1200 MW Azzour South Combined Cycle Power Plant in Kuwait under a four-year Operation and Maintenance Management Services contract with Alghanim International General Trading and Contracting Co. W.L.L. The plant recorded a commendable performance with an average availability factor of 94.5 percent.

In Indonesia, TJSB via its local subsidiary PT Teknik Janakuasa, operates and maintains the Merak Coal Fired Power Plant with a capacity of 120 MW and 55 tonnes/hour steam generation. Good teamwork between our staff and the Owner's personnel achieved an average plant availability factor of 92.5 percent.

In the Kingdom of Saudi Arabia, TJSB and its consortium partners manage the operation and maintenance contracts for the Shuaibah III Independent Power and Water Plant ("IWPP") and Shuaibah III - Expansion IWP. The plant recorded an average availability

GROUP MANAGING DIRECTOR'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS

factor of 90.3 percent for power generation and 90.5 percent for the water desalination facility. The Shuaibah III IWP recorded a slightly better availability of 96.6 percent water production.

Plant improvement initiatives are currently under planning and execution for the 200,000 m³/day Souk Tleta Water Desalination Plant in Algeria spearheaded by the consortium of the O&M Operator of Hyflux Engineering Ltd. in partnership with TJSB Global Sdn Bhd. These plans are part of the Operator's commitment to ensure consistent improvement and sustainable plant availability in long run.

TJSB marked a milestone in 2016 when together with its consortium partner, Sumitomo Corporation of Japan, it started operating Al Ghubrah Independent Water Plant with a plant capacity of 190,000 m³ water per day in Oman, following its COD on 19 February 2016. The plant availability factor is 99.18 percent.

TJSB's operations teams currently maintain up to 7,537 MW of power and 1,421,000 m³/day of water desalination facilities worldwide. The team has achieved remarkable success since our establishment in 1993.

Throughout the year, TJSB actively participated in corporate branding and networking activities through participation in the Philippines and Indonesia Energy Conference. Towards the end of 2016, TJSB through its subsidiary PT Teknik Janakuasa has opened an office in Jakarta to improve their brand visibility in and aggressively promote O&M services to potential clients in Indonesia.

Maintenance, Repair and Overhaul Services

To consolidate Malakoff's position as a leading IPP and O&M provider, the Group also offers a Maintenance, Repair and Overhaul ("MRO") service that significantly reduces the overall maintenance cost of plants, via a wholly-owned subsidiary of TJSB named TJSB Services, either as part of an O&M package or as an independent offering.

TJSB provides MRO solutions covering a wide spectrum of power-related facilities and equipment to both local and overseas clients. Its range of services includes major and minor overhauls of thermal and gas plants, engineering field services, as well as cost-effective solutions for customers requiring original equipment manufacturer ("OEM") support.

And as part of a strategy to be a one-stop centre for power plant operations and maintenance services TJSB is also internally developing, marketing and managing re-engineered manufacturing and refurbishment of gas turbine parts and other plant auxiliaries. By strategically partnering global and capable Independent Service Providers, TJSB intends to further develop its in-house capabilities and expertise and prepare for expansion in 2017 and beyond.

Looking ahead, TJSB will continue to explore O&M and MRO opportunities either independently or with partners in the MENA and SEA regions.

Technical Support Group

The Group's mounting O&M activities are complemented by the Technical Support Group ("TSG") which has the responsibility for reviewing relevant internal processes and making recommendations so as to achieve performance targets. TSG continually identifies, studies and implements improvement initiatives at all plants, to ensure higher plant availability and reliability. It has led and participated in failure investigations and root cause analyses with the aim of avoiding recurrences. It has also rendered support in terms of unit and part assessments during outages or inspections relating to gas turbines, steam turbines and boilers.

In 2016, TSG continued to lend its engineering expertise towards overall plant improvement with the implementation of projects, which require CAPEX, across all Malakoff operated power plants locally from feasibility study, design and engineering, technical evaluation and implementation, up to the completion stage. TSG's contributions to Coal-Fired Power

Plants ("CFPPs") were mainly on Boiler Pressure Parts Assessment adopting a Risk Based Inspection or RBI approach during plant outages. The RBI concept implemented through comprehensive development and improvement programmes included an Integrated Database Management System ("IDMS") Software Project successfully executed for TBP Plant and TBE Power Plant.

TSG also led the implementation of Process Safety Management ("PSM") at TBP Plant and plans to replicate the same process for other Malakoff plants next year. TSG's commitment to excellence was demonstrated in the preparation of the contingency plan for boiler tube spares, a boiler tube materials study, and the installation of additional superheater and reheater thermocouples at the newly-commissioned TBE Power Plant. TSG was also instrumental during plant outages in conducting boiler inspection and parts assessment. Successful improvement works are crucial to ensure all CFPPs can deliver sustainable output, safely and reliably.

TSG's contributions to other CCGT power plants include optimisation of the firing function of the Gas Turbine 13 SEV Power Plant for base load adjustment; gas turbine inspection support during plant outages; and technical reviews on insurance claims on major equipment breakdowns among other things.

During the year, TSG continued to lead various technical studies such as Risk Based Inspection and Root Cause Analysis. The recommended actions derived from the studies are being implemented to address plant issues and mitigate operational risks. Besides support to locally-operated power plants, TSG is also involved in supporting overseas power plants with a technical study for valve and piping failure for the Al-Ghubrah Plant in Oman and a technical attachment during a plant outage at the Merak Power Plant in Indonesia.

GROUP MANAGING DIRECTOR'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS

ELECTRICITY DISTRIBUTION AND CHILLED WATER SUPPLY

Malakoff Utilities Sdn Bhd ("MUSB"), the Group's wholly-owned subsidiary, is a leading electricity distribution and district cooling plant infrastructure owner and operator in Malaysia. MUSB holds the exclusive license to distribute electricity within Kuala Lumpur Sentral ("KL Sentral"), the prestigious 72-acre development in Kuala Lumpur, with the capacity to meet offtake up to 100 MW. Currently, maximum demand only reaches 54 MW, so there is still scope for increasing sales. MUSB's customer base continues to expand in tandem with the on-going development of KL Sentral as a business and transportation hub. The rising demand trend is expected to accelerate in the near future with the completion of new properties such as the St Regis Hotel & Residences, and Sentral Residences.

MUSB started supplying chilled water to KL Sentral in 2001 and employed the latest thermal energy storage ("TES") technology in 2011. The total chiller capacity at the district cooling plant utilising the latest TES technology reaches 14,140 refrigerant tonnes and can cater up to 17,000 refrigerant tonnes at peak demand. MUSB promotes sustainable and improved energy utilisation whilst reducing the environmental impact of its operations.

In 2016, MUSB successfully recertified to ISO9001:2015 the International Standard that specifies the requirements for a quality management system that will deliver consistent products and services that meet customer needs as well regulatory requirements. MUSB gauges its performance through continuous customer feedback to ensure it meets its customers' expectations and improves operations and services. In 2016, MUSB achieved a customer satisfaction rating of more than 85 percent by delivering courtesy, care and attention to detail for an excellent customer experience. For the greater convenience of its customers, during the year MUSB added JOMPay to its multiple payment channels.

Moving forward, MUSB is actively exploring opportunities to extend its activities beyond the KL Sentral site. 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.

CORPORATE SERVICES

Information Technology

Information Technology ("IT") is utilised throughout the Group's operations to improve work processes, preserve data confidentiality and integrity, and in automating business processes for greater efficiency. IT also plays an important role in the Group's Business Continuity Planning ("BCP") initiative which is aimed at ensuring business resilience in the face of a disaster or disruption to business activities. A disaster recovery plan for the Group's IT system itself remains an integral part of the BCP initiative and tests are conducted at regular intervals to ensure preparedness.

To meet the requirements of the ISO/IEC27001:2013 ISMS standard, security assessments are scheduled regularly to screen our security posture and test standing plans to mitigate identified risks. Upgrades to the IT systems cater to changes in external regulations to ensure that the Group is always in compliance. As part of the digital transformation plan for 2017, IT services will enhance efficiency by providing an improved user experience and seamless mobility.

Enterprise Risk Management

The implementation of a holistic, comprehensive and effective Enterprise Risk Management platform across Malakoff will enable us to make sound business decisions, mitigate threats and pursue our business objectives. For these reasons, the Management Risk Committee ("MRC") is tasked with supporting the Board Risk and Investment Committee ("BRIC") in integrating risk management strategies, policies, procedures and risk appetite

as well as reviewing the application of risk management practices across the Group in line with Malakoff's Enterprise Risk Management Policy and Framework ("ERMPF"). The ERMPF is based on the ISO 31000:2009 Risk Management Principles and Guidelines codified by the International Organisation for Standardisation ("ISO").

In 2016, following the successful implementation of Business Continuity Management ("BCM") at Malakoff's headquarters in Kuala Lumpur, the Group has extended the BCM initiatives to five local power plants in Tanjung Bin, Lumut and Prai. The implementation of BCM for these power plants started in April 2016 and is expected to be completed in 2017.

For the year under review, a total of 103 risk initiatives and activities were implemented which included a series of risk assessment sessions, reviews and trainings organised across Malakoff. As at 31 December 2016, a total of 546 risks were registered and monitored in the Enterprise Risk Management System ("ERMS"), of which 51.28 percent of these risks were rated as "low risk", 36.63 percent as "moderate risk", 10.44 percent as "high risk" and 1.65 percent as "extreme risk". Ninety-three management actions were identified as at 31 December 2016 to mitigate the risks which are being actively monitored.

As part of Malakoff's ERMS, Technical Risk Assessments Processes ("TRAPs") are carried out every year for Malakoff's power plants and reported to the Management Risk Committee. TRAPs serve to identify, analyse and evaluate technical risks, specifically the risks associated with engineering and operational practices at the power plants. The management actions identified from TRAPs are implemented and continuously monitored via the ERMS.

GROUP MANAGING DIRECTOR'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS

As the Group moves forward, there are specific risks that Malakoff is exposed to, that could impact our operational and financial performance. As such we continue to leverage on our robust ERMS structure to bring into play several initiatives to mitigate these risk factors.

One of the key strategic risks that we face as a Group is the challenge of delivering sustainable business growth. It is essential for the Group to continuously grow to ensure the sustainability of the business. To this end, we have instituted our five-year business plan, which focuses on various expansion initiatives. In particular, the Group is pursuing overseas brownfield projects which will provide immediate income to the group. We are also exploring strategies such as tying up with aggressive consortium partners and leveraging on new efficient technologies that will open up new business opportunities.

There are certain operational risks that could disrupt our plants' performance. These include operational challenges in maintaining the reliability and efficiency of power plants. As such, across the Group, planned maintenance and inspection activities are continuously being undertaken to ensure all plants are able to sustain their operational performance. Improvement initiatives such as Reliability-Centred Maintenance and Risk Based Inspection are implemented to meet the high reliability and availability targets. Root Cause Analysis and TRAPs are also conducted to identify and mitigate engineering and operational risks.

OUTLOOK AND PROSPECTS

Global Outlook 2017

Global economic activity is set to pick up in 2017 and 2018 following a lacklustre 2016 according to the International Monetary Fund's World Economic Outlook ("IMF") update as of January 2017. The IMF forecasts that global growth will touch 3.4 percent and 3.6 percent in 2017 and 2018 respectively in comparison to 3.15 percent growth in 2016. The advanced economies are projected to make small improvements, while activities in emerging market and developing economies will continue to drive global GDP led by growth rates of 7.6 percent for India and 6.2 percent for China.

However, at the same time, global risks remain significant and difficult to predict. The recovery from the 2008-2009 recession is the slowest and most problematic of the past century. High levels of debt,



particularly in the public sector and unintended consequences of the unprecedented monetary easing policies are causes for concern. China's transition to a more consumption and service-based economy continues to influence other emerging market economies, notably commodity producers and countries exposed to China's manufacturing sector.

Reservations about US policy under President Trump, the risks of muddled Brexit negotiations and the outcome of upcoming multiple leadership elections in the European Union, all lend to the air of uncertainty. Add to this China's structural slowdown and Japan's struggle with deflation and the outlook is cloudy. However, there is some optimism that things can turn around for the better should policies that promote sustainable and inclusive growth as well as cooperation and coordination be brought into play.

Domestic Prospects 2017

In the domestic realm, the prospects of adding to our local power generation properties are limited in the near term and our existing assets face depleting PPA life spans which creates a challenge for the Group to maintain its leading position at home. Internationally, although there is currently a very competitive landscape for new acquisitions which can drive down equity returns, there are multiple opportunities in both the power and water sectors, which we will pursue diligently.

International Electricity & Water Markets

Gulf Cooperation Council ("GCC") countries

Installed power capacity in the Gulf Cooperation Council ("GCC") countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates ("UAE") is expected to increase from 127 GW in 2011 to 293 GW in 2030 and 417 GW in 2040.

The GCC forecasted to raise desalination capacity by 40% from 2015 to 2020. In 2015, the capacity was approximately 4,000 MIGD and is set to increase to more than 5,500 MIGD by 2020. Similarly, demand in 2015 was about 3,300 MIGD and is expected to grow to around 5,200 MIGD by 2020. Saudi Arabia and the UAE are the world's first and second largest producers of desalinated water. Qatar and the UAE have enjoyed comfortable reserve

GROUP MANAGING DIRECTOR'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS

THE INVESTMENT STRATEGY CENTRES AROUND INVESTMENT IN INDUSTRY SECTORS THAT CORRELATE WITH THE CORE BUSINESS ACTIVITIES IN ORDER TO MAXIMISE SYNERGY AND TO ENSURE A WELL-PLANNED DEVELOPMENT OF THE BUSINESS.

margins in recent years, while Saudi Arabia, Oman and Kuwait are facing real challenges meeting high demands, especially during the summer. Aging plants not operating at full design capacity are among the factors that are contributing to reduced total water output.

Saudi Arabia

The demand drivers of economic growth, population growth and urbanisation in Saudi Arabia saw power generation capacity reach an estimated 70 GW in 2016, a substantial increase from 40 GW in 2010. Generation capacity is anticipated to expand to 120 GW by 2032 on the strength of an enormous power augmentation programme by the government to meet increasing demand, making it the country with the largest expansion plan in the Middle East for generation. Saudi Arabia was also planning a massive renewable energy programme that sought to install 54 GW by 2032, but due to slow progress and lack of proper implementation the target has been revised to 9.5 GW by 2023. Saudi Arabia's Electricity & Co-Generation Regulatory Authority (ECRA) is also embarking on privatisation programme where by Saudi Electricity Company (SEC) generating business could be privatised by next year. Under the plan, SEC will be divided into four separate companies – each of which will be privatised and will compete for customers across the kingdom, ECRA expects that the first of these four companies is likely to be brought to market in 2017.

Bahrain

The island nation of Bahrain have an installed capacity of 6,600 MW in 2016. Domestic electricity demand is growing by 7 to 10 percent per annum, which is driven by a housing programme, population growth and the needs of the industrial sector. To meet the growing demand, Bahrain has launched ambitious plans to expand power generation capacity, which calls for phase two of the Al Dur independent water and power project (IWPP), as well as the construction of new, smaller power plants. There are also opportunities for private players to expand or increase the capacity of existing power and water plants.



United Arab Emirates

The UAE's installed electricity generating capacity is estimated to be 34 GW in 2015 is forecast to exceed 43 GW by 2020. Moving towards sustainable development, the UAE is expected to produce 24 percent of its electricity from clean energy sources by 2021. As for the water sector, the government is looking to expand desalination water production capacity to meet increasing water demand expected from both the growing population and from agriculture.

Southeast Asia

The power sector will shape the energy outlook for Southeast Asia with demand set to triple by 2040, with the shift towards coal set to continue. To meet growing demand, Southeast Asia's generation capacity will increase from 210 GW in 2014 to almost 550 GW in 2040, of which 40 percent will be coal-fired. The generation fuel source mix with continue to shift as the shares of coal and renewables grow and those of natural gas and oil decline. The rise of coal use is underpinned by economic factors, abundant supplies and the need for rapid electrification, but also highlights the need to accelerate the deployment of more efficient technologies to address the rise in local pollution and CO₂ emissions.

GROUP MANAGING DIRECTOR'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS

Using our two neighbours, Indonesia and the Philippines as examples, we can see that opportunities abound in the development of additional power generation capacity in the region. Indonesia's electricity consumption is expected to realise a compound annual growth rate ("CAGR") of 8.7 percent until 2024. An additional 35 GW is planned from 2015 to 2019 of which 30 GW is planned to be from IPPs. Meanwhile the Philippines has the highest electricity tariff in Southeast Asia and enjoyed the highest recorded GDP growth in the region since 2013. Electricity consumption is anticipated to grow by a CAGR of 4.6 percent until 2030. Low reserve margins especially in Visayas (less than 5 percent) and Mindanao (5 percent) present ample growth opportunities for investors.

OUR STRATEGIES GOING FORWARD

The Group's investment guidelines for new businesses require target projects to be developed or acquired in line with Malakoff's core business activities, which include electricity generation (including renewable energy), water production and O&M. The investment strategy centres around investment in industry sectors that correlate with the core business activities in order to maximise synergy and to ensure a well-planned development of the business.

Our investment focus regions include Malaysia, MENA, Southeast Asia and Australia. We may explore and consider carefully certain projects which are outside the focus region taking into consideration any particularly attractive factors such as high returns and available liquidity in local financing. While the Group is pursuing the acquisition of brownfield and greenfield projects, the immediate drive is to aggressively search for merger and acquisition opportunities for quick growth.

The return on equity on any particular project must take into account the risks associated with the project, country risk, project economics and the financing structure.

Expanding the Renewable Energy Portfolio

Growth opportunities on the domestic front continue to be pursued, particularly in the renewables sector such as Waste-to-Energy ("WtE"), where electrical energy is derived

from the incineration of household waste. Solar powered generation is being explored in anticipation of the government's target to achieve a cumulative solar capacity of 1,000 MW by 2020. In 2016, Malakoff received a conditional offer from the Malaysian government for the development of a large scale solar photovoltaic plant in Peninsular Malaysia under a build, own and operate ("BOO") arrangement for a term of 21 years under the Power Purchase Agreement. Malakoff together with its consortium partner was shortlisted by the government in 2016 for the development of a WtE plant in Kuala Lumpur. We will continue to be an active participant.

Adding International Assets

On the international front, Malakoff continues to explore potential growth opportunities to expand its presence in the areas of power generation and water production, especially in its focus regions of MENA, SEA and Australia. The year 2017 will also see the Group continuing to explore ventures in new territories. Opportunities may also be explored, among others, in the Philippines, Turkey, Morocco, and Europe. The intention is to acquire brownfield overseas assets. This project and others under evaluation are in line with plans to increase Malakoff's effective power generation capacity to 10,000 MW and water desalination generation to 530,000 m³ per day by 2020.

Growing the O&M Business

Maintaining safety and reliability while maximising profit are the core goals of plant operations. Malakoff's strong culture of operational excellence and disciplined management ensures that our own assets are managed and maintained in an efficient and cost effective manner. On the strength of a good track record, Malakoff applies a wealth of know-how and experience in plant operations, project management, advanced engineering technologies and safety management, to offering wide-ranging O&M services for numerous third-party clients in Malaysia and internationally.

The O&M services are tailored in line with the needs of clients, including operational

preparations, such as planning, system development and training, consulting services on profit optimisation, and reliability and safety improvement, maintenance planning and execution and full operations services. Today, Malakoff, via subsidiary TJSB, has a hand in operating power and/or water desalination plants in the Kingdom of Saudi Arabia, Algeria, Kuwait, Indonesia and Oman. As at end 2016, by way of our domestic IPPs and international O&M activities in the power and water segments, the Group had a total effective capacity of 7,537 MW and 1,421,000 m³/day, respectively.

We are currently exploring emerging O&M opportunities in the Middle East and South Asia, as well as other SEA countries via aggressive marketing and participation in relevant power and water exhibitions and conferences. Our O&M expansion programme overseas continues to serve as an important entry point strategy providing us the opportunity to familiarise ourselves with a new market before committing the Group to any capital investment. Going forward, we are aiming to double the contribution from the O&M business by the year 2020.

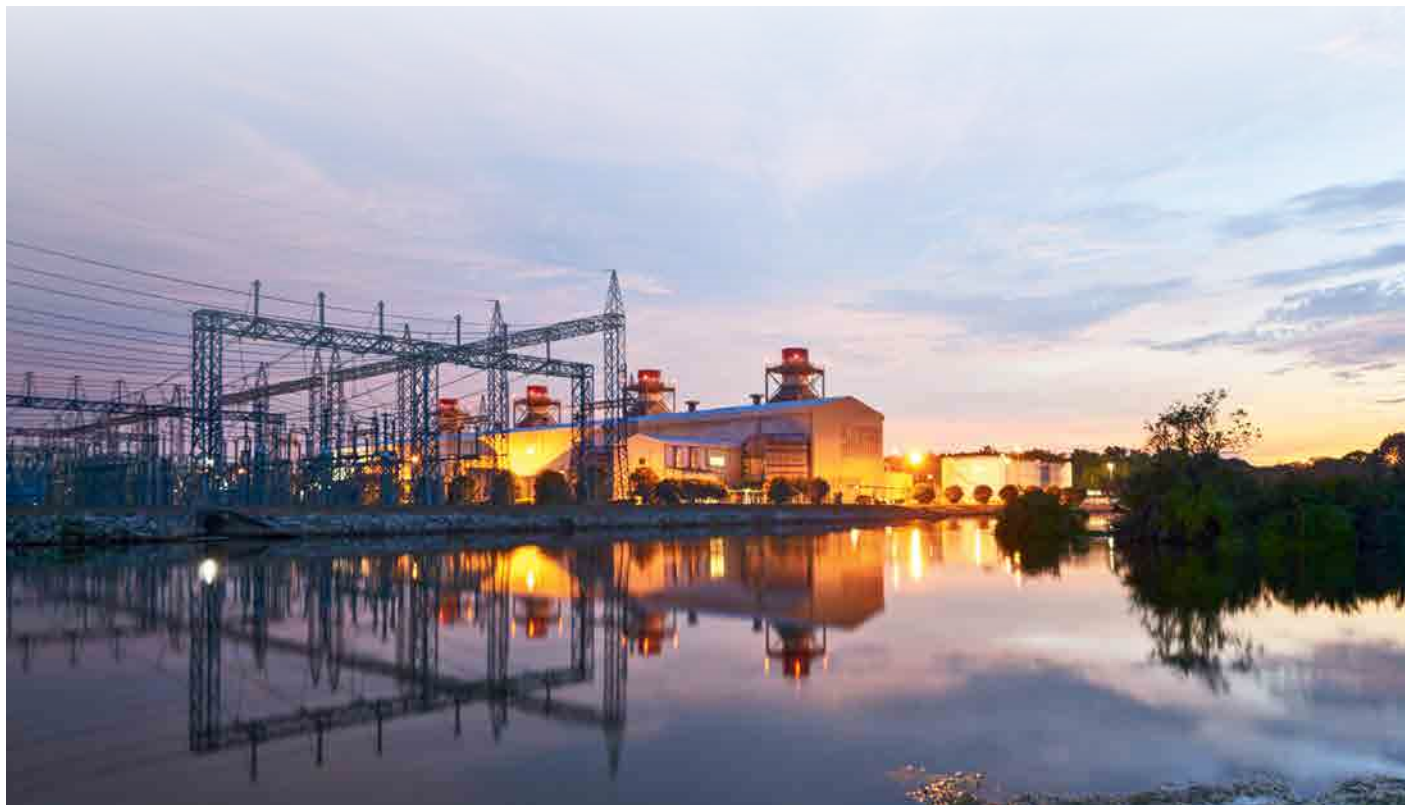
Extending the Electricity and Chilled Water Distribution Business

Malakoff currently supplies electricity and chilled water for air conditioning to buildings in the prestigious KL Sentral area and there is significant potential to extend this business to similar development projects in major cities throughout Malaysia.

Towards Sustainable Growth

Sustainability defined as "meeting the needs of the present without compromising future" is the cornerstone of Malaysia's New Economic Model. It revolves around the need for sustainable consumption and production, emphasising the role of clean and green technology. Maintaining a bio-diverse world is not a hindrance to development but a fundamental requirement and the uptake of science and technology in power and water facility design contributes towards the well-being of society and communities.

GROUP MANAGING DIRECTOR'S MESSAGE AND MANAGEMENT DISCUSSION AND ANALYSIS



Our strategy of maintaining strong operational capabilities whilst driving shareholder returns ensures our growth is sustainable. All of this has been possible through the commitment of our employees and the Group's continued investment in developing its talent pool and offering a wide variety of development and career building opportunities. On the financial front, we will set our sights on optimising our asset portfolio, capital structure and cost of funding. This will be central to the overriding objective of ensuring sustainable growth to meet the expectations of stakeholders.

There is a continued focus on ensuring high standards of compliance with Malakoff's core values of honesty, integrity and respect. Our Management team continues to work on further improving the Group's operational performance as well as engaging with the relevant authorities on government-related issues to ensure that Malakoff confidently maintains its leadership position and continues to deliver value to shareholders in the coming years.

A NOTE OF APPRECIATION

The Board aligns Malakoff's vision and mission with the government's aim for Malaysia to become a high-income nation that is both inclusive and sustainable by 2020. We thank our Board members for their vision, experience and knowledge in providing the counsel and corporate oversight required to continue leading Malakoff forward as we help develop Malaysia's energy infrastructure and take our expertise into the international arena.

Our accomplishments this year were made possible by our dedicated Management team and the unremitting commitment of our employees. This year they have delivered another year of dedication and diligence.

We express our immense gratitude also to our shareholders, regulatory authorities, financiers, business associates and partners, consultants and customers for their on-going support.

Malakoff will continue to embark on strategic initiatives to grow the Group in the near future and at the same time it will continue to focus on enhancing operational efficiencies to ensure that performance will remain positive and sustainable whilst maintaining our commitment to safety and the environment.

Looking ahead, we remain committed to the continuing success of Malakoff and are focused on delivering another profitable result marked by an increase in revenue and a widening geographic footprint while responsibly serving the needs of the people in Malaysia and in our overseas locations. Thank you.

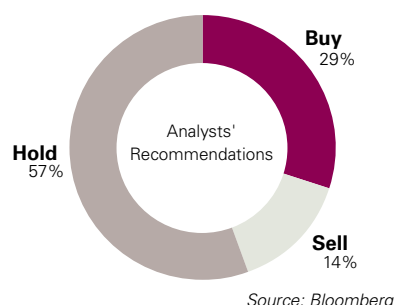
Datuk Wira Azhar Abdul Hamid
Group Managing Director

INVESTOR RELATIONS

Throughout 2016, Malakoff Corporation Berhad ("Malakoff") continued to actively engage with the investment community as we recognise the importance of establishing an open and interactive communication platform with our shareholders. We undertook all the typical investor relations ("IR") activities, such as conferences, site visits and analysts' briefings to provide investors and analysts access to our management and a better understanding of Malakoff through meaningful dialogue. During these engagements, information on the Group's operations, strategies, financial management as well as challenges and achievements were openly discussed to enable investors make informed investment decisions. Aside from the IR officer, participants to Malakoff's analysts' briefings and management meetings have had the opportunity to interface with at least one member of the senior management, namely the Group Managing Director, Executive Vice President (Operations), the Chief Financial Officer, Head of Local Generation Division and Head of Operations Reporting.

During the year under review, our management team met with more than 150 members from numerous local and international financial institutions within the equity capital market including analysts, fund managers, investors and sell-side sales managers. At the same time, the IR unit provided the management team with regular feedback on the equity market participants' views and concerns which were then discussed at the Management Coordination Committee's monthly meetings. The IR function within Malakoff is also involved in the preparation of this annual report and the annual general meeting to help ensure that material information is disclosed in a fair, consistent and transparent manner.

Presently, there are 21 equity analysts covering and monitoring Malakoff shares, with the following stock recommendations i.e. 57% HOLD, 29% BUY and 14% SELL. The details of the IR activities undertaken in 2016 are summarised in the tables provided below.



Analyst coverage

No	Organisation
1	Affin Hwang
2	AmResearch
3	BIMB Securities
4	BoA Merrill Lynch
5	CIMB
6	Citi
7	CLSA
8	Credit Suisse
9	Deutsche Bank
10	HSBC
11	JPMorgan
12	KAF Seagroatt
13	Kenanga
14	Macquarie
15	Maybank Kim Eng
16	Morgan Stanley
17	Nomura
18	Public Investment
19	RHB Research
20	TA Securities
21	UOB Kay Hian

Investor Relations Activities in 2016	Number of events
Briefings to analysts and fund managers	4
Site visits	2
Number of investment conferences organised by financial institutions	3
Number of one-to-one meetings at conferences	13
Number of company visits and conference calls	22
Luncheon with management	3

Briefings

Date	Financial Result	Analyst Briefing	No. of participants*
19 February	Fourth Quarter 2015	Conference Call	31
23 May	First Quarter 2016	Conference Call	33
18 August	Second Quarter 2016	Analyst briefing	42
23 November	Third Quarter 2016	Analyst briefing	35

Site Visits

Date	Site visited	No. of participants
30 March	Port Dickson Power Plant, Negeri Sembilan	12
29 September	Tanjung Bin Energy Power Plant, Johor	13

Conferences

Date	Event	Venue	Organiser
26 February	Citi Infrastructure Day	Singapore	Citi
12 & 13 April	Invest Malaysia 2016	Kuala Lumpur	Maybank
1 December	Asean Stars of the Next Decade 2016	Singapore	Citi

CORPORATE EVENTS HIGHLIGHTS

15
JAN
2016

Handover of Masjid Al-Amin Sg Dinar to Mukim Serkat community



11
MAR
2016

Friendly football match against KetTHA



29
JAN
2016

Zakat donation distribution to Madrasah Al-Ansar, Bestari Jaya



12
MAR
2016

Malakoff bowling games with Utusan Group



12
FEB
2016

Energy Commission wins football match with Malakoff



19
MAR
2016

Karnival Sukan Rakyat Segari, Perak



CORPORATE EVENTS HIGHLIGHTS

21
MAR
2016**Tanjung Bin Energy achieves
Commercial Operation Date**21
APR
2016**Malakoff 10th Annual General Meeting**25
MAR
2016**Malakoff participates in Penjanabebas's
bowling tournament**27
APR
2016**Malakoff turtle awareness programme
in Segari, Perak**16
APR
2016**Futsal tournament with KeTTHA,
Energy Commission, EPU**01
MAY
2016**Malakoff Sports Carnival in Penang**

CORPORATE EVENTS HIGHLIGHTS

01
MAY
2016

Malakoff Long Term Service Awards 2016

21
JUN
2016

Iftar with Port Dickson Power Plant staff

13
JUN
2016

Iftar with Prai Power Plant staff

23
JUN
2016

Iftar with Tanjung Bin Power and Tanjung Bin Energy Power Plants staff

16
JUN
2016

Iftar with Lumut Power Plant staff

29
JUN
2016

Handover of Zakat donation to Mukim Serkat community

CORPORATE EVENTS HIGHLIGHTS

20
JUL
2016**Eid ul-fitri Celebration in Prai Power Plant**08
AUG
2016**Eid ul-fitri Celebration in Lumut Power Plant**29
JUL
2016**Eid ul-fitri Celebration in Tanjung Bin & Tanjung Bin Energy Power Plants**10
AUG
2016**Working visit by National Institute of Public Administration (INTAN) to Malakoff headquarters**02
AUG
2016**Eid ul-fitri Celebration in Port Dickson Power Plant**19
AUG
2016**Deputy Secretary General of KeTTHA visits Tanjung Bin Power Plant**

CORPORATE EVENTS HIGHLIGHTS

27
AUG
2016

"Jom Memancing" programme with Energy Commission in Port Dickson



26
SEP
2016

The Malakoff-NRE Coral Rehabilitation Project 2016 at Pulau Besar, Mersing



02
SEP
2016

Friendly Football with TNB



08
OCT
2016

Friendly Golf with Manjung Authorities



02
SEP
2016

A talk at Masjid Al-Amin Sungai Dinar in Serkat, Johor



09
OCT
2016

Sermon at Masjid Khairul Jariah, Segari



CORPORATE EVENTS HIGHLIGHTS

13
OCT
2016**Road Safety Campaign 2016 in Tanjung Bin**09
NOV
2016**Lumut Power Plant Safety Day**20
OCT
2016**Tanjung Bin & Tanjung Bin Energy Safety Day**11
NOV
2016**Townhall Session with KLHQ Staff**22
OCT
2016**Bowling tournament with TNB**19
NOV
2016**Malakoff - NSTP Group Bowling Match**

CORPORATE EVENTS HIGHLIGHTS

24
NOV
2016

Prai Power Plant Safety Day



12
DEC
2016

Maal Hijrah 1438H celebration at Pontian, Johor



30
NOV
2016

Procurement briefing at Malakoff Vendor Day 2016



14
DEC
2016

Water Sports Carnival in Serkat, Johor



07
DEC
2016

Port Dickson Power Plant Safety Day



31
DEC
2016

Malakoff participates in The Largest Karas Tree Planting Programme at Ledang, Johor



CORPORATE GOVERNANCE STATEMENT

The Board of Malakoff Corporation Berhad ("Malakoff" or "the Company") continues to take cognisance of the Malaysian Code of Corporate Governance 2012 ("MCCG 2012") issued by the Securities Commission Malaysia, and is committed, where possible, having regard to the size and ownership of the Company, to achieving and sustaining high standards of corporate governance and compliance with all the MCCG 2012's best practice recommendations.

The Company's framework of corporate governance is also guided by and based on the corporate governance requirements of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Malaysia") and its Corporate Governance Guide: Towards Boardroom Excellence, 2nd Edition.

This Statement outlines the main corporate governance practices applied currently by the Company and its subsidiaries ("the Group" or "the Malakoff Group") and some new governance practices adopted during the year and its efforts in demonstrating good corporate citizenship through environmental awareness, ethical behaviour and sound corporate governance practices to balance the interests of all stakeholders, including its shareholders, management, customers, suppliers, business associates, regulatory bodies and the community. The Board, having approved the Corporate Governance Statement on 7 March 2017, wishes to report that since the Company which is in its 2nd year of obtaining its listing status on the Main Market of Bursa Malaysia on 15 May 2015, the Group has followed, where possible, the recommendations of the MCCG 2012.

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

(Principle 1 of the MCCG 2012)

Recommendation 1.1 - The board should establish clear functions reserved for the board and those delegated to management.

Recommendation 1.7 - The board should formalise, periodically review and make public its board charter.

a) Board Charter

The Board Charter clearly sets out the functions, responsibilities, and processes of the Board and ensures that Board members are aware of their roles and duties. This is pivotal to leading and managing the Group as a responsible and trusted leading independent power producer in the nation, as well as essential for realising long-term shareholder value.

The main task of the Board is to oversee the overall strategy and business direction of the Group in line with the Company's vision and mission and to serve the best interests of the Company and its stakeholders. In order to ensure the continuous relevance of the Board Charter, the Board conducts periodic reviews of the Board Charter, when necessary. The Board Charter, which is available on the Company's website, is subject to periodic reviews and updates to ensure its relevance and compliance with regulatory requirements.

b) Limits of Authority

Whilst the Board Charter sets out the roles, duties, responsibilities and function of the Board, the Limits of Authority of the Group further defines the matters specifically reserved for the Board and those delegated to the management. There are key matters which have been reserved by the Board for its deliberation and decision to ensure that the direction and control of the Group's businesses are within its control. These include amongst others, the following:

- adoption of an annual business plan and a budget forecast for four successive years thereafter;
- material acquisition and disposal or closure of businesses;
- establishment and development of new businesses via bidding exercises for new power generation and/or water desalination business locally and overseas, as the case may be;

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- material capital investment for the Group;
- declaration of dividends and approval of financial statements, including accounting policies of the Group;
- financing of the Group's activities; and
- any corporate restructuring of the Group.

The Limits of Authority, which include appropriate escalation and reporting to the Board, serves to provide the necessary delegation of authority of the Board to the management to ensure timely business decisions, are made and that the management is empowered to execute appropriate business activities and strategies to meet the needs of the business of the Group. The Limits of Authority allows balanced effective oversight with appropriate empowerment and accountability of the management.

Recommendation 1.2 - The board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions.

- **Principal Responsibilities and Functions of the Board**

The Board's principal responsibilities are to provide guidance to the management with regard to the Group's strategic planning, business conduct, risk assessment and management, as well as financial and operational management activities. The Board continues to provide counsel on strategic matters such as investment and divestment policy and human resource matters such as succession planning, as well with reviewing the adequacy and integrity of the Group's system of internal control and its management information system.

The Board's primary responsibilities set out below are in line with the best practices of the MCCG 2012: -

- (i) to review and adopt a strategic plan for the Group;
- (ii) to oversee the conduct of the Group's businesses to evaluate whether the businesses are being properly managed;
- (iii) to identify principal risks and ensure the implementation of appropriate systems to manage these risks;
- (iv) to implement succession planning, including appointing, training, fixing the compensation of, and where appropriate, replacing key management;
- (v) to develop and implement an investor relations programme or shareholders' communications policy for the Company;

(vi) to review the adequacy and the integrity of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives, and guidelines;

(vii) to formalise ethical standards through a code of conduct and by ensuring compliance; and

(viii) to ensure that the Company's strategies promote sustainability.

- **Reviewing and adopting a strategic plan for the Company**

The Board annually reviews with the management and approves the five-year business plan prepared by it with accompanying short term and long term strategies to achieve the targets set under the business plan. The Board also approves the corporate key performance indicators ("KPIs") with specific and quantifiable targets to ensure our Executive Director, the Group Managing Directors ("GMD") and his management team achieve the key things that the Board wishes the management to focus on so that the budget set for the year is met. The Board achieves this through assigning weightages to each key result areas of the KPIs to guide the management on where its focus and resources should be invested in, to bring to realisation the targets set in the business plan. For the year 2017, the financials targets and the execution of business plans to increase the profitability of the Group continues to carry the highest weightage for the Corporate KPIs followed by internal process and business growth, both intended to support the financial targets set in the business plan. The GMD and his senior management team will be remunerated based on their achievements in relation to the targets set out in the Corporate KPIs.

The Board and management undergoes a rigorous and thorough process of setting the business plan against the capital structure of the Group. An offsite meeting will annually be held as part of the business plan cycle. In this meeting, renowned speakers on key areas relating the business plan are invited to inform both the Board and the management on recent market trends and how some of these market trends could be included as part of the Company's business plan. The offsite meeting also provides a platform for an informal dialogue session between the management and the Board on the concept of the business plan for the forthcoming years. This informal session had been successful in enabling a brainstorming session between the management and the Board in an environment outside the boardroom

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where fresh ideas and perspectives are best found. The key takeaways from the session were used by the management to develop the Group's strategies and business plans for 2017.

- **Overseeing the conduct of the Company's business**

The newly appointed GMD, a board representation in the management, is responsible for managing the day-to-day operations of the Company and implementing the Group's strategies and policies approved by the Board. He is well supported by his team of experienced senior management who is knowledgeable, possess vast and in-depth knowledge of the industry, and are subject matter experts in their respective areas of responsibility.

Apart from the scheduled Board meetings, the Board is kept continually updated on the business conduct of the Company with the circulation of the monthly financial, operations reports and minutes of the management meeting. These circulations ensure that the Board is regularly updated with key initiatives by the management in implementing the business plan approved by it, operational performances of the Group both locally and abroad and the progress of key issues affecting the operations of the Group.

- **Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures**

The management risk committee ("MRC") assists the Board Risk and Investment Committee ("BRIC") in overseeing the establishment, implementation and effectiveness of the risk management system. These bodies meet quarterly and the MRC would report to the BRIC on significant strategic and operational risks, which pose significant impact to the profitability of the Company and the mitigation action plans proposed to be taken to reduce such risks to the businesses of the Group before recommendations are put forth to the Board.

The BRIC on behalf of the Board, reviews risk management policies/practices, reviews periodic reports on risk management and makes relevant recommendations to the Board for its approval.

Details of the BRIC and the risk management framework are set out in pages 102 to 107 the Statement of Risk Management and Internal Control of this Integrated Annual Report.

- **Succession planning**

The Board through the BNRC continues to recognise that succession planning is key in ensuring continuity of business and that at any point in time there is ready talent to undertake key and business critical positions across the Company especially at the senior management level. Since last year, the Board had approved specific milestones on succession planning and talent management, which are to be achieved over a 3-year horizon under the Corporate KPIs. For 2016, the Company had successfully achieved its milestone in identifying immediate successors to key critical functions of the Group and to develop comprehensive Development Programs for these successors after completion of a gap analysis exercise.

For 2017, the Company is to identify potential successor's one level below the immediate successor for endorsement and approval of the talent management committee ("TMC"). Upon receiving endorsement of the TMC, a gap analysis will be carried out so that comprehensive Development Programmes could be developed for these successors to prepare them for the position. One of the strategies employed by the Company in increasing the number of internal successors is the development and implementation of succession plans for leadership positions. These key critical positions are identified and monitored through leadership development programmes, job rotation and other activities deemed appropriate. For talent management, the Company adopts an eclectic approach, which includes formal training, job assignments, stretched assignments, cross-divisional projects and active coaching and mentoring.

- **Overseeing the development and implementation of a shareholder's communications policy for the Company**

Malakoff's Investor Relations ("IR") Policy acts as the guiding principle for IR functions, assisting effective communication between the Management and the financial community, locally and abroad. The details on MCB's IR functions and its activities for the financial year are provided in this Statement of Corporate Governance under Principle 8: Strengthen Relationship between Company and Shareholders.

Malakoff strives and will continue to maintain the highest standards of corporate disclosure by disseminating accurate, consistent and in a transparent manner to its stakeholders on a timely basis. In meeting this end, the Board had adopted a Corporate Disclosure Policies and Guidelines ("CDP") to ensure

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that the above standards are consistently applied across the organisation for all of its communication to stakeholders and the public at large. The CDP provide a systematic guide to the management and employees of the Company on how disclosure of material information and corporate proposals of the Group are provided in a comprehensive, accurate and timely manner to regulators, shareholders and stakeholders, in line with the provisions of the Corporate Disclosure Guides issued by Bursa Malaysia. Specific spokespersons in Malakoff had also been identified in the CDP to address the shareholders and other stakeholders of the Company at different situations and forums.

- **Reviewing the adequacy and the integrity of the management information and internal controls system of the company**

The Board is responsible for ensuring that a sound reporting framework of internal controls and regulatory compliance is in place throughout the Company. Details of the Company's internal control system and its effectiveness are provided in the Statement of Risk Management and Internal Control in this Integrated Annual Report.

Recommendation 1.3 - The board should formalise ethical standards through a code of conduct and ensure its compliance

- **Codes and Policies**

- (i) **Code of Conduct**

The Code of Conduct ("COC") which came into effect on 1 January 2016, outlines the Group's commitment to appropriate and ethical practices. It includes general principles on business integrity. All employees of the Group are guided by the COC that sets out the principles, practices and standards of good personal and corporate behaviour. Failure to comply with the COC tantamount to a serious breach and the appropriate actions will be taken by the Company for any non-compliance.

- (ii) **Whistleblowing Policy**

The Board had also approved and adopted a Whistleblowing Policy to provide avenue of communication by employees of any unethical practices such as violation of laws, rules, regulations, production fault, fraud, safety violations or corruption within their work areas, for further investigation of the management and if required, the Board.

The Board recognises that such misconduct are usually recognised first by the people closer to the workplace who could assist the management and Board as their agents to alert them of any malpractices which are occurring within the organisation by using the Whistleblowing Policy. This policy also serves as an early warning system to help the Company detect any wrongdoings and provides an avenue for employees to make good-faith reports on unlawful, unethical or unacceptable behaviour or conduct without fear of reprisal. The identity of the whistle-blower and the concerns raised are treated with utmost confidentiality. The management is then able to take the appropriate corrective actions before a problem escalates into a crisis.

Recommendation 1.4 - The Board should ensure that the Company's strategies promote sustainability.

- **Promoting Sustainability**

The Board is committed to promoting sustainability practices in the Group and to maintaining a good balance in relation to the environmental, social and governance aspects of the Group's businesses. A report of the Company's Sustainability Reporting are set out in pages 86 to 101 of this Annual Report.

Recommendation 1.5 - The Board should have procedures to allow its members access to information and advice.

- **Access to Information and Advice**

In order to discharge its duties and responsibilities, the Board receives accurate, timely and clear information through the GMD and Company Secretary, under the direction of the Chairman. In addition to engaging the management for information, it has the opportunity to request for supplementary or explanatory information from the management. The management also provides periodic updates on key issues, which require the Board's close attention through electronic mail updates from the Company Secretary.

The GMD also informs the Board on key updates of strategies undertaken by the management in fulfilling the approved business plan by the Board as well as key operational initiatives on a monthly basis via the circulation of the Company's management minutes and information memoranda issued by the GMD.

The healthy and balanced information flow between the management and the Board outside the periodic Board

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meetings has brought the Board members nearer to operations of the Group, provide clearer understanding and grasp of key issues faced by local and overseas investments of the Group, thus facilitating effective and constructive discussion and ultimately achieving quality decisions at board meetings.

Status updates on matters reported in the last Board meeting will be updated as part of matters arising from the previous meeting and has been fixed item on the agenda of scheduled Board meetings throughout the year. The Board members are also able to meet management on a one to one basis upon request on clarification of key issues of the Group.

From time to time, whenever the Board requires relevant information updates from any members of the management team, the relevant member of the management team is invited to attend meetings of the Board and its committees to provide the Board with any such relevant information or updates.

The Board in ensuring that independent judgement and constructive debate on all issues under consideration are taken in its decision making, has the right collectively and individually to obtain external independent legal, accounting or other professional advice at the Company's expense to assist with its decision-making process.

Recommendation 1.6 - The Board should ensure it is supported by a suitably qualified and competent company secretary.

- **Company Secretary**

The Board have unrestricted access to the advice and services of the Company Secretary who is under the direction of the Chairman, to enable them to discharge their duties effectively. The Company Secretary, who is qualified, experienced and competent, advises the Board on updates relating to new statutory and regulatory requirements pertaining to the duties and responsibilities of the Directors, their impact and implication to the Company, including fiduciary duties and responsibilities. The Company Secretary is responsible for monitoring compliance with the Board procedures and for advising the Board through the Chairman on all governance matters.

The Company Secretary also coordinates the induction of new Directors with the management and facilitate for the professional development of all Directors on

an ongoing basis by identifying suitable development programmes for Directors in discharging their roles

The Company Secretary organises and attends all Board and Board committee meetings as well as ensures meetings are properly convened. This include the recording of accurate and proper records of the proceedings and resolutions passed and maintenance of such records accordingly at the registered office of the Company and produced for inspection if required. The removal of the Company Secretary is a matter for the Board to decide.

2. STRENGTHEN COMPOSITION

(Principle 2 of the MCCG 2012)

Recommendation 2.1

The board should establish a Nominating Committee which should comprise exclusively of non-executive directors, a majority of whom must be independent

Recommendation 2.2

The Nominating Committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of directors.

The Board Nomination and Remuneration Committee ("BNRC") was constituted as a merged committee of the nominating and remuneration committee of the Board on 23 November 2015 and operates under its terms of reference.

Under its terms of reference, the BNRC shall comprise at least three members whom are Non-Executive Directors, the majority of whom shall be Independent Directors. The Chairman of the Committee must be an Independent Non-Executive Director, and where a Senior Independent Non-Executive Director position exists, the Senior Independent Non-Executive Director shall assume the position of Chairman of the Committee.

The BNRC is chaired by YAM Tan Sri Dato' Seri Syed Anwar Jamalullail, the Chairman of the Company and an Independent Non-Executive Director, with the support of three other Non-Executive Directors, two of whom are independent. The majority of the BNRC members are independent directors.

- **Senior Independent Non-Executive Director**

The commentary to Recommendation 2.1 of the MCCG 2012 proposes that the chair of the nominating committee should be the Senior Independent Director identified by the Board. The main role of the Senior Independent Director is

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to act as a sounding board for the Chairman. If the Board is undergoing a period of stress, and/or there is a perceived conflict of interest involving the Chairman, the Senior Independent Director is expected to provide leadership and advice to the Board. The Senior Independent Director can also be the focal point to whom the concerns of the stakeholders and shareholders of the Company can be conveyed.

The Board of the Company had deliberated and decided that the appointment of a Senior Independent Director is not required since the Chairman of the Board is already an Independent Director. The Board will review from time to time on the need to appoint a Senior Independent, Non-Executive Director and for this year had continued with this decision, as the Chairman of the Company has been effective in carrying out this role.

The key activities of the BNRC during the year encompassing selection and assessment of directors, criteria used in the recruitment process and annual assessment of directors and the formal and transparent remuneration policies and procedures to attract and retain directors are detailed in page 70 to 71 of this report.

• Board Balance and Composition

The Company is led by an experienced and dynamic Board, which is chaired by an Independent Non-Executive Director. The Board composition had increased by one from last year, to eleven Directors with the appointment of our GMD effective 1 May 2016. All of the members of the Board with the exception of the GMD are Non-Executive Directors. Of this number, four Directors are Independent Directors from the previous five Directors last year as Mr. Hirao Kohei was redesignated to a non-independent director following his appointment as the senior advisor to the Albukhary Group, whilst there are seven Non-Independent Directors with one holding an executive position. The composition of four Independent Directors meets Bursa Malaysia's requirement where at least two Directors, or one-third of the Board members, whichever is higher, to be independent.

The size of and diverse personalities on the Board continues to enable the Board to effectively discharge its duties and responsibilities to meet the Company's scope of businesses. Malakoff have presence in both the local front as well as its overseas investments abroad. The Board also has the right balance of members where the interests of the major shareholders of the Company are adequately represented whilst the presence of more than one-third ratio of Independent Directors on the Board will ensure that

the best interests of the minority shareholders are being served.

The Board comprises members with a good mix of skills, knowledge and attributes as they come from diverse academic and educational backgrounds and possess extensive experience and expertise in areas important to the Group such as accounting, business, corporate strategy, law, engineering, financial planning and corporate governance experience which are relevant to meet the complexities of the Group's businesses. The profile of each Director is set out in pages 19 to 29 of this Annual Report.

The Non-Executive Directors bring to the Board their invaluable knowledge and business insights to ensuring that all strategies proposed by the management are fully deliberated on and considered in line with long-term interests of the Group as well as its shareholders and stakeholders. The Board constitutes majority Non-Executive Directors who are committed to business integrity and professionalism in all their activities. The Non-Executive Directors do not participate in the day-to-day management of the Group and do not personally engage in any business dealings or other relationship with the Group. This is to ensure that they are capable of exercising judgment objectively whilst acting in the best interests of the Group, its stakeholders and shareholders, including minority shareholders. The Board has specific functions reserved for the Board and those delegated to the management to enhance accountability.

The presence of Independent Non-Executive Directors has encouraged independent judgement, evaluation and scrutiny in relation to decisions taken by the Board. The impartiality of these Directors, also contribute significantly to the decision making process. These members of the Board have no personal interest or ties to the Group that could adversely affect their independence and objective judgment of the Board. In upholding independence which ensures objectivity and fairness in the Board's decision making process, the Board undertakes an annual assessment of all the Directors by evaluating the manner in which each Director has discharged their duties and how they have deliberated the Company's proposals in compliance with Recommendation 3.1 of the MCCG 2012.

Datuk Wira Azhar Abdul Hamid, who was appointed as the Company's GMD during the year, had enabled the Board's views to be represented in the management. He has led and steered his senior management team to the strategic direction in which the Board had decided for the Company

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to pursue. The GMD sets the tone of the Board in the day-to-day operations of the Company.

As Malakoff journeys into the next stage of aggressive expansion, the Board strongly believes that with the GMD's extensive knowledge and experience in conglomerate business, he will bring about the right changes in culture and mindset of its employees and to equip them to achieve the targets set by the Board in ensuring a sustainable future of Malakoff.

- **Re-election and Re-appointment of Directors**

The Company's Articles of Association mandates that all Directors should submit themselves for re-election at least once every three years, in compliance with the requirements of Bursa Malaysia. The Articles of Association 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"). In this respect, four directors will be retiring at the forthcoming AGM, namely Datuk Muhamad Noor Hamid, Tan Sri Dato' Seri Alauddin Dato' Mohd Sheriff, Datuk Ooi Teik Huat and Dato' Wan Kamaruzaman Wan Ahmad. 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 to be 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 conducted by the Board whereby Board members were required to conduct a peer assessment of other Directors in areas pertaining to his/her knowledge, skills, qualifications and contributions to Board discussions, to name a few. The BNRC's recommendations on the Directors standing for re-election at the forthcoming AGM are stated in the Explanatory Note 2 under the Notice of AGM.

Under the recently enacted Companies Act 2016, the age limit of the director has been removed. Therefore, previous age limit of directors who shall cease to be a director at the age of 70 is no longer applicable.

- **Diversity**

The Board in acknowledging the importance of diversity as an essential measure of good corporate governance and a critical attribute of a well-functioning board had adopted

a diversity policy on 21 November 2016. Diversified views enhance Board discussions and ensure that the decisions of the Board were considered from all points of view. The Board acknowledges that diversity presents itself in a number of forms, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge. The diversity policy covers gender, age and ethnic diversity which will be a recipe for a dynamic Board as follows:-

a) Gender diversity

The Company does not set any specific target for female directors in the Board but will work towards having more female directors on the Board, if the opportunity arises.

The Company is committed to maintaining an environment of respect for people regardless of their gender in all business dealings and achieving a workplace environment free of harassment and discrimination on the basis of gender, physical or mental state, ethnicity, nationality, religion, age or family status. The same principle is applied to the selection of potential candidates for appointment to the Board in order to attract and retain women participation on the Board.

b) Age diversity

The Company does not set any specific target for the boardroom age diversity but will work towards having appropriate age diversity in the Board, if the opportunity arises.

The Company does not fix age limit for its Directors given that such Directors are normally reputed and experienced in the corporate world and could continue to contribute to the Board in steering the Company. The Board is fully committed to promoting age diversity, valuing the contribution of its members regardless of age, and seek to eliminate age stereotyping and discrimination on age.

c) Ethnic diversity

The Company does not set any specific target for ethnic diversity in the boardroom but will work towards having appropriate ethnic diversity in the Board, if the opportunity arises.

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The BNRC is responsible in ensuring that boardroom diversity objectives are adopted in board recruitment, board performance evaluation and succession planning processes.

Currently, Madam Cindy Tan Ler Chin, the Nominee Director of the Employees Provident Fund on the Board is the only female member of the 11 member Board, whilst Mr. Kohei Hirao, a Japanese national, fulfils the ethnicity and cultural diversity requirements for Board members. The BNRC is committed to take into account and consider diversity whenever there is need to replace Board members or when a vacancy arises.

• Board Assessment Evaluation

The Board through the BNRC carry out a Board assessment exercise to assess the appropriateness of the size and composition of the current Board and Board committees, as well as the effectiveness of each of these committees and the Board as a whole vide feedback from the Board members. This is necessary as the members of the Board and Board committees were appointed/ constituted prior to the listing of the Company, save for the BNRC which committee members were restructured during the year to more optimum size of 4 from the previous 6.

Through the assessments and recommendations made by the BNRC, the Board is of the opinion that the current size and composition of the Board and Board committees are conducive to making appropriate decisions and allow for a diversity of perspectives and skills in order to represent the best interests of the Company as a whole.

• Board Committees

Under the Company's Articles of Association, the Board has, amongst other things, the power to establish any committee for managing any of the affairs of the Company and may lay down, vary or annul such rules and regulations as it thinks fit for the conduct of the business thereof.

The Board currently has the following four standing Board committees, each of which is operating within their respective defined terms of reference that are approved by the Board to assist it in discharging its responsibilities.

- (i) Board Audit Committee ("BAC");
- (ii) Board Nomination and Remuneration Committee ("BNRC");
- (iii) Board Risk and Investment Committee ("BRIC");
- (iv) Board Procurement Committee ("BPC")

The report on the proceedings of the committees meetings, its recommendations, and activities are submitted to the Board by the Chairman of each these Board committees at each of the scheduled Board meetings for the Board's evaluation and consideration. This ensures that each of the Director are informed of the decisions made including views/comments raised. Ultimately, the final decision on the matters deliberated at the Board committees rest entirely with the Board. The only exception is the BPC, where this Committee has been granted limited powers and authority to review and approve material procurements for the Group at certain thresholds, depending on the type of procurements. The terms of reference of the BPC are detailed herein.

All deliberations and recommendations must be minuted and approved by each Board Committee and confirmed by the Chairman of each Board Committee at their respective Board Committee meetings.

The Board through the annual board assessment exercise had also assessed the effectiveness of each standing Board Committee for the Financial Year. The Board had unanimously agreed that each Board Committee has discharged its roles and responsibilities effectively as guided by its respective TOR.

(i) BAC

Details on the BAC are elaborated in the Audit Committee Report which appears on pages 108 to 114 of this Annual Report.

ii) BNRC

One of the objectives of the BNRC is to assist the Board in fulfilling its corporate governance responsibilities with regard to nomination and remuneration matters of the Board and the Senior Management of the Company.

The BNRC, under its terms of reference, is required to develop, review and recommend to the Board, the Policy on Board Composition, having regard to the mix of skills, knowledge, experience, expertise,

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independence and diversity (including gender, ethnicity and age) and other qualities required to facilitate effective and efficient functioning of the Board, including core competencies which the Non-Executive Directors should bring to the Board, and to annually review the same.

- Although there is no written policy with regard to the Board composition within the organisation, the Board through the BNRC always considers the above factors when it consider new appointments to the Board and when it annually assesses its Board composition in line with the needs and requirements of the operations of the Company.

The BNRC is also responsible to recommend the candidates for the Directors, the Executive Directors (if any) and the Senior Management of the Group by considering the prospective Director, Executive Director and Senior Management's character, experience, competence, integrity and time commitment, as prescribed by Paragraph 2.20A of the MMLR.

• Summary of Key Activities

The BNRC held six meetings during the financial year under review, where it had considered and recommended the following matters under its purview for approval of the Board:-

- Recommended the appointment of our Executive Director, the GMD and his remuneration package;
- Recommended a variable pay plan design which pre-set the expected targets required in the Key performance indicators for the accord of bonus to employees of the Company;
- Recommended the nomination of suitable senior and middle management staff to represent the Company as its nominee on the Boards of its local and overseas subsidiaries and associates;
- Recommended a new protocol for acceptance of new directorship by our directors in other public listed companies pursuant to the Recommendation 4.1 of the MCCG 2012. The new protocol will set out the expectation on time commitment of the Board members and protocols of accepting new directorships.
- Recommended the changes in the employment benefits for employees of the Group for purpose of enhancing certain benefits of employees as well as to remove or reduce other benefits that were currently no longer in practice.

- Recommended the assessment tool and approach for the Board assessment in respect of the performance of the Board, individual directors and board committees for the period from January to December 2016. This assessment includes among other elements, the following:
 - ✓ review and assessment of the annual performance and effectiveness of the Board and the board committees as a whole;
 - ✓ review and assessment of the performance and composition of the board committees;
 - ✓ review and assessment of the annual independence assessment of the Independent Directors; and
 - ✓ review and assessment of the performance of Directors and to make recommendations to the Board with regard to the Directors who are seeking re-election, re-appointment and continuation in office at the Annual General Meeting ("AGM");
- Recommended the Corporate KPI achievements for the GMD for the FY 2017;
- Recommended the Board Diversity Policy for Malakoff Group.

Through its annual assessment and recommendations of the BNRC, the Board believes that the current size and composition of the Board is conducive to making appropriate decisions and incorporates a diversity of perspectives and skills in order to represent the best interest of the Company as a whole. The annual assessment has also been successful in identifying the area of improvements of directors, through self and peer review. The directors will be sent to the appropriate developmental programmes and workshops on their request. This ongoing learning and developmental process by the directors will enhance and equip the directors with the right skills and knowledge in contributing to the Board discussions and decision making.

Recommendation 2.3

The board should establish formal and transparent remuneration policies and procedures to attract and retain directors.

• Directors' Remuneration

The Board, through the BNRC, establishes a formal and transparent policies and procedure for the development of a remuneration policy for the directors of the Company and its Group, board committees, GMD, and the senior

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management. The BNRC also establishes an objective remuneration structure for directors of the Company and the Group, GMD and the Senior Management and to provide recommendations to the Board on the remuneration of the Board of the Company and the Group, GMD and the Senior Management.

The BNRC reviews the overall remuneration policy of the Non-Executive Directors, GMD and Senior Management. The remuneration policy aims to attract, retain and motivate executives and Directors who will create sustainable value and returns for the Company's members and other stakeholders. There is a clear distinction between the remuneration structure of the Non-Executive Directors and of the GMD and the Senior Management.

The recommendation of remuneration for the directors of the Company and the Group and the Senior Management of the Company to the Board, shall be based on the following considerations:-

- (i) Levels of remuneration structure are sufficient to attract and retain the individuals needed to run the Company successfully at the Board as well as the senior management levels;
- (ii) Links rewards to both the Company and individual performances, responsibilities, expertise and complexity of the company's activities;
- (iii) Aligns the interests of directors, Senior Management and our stakeholders with the business strategy and long-term objectives of our Company;
- (iv) Is based on information obtained

- **GMD**

The remuneration package for the GMD is structured to link rewards to corporate and individual performance. It comprises a salary, allowances, bonuses and other customary benefits as accorded by comparable companies. The GMD's bonuses is determined by performance during the year against individual KPIs in a scorecard aligned with the corporate objective as approved by the Board. The GMD recuses himself from deliberation and voting on his remuneration at Board meetings. The BNRC reviews the performance of the GMD annually and submits its views/recommendations to the Board on adjustments in remuneration and/or rewards to reflect the GMD contributions towards the Group's achievements for the year

- **Non-Executive Directors ("NEDs")**

The Board as a whole shall determine and recommend the remuneration of the NEDs for shareholders' approval at the AGM. The NEDs are remunerated through fixed monthly fees, 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 as well as to reflect the experience and level of responsibilities undertaken by the NEDs concerned. Their remuneration packages are benchmarked against the market once every three years to ensure that their remuneration packages remain competitive and relevant. 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.

A review of the fees for NEDs should also take into account fee levels and trends of similar positions in the market and time commitment required from the director (estimated number of days per year) as well as any additional responsibilities undertaken such as a director acting as board chairman or as chairman of a board committee.

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Details of each directors' remuneration for the financial year ended 31 December 2016 are set out below:

GROUP MANAGING DIRECTOR ("GMD") (EXECUTIVE DIRECTOR) ("ED")									
Name of Director	Salaries* (RM)	Other Allowances* (RM)	Other Emoluments* (RM)		Meeting Allowances for Board and Board Committees (RM)		Estimated Monetary Value of Benefits-in- Kind (RM)	Total (RM)	
			Company	Subsidiaries	Company	Subsidiaries		Company	Subsidiaries
Datuk Wira Azhar bin Abdul Hamid	1,000,000	33,334	73,832	-	-	-	-	1,107,166	-
Sub-total for ED	1,000,000	33,334	73,832	-	-	-	-	1,107,166	-
*Salaries, other emoluments and allowances are paid to the GMD as per his employment remuneration package.									
NON-EXECUTIVE DIRECTORS ("NED")									
Name of Director	Directors Fees (RM)	Other Allowances ¹ (RM)	Other Emoluments (RM)		Meeting Allowances for Board and Board Committees (RM)		Estimated Monetary Value of Benefits-in- Kind (RM)	Total (RM)	
			Company ²	Subsidiaries ³	Company	Subsidiaries		Company	Subsidiaries
Tan Sri Dato' Seri Syed Anwar Jamalullail (Chairman)	360,000	29,925	36,000	-	42,000	-	104,375 ⁴	572,300	-
Dato' Sri Che Khalib bin Mohamad Noh	90,000 ⁵	-	-	675,000	30,000 ⁵	800 ⁶	-	120,000	675,800
Datuk Muhammad Noor bin Hamid	90,000	25,000	48,000	-	57,500	-	-	220,500	-
Datuk Ooi Teik Huat	90,000	25,000	45,097	-	66,000	-	-	226,097	-
Kohei Hirao	85,403	47,841	-	-	27,500	-	-	160,744	-
Cindy Tan Ler Chin	90,000 ⁶	50,000	24,000 ⁶	-	39,000	-	-	203,000	-
Dato' Wan Kamaruzaman bin Wan Ahmad	90,000	25,000	-	-	25,000	-	-	140,000	-
Datuk Dr. Syed Muhammad bin Syed Abdul Kadir	90,000	5,000	96,000	-	70,000	-	-	261,000	-
Datuk Idris bin Abdullah	90,000	21,168	90,000	-	65,500	-	-	266,668	-
Tan Sri Dato' Seri Alauddin bin Dato' Md Sheriff	90,000	20,143	45,097	-	56,500	-	-	211,740	-
Zalman bin Ismail (Alternate Director to Dato' Wan Kamaruzaman bin Wan Ahmad)	N/A	N/A	N/A	-	5,000	-	-	5,000	-
Sub-total for NED	1,165,403 ⁷	249,077	384,194	675,000	484,000	800	104,375	2,387,049	675,800
1 Other allowances paid by MCB to the NEDs comprising annual leave passage and annual supplemental fees (includes FY2015 claims paid in FY2016) and travelling allowances (only in respect of Kohei Hirao). 2 Board committee fees paid to the NEDs who are sitting on the Board Committee of the Company. 3 Other emoluments paid by the subsidiaries are chairman's allowance paid to a NED of MCB who is also serving as the chairman of the subsidiaries. 4 Benefits-in-kind paid to the Chairman of the Company comprising company car, company driver, petrol, utilities & medical reimbursements. 5 Directors' fees and meeting allowances are shared on an equal basis between the NED and MMC Corporation Berhad (which nominated the NED on the Board). 6 Directors' fees and other emoluments are shared on an equal basis between the NED and Employees Provident Fund Board (which nominated the NED on the Board). 7 Total directors' fee payable to the NEDs in 2016.									
Total (NEDs & ED)	2,165,403	282,411	458,026	675,000	484,000	800	104,375	3,494,215	675,800
Total remuneration at Group level	2,165,403	282,411	1,133,026		484,800		104,375	4,170,015	

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The aggregate Directors' remuneration for the Group and Company are broadly categorised into the following bands:

Amount of Remuneration (RM)	Group		Company	
	Number of Executive Directors	Number of Non-Executive Directors	Number of Executive Directors	Number of Non-Executive Directors
100,001 to 150,000	-	1	-	2
150,001 to 200,000	-	1	-	1
200,001 to 250,000	-	4	-	4
250,001 to 300,000	-	2	-	2
300,001 to 350,000	-	-	-	-
350,001 to 400,000	-	-	-	-
400,001 to 450,000	-	-	-	-
450,001 to 500,000	-	-	-	-
500,001 to 550,000	-	-	-	-
550,001 to 600,000	-	1	-	1
600,001 to 650,000	-	-	-	-
650,001 to 700,000	-	-	-	-
700,001 to 750,000	-	-	-	-
750,001 to 800,000	-	1	-	-
800,001 to 850,000	-	-	-	-
850,001 to 900,000	-	-	-	-
900,001 to 950,000	-	-	-	-
950,001 to 1,000,000	-	-	-	-
1,000,001 to 1,050,00	-	-	-	-
1,050,001 to 1,100,00	-	-	-	-
1,100,001 to 1,150,00	1	-	1	-

(iii) BRIC

The Board Risk Committee ("BRC"), which was established on 25 November 2014, comprises four Non-Executive Directors, two of whom are Independent Directors. The BRC, chaired by an Independent Non-Executive Director of the Company, is a dedicated committee formed by the Board to provide oversight of the key risks that the Group faces and must manage. It allows in-depth deliberation and focuses on the risk management activities of the Group by the committee, prior to making recommendations to the Board. High and extreme risks faced by the Company and Group will be highlighted to the Board for its information and notation.

The terms of reference of the BRC include the following:

- to review the processes for determining and communicating the Company's risk appetite;
- to oversee the establishment, implementation and adequacy of the risk management system of the Group of which the effectiveness of the system is reviewed annually;
- to review and approve the risk management framework and policies to be adopted by the Group. The risk framework is constantly monitored and reviewed to ensure risks and controls are updated to reflect current situations and ensure relevance at any given time;
- to review management's processes for identifying, analysing, evaluating and treating risks, as well as communicating the identified risks across the Group;
- to review periodic reports on risk management of the Group and deliberate on key risk issues highlighted by the Management Risk Committee;
- to report to the Board the key risks of the Group and the action plans to mitigate these risks;
- to provide independent assurance to the Board on the effectiveness of risk management processes in the Group;
- to invite outside counsel, subject-matter experts and other advisors, to the extent it deems necessary or appropriate, to facilitate expert discussion and seek expert opinion; and
- to carry out such other assignments as may be delegated by the Board.

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On 21 November 2016, the BRC was renamed to the Board Risk and Investment Committee ("BRIC") following the Board's approval for this committee to be responsible for the review of investments proposed by the management and recommended by the Management Investment Committee.

With the additional scope of the BRIC, it is to assist the Board in reviewing and recommending material investment decisions of the Group comprising acquisition and divestment/ disposal of businesses, investments, companies, land and buildings as well as the bidding for any binding tenders and contracts for new power and water generation project, O&M services and any other businesses of the Group as well as new businesses intended to be pursued by the Group valuing more than RM500 million (collectively referred to as "Material Investment Decision").

Other than the review and recommendation of Material Investment Decision to the Board, the BRIC is also delegated the responsibilities of reviewing the planning stage of the Group's investments and the monitoring of the performance of the Group's investment portfolio. The full details of the terms of reference of the BRIC can be found in the Company's website at www.malakoff.com.my.

Details of the BRIC and a summary of its activities are spelt out in the BRIC Report which appears on pages 102 to 106 of this Annual Report.

iv) BPC

Since the formation of the BPC on 21 August 2015, the BPC had effectively discharged its duties and responsibilities entrusted by the Board within its authority limits under the Company's Limits of Authority ("LOA"). The BPC had, over the course of the financial year in review, considered and approved three procurement awards upon recommendation of the Company's Management Procurement Committee ("MPC"). All decisions of the BPC were informed to the Board at the next best opportunity.

As last year, the composition of the BPC is made up of four members who are Non-Executive Directors with one member who is an Independent Director. The combination of knowledge, skills and experience of the BPC from different background had contributed to the effectiveness of the BPC in reviewing and deliberating procurement proposals under its purview. The BPC shall convene meetings on a need basis to deliberate

and recommend, procurement awards of the Group to meet the business needs of the Group. In fulfilling its objectives, the BPC undertakes the following functions, roles and responsibilities:

- to review, evaluate and approve or disapprove procurements of the Group in accordance to the LOA approved by the Board; and
- to assist the Board in regulating compliance in line with the Group's Procurement Policies and Procedures.

3. REINFORCE INDEPENDENCY

(Principle 3 of the MCCG 2012)

Recommendation 3.1

The board should undertake an assessment of its independent directors annually

Given the importance of the role of the independent directors in giving independent views and having undue influence from interested parties in the boardroom discussion and decision, it is a vital that independent directors remain independent in their views and actions. The Board through the BNRC carries out an annual independence assessment of its Independent Directors with reference to the key criteria developed by the BNRC in the annual board assessment exercise. The criteria used to assess the independent directors are those which are prescribed under the Bursa Malaysia and the Corporate Governance Guide: Towards Boardroom Excellence, 2nd Edition. These directors are also assessed on their ability to provide strong, valuable contributions to the Board's deliberations, without interference and acting in the best interests of MCB throughout their service as being directors of the Company.

During the financial year under review, all of the Independent Directors of the Company, had declared their independence based on criteria set out in Paragraph 1.01 of the MMLR of Bursa Malaysia. The Board is pleased to report that none of the Independent Directors had any interest or relationship that could reasonably be perceived to materially interfere with the independent exercise of their judgment. Materiality is assessed on a case-to-case basis by the Board and each Director is required to regularly disclose to the Board all information that may be relevant to this assessment, including their interests in contracts and other directorships held. The independent directors are also assessed on whether their behaviour and the manner in which they conduct themselves on the Board coincides with their self-declaration that they have complied with the spirit of independence prescribed by the MMLR.

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Therefore, based on their declarations and actions at the Board, the BNRC is satisfied that the Independent Directors have complied with the independence criteria as prescribed by the MMLR and continue to bring independent and objective judgement to Board deliberations.

Recommendation 3.2

The tenure of an independent director should not exceed a cumulative term of nine years. Upon completion of the nine years, an independent director may continue to serve on the board subject to the director's re-designation as a non-independent director

Recommendation 3.3

The board must justify and seek shareholders' approval in the event it retains as an independent director, a person who has served in that capacity for more than nine years.

The MCGG 2012 recommends that the tenure of an Independent Director should be limited to a cumulative term of nine years. After that tenure, the said Independent Director may continue to serve the Board upon reaching the nine-year limit subject to him/her being re-designated as a Non-Independent Director. It further recommends that if the Board was to retain the individual as an independent director, after he has served in that capacity for more than nine years, the Board must justify and seek shareholders' approval for this retention.

As the Company strives to follow the best practices prescribed by MCGG 2012, the Board will pursuant to Recommendations 3.2 and 3.3 of the MCGG 2012, justify the decision to retain a Director as an Independent Director beyond the cumulative term of nine years, if it intends to do so and to seek shareholders' approval at a general meeting. The justification for the retention of the Independent Director will be subject to the recommendations of the BNRC, which is entrusted to assess the candidate's suitability to continue as an Independent Non-Executive Director based on the criterion of independence.

As all of the Independent Non-Executive Directors of the Company have served less than nine years in the Company, the MCGG 2012 recommendation will not be applicable now. The BNRC will continue, on an annual basis, to assess the independence of the Company's Independent Non-Executive Directors.

Recommendation 3.4

The positions of chairman and GMD should be held by different individuals, and the chairman must be a non-executive member of the board

- **Separation of Powers between the Chairman and the GMD**

In line with the recommendation of the MCGG 2012, there is a clear division of responsibility of the Chairman and GMD, which promotes accountability and facilitates division of responsibilities between the two roles. The GMD who is assisted by the Senior Management, is responsible for the business and day-to-day management of the Company. This division of roles between these two positions will ensure that no one individual has unfettered powers over decision making.

- **The Chairman**

Tan Sri Dato' Seri Syed Anwar Jamalullail an Independent Non-Executive Chairman of the Company, he is responsible as the Chairman, for leading and ensuring the adequacy and effectiveness of the Board's performance and governance process. He also acts as a facilitator at Board meetings to ensure that contributions by Directors are forthcoming on matters being deliberated. He works closely with the rest of the Board members in forming policy framework and strategies to align the business activities driven by the management team.

- **The GMD**

Datuk Wira Azhar bin Abdul Hamid, the newly appointed GMD of Malakoff, has the responsibility of providing the stewardship of the Group's direction and the day-to-day management of the Group. The GMD together with the Senior Management manage the business of the Group according to the business plans, instructions and directions of the Board. The GMD with the management team, also implements the Group's policies and decisions as adopted by the Board, overseeing the operations as well as developing, coordinating and implementing business and corporate strategies.

The Senior Management comprises the following:-

- (i) Executive Vice President, Operations
- (ii) Chief Financial Officer/Senior Vice President, Group Finance and Accounts Division
- (iii) Senior Vice President, Group Planning and Strategy Division

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- (iv) Senior Vice President, Local Generation Division
- (v) Senior Vice President, International Operations and Services Division
- (vi) Senior Vice President, Corporate Services Division

Recommendation 3.5

The board must comprise a majority of independent directors where the chairman of the board is not an independent director.

Tan Sri Dato' Seri Syed Anwar Jamalullail, the Chairman of the Company is an Independent Non-Executive Chairman of the Company. Currently, four out of eleven Board members are Independent Directors who are able to exercise independent judgment on issues of strategy, performance and resources of the Group. The Independent Non-Executive Directors of the Board play an important role in upholding the views of objectivity and independence in the discussion and decision making process of the Board. Their advice and judgment on interests, is not only limited to the Group, but also encompasses shareholders, employees, customers, suppliers and the communities in which the Group conducts its operations.

The Independent Non-Executive Directors are persons of high calibre and integrity, who provide skills and competencies, which ensure the Board's effectiveness. The Independent Non-Executive Directors represent and protect the interests of shareholders and are to provide an impartial view and quality advice to the decision making process of the Board. Independent Directors on the Board exercise their duties unfettered by any business or other relationship and are willing to express their opinions at Board meetings, free of concern about their position or the position of any third party. This mitigates risks arising from conflicts of interest or undue influence from interested parties.

• **Conflicts of Interest**

To uphold good corporate governance and to ensure that decisions made are not influenced, any transaction of the Group involving interests of the major shareholders in whom these Non-Independent Non-Executive Directors represent will declare such interest to the Board and will abstain from all deliberations at the Board meeting.

To assist the Board in complying with paragraphs 10.08 and 10.09 of the MMLR of Bursa Malaysia, the Board has approved an internal process which enables management to monitor and report related party transactions ("RPTs") and recurrent related party transactions ("RRPTs") entered into/to be entered into by the Group to the BAC on a quarterly basis.

• **Related Party Transaction Policies and Procedures**

The Board through the BAC will ensure that the RPTs entered into/have been entered into by the Group (in the case of the RRPTs) have/are entered at an arm's length basis, on normal commercial terms and are not detrimental to the minority shareholders of the Company.

To assist the Board in discharging this obligation, RPT Policies and Procedures have been developed and put in place for the Group to guide the Board and each employee as to their roles and responsibilities when a RPT/ RRPT is entered into by the Company and the Group. These also set out the manner in which the RPTs and RRPTs should be approached before the Group enters into such transactions. These also spell out the process for monitoring, reporting and compliance as well as the various obligations of the Company and the Group under the MMLR of Bursa Malaysia when certain thresholds of the value of the transactions are triggered.

4. FOSTER COMMITMENT

(Principle 4 of the MCCG 2012)

Recommendation 4.1

The board should set out expectations on time commitment for its members and protocols for accepting new directorships

• **Time Commitment**

The Board meets at least four times every financial year and, as and when necessary, for any matters arising between regular Board meetings. All the Board and Board committees meetings are scheduled at the onset of the calendar year to facilitate the Directors' time planning. The Board ordinarily schedules three (3) additional meetings on top of the required quarterly meeting annually, to cater for any urgent matters which require the Board's decision and approval. Any additional meeting, on top of the seven (7) scheduled meetings, will be convened by the Company Secretary, after consultation with the Chairman and the GMD.

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During the financial year ended 31 December 2016, a total of 11 Board meetings were held where the attendance of each director had been detailed below:-

Name of Directors	No. of meetings attended
Tan Sri Dato' Seri Syed Anwar Jamalullail	11 out of 11
Datuk Wira Azhar Abdul Hamid (appointed as Group Managing Director on 1 May 2016)	7 out of 7
Dato' Sri Che Khalib Mohamad Noh	11 out of 11
Datuk Muhammad Noor Hamid	10 out of 11
Datuk Ooi Teik Huat	11 out of 11
Cindy Tan Ler Chin	9 out of 11
Tan Sri Dato' Seri Alauddin Dato' Md Sheriff	9 out of 11
Datuk Dr. Syed Muhammad Syed Abdul Kadir	11 out of 11
Datuk Idris Abdullah	10 out of 11
Dato' Wan Kamaruzaman Wan Ahmad	9 out of 11
Kohei Hirao	10 out of 11

Each individual member of the Board is expected to devote sufficient time to the Company in carrying out his or her duties and responsibilities as this plays an important role in the development of the Group's policy and oversight of the management of the Company. Time commitment of new Board members will be communicated to the new director upon their appointment.

The existing Board members would need to abide to a procedure before accepting any new external Board appointment where notification on the indication of time to be spent on the new external appointment must be properly communicated to the Board. If there is a potential conflict in the pending appointment, it will be tabled to the BNRC notwithstanding the fact that paragraph 15.06 of the MMLR of Bursa Malaysia allows a Director to sit on the boards of up to five listed issuers. To date, the directors of the Company have complied with the MMLR requirement of not holding more than five (5) directorships in listed companies.

All Board members had attended more than 80% of the Board meetings held during the financial year 2016, demonstrating their commitment in investing sufficient time towards fulfilling their roles and responsibilities as Board member of the Company.

Recommendation 4.2

The board should ensure its members have access to appropriate continuing education programmes

• Directors' Training

The Board is mindful of the importance of continuous education for its members to update their knowledge and enhance their skills especially in this new regime of the Companies Act 2016 and the amendments to the MMLR of Bursa Malaysia. All Directors are encouraged to attend continuous education programmes and continuous training to enhance their business acumen and professionalism in discharging their duties to the Group as well as to help them to be kept abreast with the current developments and business environment affecting their roles and responsibilities.

During the year, the BNRC carried out a Board matrix competency exercise for each member of the Board as part of the Board evaluation exercise. This exercise had enabled the determination of key areas of improvement for each of the Directors and their respective training needs to bridge their respective competency gaps. The Company Secretary had organised an in-house training for the Board members entitled "the Companies Act 2016 and its implication to Directors" during the year and had circulated regular updates on training programmes from various organisations to the directors for their consideration for participation.

In compliance with paragraph 15.08(2) and Appendix 9C (Part A, paragraph 28) of the MMLR of Bursa Malaysia, all directors (during the financial year ended 31 December 2016) had attended at least one training session. The summary of the training programmes attended by our Directors are listed below:-

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Name of Director	Conference/Training Programme Attended	Date
Tan Sri Dato' Seri Syed Anwar Jamalullail (Chairman)	Update on Human Resource in Nestle World	8 January 2016
	PwC Building Trust Award 2015	23 February 2016
	Overview on Ready to Drink Business Unit	23 February 2016
	Overview on Creating Shared Value ("CSV")	23 February 2016
	Overview on Nestle Health Science	26 April 2016
	Update on Sales Business Unit	29 June 2016
	Update on Security on Nestle Malaysia/Singapore	22 August 2016
	Overview on Nestle Zone Asia, Oceania & Africa (including CSV & Sustainability)	22 August 2016
	Capturing Value from Disruption	23 September 2016
	Power Sector Outlook for Selected Geographies	23 September 2016
	Amendments to the Listing Requirements by KPMG	26 September 2016
	Companies Bill 2015 by Messrs. Wong & Partners	26 September 2016
	Update on Human Resources in Nestle World	25 October 2016
	Overview on Marketing Services & Social Media	25 October 2016
	Overview on e-Commerce	25 October 2016
	Overview on Healthier Choice Logo & Selective Food Tax	25 October 2016
	Update on Raw Material Sourcing	25 October 2016
	Update on Innovation & Renovation Award	25 October 2016
	Investment in Myanmar 2016	7 November 2016
Datuk Wira Azhar bin Abdul Hamid	Special Invitation to industry briefing on Directors Register Implementation	17 February 2016
	Directors Remuneration Report 2015: Briefing session for Directors, A special briefing on the implementation of the Recommendations	25 February 2016
	FIDE Core Programme – Module A	8-10 March 2016
	2016 BNM Governor's Address on the Malaysia Economy & Panel Discussion	24 March 2016
	Audit Committee Conference 2016	29 March 2016
	Concept Paper on Corporate Governance	25 April 2016
	Concept Paper on Shareholder Suitability	25 April 2016
	Amendments to Bursa Malaysia Securities Berhad Main Market Listing Requirements	25 April 2016
	FIDE Core Programme – Module B	5-7 October 2016
	Companies Act, 2016 and its implications to director	7 November 2016
	Anti-corruption & Integrity – Foundation of Corporate Sustainability	8 December 2016
Dato' Sri Che Khalib bin Mohamad Noh	Speaking Engagement – Customer Experience: Lesson Learnt from the World Most Admired Organisations	24 May 2016
	Competition Law Talk	23 August 2016
Datuk Muhamad Noor bin Hamid	Malaysian Oil & Gas Services Exhibition and Conference	September 2016
	Companies Act, 2016 and its implications to Director	7 November 2016
Cindy Tan Ler Chin	Woman Power Network	1 March 2016
	Companies Act, 2016 and its implications to Director	7 November 2016
	CG Breakfast Series with Directors : "The Cybersecurity Threat and How Board Should Mitigate the Risks"	18 November 2016

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Name of Director	Conference/Training Programme Attended	Date
Datuk Ooi Teik Huat	How to build or burn trust in an organization – A conversation with Andrew Fastow	6 June 2016
	Competition Law Talk	23 August 2016
	Financial Outlook 2017	5 September 2016
	2016 National Conference of the Institute of the Internal Auditors Malaysia – Audit Committee Leadership Track	11 October 2016
	Companies Act, 2016 and its implications to Director	7 November 2016
Tan Sri Dato' Seri Alauddin bin Md Sheriff	Half day talk on:	26 September 2016
	i) Shariah non-compliance risk and its impact to Islamic Banks	
	ii) Malaysia Financial Reporting Standard (MFRS) 9 – Financial Instruments and key audit matters	
	iii) Internal Capacity Adequacy Assessment Process (ICAAP)	
Datuk Idris bin Abdullah	Evolution of Enterprise Risk Management Models and Standards	5 September 2016
	Companies Act, 2016 and its implications to Director	7 November 2016
Datuk Dr. Syed Muhamad bin Syed Abdul Kadir	Focus Group Discussion in preparation for Dialogue with BNM's Senior Management	3 February 2016
	Bank Negara Malaysia Annual Report 2015 / Financial Stability and Payment Systems Report 2015 Briefing Session	23 March 2016
	Risk Appetite Workshop	24 March 2016
	Independent Directors Programme: The Essence on Independence	28 March 2016
	Panelist for the session "Putting it All Together" – MINDA Engagement on Enhancing Director and Board Effectiveness – INSKEN Onboarding Directors Programme	29 March 2016
	Participated in the RFI Responsible Finance Summit	30 – 31 March 2016
	Breakfast Talk Session entitled "Key Traits to Make or Break a CEO: Establishing the Measures"	12 May 2016
	Training Session on ISO for EURO Board of Directors	2 June 2016
	Public Lecture at the University Sultan Zainal Abidin (UniSZA)	12 June 2016
	Focus Group Discussion on "Islamic Finance for Board" Programme	30 June 2016
	Future CEO Programme	16 July 2016
	Competition Law Talk	23 August 2016
	Khazanah Megatrends Forum	26 – 27 September 2016
	2016 National Conference of the Institute of the Internal Auditors Malaysia – Audit Committee Leadership Track	11 October 2016
	Speaking to students of BBA (Islamic Finance) who took subject on "Shariah Aspects of Business and Finance"	16 October 2016
	Sesi Refleksi CEO Faculty Programme bersama YB Menteri Pendidikan Tinggi	19 October 2016
	Companies Act, 2016 and its implications to Director	7 November 2016
	CIMB Group's Annual Management Summit (AMS)	11-12 November 2016

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Name of Director	Conference/Training Programme Attended	Date
Dato' Wan Kamaruzaman bin Wan Ahmad	Companies Act, 2016 and its implications to Director	7 November 2016
	2016 Economics Outlook Workshop	29 February – 1 March 2016
	Invest Malaysia 2016 Conference	12 April 2016
	Leadership Series with YBhg Tan Sri Rafidah Aziz Corporate Governance, NFI & Investment Decision – What the Board need to Know (Part 1)	9 May 2016
	Global Islamic Finance Forum	10 - 12 May 2016
	The ICGN Annual Conference 2016 (International Corporate Governance Network)	27 - 29 June 2016
	International Social Security Conference 2016	10 - 11 August 2016
	Leadership Series with YBhg Dato' Sri Idris Jala	2 September 2016
	JOIM-Oxford-EDHEC Retirement Investing Conference	11 - 13 September 2016
	Private Equity Forum 2016	20 - 21 September 2016
	Khazanah Megatrends	26 September 2016
	Corporate Governance, NFI & Investment Decision – What the Board need to Know (Part 2)	28 September 2016
	Strategic Corporate Governance	19 October 2016
	Khazanah Global Lecture – (Dame Dr Jane Goodall)	31 October 2016
	ASLI (Speaker) Strengthening Capital & Financial Markets & Boosting the Bond & Equity Market	1 November 2016
	FTSE	5 - 6 December 2016
	PEUK Symposium	20 December 2016
Kohei Hirao	Mandatory Accreditation Programme for Directors of Public Listed Companies	2 - 3 March 2016
	MINDA Power Talk – Bridging the gap via stakeholder engagement	18 October 2016
	Companies Act, 2016 and its implications to Director	7 November 2016
Zalman bin Ismail	The Voice of Leadership	1-4 March 2016
	Risk Awareness: Briefing on Insider Trading	28 August 2016
	International Foundations of Directorship (IFoD) 2016	15-17 August 2016

As per the past practice, the Company had organised for the Board an annual offsite breakout session with the management to discuss the Group's strategies and business plans. Guest speakers were invited to brief the Board on the latest developments in the power industry, new business ventures as well as potential markets in which the Company could tap for growth. Key takeaways from the session were used by the management to develop the Group's strategies and business plans for 2017.

5. UPHOLD INTEGRITY IN FINANCIAL REPORTING

(Principle 5 of the MCCG 2012)

Recommendation 5.1

The Audit Committee should ensure financial statements comply with applicable financial reporting standards

• Financial Reporting

The Board is committed to provide and present a clear, balanced and meaningful assessment of the Company's financial performance and prospects to its shareholders, investors, relevant regulatory authorities and other stakeholders. The announcements to

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Bursa Malaysia on the quarterly results of the Group and the Annual Report are issued in a timely manner to ensure that its shareholders are kept up-to-date with the Group's performance and prospects. The Board is responsible in ensuring that the accounting records are kept in a proper order and that the financial statements are prepared in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

The Board is assisted by the BAC in overseeing the Group's financial reporting processes so that the quality and integrity of the financial reporting are maintained. These processes are aimed to provide assurance that the financial statements and the notes accompanying the financial statements are completed in accordance with applicable legal requirements and accounting standards and reflect a true and fair view of the Group's financial position.

Recommendation 5.2

The Audit Committee should have policies and procedures to assess the suitability and independence of external auditors

• **Relationship with Auditors**

The Board maintains a formal and transparent relationship with the Company's auditors in seeking their professional advice and ensuring audit issues are properly addressed at Board level. The external and internal auditors are invited on a quarterly basis, to present significant audit findings that they wish to bring to the attention of the BAC. The BAC also meets with both the internal and external auditors at least twice a year without the presence of the management and whenever it deems is necessary. This is to encourage open discussion between the BAC with the internal and external auditors of the Company so that feedback on the level of co-operation given by the management during their audits are communicated, the areas for improvement of the audit exercise, or any other concerns it wish to bring to attention of the BAC.

The BAC through the Company Secretary undertakes the assessment of both the internal and external auditors. The assessment involves the completion of a set of questionnaires that include amongst other things, the adequacy of resources, the quality and adequacy of personnel carrying out the audit, the quality of audit reports received by the BAC and the adequacy of coverage of the audit. The feedback of the Chief Financial Officer is also sought through the completion of a different set of questionnaires to assess on the quality of the audit reports and the performance of the external auditors.

The Board is well aware that the objectivity and independence of the external auditors must not be any way be impaired by their provision of non-audit services to the Group. Hence, to assist the Board in achieving this, it had approved on 21 November 2016, a policy on non-audit services as prescribed by MCCG 2012.

Under the said policy, the BAC's objective is to ensure that the provision of non-audit services to MCB does not impair the external auditor's objectivity and independence. In this context, the AC shall consider the followings:

- whether the skills and experience of the external auditors make it suitable service provider of the non-audit service(s);
- whether the suitability and need for the service of the external auditors has been considered;
- whether safeguards have been deployed to eliminate or reduce to an acceptable level any threat to objectivity and independence in the conduct of the audit resulting from the non-audit services provided by the external auditors; and
- the nature of non-audit services, the related fee levels and fee levels individually, and in aggregate relative to the audit fee.

The BAC should satisfy itself that safeguards required by legislation or standards are implemented and complied with.

The external auditors under the policy is prohibited from performing non-audit services based on the following principles:-

- Create a mutual or conflicting interest between the external auditors and the Company;
- Result in the external auditors functioning in the role of management;
- Place the external auditors in the position of auditing its own work; and
- Place the external auditors in the position of being an advocate for the Company

The policy also prescribed that the external auditors must observe and comply with the By-Laws of the Malaysian Institute of Accountants in relation to the provision of non-audit services, which include the following:-

- accounting and book keeping services;
- valuation services;
- taxation services;
- internal audit services;
- IT systems services;
- litigation support services;
- recruitment services; and
- corporate finance services.

The management shall obtain confirmation from the external auditors that the independence of the external auditors will not be impaired by the provision of non-audit services. The management had at all times required the external auditors to

CORPORATE GOVERNANCE STATEMENT

make the commitment that objectivity or its independence will not be impaired with the provision of the non-audit services by including such assurance in each engagement letters for the non-audit services rendered by it. All services were procured in accordance with the Malakoff Group's Procurement Policy. Non-audit services can be offered by the external auditors, if there are clear efficiencies and value added benefits to the Group, which is subject to the selection process under the Malakoff Group's Procurement Policy.

The external auditors' remuneration including non-audit Fees for the Company and the Group for the financial year ended 31 December 2016 had been tabled under page 116 and 202 of this Annual Report.

The BAC will determine and recommend the proposed re-appointment of the external auditors of the Company based on its assessment and the Chief Financial Officer whilst also ensuring that their fees will not compromise the independence of the external auditors.

Being satisfied with the performance of the external auditors for the year under review, the Board recommends their re-appointment, upon which shareholders' approval will be sought at the AGM.

6. RECOGNISE AND MANAGE RISKS

(Principle 6 of the MCCG 2012)

Recommendation 6.1

The board should establish a sound framework to manage risks

• **Internal Control**

The Board has the overall responsibility for maintaining a sound system of internal control that covers not only financial controls but also provides reasonable assurance for effective and efficient operations, compliance with laws and regulations, as well as adherence with internal procedures and guidelines.

The Statement on Risk Management and Internal Control is set out on pages 102 to 106 of this Annual Report.

• **Risk Management Framework**

The Board acknowledges the importance of sound risk management framework in managing the Group's risks and has entrusted the Company's risk management oversight to the BRIC. The BRIC reports to the Board on a quarterly basis to enable adequate review of the Group's risk management framework.

The Enterprise Risk Management Policy & Framework ("ERMPPF") ensures a structured risk management process that includes risk identification, risk analysis, risk evaluation

and risk treatment are being implemented throughout the Group. The MRC is responsible to execute and implement the ERMPPF. The MRC is a platform where the Group's risks are communicated and discussed at the Management level. Strategies in managing key risks are also formulated in order to support the strategic objectives of the Company. Furthermore, the MRC is responsible in monitoring the effectiveness of risk controls and providing updates on the significant risks to the BRIC every quarter.

The Risk Management Department ("RMD") supports the BRIC and MRC in executing risk analysis and reporting as well as cultivating the Company's risk culture. The RMD also acts as a conduit to all the business units with regard to the execution of the planned risk management activities that are consistent with the ERMPPF.

In addition, Plant Risk Management Committees are also responsible for managing all the operational risks at the power plants. The Plant Risk Management Committees oversee the risk activities at power plants in compliance with the Company's ERMPPF.

Details of the Company's risk management framework and internal control system are set out in the Statement on Risk Management and Internal Control and the BRIC Report on pages 102 to 106 of this Annual Report.

Recommendation 6.2

The board should establish an internal audit function which reports directly to the AC

• **Internal Audit Function**

The Internal Audit Department ("IAD") was established to support the Board through the BAC in discharging its duties and governance responsibilities. The IAD provides the Board through the BAC an independent and objective assurance on governance, risk management and control processes designed to improve and add value to the Group. The IAD reports functionally to the BAC and administratively to the GMD and is independent of the activities that they audit and perform their duties with impartiality, proficiency and due professional care.

Among the roles and responsibilities of IAD is to evaluate the adequacy, effectiveness and integrity of key internal control systems and risk exposures of the Group's governance, operations and information systems in relation to:-

- Achievement of the Group's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets;
- Economic utilization of resources; and
- Compliance with relevant laws, regulations, policies, procedures and contractual obligations

CORPORATE GOVERNANCE STATEMENT

Details of the Company's internal audit function and activities are presented in the BAC Report on pages 113 to 114 and the Statement on Internal Audit Function on page 115 of this Annual Report.

7. ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

(Principle 7 of the MCCG 2012)

Recommendation 7.1

The board should ensure the company has appropriate corporate disclosure policies and procedures

• **Corporate Disclosure Policies and Guidelines**

In acknowledging the importance of being accountable to the shareholders and the market with full and timely information via an effective medium of communication, the Company had formalised a Corporate Disclosure Policies and Guidelines ("CDP"). The CDP ensure that there is a systematic approach within the organisation to communicate material information and disseminate it to various stakeholders such as investment regulators, members of the media and the investment community.

The CDP was established based on the basic principles of transparency, timeliness, fairness, continuity and confidentiality apart from complying with the MMLR of Bursa Malaysia. The CDP covers all manner and/or platform of formal and informal correspondences and communication, which is taken by the Company. A Disclosure Committee comprising the GMD, Executive Vice President, Operations, Chief Financial Officer (primary contact) and Company Secretary will administer the CDP including determining material information, ensuring timely disclosure to Bursa Malaysia, monitoring compliance and overseeing disclosure procedures.

• **Insider Trading**

The CDP sets out guidelines on trading restrictions for directors, officers or employees privy to material information. In compliance with the MMLR of Bursa Malaysia, the directors, principal officers or employees who are privy to material information are prohibited from trading in securities of the Company up to one market day after the material information is released to the public. Notices on the closed period for trading in the Company's securities are circulated to the directors, officers or privileged employees who are privy to any price-sensitive information and knowledge in advance of the closed period where applicable.

Recommendation 7.2

The board should encourage the company to leverage on information technology for effective dissemination of information

• **Leverage on Information Technology for Effective Dissemination of Information**

The Company employs a wide range of communication modes with its shareholders primarily through its website at www.malakoff.com.my which has dedicated sections for corporate information of the Company and corporate governance practices adopted by the Group. The website provides a wide range of information such as the company policies, media releases, investor presentations, quarterly and annual financial statements, announcements, share and financial information, annual reports and circulars/statements, to shareholders and investors at large.

8. STRENGTHENING RELATIONSHIP BETWEEN THE COMPANY AND SHAREHOLDERS

(Principle 8 of the MCCG 2012)

Recommendation 8.1

The board should take reasonable steps to encourage shareholder participation at general meetings

• **Annual Report and Shareholder Participation at General Meetings**

The Board believes that the shareholders or prospective new investors are entitled to receive timely and material information about their investment to assist them in making informed investment decisions.

The Annual Report of the Company is circulated in a timely manner to shareholders so that the shareholders and the market at large is provided with information on the Company's financial performance, business activities, corporate social responsibilities and other key activities. An electronic/digital form of 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. Upon the request of shareholders, the Company will provide a hard copy of the Annual Report to the shareholders of the Company.

The general meeting serves as a principal platform for the Board and Senior Management to engage with shareholders and encourage effective shareholder communication on the Company's performance, corporate and business developments and any other matters affecting shareholder's interests. The Board encourages participation of shareholders in the general meeting where the shareholders will be given a brief overview of the Company's operation and performance by the GMD of the Company. 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.

CORPORATE GOVERNANCE STATEMENT

The general meeting also serves as an avenue for the Chairman and the Board members to engage in two-way communication with shareholders. Shareholders are encouraged to participate in the question and answer session with the Board personally and exercise their right to vote on the proposed resolutions. The external auditors will be present at the AGM to answer 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.

Recommendation 8.2

The board should encourage poll voting

• **Poll Voting**

Pursuant to paragraph 8.29A of the MMLR of Bursa Malaysia which came into force on 1 July 2016, all resolutions set out in the notice of general meeting which may be moved or intended to be moved at the general meetings will be put to vote by polling. Hence, the Company shall conduct its forthcoming AGM by poll instead of show of hands as practiced in previous years. At least one scrutineer, who must not be the officer of the Company or its related corporation and independent of the person undertaking the polling process, will be appointed to validate the polling process as well as the votes cast at the general meetings.

The outcome of voting on the proposed resolutions will be released via Bursa Link to the public at large and uploaded to the Company's website after the general meeting. The Company's AGM will be the first AGM that it will enter into this new regime for voting.

Recommendation 8.3

The board should promote effective communication and proactive engagements with shareholders

• **Communication and Engagement with Shareholders or Investors**

The Board is committed to establish a constructive and effective relationship with its shareholders and all investors in the market. This is essential in realising long term values of the Company as well as enhancing shareholders' value. Other than the forum of general meetings, the Board encourages other mediums of communication between the Company and its shareholders or investors as follows:

- (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; and
- (iv) physical forums for interactive exchange between the Company's Senior Management and investors at meetings, briefings and site visits

As an effort to promote effective engagement with shareholders or public at large, the Company has set up an Investor Relations section on its corporate website at www.malakoff.com.my where the relevant investor information is made available for review as well as for enquiries to be posed to the Company's management. A designated personnel has been assigned to attend or respond to shareholders/investors' enquiries from time to time.

Further explanation on the Company's engagement with the investors is set out in the Investor Relations section on page 54 of this Annual Report.

9. 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 Companies Act, 1965 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 121 of this Annual Report together with the details of the Company and the Group financial statements for the financial year ended 31 December 2016 which are set out on pages 122 to 234 of this Annual Report.

10. COMPLIANCE STATEMENT BY THE BOARD ON THE CORPORATE GOVERNANCE 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 Recommendations set out in the MCCG 2012 as well as the relevant paragraphs under the MMLR of Bursa Malaysia for the financial year under review. Any recommendations in the MCCG 2012 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 7 March 2017.

An underwater photograph of a sea turtle swimming over a coral reef. The turtle is in the lower left, swimming towards the upper right. The water is clear blue, and the coral reef is visible at the bottom. A white rectangular box with a thin black border is overlaid on the image, containing the text 'PRESERVING OUR FUTURE'.

PRESERVING OUR FUTURE

CORPORATE GOVERNANCE STATEMENT

The general meeting also serves as an avenue for the Chairman and the Board members to engage in two-way communication with shareholders. Shareholders are encouraged to participate in the question and answer session with the Board personally and exercise their right to vote on the proposed resolutions. The external auditors will be present at the AGM to answer 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.

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The outcome of voting on the proposed resolutions will be released via Bursa Link to the public at large and uploaded to the Company's website after the general meeting. The Company's AGM will be the first AGM that it will enter into this new regime for voting.

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- (ii) all information of the Group's activities or press releases made available on the Company's website;
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As an effort to promote effective engagement with shareholders or public at large, the Company has set up an Investor Relations section on its corporate website at www.malakoff.com.my where the relevant investor information is made available for review as well as for enquiries to be posed to the Company's management. A designated personnel has been assigned to attend or respond to shareholders/investors' enquiries from time to time.

Further explanation of the investors is set out on page 54 of this Annual Report.

9. STATEMENT OF DIRECTORS

(Pursuant to paragraph 15.08A of the MMLR of Bursa Malaysia)

The Board has given its approval to the financial statements which are prepared in accordance with the applicable approved accounting standards for the financial year which gives a true and fair view of the financial position of the Group and the Company at the end of the financial year and of the results of the financial year.

The Directors' Report for the financial year of the Company and the Group is set out in this Annual Report together with the financial statements and the Group financial statements for the financial year ended 31 December 2016 which form part of the Annual Report.

10. COMPLIANCE STATEMENT ON CORPORATE GOVERNANCE

This Statement on the Company's corporate governance practices is made in compliance with paragraph 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 Recommendations set out in the MCCG 2012 as well as the relevant paragraphs under the MMLR of Bursa Malaysia for the financial year under review. Any recommendations in the MCCG 2012 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 7 March 2017.





Malakoff remains committed to creating long-term shared value for our shareholders through embedding sustainable progress into our operations to secure the future of the Group.



5TH YEAR

"KENALI PENYU, SAYANGI PENYU"

Turtle Awareness and Educational Programme



THE MALAKOFF-NRE CORAL REHABILITATION PROJECT 2016

aimed to highlight the importance of coral in the marine ecosystem.

SUSTAINABILITY STATEMENT



OUR COMMITMENT TO CREATING SUSTAINABLE VALUE

Malakoff Corporation Berhad ("Malakoff" or "the Group") has grown progressively over the years and is today a leading regional independent power and water producer with operations in Malaysia, Saudi Arabia, Bahrain, Algeria, Oman and Australia. As we set about our daily business of helping shape economies, society and businesses through our diverse offerings, we acknowledge the need to create long-term shared value for our stakeholders and to secure the future of the Group. In line with this, we are committed to upholding responsible management and sustainable development on the Economic, Environmental and Social fronts.

Today, the businesses within Malakoff continue to work together, leveraging on common synergies and resources to integrate business sustainability into their respective organisations. By embedding sustainable progress throughout the Group, we are providing the momentum for our businesses to strengthen their operational efficiencies and deliver long-term growth.

SUSTAINABILITY STATEMENT



SCOPE AND METHODOLOGY

This inaugural Sustainability Statement underpins Malakoff's commitment to undertaking business in a responsible and sustainable manner through our good Economic, Environmental and Societal or EES performance. It covers the reporting period 1 January to 31 December 2016 and the Group's key sustainability activities in Malaysia only. We focus on the business sustainability activities of specific components of Malakoff, namely the power generation business in Malaysia. This Statement excludes the sustainability activities of our business activities outside of Malaysia, unless otherwise stated. We consider the entire supply chain for materiality assessment but only Malakoff's activities for quantitative and qualitative disclosure.

This Statement is to be read in conjunction with the rest of Malakoff's 2016 Annual Report, which highlights other financial and non-financial aspects of our business. To avoid content overlap, certain parts of this Statement may refer to existing content within other sections of this Annual Report. For further clarification or any feedback on this Statement, kindly contact Head, Investor Relations.

OUR APPROACH TO SUSTAINABILITY

Sustainability Governance

Malakoff's commitment towards sustainable growth is evident at all levels of our organisation. At the leadership level, our Board of Directors and senior management recognise the importance of pursuing a business sustainability agenda that upholds good EES practices. Our leadership has committed to investing in measures, which support the sustainable growth of the Group's businesses and which create value for our shareholders.

In 2016, Malakoff formed a Working Group on Sustainability to oversee the formalisation of sustainability processes and the preparation of this Sustainability Statement. The Working Group on Sustainability is chaired by our Chief Financial Officer. Its other members comprise the Heads of the Risk Management Department and the Corporate Affairs and Stakeholder Management Department, as well as the Heads of Group Accounts and Investor Relations. Several business units provide support, namely the Local Generation Division ("LGD"), Human Resource Department ("HR"), Group Health, Security, Safety and Environment ("GHSSE") and Corporate Affairs and Stakeholder Management ("CASM") units. The Working Group on Sustainability reports directly to the Group Managing Director, who is responsible

SUSTAINABILITY STATEMENT

for providing overall direction on how sustainability matters are to be incorporated in Malakoff's business and for endorsing the Sustainability Statement for the Board's approval.

Over the course of 2016, the Working Group on Sustainability met on a regular basis, and conducted the following activities:

- reviewed Malakoff's stakeholder engagement process, including the prioritisation of key stakeholders and stakeholder engagements for the purpose of this Statement;
- conducted a materiality assessment to determine sustainability matters which are material to Malakoff;
- considered targets and indicators to evaluate and monitor the performance of material sustainability matters, in the context of Malakoff's business;
- prepared this Statement, supported by the respective business units that are responsible for the performance of the material sustainability matters.

At the ground level, the various teams within the Group carry out their everyday functions in a manner that makes a positive and sustainable impact on the EES front. With all employees within the Group doing their bit to ensure responsible and sustainable behaviour, this is successfully preserving the Group's reputation and bolstering shareholder value.

While the Working Group on Sustainability has been formed for the purpose of helping Malakoff kick-start its sustainability journey in a more structured manner, we are currently exploring and considering a formal governance structure that will enable the integration of sustainability into the Group for the longer-term.

Disclosure and External Assurance

While sustainable practices form part and parcel of the daily operations within our respective businesses, we are still at the early stages of developing a formal sustainability policy that encompasses all areas of the Group. As this is our first consolidated Sustainability Statement, it has not been subjected to external assurance. We are in the process of streamlining our sustainability data collection and monitoring activities across the Group and plan to seek external assurance in due course.



STAKEHOLDER ENGAGEMENT ACTIVITIES

As the Group's businesses and markets evolve, we find ourselves engaging with a growing number of diverse stakeholder groups. Proactive stakeholder engagement is a fundamental component of Malakoff's sustainability strategy and we are committed to undertaking continuous activities in this area. Through proactive engagement with our many stakeholders, we are able to respond to their different expectations, meet their changing needs and strengthen our ties with them.

For the purposes of understanding what is important or material to our various internal and external stakeholders, we undertook a stakeholder survey (i.e. limited to key stakeholders of Malakoff) to determine the sustainability issues most material for disclosure in this Statement. The stakeholder survey was conducted across different platforms, which included workshops, face-to-face interviews and survey forms. Participants of the survey were required to consider and prioritise sustainability matters relevant and important to them in their relationship with Malakoff.

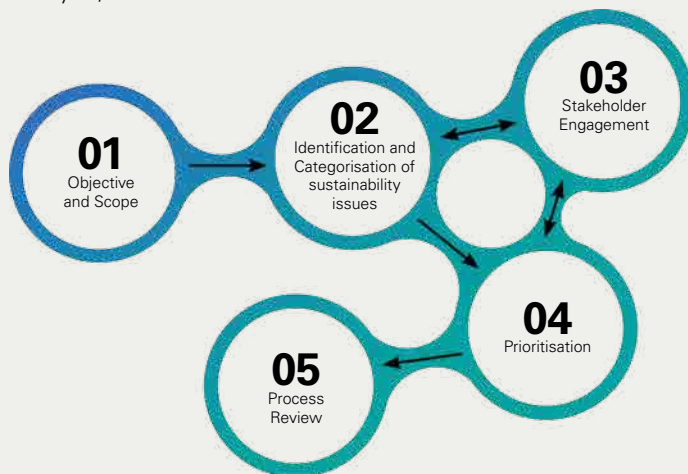
Aside from the rollout of 2016's stakeholder survey, the Group continues to undertake stakeholder engagement activities on a regular basis. The table below summarises the key stakeholder engagement activities that are currently being practised by the Group.

SUSTAINABILITY STATEMENT

Stakeholder groups	Engagement methods
Government and authorities	<ul style="list-style-type: none"> • Face-to-face discussions • Ongoing engagements
Law enforcement agencies	<ul style="list-style-type: none"> • Face-to-face discussions • Ongoing engagements
Shareholders	<ul style="list-style-type: none"> • Face-to-face discussions • Annual / Extraordinary General Meetings • Ongoing engagements
Customer	<ul style="list-style-type: none"> • Face-to-face discussions • Ongoing engagements
Employees	<ul style="list-style-type: none"> • Workshop discussions • Townhall and dialogue sessions • Ongoing engagements
Local communities	<ul style="list-style-type: none"> • Face-to-face discussions • Community events • Ongoing engagements
Rating agencies	<ul style="list-style-type: none"> • Ongoing engagements
Contractors/ suppliers	<ul style="list-style-type: none"> • Ongoing engagements
Media/ Analysts	<ul style="list-style-type: none"> • Ongoing engagements
Financial institutions	<ul style="list-style-type: none"> • Ongoing engagements

MATERIAL SUSTAINABILITY MATTERS

In 2016, with the direction of the Working Group on Sustainability, Malakoff adopted a materiality process which was guided by the Sustainability Reporting Guide and Toolkits published by Bursa Malaysia, as follows:



Source: Bursa Malaysia Reporting Guide and Toolkits

When considering the various types of sustainability-related matters, we identified a list of 28 key relevant sustainability matters, categorised into the following four themes:

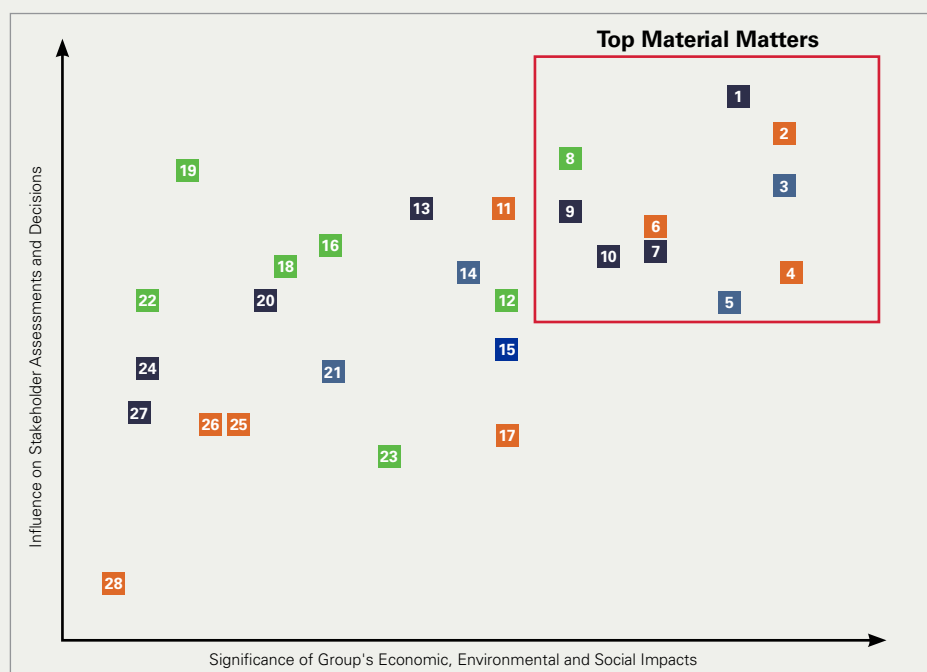


These 28 key sustainability matters were discussed during Malakoff's stakeholder survey sessions to understand how these matters impacted our stakeholders in various ways. Malakoff's management also performed an impact assessment of the risks and opportunities of each sustainability matter to understand their relative importance to each other.

SUSTAINABILITY STATEMENT

The following Materiality Matrix outlines an overall analysis of the sustainability matters, comparing the importance of each stakeholder issue relative to its impact on the Group.

MCB Materiality Matrix


Top 10 Material Sustainability Matters for 2016

- 1 Occupational safety and health
- 2 Business ethics and transparency
- 3 Operational efficiency
- 4 Regulatory compliance
- 5 Security of supply
- 6 Strategic business development
- 7 Management leadership
- 8 Emission management
- 9 Employee welfare
- 10 Talent retention and development

Other Sustainability Matters

- 11 Government policy and strategy
- 12 Waste management
- 13 Community investment and development
- 14 Technology and innovation
- 15 Plant security
- 16 Nuisance
- 17 Shareholders return
- 18 Biodiversity impact
- 19 Natural disasters
- 20 Social dialogue
- 21 Information security
- 22 Water use impact
- 23 Renewable energy
- 24 Human rights
- 25 Responsible subcontracting and procurement
- 26 Plant decommissioning
- 27 Diversity and equal opportunities
- 28 Geopolitical context

THEMES	
Governance and Strategy	People
Operation	Environment

The area at the top-right corner of the Materiality Matrix represents sustainability matters that are most material to the Group, which:

- reflect the Group's significant economic, environmental and social impacts; or
- which substantively influence the assessments and decisions of stakeholders.

Malakoff will continue to progressively engage with its stakeholders and review its materiality matrix from time to time, to identify, manage and report its sustainable material matters in the context of its business operation.

The top 10 material sustainability matters identified from the survey are discussed in detail in the following sections of this Statement, together with additional discussion on other sustainability matters.

They are grouped into the respective themes of Governance and Strategy, Operation, People and Environment.

SUSTAINABILITY STATEMENT



- GOVERNANCE AND STRATEGY -

MALAKOFF IS CONTINUOUSLY REVIEWING AND IMPROVING ITS STRATEGIC DIRECTION, INITIATIVES AND POLICIES IN ORDER TO ENSURE SUSTAINABLE GROWTH FOR OUR CORE BUSINESS SEGMENTS. THIS IS ENABLING US TO CATER TO THE FAST-EVOLVING AND CHALLENGING ECONOMIC AND BUSINESS ENVIRONMENTS AS WELL AS ADOPT STRATEGIES THAT ENSURE WE MEET THE EVER-CHANGING DEMANDS OF OUR CUSTOMERS. THE FOLLOWING ARE SOME OF THE INITIATIVES WE HAVE SET IN PLACE TO GUIDE US IN OUR DAY-TO-DAY OPERATIONS AND ENSURE WE UPHOLD GOOD MARKETPLACE BEHAVIOUR.

BUSINESS ETHICS AND TRANSPARENCY

The Group Whistleblower Policy launched in 2015 provides employees and third parties dealing with Malakoff with proper procedures to disclose cases of improper conduct such as misconduct or criminal offences or malpractices to the Company. A whistleblower is assured confidentiality of identity, to the extent reasonably practicable. This includes protecting the whistleblowers from any detrimental action that may result from the disclosure of improper conduct, if the disclosure is made in good faith.

The Whistleblower Policy also serves to ensure that fair treatment is provided to both the whistleblower and the alleged wrongdoer when a disclosure of improper conduct is made. A disclosure of improper conduct can be made orally or in writing via a letter or e-mail to whistleblowing@malakoff.com.my which is accessible only by the Chief Internal Auditor of Malakoff. The Whistleblower Policy is available on Malakoff's corporate website at <http://www.malakoff.com.my/About-Us/Whistleblower-Policy/InternalAudit>.

Starting 1 January 2016, Malakoff also implemented Code of Conduct ("COC") on all its employees that sets out the principles, practices and standards of good personal and corporate behaviour, as mentioned in the Corporate Governance Statement on pages 62 to 84.

STRATEGIC BUSINESS DEVELOPMENT

Strategic Priorities

The Group has an attractive portfolio of international power and water production assets and remains committed to the power and water businesses. There are limited opportunities in the domestic conventional power generation industry. However, opportunities in renewables such as local solar and Waste-to-Energy ("WTE") projects continue to be pursued, particularly in anticipation of the Malaysian Government's target to achieve a cumulative solar capacity of 1,000 MW by 2020, commencing with 250 MW in 2017. As a result, there is a need to aggressively explore strategic opportunities



overseas, focusing on mergers and acquisitions ("M&As") for quick and sustainable growth.

Given the dynamic domestic landscape in Malaysia, we need to continuously challenge ourselves to deliver a competitive electricity tariff to the off-taker and ultimately to consumers. We are strategically on the lookout for new overseas ventures and acquisitions, including potential business diversification which would add value to our shareholders.

Malakoff is committed to undertaking responsible investment. Our process for new investments takes into account heightened concerns about the environmental and social impact of our target markets and the solutions and support required to ensure sustainable value creation. In delivering economic growth, our aim is to generate respectable profits for existing and new business opportunities without sacrificing long-term economic value creation. With regard to our existing assets, we are continuously working to improve operational efficiency and ensure sustainable business operations.

At the same time, in light of dynamic market trends, we are continuously exploring sustainable diversification opportunities such as operation and maintenance services ("O&M"), recycling and new technologies. For any new investment, a process is in place whereby every new investment proposal is diligently vetted by the Management Investment Committee under a strict review and approval process, before it is presented to the Board of Directors for the final mandate.

SUSTAINABILITY STATEMENT

Trends affecting the organisation and influencing sustainability policies

Industrial trends may affect Malakoff and we are continuously monitoring the power and water demand growth of our target markets as well as exploring private public partnership and group-wide collaboration opportunities. Where some of our target markets face the potential introduction of more stringent environmental policies and carbon policies, which will eventually trigger more rigorous requirements and preparation when developing new projects, we leverage on Group synergies i.e. our combined wealth of experience and expertise, a strong management team and skilled employee workforce, to strengthen our position.

Key achievements and challenges

Malakoff has delivered power and water projects that meet local and international requirements. As of December 2015, the Group's effective power generating capacities stood at 5,346 MW and 690 MW for Malaysia and our international markets respectively. The total effective capacity for water production was 358,850 m³/day. In 2016, Malakoff delivered the 1,000 MW Tanjung Bin Energy ("TBE") power plant, which began commercial operations on 21 March 2016, following its successful construction, testing and commissioning phases. TBE is Malaysia's first independent power producer ("IPP") project that was awarded by the Energy Commission ("EC") via a competitive bidding process. This has raised our effective generating capacity to 6,346 MW for Malaysia. Malakoff also secured a three-year power purchase agreement ("PPA") extension for Port Dickson Power that commenced in March 2016.

On the international front, Malakoff has added a water desalination capacity through the 45 percent owned Al-Ghubrah IWP in Oman where the project achieved its commercial operation date ("COD") on 19 February 2016. The project contributes an effective capacity of 85,950 m³/day raising the total effective capacity of the Group to 444,800 m³/day.

	Power generation (MW)		Water desalination (m ³ /day)	
	As on 31 December 2015	As on 31 December 2016	As on 31 December 2015	As on 31 December 2016
Malaysia	5,346	6,346	-	-
Outside Malaysia	690	690	358,850	444,800
Total	6,036	7,036	358,850	444,800

We continue to face headwinds in securing more domestic power generating capacity due to changing dynamics in the increasingly competitive market.

Renewable Energy

We remain selective about growth opportunities and consider the overall positive impact of our undertakings. We are focused on sustainable growth by acquisition for the near-term and have prioritised projects based on optimised resources. Moving forward, we aim to expand our work in the area of carbon reduction strategy and strengthen our foothold in the Renewable Energy ("RE") segment.

In line with Government's ambition of introducing largescale solar projects, Malakoff participated in the Large Scale Solar PV Plant bidding programme under the Energy Commission ("EC"). On 15 December 2016, the EC issued a letter of acceptance of offer ("Letter") to the Malakoff stating that it had been selected to develop the 50 MW project subject to full compliance and acceptance of the terms and conditions set out in the Letter.

Having gained significant experience in the bidding process for RE projects, Malakoff is in a better position to support its growth strategy to bid for commercially viable RE projects. The plan going forward is to develop an optimised RE portfolio for the Group.

Regulatory Compliance

Malakoff has in place its framework and processes to comply with the relevant laws and regulations. This includes Malakoff's Audit & Verification programmes, which are conducted on a quarterly basis as part of its efforts to ensure compliance with the relevant Health, Security, Safety and Environment ("HSSE") regulations. However, despite these efforts, in October 2016, two notices were received for issues relating to incomplete labelling of scheduled waste, air emissions and competent persons. The year also saw the Tanjung Bin operations issued two improvement notices relating to scheduled wastes, housekeeping, industrial effluents and clean air.

In response to these notices, Malakoff has since put in the necessary resources and initiatives to successfully address all the requirements. We continue to diligently monitor regulatory requirements to ensure our operations are within the requirements.

On another note, changes relating to Clean Air Regulations will come into effect in 2019. These changes include the inclusion of hydrogen fluoride ("HF"), hydrogen chloride polychlorinated dibenzodioxins ("HCL PCDD")/polychlorinated dibenzofurans ("PCDF") and the introduction of new lower limits for carbon monoxide ("CO") and mercury. Proactive efforts are being undertaken in order for Malakoff to comply with the changes to the Clean Air Regulations.

SUSTAINABILITY STATEMENT



- OPERATION -

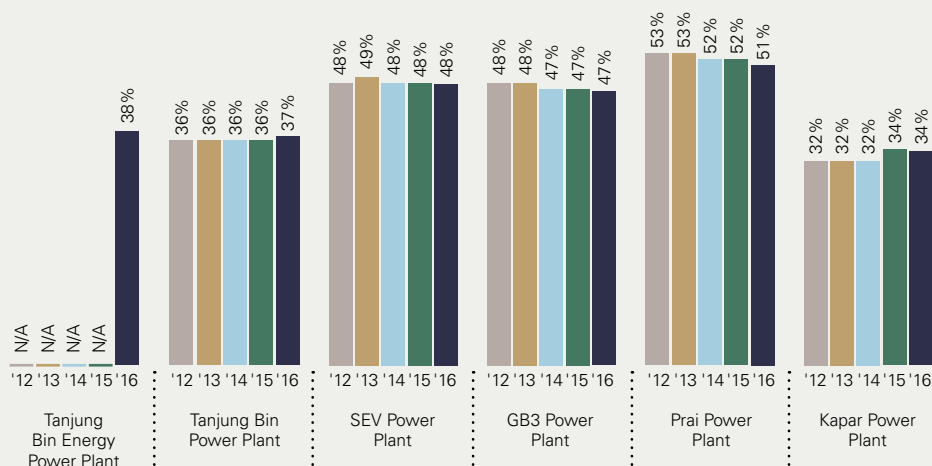
Operational Efficiency

The Group's is committed to undertaking energy production efficiency (thermal performance) and this is evident in the formation of a dedicated performance unit/department at each plant and at the headquarters ("HQ") level. We set efficiency goals at the division level and cascade these down to plants for execution and implementation with the support from HQ. Each plant runs a dedicated thermal performance monitoring programme consisting of performance gap identification, remedy plans and potential risk forecasts. They also undertake close engagement with stakeholders through periodic performance review sessions.

A previous benchmarking exercise against 423 international generators demonstrated that the efficiency of all the Group's thermal and gas units are comparable to the pacesetters of respective peer groups (some units are superior to pacesetters).

An analysis of the thermal efficiency of our plants is spelt out in the MD&A.

Thermal Efficiency



Security of Supply

We have the responsibility to ensure a safe, secure and reliable supply to the national grid. The plants are governed by the PPAs that specify a high level of plant availability and reliability as required by the grid operator.

Security of supply to the national grid is related directly to the capacity available at a given period and the reliability of plants, which are operating within the said period. The outage plan is reviewed together with the Grid System Operator on a regular basis to ensure our plants are available to support the grid system at the required time, as stipulated in the PPA, without compromising the integrity of the plants. We also perform various maintenance plans including preventative maintenance and condition-based maintenance to ensure high plant reliability.

Aside from the above, all the plants are classified as national security zones ("Sasaran Penting") by the relevant government agency, Jabatan Sasaran Penting Negara. As a result, the security of the plants continues to be regularly reviewed and inspected for adequacy and effectiveness.

SUSTAINABILITY STATEMENT

**- PEOPLE -**

HUMAN CAPITAL DEVELOPMENT CONTINUES TO BE A PRIORITY WITHIN THE GROUP, PARTICULARLY IN THE AREAS OF TALENT RETENTION AND DEVELOPMENT (INCLUDING MANAGEMENT LEADERSHIP SUCCESSION), OCCUPATIONAL HEALTH AND SAFETY ("OSH"), EMPLOYEE WELFARE AS WELL AS COMMUNITY INVESTMENT AND DEVELOPMENT. APART FROM PRIORITISING THESE MATTERS ACROSS OUR VARIOUS PLATFORMS, WE ARE ALSO COMMITTED TO CREATING A CONDUCIVE AND SUPPORTIVE WORKPLACE ENVIRONMENT TO HELP EMPLOYEES ACROSS THE GROUP BE MORE PRODUCTIVE AND INNOVATIVE.

**Our Approach to Diversity**

The Group's policies and initiatives such as recruitment, retention, training and development, as well as Group-sponsored corporate and social activities are all implemented in a manner that does not discriminate against ethnicity, gender, age, disability, or status. Our employment practices are underpinned by the principles of fair treatment for our employees and a balance between performance, pay and participation. The Group employs, appoints, promotes, develops and rewards its employees through the principles of meritocracy and fairness. We are committed to hiring and promoting people based on company-defined criteria. All these measures ensure that Malakoff family remains a well-balanced, safe and harmonious one.

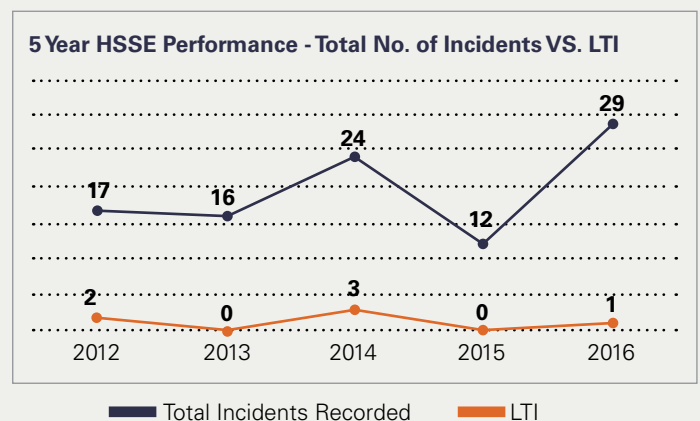
Occupational Health and Safety ("OSH")

Malakoff to date has implemented a comprehensive HSSE Management programme in accordance with the ISO14001 and OHSAS18001 standards. These two standards are voluntary in nature and are widely regarded as the Gold Standard in HSSE. This involves detailed studies on hazards and risks assessment, operational

controls, training and competency systems, audit and verification as well as supporting programmes. In 2016, the Group planned and implemented various HSSE programmes and initiatives to promote OSH within the organisation. The Malakoff HSSE Day, Road Safety Campaign and Take 2 Programme activities were conducted to increase OSH awareness among staff.

As for indicators to monitor the OSH of our workplace, we have enhanced our calculation and reporting methodologies, which are currently done in a more holistic manner. In 2016, the number of Lost Time Incidents ("LTIs") recorded was one compared to zero in 2015. This was due to the inclusion of projects as part of the calculation. Our LTI frequency rate also recorded an increase in 2016 as compared to 2015. The increase from zero to 0.16 was due to a single LTI case recorded during the construction of TBE Power Plant. On the other hand, the increase in the number of total incidents recorded in 2016 is due to the increase in the reporting of near-miss incidents at plants. For the period between 2014 to 2016, there was no fatality due to any work related incidents recorded.

The HSE Performance of the Malakoff Group over the past five years is outlined below:



SUSTAINABILITY STATEMENT

Talent Retention and Development

As Malakoff continues to become a premier global power and water company, we recognise the critical need to have a capable and talented workforce who are able to support our aspirations. Throughout the challenges in 2016, we have put in place various initiatives to enrich and elevate the capabilities and competencies of our human capital to drive sustainable productivity. At the same time, our Group Human Resource Division continues to build our leadership pipeline, strengthen the performance culture in Malakoff and rally the support of our people towards achieving the Group's vision and mission.

Our talent, both technical and non-technical, are key to our success. As at 31 December 2016, we had 1,074 employees as part of Malakoff Team. The Group's workforce is ensuring Malakoff is able to operate, produce and serve at the highest level of efficiency and efficacy. The details of our workforce are highlighted below:

SUSTAINABILITY PERFORMANCE DATA

WORKFORCE

TOTAL NUMBER OF EMPLOYEES



2016 : 1,074



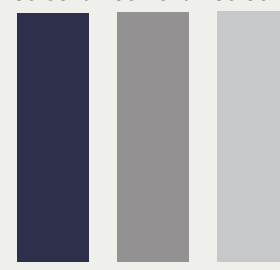
2015 : 1,004



2014 : 963

CONTRACT TYPE (%)

93.39% 93.73% 93.98%



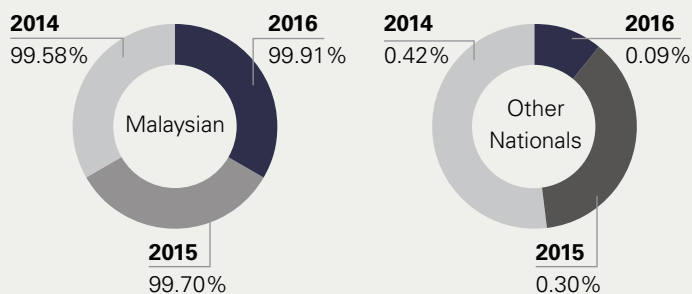
- PERMANENT -

6.61% 6.27% 6.02%

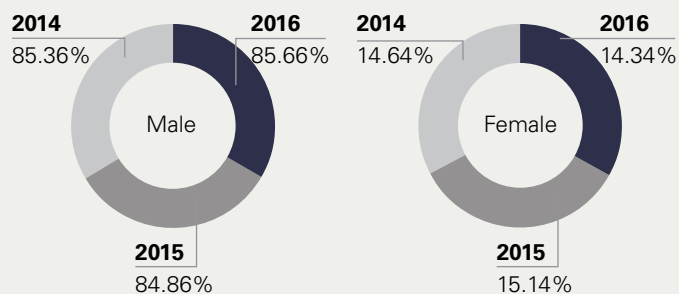


- CONTRACT -

BREAKDOWN OF EMPLOYEES (%)



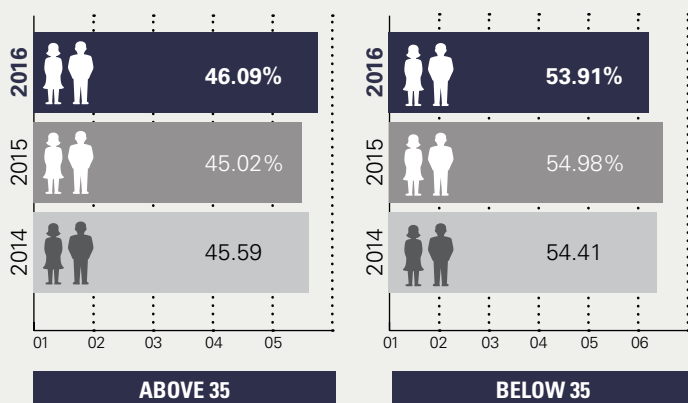
GENDER DISTRIBUTION (%)



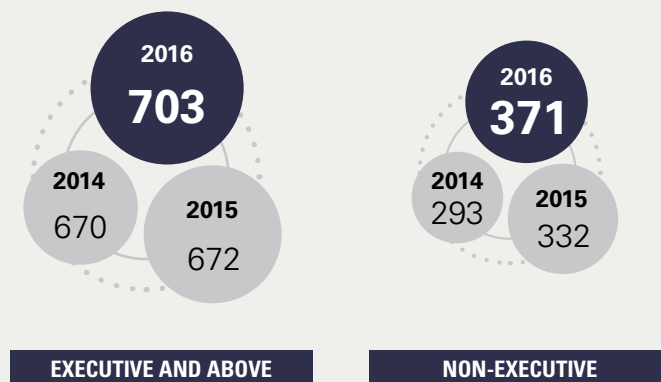
SUSTAINABILITY STATEMENT

WORKFORCE

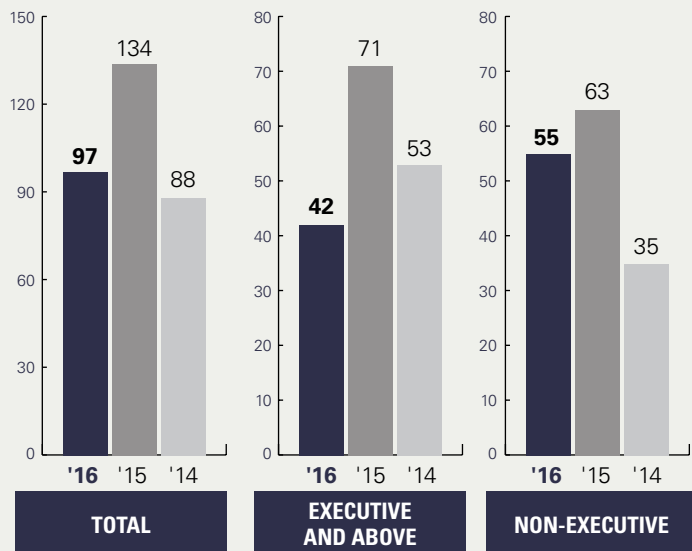
EMPLOYEES ABOVE AND BELOW AGE OF 35 (%)



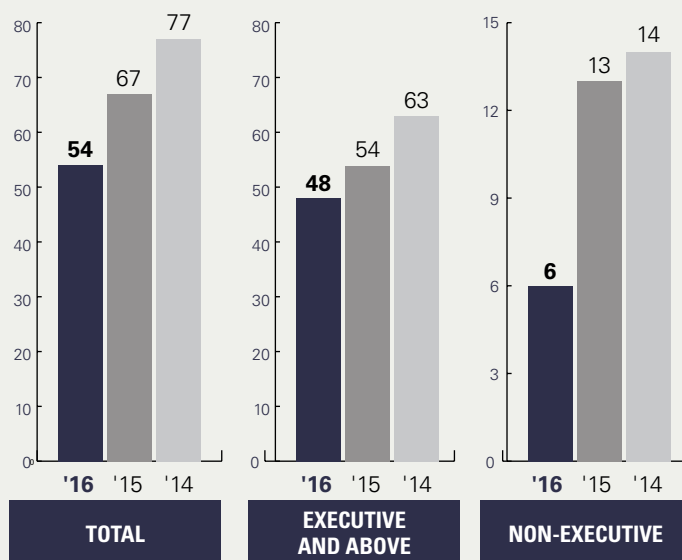
EMPLOYEE GROUP



NO. OF NEW HIRES



TOTAL ATTRITION RATE BASED ON NO. OF EMPLOYEES



Given our ageing workforce and the need to ensure that the Group has the diversity that is required to sustain our business, the Group's Talent Management Committee ("TMC") has been tasked with governing Malakoff's succession management strategies and plans. The TMC also oversees all succession management initiatives to ensure the achievement of the outlined objectives. This is helping ensure that the Group has a continuous supply of competent talent in key leadership positions and specialist roles on both the functional and technical fronts. The TMC also plays a role in ensuring the development and learning experiences of our talent in addressing the competencies required for the different levels of employment. In 2016, Malakoff achieved most of its leadership succession objectives.

Over the course of 2016, we rolled out a database to identify a pool of internal talent as well as undertook gap assessments to review the talent's preparedness to take on bigger roles and responsibilities. The database was made available to the TMC in order for them to review the need for such talent(s) across the Group.

SUSTAINABILITY STATEMENT

Training Programmes

Our nature of business requires employees to be competent in responding to the changing business environment and to have adequate technical skills and capabilities to execute with exceptional speed. For this, the Group continues to provide skills and leadership training to all employees through various methods encompassing formal and informal trainings like classroom sessions at the Group's Academy of Excellence and on-job-training ("OJT") such as short term assignments, special projects and job rotations to build their competency and exposures.

In 2016, the Group invested approximately RM1.1 million on soft skills and leadership training and another RM2.19 million on technical training of which some 1,600 man days and 5,300 man days were utilised respectively. The Group also partnered with a number of programme providers from 2012 to 2016 to run the Leadership Development Programme ("LDP"), Senior Leadership Development Programme ("SLDP") and Supervisor Development Programme ("SDP") in a way to suit to the development needs of selected talent at the middle management level. A total of 50 employees participated in these programmes.

As the demand for skilled and knowledgeable manpower increases, more specialist training initiatives are being developed to ensure business sustainability and growth. To enhance our employees' potential in delivering on their responsibilities, we have set in place plant-specific training simulators at each power plant. These together with our Competency Based Assessment ("CBA") initiatives have served as an effective platform to simulate realistic power plant scenarios for effective technical training and competency assessment.



In 2016, the Group strengthened its professional certification programme offering when we embarked on the Project Management Programme ("PMP") at the Beginner, Intermediate and Certification levels. Ten of our employees were involved in the PMP exam certified by the Project Management Institute ("PMI"). The Group also embarked on a Lean Six Sigma ("LSS") programme to ensure process excellence and enhance shareholder's value creation. About 30 Green belters and 26 Yellow belters were nominated to participate in the programme.

To build a high performance culture and empower the Group's employees, enhancements continue to be made to the current performance management system. The changes throughout the years have involved revisions to the key competencies required for employees to deliver their best performance as well as continuous revision and updates to the Key Performance Indicators ("KPIs"). Previously, our normal performance evaluation was done once a year, however, in 2013 we started to implement this twice a year to ensure that the employees are performing within expectations.

We also recognise that effective and timely performance evaluation sessions enable employees to give of their best throughout their tenure with the Group. During the performance evaluation sessions, both managers and their team members meet twice a year to review and clarify their performance results, determine the training and development gaps, and, discuss career aspirations and plans.

In 2016, we place a strong emphasis on "Performance through Engagement". This calls for Managers to engage with their subordinates constantly and to have a continuous one-on-one feedback session, to ensure that every level of employee in the organisation is aligned towards a common goal.

SUSTAINABILITY STATEMENT

Employee Welfare

All Malakoff's permanent employees are offered a competitive base salary and incentive plans. Our compensation and benefits programmes are streamlined across the Group as far as possible and are benchmarked to the general market. The Group strive to foster employee wellness, health and well-being through competitive wellness benefits.

To provide compensation that is competitive, we have in place a benefits framework that serves to attract and retain employees as well as links to performance and pay. The benefits framework includes:

1. Fixed compensation such as salary and fixed allowance;
2. Variable compensation;
3. Benefits and perquisites such as medical and, insurance coverage; and
4. Recognition programmes

The Group also organises various activities ranging from recreational to volunteering opportunities. In aligning our employees with the Group's ambition, the Group maintains regular and open communication with all employees on important corporate updates and changes. These take place through Townhall sessions, briefings from the Management, as well as emails and the Group's intranet portal. These efforts to engage with the employees aims to make them more productive and help them achieve the desired level of performance.

In 2016, the Group partnered with HayGroup to conduct the 2016 Employee Engagement Survey ("EES"). The objective of the exercise was to gauge the level of engagement of employees across the Group. The results were encouraging as we received a response rate of 81 percent, which demonstrated our employees' commitment towards making Malakoff an engaging workplace. Employees' feedback was reviewed and prioritised in line with identified engagement drivers for further actionable strategic initiatives that will help drive employee engagement.

The Group also organises various activities ranging from recreational activities to volunteering opportunities to engage with employees and other stakeholders. The Group's Kelab Sukan dan Rekreasi Malakoff ("KSRM" or "The Club") serves as an effective platform for this. Registered in January 2016, the Club organises sports and recreational activities for Malakoff staff on a regular basis. For example, for Malakoff Kuala Lumpur headquarters staff, Zumba classes are held at the office training centre after work on a weekly basis. Running and fitness training are also held at the nearby Perdana Botanical Garden after office hours on a weekly basis. These activities are meant to promote healthier living among the Malakoff family.

An initiative called the Malakoff Workplace Wellness Programme ("MWWP") has been set up with the objective of promoting a healthy lifestyle. The said wellness programme is managed by a committee comprising of representatives from HR, KSRM, Corporate Affairs and the power plants. The programmes planned include indoor, outdoor, nutritional and general health activities. A Stop Smoking campaign will be also launched and more importantly, a self-service wellness centre will be established in every business unit so that the employees can monitor their health condition, e.g. blood pressure and glucose count, amongst others.

Employees are also encouraged to participate in various corporate responsibility programmes organised by the Group, such as the Malakoff Turtle Awareness and Malakoff Coral Rehabilitation programmes as part of our engagement with our stakeholders.

Community Investment and Development

Since our inception, we have been deeply entrenched in society and are an active member of the many communities where we live and work. We remain committed to strengthening our relationships with multiple stakeholders so that we can prosper together. We remain committed to our long-term strategy of being a responsible and active participant in the society, by focusing our efforts in the areas of community, education and the environment, especially in the communities in which we operate.

In 2016, Malakoff contributed RM2.4 million towards the construction of the mosque located near the Group-owned Tanjung Bin Power Plant. The new mosque, which can accommodate 500 people at one time, provides a more comfortable and conducive environment for the local community to perform their prayers and other religious activities. The mosque was officiated on 15 January 2016.

Malakoff also gives priority to members of the local communities that apply for vacancies or industrial trainees at its plants. Approximately one-third of our employees are locals from the vicinity of the operating sites. In addition, we also provide opportunities to local contractors in supporting our operations.

Malakoff is deeply committed to undertaking various initiatives focusing on youth education and environmental awareness. To date, Malakoff has adopted 11 schools in Segari (Perak), Prai (Penang), and Tanjung Bin (Johor). Malakoff supports these schools via Malakoff Edufund that aims to equip the schools with better infrastructure and learning tools.

Malakoff is doing its part for the environment by collaborating with the Ministry of Natural Resources and Environment ("NRE") and Department of Marine Parks Malaysia ("JTLM") in its efforts to care for the

SUSTAINABILITY STATEMENT



marine ecosystem. The Malakoff-NRE Coral Rehabilitation Project 2016 held from 26 to 28 September 2016, at Pulau Besar, Mersing, Johor, aimed to highlight the importance of coral in the marine ecosystem and to raise awareness and support from the local community on the threats that they are facing. To date, divers from JTLM and Malakoff have planted 4,000 nubbins around the island and undertaken a coral clean-up. In addition, 10 mooring buoys have been installed at the islands within Johor Marine Park and 300 meters of marker buoys have been placed at the water recreational area at the waters off Pulau Besar.

Malakoff continues its collaboration with the Fisheries Department to implement the annual "Kenali Penyu, Sayangi Penyu" Turtle Awareness and Educational Programme at Segari Turtle Management Centre. This fifth edition of the programme, which aimed to promote public awareness about the threat to turtles, saw 200 volunteers from Malakoff and the Fisheries Department as well as 20 students from Institute of Marine Engineering Technology, Lumut campus of Universiti Kuala Lumpur actively participating in the programme.



SUSTAINABILITY STATEMENT



- ENVIRONMENT -

WE ARE MINDFUL ABOUT SUSTAINABILITY FROM AN ENVIRONMENTAL PERSPECTIVE. IN OPERATING OUR BUSINESSES, WE ARE AT ALL TIMES COMMITTED TO PROTECTING THE ENVIRONMENT AND COMPLYING WITH ALL APPLICABLE ENVIRONMENTAL LAWS AND REGULATIONS. AS PART OF OUR EFFORTS TO PROTECT THE ENVIRONMENT, WE PROMOTE EFFECTIVE MANAGEMENT OF EMISSIONS, WASTE, BIODIVERSITY AND WATER. THE FOLLOWING MEASURES THAT ARE IN PLACE HIGHLIGHT OUR APPROACH TO ENVIRONMENTAL PROTECTION.

Emissions Management

Our facilities report real-time emissions data from the plant to the respective Department of Environment ("DOE") database for online monitoring by the regulator. To ensure compliance with emission limits, our plants employ a stringent emissions control equipment maintenance schedule and ensure optimal operational efficiencies.

All greenhouse gas ("GHG") and non-GHG emissions produced by Malakoff's local generating facilities are directly related to fuel property and combustion process. Emission produced by Malakoff's local generating facilities are as follow:

Type of power station	Non-GHG	GHG
Coal Fired	NOx, SOx, Particulate Matter	CO ₂
Gas Turbines (Combined and Open Cycle)	NOx	CO ₂

GHG production is reduced by optimizing the units' generating efficiency.



To reduce the impact of non-GHG emissions from our plants, Malakoff's facilities are equipped with the following:

- Filtration equipment to reduce PM emissions – an electrostatic precipitator and fabric filter are installed at TBP Plant and TBE Power Plant respectively;
- Flue Gas Desulphurisation ("FGD") to reduce Sulfur Oxide ("SOx") emissions; and
- Stage combustion to reduce Nitrous Oxide ("NOx") emissions; and
- Dry low NOx combustion systems for our gas turbines plants.

GHG production is minimised though efforts to optimise the units' generating efficiency.

SUSTAINABILITY STATEMENT



Waste Management

Coal ash is the by-product of coal combustion at coal-fired power plants, and the disposal of coal ash is always key to coal fired power plant operations. There are two types of coal ash generated, namely Fly Ash and Bottom Ash. Fly Ash is a light and fine particle that is driven out from the boiler by flue gas, while Bottom Ash is a clinker-like non-combustible residue of the coal combustion that is usually collected from the bottom of the boiler. The coal ash is either stored in the Ash Pond or sold to cement or concrete producers.

In 2016, the 3,100 MW coal-fired power plants at Tanjung Bin generated about 50,000 metric tonnes of Fly Ash and 10,000 metric tonnes of Bottom Ash every month. As part of Malakoff's effort to manage waste, all of the Fly Ash generated was sold to cement producers to produce pulverised fuel cement. The Bottom Ash, however, was stored in the Ash Pond located inside the plant complex.

Biodiversity Management

Environmental Monitoring Procedures ("EMP") have been implemented at all sites under a monitoring programme on the environmental impact of plant operations. In 2016, sampling and analysis of the environmental related parameters were conducted by an external laboratory with DOE accreditation. The monitoring parameters included emissions, effluent, marine water, ground water, river water, and biological parameters (for example mangroves, fishes, birds, and turtles).

Water Management

Malakoff's plants use sea water for process cooling purposes and raw water for general administrative and process requirements. Water used for processes is mainly to replenish water and steam loss to the environment. We obtain our raw water supplies from respective state water supply companies i.e. Perbadanan Pembekalan Air Pulau Pinang ("PBAPP"), Syarikat Air Johor ("SAJ") and Lembaga Air Perak ("LAP").

Malakoff is committed to minimising any disruption to the environment from its usage of natural sources of water (e.g. seawater) in its production process. It does this through a diligent monitoring regime and by employing engineering solutions for continuous process improvement.

At our Tanjung Bin site, the Management of ash pond water has reduced raw water consumption by 20 percent contributing towards a savings of RM1.18 million in raw water costs per annum, while ensuring environmental compliance (e.g. ash pond water level). In addition, the Tanjung Bin site also has in place rainwater harvesting system, which is used for cleaning purpose around the plant area.

TOWARDS A SUSTAINABLE FUTURE

As a conscientious corporate citizen, Malakoff remains deeply committed to balancing out its good economic performance with responsible environmental and social considerations. Even as we set our sights on delivering a sustainable performance on the EES fronts, we will endeavour to ensure that the notion of sustainability becomes embedded within our working culture in a more prominent manner.

To this end, the Group is committed to integrating the sustainability agenda into our overall strategy and operations in a more distinct manner for the long-term as we acknowledge this is key to the success of our business. Going forward, we will focus our efforts on delivering a more comprehensive Sustainability Statement come the next reporting cycle.

In all that we undertake, we will work hard to deliver true and sustainable value as well as establish enduring ties with our diverse stakeholders so that Malakoff strengthens its reputation as a model for responsible corporate behaviour.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors ("Board") of Malakoff Corporation Berhad upholds its overall responsibility for reviewing the adequacy and effectiveness of its risk management and internal controls processes of Malakoff Corporation Berhad and its subsidiaries ("the Group"). The processes in place are designed to ensure key risk areas are managed to an acceptable level to achieve its business objectives. The Group's risk management and internal control system is an ongoing process designed to meet its needs based on the business direction in line with the changes of business environment, operating conditions and regulatory requirements.

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. As such, the Board is constantly reviewing the adequacy and integrity of the Group's risk management and systems of internal control.

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"). This is in line with the Malaysian Code on Corporate Governance ("MCCG") 2012 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.

RISK MANAGEMENT

Risk management is being practiced across the entire organisation as well as specific functions, programmes, projects and activities. The implementation of risk management strengthens management practices, decision making and the resource allocation process, while at the same time protects stakeholders' interests as well as strengthens trust and confidence in the Group.

Risk Management Framework

The Group is committed to undertaking continual improvements in risk management activities as well as in the assessment, monitoring and review of all key risk areas to ensure a sustainable business that provides steady growth and enhances stakeholder value. The Board's commitment toward this was reflected in the establishment of the Board Risk Committee ("BRC") in November 2014. The BRC function, roles and responsibility has been expanded to include reviewing and recommending the Group's material investment decisions. With the additional scope to the Terms of Reference (TOR), the BRC has been renamed as Board Risk and Investment Committee (BRIC) on 21 November 2016. The BRIC was set up in acknowledgement of the growing importance of the risk management function in safeguarding the interest of the Group and its shareholders.



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Terms of Reference (TOR): Board Risk and Investment Committee

Purpose	<p>BRIC is established as a committee of the Malakoff Corporation Berhad ("the Company") Board of Directors to oversee the risk management activities of the Group. It supports the Board in fulfilling its responsibility for identifying significant risks and ensuring the implementation of appropriate systems to manage the overall risk exposure of the Group.</p> <p>The other primary objective of the BRIC also includes reviewing and recommending to the Board, major investment(s) which may comprise the acquisition and divestment of businesses, companies, land and buildings and the bidding for binding tenders and contracts for new power and water generation projects and assessing the key associated risks, including funding options and costs, and investment returns of such investment in accordance to the Group's Investment Guideline and Policy.</p>
Members	At least two (2) Non-Executive Independent Directors and one (1) Non-Executive Non- Independent Director.
Secretary	The Company Secretary shall act as the Secretary of the Committee, unless otherwise determined by the Chairman of the Committee.
Quorum	Majority of members present.
Frequency of Meetings	At least once in every quarter and at such other times as the Chairman of the Committee considers necessary.
Notice of Meetings	Unless otherwise agreed by the Committee members, notice of each meeting confirming the venue, time and date together with an agenda of items to be deliberated, shall be forwarded to each member of the Committee at least five (5) business days prior to the date of the meeting.
Minutes	<p>The Company Secretary shall minute the proceedings and resolutions of all Committee meetings.</p> <p>Recommendations of the Committee are to be referred to the Board for approval.</p> <p>Minutes of Committee meetings shall be circulated to all members of the Committee. Minutes shall be confirmed by the Committee and signed by the Chairman.</p> <p>Approved minutes shall be distributed to all members of the Board for information at the next Board meeting.</p>
Responsibilities	<p>Enterprise Risk Management</p> <ol style="list-style-type: none"> 1. To review the processes for determining and communicating the Company's risk appetite. 2. To oversee the establishment, implementation and adequacy of the risk management system of the Group of which the effectiveness of the system is reviewed annually. 3. To review and approve the risk management framework and policies to be adopted by the Group. The framework is constantly monitored and reviewed to ensure risks and controls are updated to reflect current situation and to ensure its relevance at any given time. 4. To review Management's processes for identifying, analyzing, evaluating and treating risks, as well as communicating the identified risks across the Group. 5. To review periodic reports on risk management of the Group and deliberate on key risk issues highlighted by the Management Risk Committee. 6. To report to the Board on the key risks of the Group and the action plans to mitigate these risks. 7. To provide independent assurance to the Board of the effectiveness of risk management processes in the Group. 8. To invite outside counsel, subject-matter experts and other advisors, to the extent it deems necessary or appropriate, to facilitate expert discussion and seek expert opinion. 9. To carry out such other assignments related to risks as may be delegated by the Board. <p>Investment Review</p> <p>The other primary responsibility of the BRIC is to assist the Board in reviewing and recommending material investment decisions of the Group which may comprise the acquisition and divestment/ disposal of businesses, investments, companies, land and buildings as well as the bidding for any binding tenders and contracts for new power and water generation project, operation and maintenance services and any other businesses of the Group as well as new businesses intended to be pursued by the Group (referred to as "Project") valuing more than RM500 million (collectively referred to as "Material Investment Decision").</p>

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Responsibilities
(continued)

Authority

1. The financial authority of the BRIC is to consider, evaluate and recommend for the approval of the Board of Directors ("Board"), the Material Investment Decision valuing more than RM500 million after taking into consideration the recommendations and justifications made by the Management Investment Committee of the Company.
2. To evaluate and review the raising of financing/funding necessary to undertake the Material Investment Decision.
3. To perform the activities required to discharge its responsibilities within its terms of reference and make relevant recommendations to the Board;
4. To acquire the resources from internal and external professionals, as it deems necessary, to assist the Committee in the proper discharge of its roles and responsibilities, at the expense of the Company ;and
5. To meet exclusively among itself, whenever deemed necessary. The Committee shall be assisted by the Group Managing Director/Chief Executive Officer, the Chief Financial Officer and the Head of Group Planning & Strategy or any Head of division(s) whatever designation named who are the drivers of the investment initiatives across the Group.

The scope and functions of the BRIC in the review of Material Investment Decision of the Group are set out below:

Planning

Review of the Group's Investment Policy, the strategic direction and plans of the Group pertaining to investments and divestment activities;

Investment Decision

To review and recommend for the Board's approval of any Material Investment Decision requiring the Board's approval in accordance with established thresholds in the approved Limits of Authority of the Group, focusing on the following:

- Evaluate the risks associated with the investment/ divestment/projects, funding options and costs, and investment returns and making its recommendation to the Board for approval of the investment/divestments/projects.
- Advise the Board on potential risk response strategies that need to be adopted in relation to a decision to proceed with the investment/divestments/projects.
- Monitor the execution /operationalization of investments or projects and highlighting key risks to the Board as relevant.
- To review the effectiveness of risk mitigating actions post approval for major investments and projects based on Group Risk Management assessments, and to report the same to the Board.

Monitoring

- To review the Group's investment portfolio to assess the performance of the Group's investments, including emerging risks and opportunities, market outlook (i.e. market study and market analysis), economic indicators, currency market, industry/ regulatory developments as well as key business developments, which may affect the investment portfolio, Group's investment strategy and the Group's financial health.
- Any required changes to the Group's investment portfolio and Group's investment strategy shall be tabled to the Board for approval;
- To review actual financial and operational performance of investments or projects against projected returns (i.e. return on investment, implementation timelines), and reporting the same to the Board.

To undertake any other necessary duties, as mutually agreed by the Committee and the Board.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

Risk management is integrated into the Group’s everyday business activities and 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.

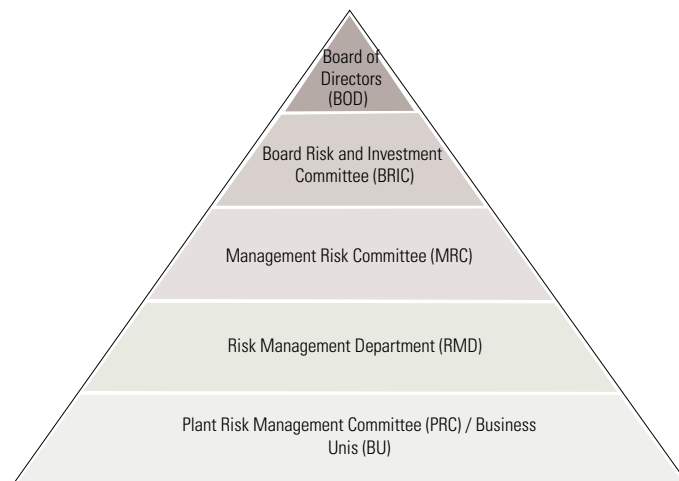
The Group defines risk as events that could affect its objectives. It is measured by the likelihood of the risk occurring and the impact if the risk occurs. The ERMPF will ensure that the process of identifying, evaluating and treating risk are in place to protect the Group from material losses. It will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

Monitoring and Review

Monitoring and reviewing of risks is an essential and integral part of the risk management process for the Group. Monitoring and reviewing the risk provides the Group reasonable assurance that risks are being managed effectively as expected and ensure that risk profiles anticipate and reflect the changing business conditions and potential exposure.

Risk Reporting

On a quarterly basis, the identified risks are discussed and deliberated at the MRC meeting chaired by the Group Managing Director (“GMD”). 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:



Malakoff Corporation Berhad strives to continually improve the processes in place and will further enhance these practices based on the recommendations of MCCG 2012 and the revised guidelines on the Statement on Risk Management and Internal Control - Guidelines for Directors of Listed Issuers.

Corporate Digital Assurance

To enhance the Group’s risk management practises, a Corporate Digital Assurance module had been employed in the Enterprise Risk Management (“ERMS”) to ensure that the scorecard owners, risk owners, control owners and action plan owners 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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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.

INTERNAL CONTROL SYSTEM

The key features of the Group control structure that provide reasonable assurance against the occurrence of an event 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 rest with the GMD 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.

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 climate.

Limit of Authorisation

Authorisation limits in respect of organisational requirements such as purchasing of goods and services, cash management and disbursements, contracting and banking transactions are clearly defined and documented. The limits are reviewed and updated regularly to reflect the business environment, operational and structural changes.

Internal Audit

The Internal Audit Department ("IAD") 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.

The IAD reports functionally to the Board Audit Committee ("BAC") and administratively to the GMD. IAD is independent of the activities that it audits and perform its duties in accordance with the Internal Audit Charter as approved by the BAC.

For the financial year ended 31 December 2016, the IAD carried out seven full audits and seven follow-up audits covering the areas of power plant operation and maintenance, inventory and warehouse management, health, safety, security and the environment, scheduled wastes management, procurement and finance. In addition, IAD also conducted four special review assignments upon request by the Management. Observations arising from the aforesaid audit activities were reported and presented together with the agreed upon management action plans to the BAC.

IAD also monitors and provides quarterly update to the BAC on the status of corrective actions undertaken by Management based on the audit recommendations by IAD from the audits performed. Details of the internal audit function and activities are presented in the Statement on Internal Audit Function on page 115 of this Annual Report.

Whistle Blowing

The Group's Whistleblower Policy launched in 2015 provides employees and third parties dealing with the Group with proper procedure to disclose cases of improper conduct such as misconduct or criminal offences or malpractices to the Group.

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

A disclosure of Improper Conduct can be made orally or in writing via a letter or e-mail to whistleblowing@malakoff.com.my which is accessible only by the Chief Internal Auditor of Malakoff Corporation Berhad.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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's 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 GMD, 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.

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 Recommended Practice Guide ("RPG") 5 (Revised 2015), 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 2016, 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.

RPG 5 (Revised 2015) 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 7 March 2017.

BOARD AUDIT COMMITTEE REPORT

The Board of Directors ("the Board") of Malakoff Corporation Berhad is pleased to present the Board Audit Committee ("BAC" or "the Committee") Report for the financial year ended 31 December 2016.

MEMBERS OF BAC

Datuk Dr. Syed Muhamad Syed Abdul Kadir
Independent Non-Executive Director
Chairman

Tan Sri Dato' Seri Alauddin Dato' Md Sheriff
Independent Non-Executive Director
Member

Datuk Idris Abdullah
Independent Non-Executive Director
Member

Datuk Ooi Teik Huat
Non-Independent Non-Executive Director
Member
(Member of the Malaysian Institute of Accountants and CPA Australia)

THE TERMS OF REFERENCE

The BAC was established by the Board on 9 November 2007 and was reconstituted on 11 December 2012. The BAC is governed by the Terms of Reference as stated herein which was revised and approved by the Board on 17 August 2016 to be in line with the amendments to the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"). The revision also included the Recommendation 5.2 of the Malaysian Code of Corporate Governance 2012 which had recommended that the BAC set policies and procedures to assess the suitability and independence of external auditors. The Committee's primary objectives are as follows:

1. To assist the Board in fulfilling its statutory and fiduciary responsibilities in examining and monitoring the Company and its subsidiaries' ("the Group") management of business, financial risk processes, accounting and financial reporting practices;
2. To determine the adequacy and effectiveness of the administrative, operational and internal accounting controls of the Group and to ensure that the Group is operating in accordance with the prescribed procedures, codes of conduct and applicable legal and regulatory requirements;
3. To serve as an objective party independent from the management team in the review of the financial information of the Company and Group presented by the management for distribution to shareholders and the general public;
4. To provide direction and oversight over the internal and external auditors of the Company to ensure their independence from the management; and
5. To evaluate the quality of audits conducted by the internal and external auditors on the Company and Group.

The BAC reports to the Board on the matters falling within the Committee's terms of reference on a quarterly basis.

BOARD AUDIT COMMITTEE REPORT

Composition

Under its Terms of Reference, the BAC shall have at least three (3) members with the majority being independent Non-Executive Directors. The members of the Committee shall elect a Chairman from among the members who shall be an Independent Non-Executive Director. At least one (1) member of the Committee must be a member of the Malaysian Institute of Accountants or have at least three (3) years working experiences and have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act 1967 or be a member of one of the associations of accountants specified by Part II of the 1st Schedule of the Accountants Act 1967 and to fulfil such other requests as prescribed and approved by the Exchange.

No alternate Director shall be the member of the Committee. In order to form a quorum in respect of a meeting of the BAC, the majority of members present must be independent directors. If a member of the Committee resigns, dies and for any reason ceases to be a member resulting in the non-compliance with the above paragraph, the Board shall, within three (3) months of that event, appoint such number of new members as may be required.

The Nominating Committee must review the term of office and performance of an audit committee and each of its members annually to determine whether such audit committee and members have carried out their duties in accordance with their terms of reference.

Meetings and Minutes

Meetings shall be held at least four (4) times a year or more frequently as circumstances dictate. The Chairman shall call a meeting of the Committee, if requested to do so by any BAC member, the management or the internal or external auditors.

During the financial year ended 31 December 2016, eight (8) BAC meetings were held. The BAC members and the details of their attendance at the BAC meetings are as follows:

Members	No. of meetings attended
Datuk Dr. Syed Muhamad Syed Abdul Kadir	8 out of 8
Tan Sri Dato' Seri Alauddin Dato' Md Sheriff	7 out of 8
Datuk Idris Abdullah	8 out of 8
Datuk Ooi Teik Huat	8 out of 8

A representative of the external and internal auditors shall normally be invited to attend the meetings of the BAC. The Head of Internal Audit and Company Secretaries (who are also the secretaries to the BAC) are also in attendance during the meetings.

Upon the invitation of the BAC, the Group Managing Director ("GMD") or Chief Executive Officer ("CEO") and other officers will attend the BAC meetings to deliberate on matters within their purview. Other board members may attend BAC meetings upon the invitation of the BAC.

After each meeting, the BAC Chairman submits a report on matters deliberated to the Board of Directors for their information and attention. Matters reserved for the Board's approval are tabled at the Board meetings. Action lists are issued by the Company Secretary on the decisions made and actions required by the relevant personnel and the management for their action.

The BAC shall meet at least twice a year with the internal and external auditors without the attendance of the executive members of the Committee (of which there are currently none) and the management of the Company.

Minutes of each meeting shall be kept and distributed to each member of the Committee and the Board. The Chairman of the Committee shall report on each meeting to the Board. The Chairman of the BAC should engage on a continuous basis with senior management, the Chairman of the Board, the GMD or the CEO, the Chief Financial Officer, the Financial Controller, and the internal auditors to be kept informed of matters affecting the Company.

Authority

The Committee is authorised by the Board:

- to investigate any matter within its terms of reference;
- to have the resources in order to perform its duties and responsibilities as set out in its term of reference;
- to have full and unrestricted access to information pertaining to the Company and the Group including the ability to call on any officers of the Company and/or the Group in carrying out the Committee's duties;
- to have direct communication channels to the internal and external auditors;
- to obtain, at the expense of the Company, external legal or other independent professional advice if it considers necessary; and
- to convene meetings with the external auditors or the internal auditors without the attendance of the executive members of the Group, whenever deemed necessary.

BOARD AUDIT COMMITTEE REPORT

Duties and Responsibilities

The duties and responsibilities of the BAC comprise among others, the following:

(a) External audit

- (i) to consider the appointment of the external auditors including the audit fees and any questions in relation to the resignation or dismissal of the external auditors before making a recommendation to the Board;
- (ii) to review and discuss with the external auditors, before the audit commences, the nature and scope of the audit, and to discuss any significant problems that may be foreseen with the external auditors before the audit commences, as well as to ensure that the audit is carried out effectively and efficiently for the Company and the Group;
- (iii) to review the audit findings and management's responses including the status of previous audit recommendations.
- (iv) To review with the external auditors the following:
 - their audit plan and ensure coordination where more than one audit firm is involved;
 - their evaluation of the system of internal controls;
 - their audit report; and
 - the adequacy of assistance given by Group employees to the external auditors;
- (v) To ensure the proper policies and procedures are established and to assess the suitability and independence of external auditors, including obtaining written assurance from external auditors confirming they are, and have been, independent throughout the conduct of audit engagement in accordance with the terms of reference of all relevant professional and regulatory requirement; and
- (vi) To set policy on non-audit services which may be provided by the external auditors, and conditions and procedures which must be adhered to by the external auditors in the provision of such services.

(b) Internal audit ("IA")

- (i) to review the IA plan, consider the major findings of IA and management's responses, monitor the implementation of any recommendations made therein and ensure effective coordination between the internal and external auditors;
- (ii) to review the adequacy of the scope, functions, competency and resources of the IA programme, IA functions and that it has the necessary authority to carry out its work;
- (iii) to review the audit reports and results of the IA process and where necessary, ensure that appropriate action is taken on recommendations of the IA function;
- (iv) to direct and where appropriate, supervise any special project or investigation considered necessary;
- (v) to prepare periodic reports to the Board summarising the work performed in fulfilling the BAC responsibilities;
- (vi) to determine the remit of the IA function which reports directly to the BAC. The IA function should be independent of the activities they audit and should be performed impartially, with proficiency and due professional care;
- (vii) to review and appraise or assess the performance of members of the IA function/firm carrying out the IA function; and
- (viii) to consider the major findings of internal investigations and management's response.

(c) Financial reporting review

- (i) to review with the management and the external auditors, the quarterly results and year-end financial statements prior to the approval by the Board, focusing particularly on:
 - any change in accounting policies and practices;
 - significant matters highlighted including financial reporting issues, significant judgments made by management, significant and unusual events or transactions, and how these matters are addressed;
 - major judgmental areas;
 - significant adjustments resulting from the audit;
 - the going-concern assumption;
 - compliance with accounting standards; and
 - compliance with other legal requirements and the MMLR of Bursa Securities.

BOARD AUDIT COMMITTEE REPORT

(d) Related party transactions ("RPTs")

- (i) to review any RPTs and conflicts of interest situation that may arise within the Company or Group including any transaction, procedure or course that raises questions about management's integrity; and
- (ii) to review the procedures set by the Company to monitor RPTs to ensure that these transactions are carried out on normal commercial terms not more favourable to the related party than those generally available to the third-parties dealing at arm's length and are not to the detriment of the Company's minority shareholders.

(e) Internal control

- (i) to review the effectiveness of internal control systems and the internal and/or external auditors' evaluation of these systems.

(f) Other matters

- (i) to arrange for periodic reports from the management, the external auditors and the internal auditors to assess the impact of significant regulatory changes and accounting or reporting developments proposed by accounting and other bodies, or any significant matter that may have a bearing on the annual examination;
- (ii) to discuss problems and reservation arising from the IA, interim and final audits, and on matters that the internal and external auditors may wish to discuss (in the absence of the management, where necessary);
- (iii) to report to the Board at least once a year, the work of the BAC in discharge of its functions and duties for that financial year of the Company and how it has met its responsibilities, including the number of meetings held during the year and the details of attendance of each audit member in respect of the meetings; and a summary of the work of the IA function or activity;

- (iv) to ensure that the Company discloses in its annual report an Audit Committee Report for the financial year, pursuant to the Listing Requirements;
- (v) where the BAC is of the view that a matter reported by it to our Board has not been satisfactorily resolved resulting in a breach of the MMLR, the BAC must promptly report such a matter to Bursa Securities and/or the Securities Commission ("SC"); and
- (vi) to carry out any other functions that may be mutually agreed upon by the Board.

SUMMARY OF WORKS BY THE BAC

In discharging its duties and responsibilities in accordance with its Terms of Reference, the BAC had carried out the following work during the financial year ended 31 December 2016:

(a) Financial Reporting

- (i) Reviewed and discussed the interim financial results with the management and the external auditors on a quarterly basis and had considered and assessed the implementation of changes in the accounting policy adopted by the Company, its subsidiaries and associates before recommending the same to the Board;
- (ii) Reviewed and discussed with the management and external auditors on the accounting policies adopted by the Group to ensure conformity to the applicable approved accounting standards including the appropriateness of the accounting provisions and changes in estimates made in the financial statements of the Group based on the principles of prudence. This is to ensure that the financial statements of the Company and of the Group are drawn to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, and the requirements of the Companies Act, 1965 of Malaysia;
- (iii) Reviewed the unaudited interim financial results and annual audited financial statements of the Company and of the Group for the financial year ended 31 December 2016 prior to recommending it to the Board for approval of announcement to Bursa Securities and SC;

BOARD AUDIT COMMITTEE REPORT

- (iv) Deliberated on significant new and recurring audit matters identified by the External Auditors on a quarterly basis including financial reporting issues, significant judgements made by Management, significant and unusual events or transactions and received progress updates from Management on actions taken for improvements;
- (v) Reviewed declarations of the final and interim dividends of the Company including the assessing the solvency of the Company before such declaration are made as required under Companies Act 2016 (only in respect of the declaration of the final dividend for the FY2016) before recommending the same to the Board; and
- (vi) Reviewed the BAC Report and Statement on Internal Audit Function for inclusion in the Annual Report for the financial year ended 31 December 2016 ("Annual Report 2016") to ensure the contents therein are accurate and in compliance with the MMLR of Bursa Securities.

(b) IA

- (i) Reviewed and approved the new structure of the Internal Audit Department ("IAD"), staffing requirements, budget and Annual Internal Audit Plan for 2017 to ensure adequacy of resources, competencies and coverage of auditable entities with significant and high risks;
- (ii) Reviewed and approved the Internal Audit Charter which establishes the framework for the effective and efficient functioning of the IAD in the Company and defines the purpose, authority, responsibility, independence and objectivity of the IAD;
- (iii) Reviewed and deliberated on the IA reports tabled during the year which highlighted on key control issues, root causes, risks, relevant audit recommendations for improvement, along with Management's responses and agreed action plans to be implemented by Management. The BAC has directed Management, where appropriate to rectify and improve control procedures and workflow processes based on IA recommendations and suggestions for improvement;
- (iv) Monitored the progress and status of action plans or corrective actions undertaken by Management on the outstanding audit issues to ensure that all key risks and control lapses have been addressed;
- (v) Reviewed and deliberated on the findings from investigation audits performed based on complaints received through whistleblowing channels and recommended appropriate remedial actions/measures to be taken;
- (vi) Reviewed and deliberated on the IA reports on the effectiveness and adequacy of governance, risk management, operational and compliance processes;
- (vii) Reviewed the adequacy and effectiveness of agreed corrective actions undertaken by the management on all audit issues raised through the follow-up audit reports;
- (viii) Suggested additional improvement opportunities in the areas of the system of internal controls within the organisation;
- (ix) Reviewed the effectiveness and adequacy of the audit process, resource requirements and assessed the performance of the IAD for the year. The BAC carried out a performance assessment review of the IAD in respect of the quality of audit, scope of the audit, adequacy of resources and suitability of staff in the IAD for the financial year ended 31 December 2016; and
- (x) Met with the internal auditors without the presence of the management to ensure there were no restrictions on the scope of their audit and to discuss any matters that they may wish to present.

(c) External Audit

- (i) Reviewed the external auditors' terms of engagement, audit plan, audit strategy and scope of work for the financial year;
- (ii) Reviewed the findings highlighted, audit report and management letter, deliberated on the Management's responses thereto and evaluated the recommended improvement action plans to ensure the areas of concern are adequately mitigated;

BOARD AUDIT COMMITTEE REPORT

- (iii) Reviewed the independence, objectivity and effectiveness of the external auditors and the services provided, including non-audit services and the corresponding fees;
- (iv) Reviewed the results and issues arising from the external audit for the financial year and the resolution of issues highlighted in their report to the BAC as well as the management's response;
- (v) Reviewed the annual report and the audited financial statements of the Company and Group prior to the submission to the Board for their perusal and approval. This is to ensure compliance of the financial statements with the provisions of the Companies Act 1965 and the applicable approved accounting standards as per the Malaysian Accounting Standards Board;
- (vi) Reviewed key changes to the accounting and financial reporting standards, auditing standards, Companies Act 1965 as well as MMLR and the consequential impacts therefrom to ensure the Group's compliance with regards to the quarterly and year-end financial statements;
- (vii) Assessed the performance and effectiveness of the external auditors and made recommendations on their appointment and audit fee with management's feedback; and
- (viii) Met with the external auditors without the presence of the management to ensure there was no restriction to the scope of their audit and to discuss any matters that they may wish to present.

(d) RPTs

- (i) Reviewed the report of RPTs including related recurrent related party transactions ("RRPTs") entered into by the Company and the Group on a quarterly basis for monitoring of the Company's obligations to the thresholds prescribed by the MMLR and for compliance of such obligations under the MMLR, if any. The BAC was also satisfied that all RPTs and RRPTs were within arm's length, fair, reasonable and on normal commercial terms and not detrimental to the interests of the minority shareholders.

(e) Others

- (i) Reviewed the revised Terms of Reference of the BAC prior to the recommendation to the Board for adoption;
- (ii) Reviewed and recommended the proposed non-audit services policy and procedures for the Company and the Group;
- (iii) Reviewed and recommended the proposed revision of the Policies and Procedures of the RPTs and RRPTs;
- (iv) Reviewed and recommended the revised Limits of Authority for the Board's approval;
- (v) Reviewed major litigations, claims and/or issues with substantial financial impact; and
- (vi) The Board as a whole conducted a BAC assessment on its composition, size and effectiveness, the result of which was highly satisfactory.

IA FUNCTIONS

The BAC is supported by the IAD in discharging its duties and governance responsibilities. The IAD reports functionally to the BAC and administratively to the GMD and is independent of the activities that they audit and perform their duties with impartiality, proficiency and due professional care.

The BAC has full and direct access to the IAD and the results from IAD's audit engagements are reported to the BAC on a quarterly basis and this reporting is a permanent item on the agenda during the BAC's regular meetings.

BOARD AUDIT COMMITTEE REPORT

The IAD supports the BAC by providing an independent and objective assurance on governance, risk management and control processes designed to improve and add value to the Group and is responsible to evaluate the adequacy, effectiveness and integrity of key internal control systems and risk exposures of the Group's governance, operations and information systems in relation to:

- a) Achievement of the Group's strategic objectives;
- b) Reliability and integrity of financial and operational information;
- c) Effectiveness and efficiency of operations;
- d) Safeguarding of assets;
- e) Economic utilization of resources; and
- f) Compliance with relevant laws, regulations, policies, procedures and contractual obligations

In addition, the IAD is also responsible for the administration of the Company's Whistleblower Policy which provides an avenue for employees and third parties dealing with the Company to disclose cases of Improper Conduct such as misconduct or criminal offences or malpractices to the Company.

During the financial year, IAD had carried out seven (7) full audits, seven (7) follow-up audits and four (4) special review assignments covering the areas of power plant operation and maintenance, inventory and warehouse management, procurement, finance and health, safety, security and environment. In addition, the Company's major shareholder i.e. MMC Corporation Berhad, through its Group IAD also supported the IAD by performing four (4) full audits and four (4) follow up audits on the Group covering procurement, human resources, related party transactions and treasury.

Observations on key control issues arising from the aforesaid audit activities were reported and presented to the BAC together with the agreed upon Management action plans. IAD also monitors and provides quarterly updates to the BAC on the status and progress of the action plans undertaken by Management based on the audit recommendations from the audits performed. The total costs incurred for the internal audit function for the financial year was RM1.38 million.

Details of the Company's internal audit function and activities are presented in the Statement on Internal Audit Function on page 115 of this Annual Report.

This statement is made in accordance with the resolution of the Board of Directors duly passed on 7 March 2017.

STATEMENT ON INTERNAL AUDIT FUNCTION

The Internal Audit Department ("IAD") was established in 2014 to support the Board through the Board Audit Committee ("BAC") in discharging its duties and governance responsibilities of maintaining a sound internal control system to safeguard shareholders' investment, the interest of stakeholders and the Group's assets.

The Internal Audit function is considered an integral part of the assurance framework and IAD's mission is to provide an independent and objective assurance on governance, risk management and control processes designed to improve and add value to the Group. At the same time, IAD 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.

The purpose, authority, responsibility, independence and objectivity of the IAD are spelt out in the Internal Audit Charter. The standards and practices adopted by IAD are aligned to the International Professional Practices Framework ("IPPF") issued by the Institute of Internal Auditors.

The IAD reports functionally to the BAC and administratively to the Group Managing Director ("GMD"). The BAC reviews and approves the Annual Internal Audit Plan, budget and departmental structure to ensure that the department is adequately resourced with competent staff to perform the function effectively. The roles and responsibilities of IAD are as follows:

- i. Evaluate the adequacy, effectiveness and integrity of key internal control systems and risk exposures of the Group's governance, operations and information systems in relation to:
 - a) Achievement of the Group's strategic objectives;
 - b) Reliability and integrity of financial and operational information;
 - c) Effectiveness and efficiency of operations;
 - d) Safeguarding of assets;
 - e) Economic utilization of resources; and
 - f) Compliance with relevant laws, regulations, policies, procedures and contractual obligations
- ii. Preparation of a risk based Annual Internal Audit Plan that is aligned to the Group's strategic objectives and takes into consideration past audit history, inputs and feedback on any risk and control concerns from the BAC and Management;
- iii. Carry out internal audit assignments as per the approved Annual Internal Audit 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;
- iv. Monitor the progress of Management agreed action plans or corrective actions to address the control issues highlighted by IAD;

- v. Perform follow-up audits to determine whether the Management-agreed action plans or corrective actions highlighted from past audit reports have been correctly implemented and adhered to consistently;
- vi. Undertake ad-hoc assignments, special reviews or investigations as requested by the BAC or Management and presenting the results to the appropriate levels of Management and the BAC; and
- vii. Maintain professional audit staff with sufficient knowledge, experience and skills.

In addition, the IAD is also responsible for the administration of the Company's Whistleblower Policy which provides an avenue for employees and third parties dealing with the Company to disclose cases of Improper Conduct such as misconduct or criminal offences or malpractices to the Company. Any disclosure of Improper Conduct can be made orally or in writing via a letter or e-mail to whistleblowing@malakoff.com.my which is accessible only by the Chief Internal Auditor.

For the financial year ended 31 December 2016, the IAD conducted various internal audit engagements in accordance with the Annual Internal Audit Plan that are consistent with the Group's goals as well as complexity and risks of its activities. During the year, IAD carried out seven (7) full audits, seven (7) follow-up audits and four (4) special review assignments covering the areas of power plant operation and maintenance, inventory and warehouse management, procurement, finance and health, safety, security and environment. In addition, the Company's major shareholder i.e. MMC Corporation Berhad, through its Group IAD also supported the IAD by performing four (4) full audits and four (4) follow up audits on the Group covering procurement, human resources, related party transactions and treasury.

The internal audit reports were tabled and presented to the BAC for deliberation and highlighted on key control issues, root causes, risks, relevant audit recommendations for improvement, along with Management's responses and agreed action plans to be implemented by Management. The progress of these action plans are monitored by IAD and its progress status are being reported to the BAC by IAD on a quarterly basis.

As at 31 December 2016, the total number of personnel in IAD was six (6) including the Chief Internal Auditor and IAD is committed to equip its auditors with adequate knowledge and proficiencies to discharge their duties and responsibilities. The total cost incurred by the internal audit function for the financial year was RM1.38 million.

This statement is made in accordance with the resolution of the Board of Directors duly passed on 7 March 2017.

ADDITIONAL COMPLIANCE INFORMATION

UTILISATION OF PROCEEDS

During the financial year, no equity proceeds were raised by the Company. As such there is no utilisation of proceeds to report. The proceeds from the Group's Initial Public Offer in the preceding financial year has been fully utilised as reported in the Annual Report 2015.

AUDIT FEES AND NON AUDIT FEES

The fees paid/payables to the external auditors, KPMG PLT ("KPMG") in relation to the audit and non-audit services to the Group and Company for the financial year ended 31 December 2016 are as follows :

	Group 2016 RM'000	Company 2016 RM'000
Audit fees	1,975	743
Non-audit fees *	1,322	576
	3,297	1,319

* The non-audit fees paid/payable to KPMG primarily relates to tax services and advisory services in relation to potential acquisitions and sustainability reporting training.

MATERIAL CONTRACT

There were no material contracts (not being contracts entered into in the ordinary course of business) entered into by the Company and/or its subsidiary companies which involved the interest of directors, chief executive officer who is not a director or major shareholders during the financial year ended 31 December 2016.