

SUSTAINABILITY STATEMENT

At Malakoff, we are committed to forge partnerships to improve power and water access, efficiency and sustainability, creating value for our multiple stakeholders through positive environmental, social, governance (“ESG”) impact. As we embark on our sustainability roadmap, we will work with our people, improve on our processes and capitalise on technology to define clear sustainability goals and targets, creating long-term equity and impact.





Sustainability Commitment

“As a leading regional independent power and water producer, we understand the importance of energy and water in the context of economic development, social progress and environmental good. It takes strong business commitment, long-term investments in technology and policy support towards shaping a world that is powered by sustainable energy and water.”

DATO' AHMAD FUAAD KENALI

Chief Executive Officer

Globally, guided by the UN's Sustainable Development Goals, governments and organisations are working towards reducing energy intensity, mainly contributed by improved efficiencies, especially in industrial and transportation sectors. Some of the efforts to reduce energy emissions include adoption of clean technologies, the imminent shift to renewables and introduction of innovative product and policy solutions. The coordinated and consolidated efforts across the world are expected to limit the rise in global temperature at 2 degrees Celsius. Malaysia has also pledged for a voluntary reduction of up to 40% of emissions intensity per unit of GDP by the year 2020 compared to her emission levels in 2005. In trying to meet this target, Malaysia continuously review the National Energy Policy to ensure secure, reliable, cost-effective and sustainable energy. Most recently, the government has moved from its four-fuel to five-fuel policy, to include RE along with oil, gas, coal, and hydro. The Eleventh Malaysia Plan (11MP) has also set an ambitious target to build the RE capacity to 2,080 MW by 2020. Globally, scalability and affordability of renewable energy are improving due to advancement in technology. The European utilities are moving away from coal even during the time when coal prices are going down. Of late, banks and long term investors such as pension funds are becoming more selective towards environmental friendly products and services. Due to rapid advancements in technology, Solar PV, wind (onshore) and biomass project tariffs are getting as competitive as conventional plants.

Against this backdrop, we believe that our role as a credible power and water producer is even more critical to not only support the aspirations of the government, but to also accelerate our efforts towards improving our energy-mix and energy efficiencies, while closely reviewing at our operations in all our key markets to effectively manage our ESG impacts. Towards this end, our commitment will go beyond embracing sustainable business practices. We will work with our stakeholders including authorities, investors, partners, service providers, employees and communities to adequately meet the present needs of power and water. We will also take greater responsibility to ensure that our current actions will positively contribute towards improving access to affordable, reliable, sustainable and modern energy for the future generations.

Moving forward, we will continuously identify and capitalise on common synergies, strengths and resources to integrate sustainability into our day-to-day business operations and behaviour. Our end objective is to improve our operational efficiencies and deliver long-term growth and value for all our stakeholders.

Our second Sustainability Statement (“the Statement”) documents various policies, programmes and commitments in relation to our ESG impacts. The Statement also outlines our approach to improving and growing our business operations in a responsible and sustainable manner, with unwavering commitment to our stakeholders and other interested parties.

About This Report

The contents of this 2017 Sustainability Statement is based on the Bursa Malaysia Securities Berhad Main Market Listing Requirements and in accordance with Global Reporting Initiative (“GRI”) Standards: Core Option. This is the first time we are adopting the GRI Standards as a guiding principle in our reporting framework, which allows us with a greater flexibility and transparency to report our materiality. This is a year of transition as we build linkages from G4 to GRI Standards and move towards a clearer defined plan in our sustainability journey.

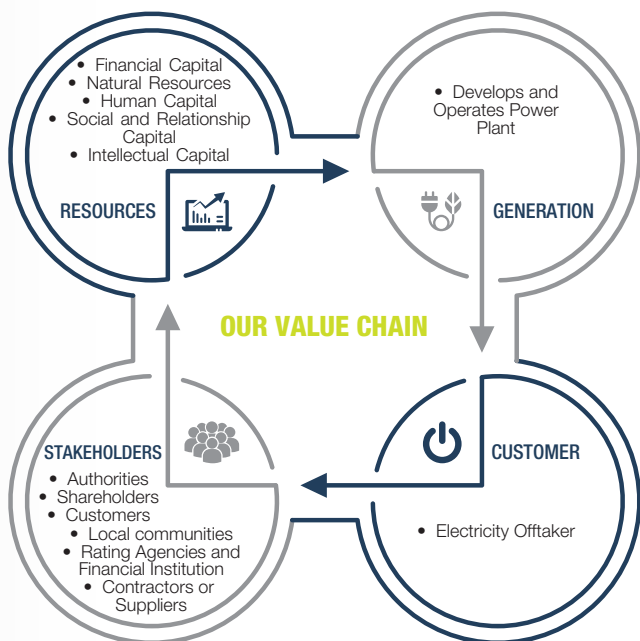
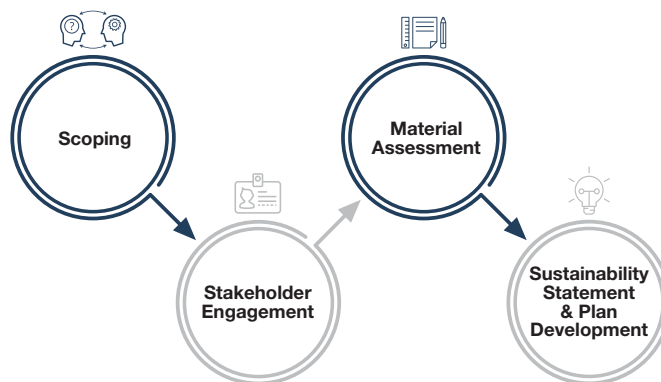
The Statement reports activities and performance indices limited to Malakoff Corporation Berhad’s power generation in Malaysia for the financial year ended 31 December 2017. We have included disclosures on 28 material topics or issues of interest. Our aspiration is to expand the scope of reporting to all our international operations as well as to include them in our value chain. Hence, implementing sustainable policies and setting targets for our international operations are not within our immediate working scope.

Point of contact for queries and feedback:

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Malakoff Corporation Berhad**

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The Annual Report 2017 and Sustainability Statement together provide a transparent account of our financial, operational and sustainability disclosures for the year under review. The following illustration summarises the guiding principles applied in preparing this Sustainability Statement:



We initiated the process of reporting by defining the scope in terms of geographical, operational and organisational boundaries, which in turn help us determine the resources, stakeholder involvement and the material topics which can be reviewed. This in itself is a critical process as it sets the tone and determines the quality of the overall reporting.

Our next important step is the process of stakeholder engagement, which includes the identification, prioritisation, approach and execution to solicit meaningful feedback and address various stakeholder concerns and expectations. Based on these, we conduct a material assessment of the top issues of interest or topics, which are then compared with the internal organisational priorities. Each of the topics are assessed and rated to determine their significance to the Group as well as to the stakeholders.

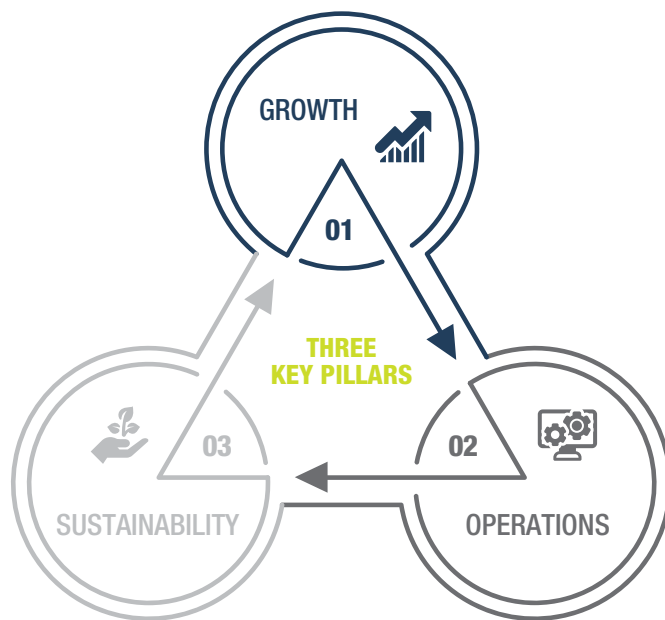
Subsequently, we develop the Sustainability Statement and Plan for the Group to review, implement and monitor, where applicable.

Sustainability Statement

OUR APPROACH TO SUSTAINABILITY

Our commitment to sustainable development is evident at all levels of our organisation. A clear goal and vision to improve underlines our efforts. At the leadership level, our Board of Directors and Senior Management recognise the importance of pursuing the sustainability agenda. In 2017, the Board of Directors discussed and approved our 5-Year Strategic Business Plan, which now has three key focus areas or pillars - Growth, Operations and Sustainability. We believe that the financial performance and business excellence are pre-requisites to building a sustainable business for the future. We measure our success beyond financial targets and place great emphasis on the impact our business has on communities as well as the environment.

The 5-Year Strategic Business Plan and its three key pillars:



Sustainable growth is crucial to ensure our long-term business viability. Operational excellence through best practices and technology interventions is a must for improving efficiencies. And sustainability is essentially about our responsibility towards the overall health of the organisation, in terms of financial, operational and the human aspects of our business. Our focus on these three pillars will help monitor and manage our environmental, social, and governance impacts.

Our sustainability approach is linked to the Group's risk management stewardship which can be found in the Statement on Risk Management and Internal Control section of this Annual Report.

We engage with industry professionals including organisations and experts to share knowledge, information, experience and best practice, as well as to stay abreast of current and emerging developments, trends and opportunities for our business. Malakoff is a member of Penjanabebas, an association of IPPs in Malaysia.

Although we often adopt international standards and practices, we do not easily endorse international charters and principles due to the fact that we take these initiatives very seriously and do not adopt them unless we are certain we can meet all the relevant criteria or requirements. Even if we do not officially adopt them, we would use or reference best practices from such charters to continuously improve.

SUSTAINABILITY GOVERNANCE

In 2017, we formalised a sustainability-related function under our new Group Corporate Strategy. The new function is responsible to strategise and implement the Group's sustainability agenda and roadmap. The function works closely with the Sustainability Working Group ("SWG"), which was formed in 2016 and is led by the Chief Strategy and Investment Officer. The SWG reports directly to the Chief Executive Officer, who is responsible for setting the overall direction for sustainability matters, supervision of the day-to-day implementation and for endorsing the annual Sustainability Statement.

In 2017, the SWG focused on strengthening the governance of sustainability function, by initiating efforts to:

- Further refine and formalise sustainability framework for the Group;
- Review the existing Malakoff's stakeholder engagement process;
- Review the materiality assessment to reprioritise sustainability matters; and
- Evaluate and determine sustainability-related targets and indicators.

To improve the quality of our reporting, the SWG has successfully completed specialised training, which has also helped equip the team with knowledge and skills to develop the sustainability statement independently. The training also served as an orientation for SWG members on various trends and standards in sustainability, locally and globally.

DISCLOSURE AND EXTERNAL ASSURANCE

In the second year of our sustainability reporting, we have focused on building our capacity in the areas of sustainability, by setting-up a formal function and identifying the resources to strengthen our foundation, before we move to the next level of strategy and implementation.

Our 2017 Sustainability Statement has not been submitted or reviewed for external assurance. However, we have benchmarked our reporting framework with some of the industry best practices and ensured that it is in line with Bursa Malaysia's reporting guidelines.









STAKEHOLDER ENGAGEMENT

At Malakoff, stakeholder engagement is not an isolated or an annual exercise. We continuously seek opportunities to engage with our diverse stakeholders, mainly to gain an external

perspective on various aspects of our business and growth. Our proactive approach to seek feedback and understanding the expectations of our stakeholders, equips us with new insights, which are then transformed into new ideas and solutions.

As the Group's businesses and markets evolve, we find ourselves engaging with a growing number of diverse stakeholder groups. Continuous engagement gives us real-time data making it possible for us to respond to different issues and changing expectations in real-time. Our engagement strategy is simple, and is premised on the need to build trust and strengthen our relationships.

While the process of engaging with all the stakeholders may be resource-intensive and inefficient, we have institutionalised various platforms to keep the dialogue and feedback mechanism going throughout the year. In 2017, we have identified and prioritised the stakeholders as indicated in the following table:

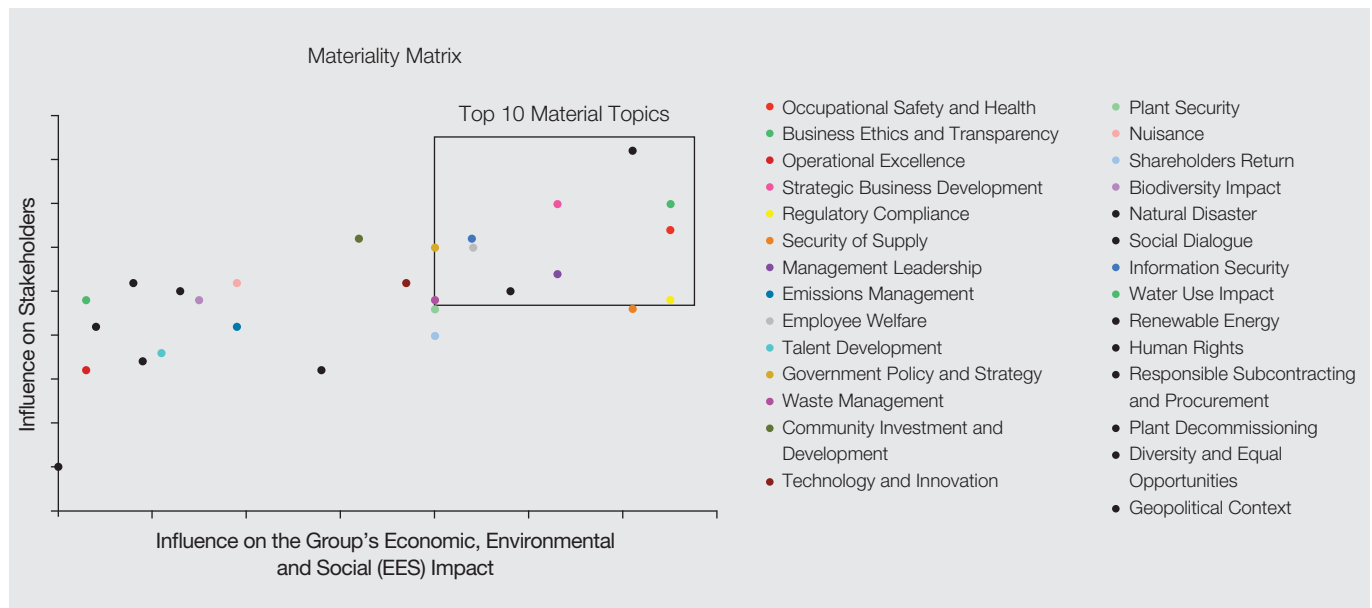
Stakeholder Group	Engagement Platform	Frequency	Focus Area
 Government Authorities	<ul style="list-style-type: none"> Face-to-face Meetings Surveys Corporate Events 	<ul style="list-style-type: none"> Ongoing Bi-annual 	<ul style="list-style-type: none"> Policy Market trends Current issues
 Law Enforcement Agencies	<ul style="list-style-type: none"> Face-to-face Meetings Surveys Site Visits 	<ul style="list-style-type: none"> Ongoing Bi-annual 	<ul style="list-style-type: none"> Compliance Latest environmental considerations
 Shareholders	<ul style="list-style-type: none"> Face-to-face Meetings Annual General Meetings Interviews Performance Report 	<ul style="list-style-type: none"> Ongoing Annual Bi-annual Quarterly 	<ul style="list-style-type: none"> Business performance Strategy Sustainability initiatives
 Customer	<ul style="list-style-type: none"> Face-to-face Meetings 	<ul style="list-style-type: none"> Ongoing Annual 	<ul style="list-style-type: none"> Customer experience System availability Resolving grievances
 Employees	<ul style="list-style-type: none"> Workshops Townhalls and dialogue sessions Surveys 	<ul style="list-style-type: none"> Ongoing Annual 	<ul style="list-style-type: none"> Employee feedback Employee welfare Career development Business conduct Anti-corruption
 Local Communities	<ul style="list-style-type: none"> Face-to-face Meetings Community Events 	<ul style="list-style-type: none"> Ongoing 	<ul style="list-style-type: none"> Social welfare and specific feedback on programs Charitable contributions and activities
 Rating Agencies and Financial Institution	<ul style="list-style-type: none"> Face-to-face Meetings Media Releases/Announcements 	<ul style="list-style-type: none"> Ongoing 	<ul style="list-style-type: none"> Business performance Strategy
 Contractors/Suppliers	<ul style="list-style-type: none"> Vendor Day 	<ul style="list-style-type: none"> Ongoing Bi-annual 	<ul style="list-style-type: none"> Pricing Tracking and monitoring of performance Payments

Sustainability Statement

MATERIAL TOPICS OR ISSUES OF INTEREST

During the year under review, we have not undertaken a separate stakeholder engagement exercise solely for the purpose of Sustainability Statement. However, we have built on the findings of Stakeholder Survey 2016, with additional feedback received from our stakeholders during our interactions throughout 2017. The respective heads of our business divisions were instrumental in capturing the stakeholder inputs and feeding them to the SWG for analysis of materiality.

We have reassessed the previously disclosed 28 material topics against the 2017 feedback from stakeholders and discovered only minor deviations from our 2016 materiality assessment. The issues of interest or topics that are material to both stakeholders and the organisation are identified. The materiality graph for the year under review is as follows:



- TOP 10 MATERIAL TOPICS 2017**
- Occupational Safety and Health
 - Business Ethics and Transparency
 - Operational Excellence
 - Strategic Business Development
 - Regulatory Compliance
 - Security of Supply
 - Management Leadership
 - Emissions Management
 - Employee Welfare
 - Talent Development

- OTHER ISSUES OF INTEREST**
- Government Policy and Strategy
 - Waste Management
 - Community Investment and Development
 - Technology and Innovation
 - Plant Security
 - Nuisance
 - Shareholders Return
 - Biodiversity Impact
 - Natural Disaster
 - Social Dialogue
 - Information Security
 - Water Use Impact
 - Renewable Energy
 - Human Rights
 - Responsible Subcontracting and Procurement
 - Plant Decommissioning
 - Diversity and Equal Opportunities
 - Geopolitical Context

The graph depicts the relevant reporting importance of the all identified sustainability related topics. The most important sustainability material topics are located towards the top-right side.

The most important points arising from the reassessment of the material topics in 2017 were:

1. Safety, health and well-being at workplace remains a top priority for Malakoff. We also continue to emphasise our engagement with industry and relevant authorities, as well as to ensure compliance with laws and regulations in all operations.
2. Issues such as anti-corruption, corporate governance and ethical business practices are not just hygiene factors but can be business enablers, building trust and enhancing credibility.
3. Operational Efficiency has been redefined from last year as Operational Excellence.
4. Employee related aspects such as enhanced employee training and knowledge sharing, as well as career development are all inclusive in Talent Development.
5. Commitment to the environment, and our approach to managing climate change is reflected in the way we manage our power plants emissions, effluents and waste from operations.

The material topics identified are discussed in the following sections of this Statement together with additional discussion on other related sustainability topics. They are grouped according to 3 themes which are Governance, People and Environment.

Sustainability theme	Material context	Material topics
Governance 	This theme covers various aspects of governance, operations and growth	<ul style="list-style-type: none"> • Business Ethics and Transparency: Code of Conduct • Whistle-blowing Policy • Regulatory Compliance • Strategic Business Development • Business Innovation and Diversification • Security of Supply • Operational Excellence • Occupational Safety and Health • Effective Management of Procurement
People 	This theme covers our people and social strategies, including talent management, diversity and performance	<ul style="list-style-type: none"> • Dynamic and Diverse Workforce • Harmonious Workplace • Nurturing Environment • Employee Welfare and Wellbeing • Community Investment and Development
Environment 	This theme covers our impacts and approach on environment	<ul style="list-style-type: none"> • Emissions Management • Water Management • Waste Management

Sustainability Statement

Governance

“In adopting principles of good governance, we believe in the values of transparency, trust, and team spirit, which allow us to forge partnerships for **GROWTH** that is meaningful for both the organisation as well as our stakeholders. We are motivated to go beyond compliance and introduce sound policies and risk management frameworks that contribute to efficient **OPERATIONS** and in turn a resilient, robust and rewarding business. **This section covers various aspects of governance, operations and growth.**”

BUSINESS ETHICS AND TRANSPARENCY: CODE OF CONDUCT

The Malakoff Code of Conduct (“Code”) is the Group’s formal commitment that governs our employees’ professional conduct, enabling them to operate in a transparent, appropriate and fair manner. The following principles guide our employees in their dealings with the Group, customers, vendors, suppliers, contractors and other internal and external parties.

 **MALAKOFF CODE OF CONDUCT – UNDERLYING PRINCIPLES**

- a. **HONESTY:** avoid hiding the truth;
- b. **INTEGRITY:** avoid situations where the personal interests of employees appear to be in conflict with the interest of Malakoff Group;
- c. **LEADERSHIP:** avoid abuse or misuse of the employees’ position in the company;
- d. **PROFESSIONALISM:** maintain secrecy when dealing with confidential information obtained in the course of employment and do not disclose or use such confidential information for personal advantage;
- e. **LOYALTY:** avoid jeopardising the reputation of the company;
- f. **RESPONSIBILITY:** disclose and seek clarification from relevant persons in the Group whenever in doubt or whenever ethical concerns arise;
- g. **TRUSTWORTHINESS:** avoid misuse of the company’s resources or assets for personal gain; and
- h. **PERSONAL CONDUCT:** conduct or behave in any manner at any place and time that does not bring disrepute to the Group.

Employees are required to adhere to the Code by signing a declaration. The Code is made available and accessible to all employees.


WHISTLE-BLOWING POLICY

The Whistle-blowing Policy was launched in 2014 and provides employees and third parties with proper procedures to disclose cases of Improper Conduct which include criminal offences, fraud, corruption, breach of Group Policies and Code of Conduct or other malpractices.

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

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

In 2017, only one case was reported through the Whistle-blowing channel and appropriate action was taken in accordance to the Policy. A revision to the Whistle-blowing Policy was also made in 2017 to further enhance the effective implementation of the Policy.

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

REGULATORY COMPLIANCE

At Malakoff, we develop frameworks and processes to comply with the relevant laws and regulations. This includes various audit and verification programs, as part of the efforts to comply with the relevant Health, Security, Safety and Environment (“HSSE”) regulations. In 2017, we have successfully conducted three different type of audits:

- * QHSSE Internal Audits – Conducted by competent Internal Auditors
- * SIRIM Surveillance QHSSE Audits – Conducted by SIRIM Certification Authority; and
- * MCB Group Internal Audit – Conducted by Group Internal Audit Department

As a result of this systematic and structured effort, only one notice was issued by Department of Environmental (“DOE”) Johor to TBPP in 2017 as compared to two notices in 2016. The notice which was served to us related to the management of scheduled waste. Based on this notice, we have revised and improved the current process of management of scheduled waste to ensure full compliance to the requirements.



CLEAN AIR REGULATION ACT (CAR 2014)

Changes relating to Clean Air Regulation Act will come into effect in June 2019. These changes include the inclusion of Hydrogen Fluoride (“HF”), Hydrogen Chloride (“HCl”), Polychlorinated dibenzodioxins (“PCDD”)/ Polychlorinated dibenzofurans (“PCDF”) and the introduction of new lower limits for Carbon monoxide (“CO”) and Mercury (“Hg”).

Engagement with the stakeholders are being undertaken and in progress to ensure that Malakoff is in the right course for compliance with the new Clean Air Regulation. As part of our proactive actions, in December 2017, Malakoff appointed a consultant to conduct an Environmental Compliance Audit at our local plants to assess the readiness and compliance to the new Act.

STRATEGIC BUSINESS DEVELOPMENT

The Group has an established portfolio of international power and desalination water production assets and remains committed to the power and desalination water businesses. We continue to pursue growth opportunities, mainly to support the Malaysian Government’s target to achieve a cumulative large-scale solar capacity of 1,000 MW by 2020.

During the year under review, we explored and reviewed new local and overseas ventures and acquisitions, including potential business diversification, to deliver value for our shareholders. In keeping with global and regional trends, as well as our growing commitment to sustainable energy, we actively participated in local bidding process for commercially viable RE projects. Our plan to develop an optimised RE portfolio for the Group will not only catalyse new growth, but will help meet our sustainability agenda.

BUSINESS INNOVATION AND DIVERSIFICATION

The dynamic market trends demand businesses to continuously innovate and bring frontier solutions to the marketplace. It also calls the need for diversifying both the risks as well as the areas of growth and expansion. Therefore, we are on a constant look-out for high-potential business avenues related to waste-to-wealth and emerging technologies; servicing new customers in O&M services; electricity distribution and district cooling amongst others. All new investment opportunities are considered by the Management with stringent review and approval guidelines. Such opportunities are tabled to the Board of Directors for their approval only after a due diligence exercise has been conducted.

In June 2017, we participated in a bid to acquire National Central Cooling Company PJSC, a district cooling system company operating in the Middle-East. The bid for acquisition was however unsuccessful. During the year, in O&M Services, through our subsidiary Teknik Janakuasa, we provided technical training services as a new sustainable solution to promote and enhance skill and knowledge of professional community.

SECURITY OF SUPPLY

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

All our power plants (except Port Dickson Power Plant) are classified as national security zones (“Sasaran Penting”) by the relevant government agency, Jabatan Sasaran Penting Negara (“JSPN”). In 2017, we continued to review and inspect security of the plants for both adequacy and effectiveness. All our plants have been audited by JSPN whereby the result is satisfactory with the recommendation to further strengthen the security of the plant especially those which are critical to the country and categorised as “Sasaran Penting Keutamaan Satu”.

Sustainability Statement

Governance

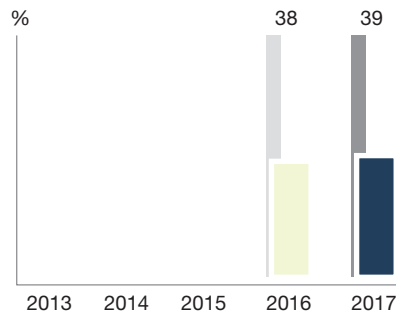
We have the responsibility to ensure a safe, secure and reliable power supply to the national grid. We achieve high plant reliability through various maintenance plans, including preventative maintenance and condition-based maintenance. Our Engineering Group manages activities in relation to Condition Based Maintenance technologies and O&M tools implementation, such as Reliability Centered Maintenance, Root Cause Analysis, Reliability Centered Spares, Risk Based Inspection, Process Safety Management, Hazard and Operability Study, forced outage management, and benchmarking in all plants. This is to ensure higher plant availability and reliability. The Group also leads and participates in failure investigations and root cause analyses to avoid recurrences. It also renders support in terms of unit and part assessments during outages or inspections related to gas turbines, steam turbines, generators, and boilers.

OPERATIONAL EXCELLENCE

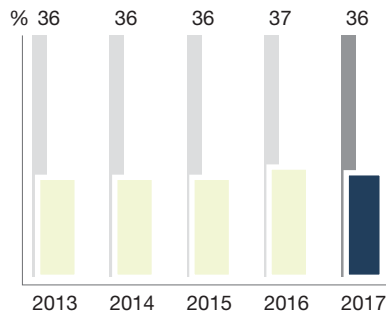
In 2017, our Engineering Department continued to lend its engineering expertise in various aspects of operations and maintenance such as risk management, failure prevention, strategic planning, and cost optimisation to achieve performance targets. It also managed the power plants' operational and performance (thermal and emissions) activities and process improvements.

For local power plants, we set thermal efficiency goals for execution and continuous monitoring, with a dedicated thermal performance monitoring program consisting of performance gap identification, remedy plans and potential risk forecasts. Periodic performance review session was conducted internally and externally throughout the year. The quarterly review identifies gaps and potential operational issues. It also helps the plants to properly plan the tasks to remedy the defects and schedule the required outage. The following chart indicates the thermal efficiency among our local generating plants.

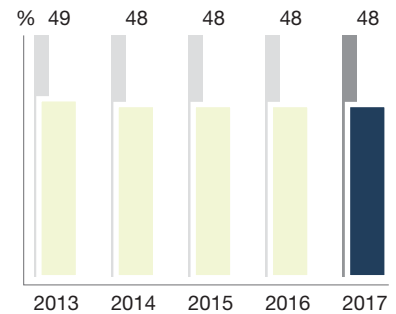
TANJUNG BIN ENERGY POWER PLANT



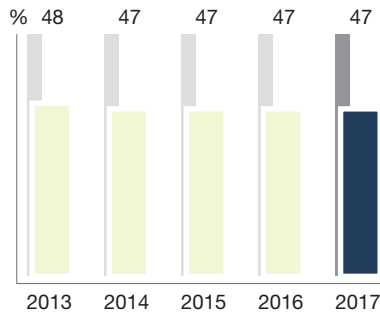
TANJUNG BIN POWER PLANT



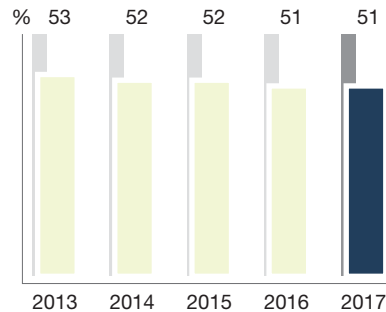
SEV POWER PLANT



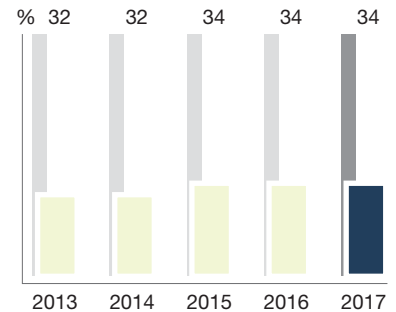
GB3 POWER PLANT



PRAI POWER PLANT



KAPAR POWER PLANT



OCCUPATIONAL SAFETY AND HEALTH

At Malakoff, we have established and implemented a comprehensive HSSE Assurance programme in accordance with the ISO 14001 and OHSAS 18001 standards. Having adopted these voluntary Gold Standards in HSSE management, we conduct due diligence studies on hazards and risks assessment; operational controls; training and competency systems; audit and verification; and various supporting programs. To date, our HSSE Assurance System has been audited extensively by SIRIM and we have been successful in maintaining our certification at all our sites within the certification scope. In 2017, we continued to implement various Occupational Safety and Health (“OSH”) programs such as Malakoff HSSE Day; Road Safety Campaign; HOPE; and Take 2; mainly to promote HSSE awareness within the organisation.

In 2017, we have enhanced our OSH calculation and reporting methodologies and the following table reports the incident and fatality rates.

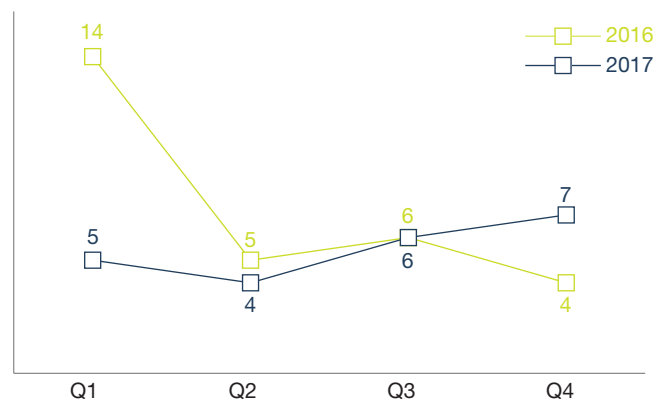
	2016	2017
Number of Incidents	29	22
Lost Time Injury Frequency Rate (“LTIFR”)	0.16	0.59
Fatalities	0	0

As indicated in the table, the number of all safety incidents recorded reduced from 29 in 2016 to 22 in 2017. However, our LTIFR has shown an increase from 0.16 in 2016 to 0.59 in 2017. The increase was mainly due to the Lost Time Injury (“LTI”) cases recorded during forced outages and major inspection at Lumut and Prai Power Plants respectively. During the period 2014 to 2017, we recorded ZERO fatalities from any work-related incidents.

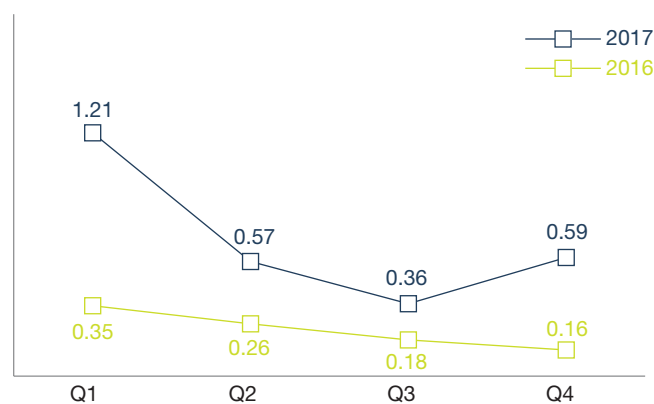
As testament to our commitment in ensuring excellence in OSH, Prai Power Plant has been awarded the prestigious National Occupational Safety and Health (“NOSH”) Excellence Award 2017 for the Energy Facility category.

The award was presented by the Department of Occupational Safety and Health, a division under the Human Resources Ministry. The NOSH Excellence Award aims to recognise individuals, media, journalists and various organisations with excellent track records in its occupational health and safety practices at the workplace.

2017 vs. 2016 Performance – Total Incidents



2017 vs. 2016 Performance – LTIFR



Sustainability Statement

Governance

EFFECTIVE MANAGEMENT OF PROCUREMENT

Supply-chain management is one of the critical factors for the success and profitability of any organisation. Therefore, our procurement policies, procedures and other governing rules are benchmarked for their effectiveness with global standards such as ISO 9001, ISO 14001 and OHSAS 18001. The key principle of our procurement is transparency and regular audits help surface constructive feedback for improvement in our approach as well as the overall governance. Our procurement policies promote fairness, curbs corruption of all kinds and creates opportunities for disadvantaged and indigenous communities based on meritocracy and value-added services.

Our suppliers consist of both local and international parties. As of 2017, we observed that there were no significant changes to our main supply chain that can contribute to significant economic, environmental and social impacts.



PROMOTING SUSTAINABLE PROCUREMENT PRACTICES

In 2016, we had launched i-Valua Portal, which is an e-procurement initiative, encouraging paperless vendor registration, development and e-auction. The digitisation of procurement system helped improve the turnaround time, and significantly improved resource allocation and management. The use of portal in itself resulted into cost savings of approximately RM3.2 million.

In 2017, the Phase 2 of the e-procurement concentrated on Contract Management, Materials Management and Purchase Requisition to Purchase Order and is expected to be completed by first quarter of 2018. The Phase 2 is expected to enhance performance in addition to improving both procurement process as well as resource optimisation.

During the year under review, we also organised a Vendor Day to raise awareness on the overall portal as well as critical aspects such as Vendor Code of Conduct, Related Party Transaction ("RPT") or Recurring Related Party Transaction ("RRPT") and Vendor Whistle-blower Channel.

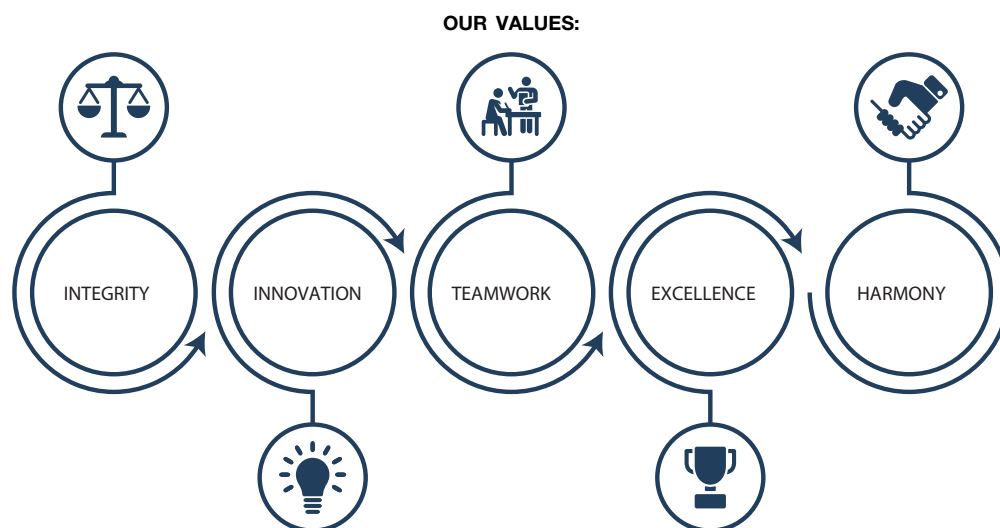
For 2017, a list of strategic procurement of certain services has been identified to minimise transactional procurement by introducing Service or Price Agreements with strategic partner/vendors.



Sustainability Statement

People

“In aspiring to be an employer of choice, we continue to emphasise on our people as the driving force behind all growth. We promote values of integrity, teamwork, innovation, excellence and harmony, which in turn inspire a high-performance culture. We take an inclusive approach to building the capacity and skills of our employees. Towards this, we create various online and physical platforms to continuously engage with our staff, seek their feedback, understand their career and personal motivation, and most importantly, to plan their professional development with us. **This section covers our people and social strategies, including talent management, diversity and performance.**”



DYNAMIC AND DIVERSE WORKFORCE

At Malakoff, we believe that diverse skills-sets and perspectives at workplace can improve the dynamics of team work towards greater performance. Hence, our hiring policies, approaches to people development, retention strategies etc. are based on meritocracy and aim to provide equal opportunities for learning and growth. We do not discriminate employees on the basis of their ethnicity, gender, age, disability or status.

Our management philosophy is that the most appropriate way to engage with our colleagues is through direct communication rather than through intermediary organisations. Therefore, we do not practice union membership in the organisation.

In 2017, women employee constituted 16.75% of our total workforce, and nearly 4% of them hold managerial positions. Our current Board of Directors consists of directors with a diverse range of background, experience, nationality and gender.

HARMONIOUS WORKPLACE

We acknowledge the critical role of our human capital in fulfilling company's growth aspirations. We also recognise the need to build their capabilities and competencies, for them to positively contribute to both individual and organisational growth. Therefore, continuous learning and development is a priority at Malakoff to enhance productivity and optimise performance. While building internal capacity, we also strive to create a pipeline of talent necessary to meet the future needs of the organisation.

In other words, we understand the importance of attracting, developing and retaining the best technical and non-technical talent, while instilling a culture that underpins continuous growth. Therefore, by leveraging on the diverse capabilities of our leaders, we encourage cross-functional assignments within the Group. Over the years, we have demonstrated that talent mobility within the organisation through restructuring and realignment of roles can contribute to an agile and flexible workplace, serving the business needs as well as various technological advancements.

Sustainability Statement

People

As at 31 December 2017, we have 1,035 employees, working as one team to ensure Malakoff is able to operate, produce and serve at the highest levels of efficiency. The following table shows the composition of our employees:

Workforce	2014	2015	2016	2017
TOTAL NO. OF EMPLOYEES	961	1029	1074	1035
BREAKDOWN OF EMPLOYEES (%)				
Malaysian	99.69	99.71	99.91	100.00
Other Nationals	0.42	0.29	0.09	-
CONTRACT TYPE (%)				
Permanent	93.96	93.88	93.39	92.06
Contract	6.04	6.12	6.61	7.94
GENDER DISTRIBUTION (%)				
Male	85.33	85.23	85.66	83.25
Female	14.67	14.77	14.34	16.75
EMPLOYEES ABOVE AND BELOW AGE OF 35 (%)				
Above 35	45.47	46.36	46.09	50.73
Below 35	54.53	53.64	53.91	49.27
EMPLOYEE GROUP				
Executive and Above	668	697	703	679
Non-Executive	293	332	371	356
NO. OF NEW HIRES				
Total	88	134	97	41
Executive and Above	53	71	42	16
Non-Executive	35	63	55	25
Male				38
Female				3
TOTAL ATTRITION				
Total	77	67	54	80
Executive and Above	63	54	48	52
Non-Executive	14	13	6	28
Male				72
Female				8

NURTURING ENVIRONMENT

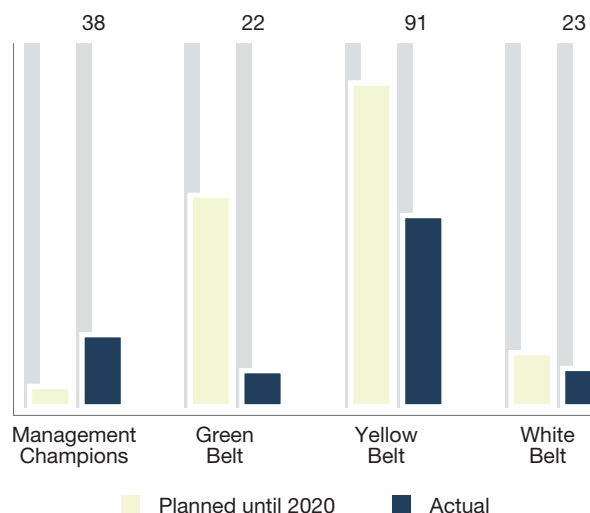
We conduct a training needs assessment for all our employees, taking into consideration their current competency levels and future career aspirations. The training and development calendar is also planned based on managerial and staff feedback from annual performance appraisals.

The 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 and perform. Hence, training and development has emerged as a formal business function to continuously improve employee's skills and productivity in ensuring the long-term success and profitability of the company.

In 2017, the Group invested approximately RM1.9 million on soft skills, technical, functional and leadership training, utilising approximately 23,000 man-hours. Considering 80% of our workforce are involved in O&M, we focused on delivering plant-specific simulator training at each of our power plants for competency improvement. We also invested on Project Management Programme ("PMP") certifications for 22 employees, of which 10 completed their beginner-level course and 12 successfully underwent the intermediate-level.

Similarly, we initiated and deployed the Lean Six Sigma ("LSS") programme for Kuala Lumpur Headquarters and Port Dickson Power Plant staff, with 24 Green Belt holders and 34 Yellow Belt holders successfully completed the programme. The LSS programme was also extended to other power plants, such as TBPP, where 56 Yellow Belt holders were nominated for training in two batches. All these interventions are positively reflected on the employees' skills, their productivity and their overall contributions at both individual and organisational level.

NUMBER OF BELTERS ATTAINED IN 2017



To date, 174 employees have successfully graduated their LSS programme at different levels, including Management Champions, Green Belts, Yellow Belts and White Belts. The above chart shows year-on-year target and achievement. Currently, 13 Black Belt holders and 54 Green Belt holders are undergoing further training, which will be completed in 2018.

With the full deployment of LSS Programme throughout Malakoff, we expect to inculcate the culture of continuous improvement within the organisation.

Besides, in 2017, we also introduced a Performance Management Communication Series, focusing on soft skills of performance management. The objective was to equip our employees and leaders with tips beyond the formal performance review process, using strategies such as communication techniques, team work dynamics. We are confident that these efforts will help align expectations and aspirations of our employees with organisational goals and vision.

EMPLOYEE WELFARE AND WELLBEING

Subsequent to our 2016 Employee Engagement survey, a working committee were set up to act as mediators between the Management and employees, mainly to facilitate new ideas and best solutions in relation to the issues that surfaced from the findings of the survey. In 2017, among various initiatives aimed at improving employee engagement, the learning spirit, the culture of giving-back to the society, and a sense of camaraderie included:

- HR2U week was organised at all our office locations in Malaysia and was aimed at raising awareness on various Human Resource (“HR”) matters as well as promoting open communication between the management and staff. The idea was to provide a safe, healthy and constructive platform to express ideas, share honest feedback and discuss various issues.
- The Malakoff Sports Carnival was organised on 13 October 2017 in conjunction with the Employee Service Award celebration to inspire one-team spirit through sports. The carnival included football, golf, carom, darts, badminton, futsal, bowling, tennis and ping pong.
- The staff of Prai Power Plant initiated a donation drive for three of its staff who were affected by the flood in November 2017.
- 56 Malakoff staff participated in “YKN Run For Love 2017” organised by Yayasan Kebajikan Negara (“YKN”) in December 2017. The objective of the event, held in Putrajaya, was to raise fund to aid the less fortunate in terms of health and education.

EMPLOYEE BENEFITS' UPDATE

The Group's Compensation and Benefits Policy is proposed by the Management and approved by the Board of Directors before its implementation throughout the organisation. Subsequently, our key performance indicators and its performance measurement includes both financial and non-financial goals, are based on Balance Scorecard.

Our compensation packages and benefits are fair, competitive and at par with industry standards. Our policies governing employee benefits are also streamlined across the Group, with a focus on improving staff morale, promoting work-life balance, and improving staff health and productivity. All the staff benefits are offered based on individual merit, performance and contributions to the company. At Malakoff, the employee benefits are also directly linked to attracting and retaining talent.

Our current 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 and loyalty programme.

Sustainability Statement

People

COMMUNITY INVESTMENT STRATEGY

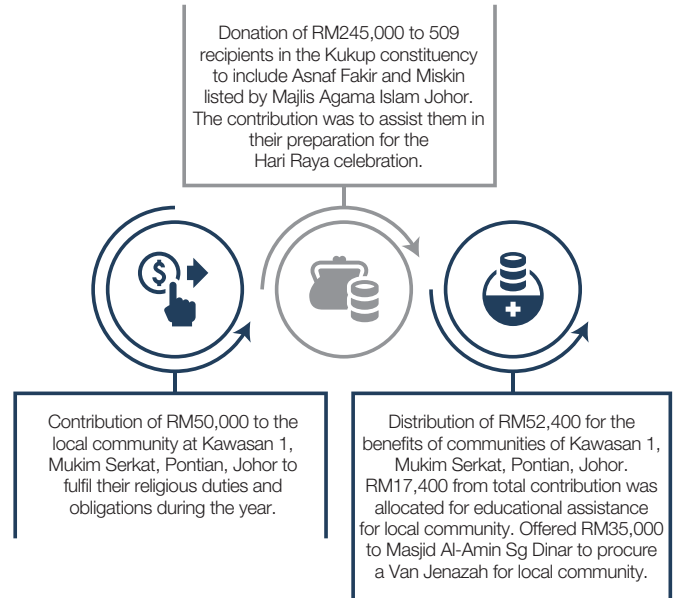
At Malakoff, we strongly believe that our success depends on our commitment to constantly engage and understand the expectations of local communities as well as our employees. We take a long-term approach to fulfilling our responsibility as an active member and contributor to the community. Over the years, our focus has been on education and environment, especially to communities where we conduct our operations.

MEASURES TO IMPROVE LIKELIHOOD OF COMMUNITY AND JOB OPPORTUNITY

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

We also extended our expertise for the upkeep and restoration of 24 floodlights at three tennis courts in Pontian district, with the modest contribution of RM8,000. Five personnel from TBEPP plant conduct regular maintenance as part of their contribution to Pontian community.

HIGHLIGHTS OF WAKALAH ZAKAT 2017



YOUTH EDUCATION AND DEVELOPMENT

As part of our efforts to provide educational infrastructure and assistance, in 2017, we adopted 11 schools in Segari (Perak), Prai (Penang), and Tanjung Bin (Johor). We provided financial support of RM36,500 to equip these schools with learning tools and better infrastructure.

ENVIRONMENTAL AWARENESS

Malakoff entered its sixth year of collaboration with Perak Fisheries Department to organise “Kenali Penyu, Sayangi Penyu” programme. The turtle awareness and educational programme held at Segari Turtle Management Centre (“TMC”) was aimed to raise public awareness on the threats to turtles. The event brought together 120 volunteers from Malakoff, Perak Fisheries Department and

local fishermen, as well as 20 students from the Institute of Marine Engineering Technology, Lumut campus of Universiti Kuala Lumpur. The volunteers participated in a gotong royong to spruce up the buildings and vicinity of TMC. They also attended an educational talk conducted by a representative from Turtle and Marine Ecosystem Centre (“TUMEC”), which highlighted the critical role that individuals can play in conserving turtles.

To sustain the efforts beyond our programme, we contributed RM13,000 for TMC’s upkeep.



Sustainability Statement

Environment

“ In conducting our business, we are mindful of the possible impact of our operations to the environment. Therefore, in addition to working within the limits set by various environmental laws and regulations, we are continuously exploring new green technologies and improving our processes for better management of our emissions. In doing so, within the organisation and in our circle of influence, we are committed to promote sustainable practices and behavior. **This section further documents our current environmental impacts and our approach to managing them responsibly.** ”

EMISSIONS MANAGEMENT

Coal is the biggest single source of energy for electricity production globally. Considering its abundant reserves and competitive prices, coal is likely to maintain its market despite the growing concern on CO₂ emissions. Our strategy is simple. We will move towards balancing our energy-mix, which will mean shifting our focus towards renewable energy in the mid- to long-term horizon. Meanwhile, we are committed to deploy advanced and clean technologies, which help reduce the emissions significantly. For instance, most recently, we installed the highly efficient ultra-super critical boiler technology at TBEPP. As a result, TBEPP is already in compliance with the new CAR2014 regulations.

As far as emissions management is concerned, our facilities report real-time emissions data from the plant to the respective 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 our local generating facilities are directly related to fuel property and combustion process. Emissions produced by our local generating facilities are as illustrated in the chart below:

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 optimising the units’ generating efficiency.

We are currently conducting an initial study on our carbon emissions, which will provide us with a baseline data for 2018 sustainability reporting, as part of our commitment towards better management of the carbon footprint.



WE TAKE VARIOUS STEPS TO REDUCE THE IMPACT OF NON-GHG EMISSIONS FROM OUR PLANTS:

We equip our facilities with:

- Filtration equipment to reduce Particulate Matter (“PM”) emissions – an electrostatic precipitator and fabric filter are installed at TBPP and TBEPP respectively;
- Flue Gas Desulphurisation (“FGD”) to reduce Sulfur Oxide (“SOx”) emissions; and
- Stage combustion to reduce Nitrous Oxide (“NOx”) emissions;
- GHG production is minimised by optimising the units’ generating efficiency. We minimise the emissions from coal properties by:
- Selection of coal governed by the Coal Supply and Transportation Agreement (“CSTA”), which is a stringent process and testing to ensure the coal is suitable for the boilers and complies with the emission requirements.

We are committed to partner with the industry to pioneer sustainable solutions:

- Malakoff is also one of the participating company together with TNB Research (“TNBR”) to develop the GHG emission factor for electricity sector in Malaysia.
- This initiative will help the country meet its commitment as a signatory party to the United Nations Framework Convention on Climate Change (“UNFCCC”).

We are exploring diversification opportunities and strategies:

- By the year 2020, we hope to improve our energy-mix up to 300 MW of generation capacity from RE portfolio.

WATER MANAGEMENT

Our 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 during the operation. 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").

The following table shows the total raw water consumption according to plant, as recorded in the monthly water bill as metered by the respective state water supply companies:

Power Plant	2015 (m ³)	2016 (m ³)	2017 (m ³)
Prai	143,364	201,565	212,433
Lumut	534,199	513,159	275,076
Tanjung Bin	1,696,600	1,995,067	1,631,673
Tanjung Bin Energy	–	720,902	379,528
Total	2,374,163	3,430,693	2,498,710

At our TBPP plant, the management of ash pond water has reduced raw water consumption by 20% in raw water costs per annum, while ensuring environmental compliance (e.g., ash pond water level). In addition, the TBPP plant also has a rainwater harvesting system, which is used for general cleaning purposes around the plant area.

WASTE MANAGEMENT

We recognise the risks from coal ash disposal from our coal-fired power plants and therefore, we have a coal ash disposal procedures, helping us to manage our ground, water or air contamination. In 2017, both TBPP and TBEPP coal-fired plant with the combined generation capacity of 3,100 MW produced about 42,000 metric tonnes of Fly Ash and 8,000 metric tonnes of Bottom Ash every month.

All Fly Ash generated was sold to cement and concrete producers to produce pulverised fuel cement and concrete. Whereas, Bottom Ash is stored in the Ash Pond located inside the plant complex and this is being regularly assessed on its condition and safety aspects. During the year, our process improvement initiatives and clean technology deployment resulted in cost savings of approximately RM642,000 by way of combustion optimisation.

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

In 2017, TBEPP in collaboration with DOE Johor took the initiative to collect all electronic waste (e-waste) such as unused batteries and mobile phones from the project and sent them for proper disposal.



ENVIRONMENTAL MANAGEMENT PLAN ("EMP")

We have implemented EMP at all our operating sites to continuously monitor and assess the environmental impact of our plant operations. In 2017, 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).

In 2017, there were no record of significant spills on any of our local power plants which would harm the environment in the areas that we operate.

We have also embraced the Guided Self-Regulation ("GSR") in our daily operations. GSR was introduced by DOE in 2016 to develop an industrial society with environmental excellence. Based on the environmental mainstreaming tools recommended, we have already deployed safety and environmental monitoring systems. With GSR, we are better equipped and more competent to manage our environmental impacts going forward.

Sustainability Statement

Environment

SUSTAINABILITY FRAMEWORK: WAY FORWARD FOR THE COMPANY

We are in the early stage of mapping our sustainability aspirations with business priorities. However, our Board of Directors as well as the senior management are committed to make real-time progress as far as embedding sustainability in our day-to-day operations is concerned. We understand that it will require a behavioural change at organisational level; a strategic shift at business level from shareholders' profitability to stakeholders' welfare.

The ESG risks to our business will be more pronounced as we grow, and we will continue to mitigate such risks by applying principles of good governance, sound management policies and sustainable principles for investments and in operations. On the economic front, our aspiration is to improve our energy mix towards supporting the aspiration of the government to

significantly reduce emissions and move towards clean energy alternatives. We will also optimise cost structures, improve our operational efficiencies through innovative ideas and technology, and help enhance the economic benefits to both our business and the people in our value chain.

Our social impact is inherent in our business proposition, which is to provide power and water solutions, which is a catalyst for a sustainable industry, that in turn contributes to socio-economic development of people. Besides, we continuously support the development of our people through equitable policies, learning and development opportunities and partnerships for community welfare and well-being.

Our aspiration for 2018 is to devise a Sustainability Framework for Malakoff, with specific programmes and targets to manage ESG risks and opportunities for positive economic, social and environmental impact.



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