



CORPORATE GOVERNANCE



GOOD GOVERNANCE PRACTICES REPRESENT A CRITICAL BENCHMARK IN DETERMINING AN ORGANISATION'S SUCCESS AND MANAGEMENT STABILITY. OUR BOARDS FORM THE PILLARS OF A ROBUST CORPORATE GOVERNANCE FRAMEWORK IN SETTING THE TONE FROM THE TOP AND DRIVING A CULTURE OF STRONG GOVERNANCE



Sustainability Matters

- Corporate Governance and Business Ethics
- Risk Management

Context

The growth of institutional investors, their improved organisation and focus, and the regulatory and legislative initiatives in recent years have generated significant change to the corporate governance landscape. The widespread public criticism of boards of directors arising from the financial crisis, and the ensuing governance reform initiatives, are part of a series of developments in the evolving relationship between shareholders and their boards.

Investors have also become more organised and focused on exerting the influence inherent in their substantial ownership stakes, accelerating shift in the "balance of authority" exercised by boards and shareholders in the corporate decision-making process.

In Malaysia, the Malaysian Institute of Corporate Governance (MICG) continues to raise the bar of corporate governance in Malaysia for greater transparency and accountability with less scope of corruption and bribery.

KLCCP Stapled Group is subject to the corporate governance mandatory requirements set out by the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad and by virtue of being a listed entity, the Group in turn has to comply with the requirements of the Malaysian Code on Corporate Governance (MCCG) 2017, which was recently updated from MCCG 2012.

OUR COMMITMENT TO GOOD CORPORATE GOVERNANCE IS REFLECTED IN OUR CODE OF CONDUCT AND BUSINESS ETHICS (CoBE), WHICH GUIDES THE ORGANISATION IN FULFILLING ITS BUSINESS OBLIGATIONS WITH UTMOST INTEGRITY AND TRANSPARENCY

MCCG 2017 is the result of a comprehensive review undertaken by the Securities Commission (SC) in 2016 drawing inputs from domestic and international stakeholders, lessons from past and recent governance failures and changes in market structures and business needs. The code, which was first introduced in 2000 following the recommendations made by the High Level Finance Committee in 1999, had been reviewed twice by the SC in 2007 and 2012.

With greater accountability and transparency, KLCCP Stapled Group strives to strengthen its corporate governance that will ultimately secure the confidence and support of the Group's holders of Stapled Securities.

Approach

KLCCP Stapled Group takes a proactive approach in observing high standards of corporate conduct with good corporate governance policies and practices in ensuring the sustainability of the organisation and safeguarding the interests of the holders of Stapled Securities and maximising long-term stakeholder value.

Our commitment to good corporate governance is reflected in our Code of Conduct and Business Ethics (CoBE), which guides the organisation in fulfilling its business obligations with utmost integrity and transparency.

Key Initiatives for the Year

Board Composition and Diversity	<ul style="list-style-type: none"> • Outlining strategy to increase quota for women on Board • Identifying women candidates to fill Board positions • To comply with the minimum requirement of MCCG 2017 in respect to a majority of independent directors
Compliance and Transparency	<ul style="list-style-type: none"> • Enhancement of Board Charter and Terms Of Reference (TOR), approved by Board Committees and Boards of Directors
Development of Integrity Action Plan	<ul style="list-style-type: none"> • To manage integrity risk within KLCCP Stapled Group in ensuring our commitment to do business with integrity and to support the Group's zero tolerance against all forms of bribery and corruption • Organised a talk on Institutionalising Integrity - An Introduction of Corruption Risk Management attended by all management personnel • Conducted a 3-day workshop on integrity compliance risk assessment attended by all management personnel of the Group
Anti-Bribery and Corruption	<ul style="list-style-type: none"> • The Corruption-Free Pledge event was held in December 2017 involving managerial staff and the signing of the Corruption-Free Pledge document by the Management Leadership Team

Overseeing the overall strategic and operational business performance are KLCCP's and KLCCRM's Board of Directors. The Board Governance and Risk Committee as well as the Board Audit Committee were established to assist the Boards in discharging its functions in relation to internal controls, risk management, compliance with applicable laws and regulations, as well as reviewing internal policies and procedures. Together, they are entrusted to further fortify the levels of accountability and integrity in KLCCP Stapled Group.

CORPORATE GOVERNANCE AND COMPLIANCE

Our Boards take pride and places importance on a strong governance culture and implementing international best practices across the business segments. In conducting our business operations, we are guided by the KLCC Shared Values to uphold integrity

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in fulfilling our obligations in an ethical, responsible and transparent manner. We strictly conform to the respective laws, rules and regulations in the country where we operate.

Our Board Charter incorporates elements of sustainability with the Boards recognising the responsibilities to our stakeholders and acknowledging that the organisation should play an important role in contributing towards the welfare of the community in which it operates. The Boards also acknowledge the need to safeguard and minimise the impact to the environment in achieving KLCCP Stapled Group's objectives. The Boards' agenda reflects commitment to economic support for longer term sustainability with a focus on the positive impact on the environment, community and society.

On 13 November 2017, following the issuance of MCCG 2017, the Boards reviewed and approved revisions to the Board Charter, which included updating various provisions to ensure the document remains relevant and consistent with applicable rules, regulations and recommended best practices. The Board Charter is periodically reviewed to determine its appropriateness to the needs of KLCCP Stapled Group and to reflect the changing regulatory environment.

During the year, KLCCP Stapled Group was recognised in the top 100 public-listed companies at the MWSG-ASEAN Corporate Governance Recognition 2017 for demonstrating corporate governance practices based on the ASEAN Corporate Governance Scorecard methodology. KLCCP Stapled Group was ranked 31st for good corporate governance disclosures and ranked 36th for excellent overall corporate governance and performance. KLCCP Stapled Group was also a recipient of the Gold Award for excellence in corporate governance practices under the Environmental, Social and Corporate Governance category at The Asset Corporate Awards 2017.

Board Composition and Diversity

KLCCP and KLCCRM Boards of Directors comprise eight members respectively, one of whom is a Chief Executive Officer, three Independent Non-Executive Directors, fulfilling the requirement of the MMLR on independence, while the remaining four Non-Executive Directors are Non-Independent Directors. Currently, there are two female Directors on each Board which accounts for 25% women representation on board. The Boards are responsible for overseeing the overall management of KLCCP and KLCCRM and responsible for providing oversight and stewardship of the organisation. Harnessing strength from a variety of backgrounds and experiences, the Boards bring diversity and add depth to deliberations.

MCCG 2017 recommended for the formulation and disclosure of gender diversity policies and targets to be mandatory, where companies must disclose in their Annual Reports policies and targets with respect to composition of women on their boards. The Group's Diversity Policy, which was rolled out in August 2016, aspires to ensure a diverse and inclusive board that will leverage on differences in thoughts, perspectives, knowledge, skills, regional and industry experiences, cultural and geographical background, age, ethnicity and gender, to achieve effective stewardship and management which will lead to its competitive advantage.

In the year under review, the Boards have taken steps to identify female candidates based on meritocracy with the optimum mix of skills, knowledge and experience to fill board positions and outline strategies to increase this quota, in line with the country's aspirational target of 30% representation of women directors. The KLCCP and KLCCRM Boards are working towards increasing the participation of women at the Boards as well as in senior roles and functions throughout the Group.

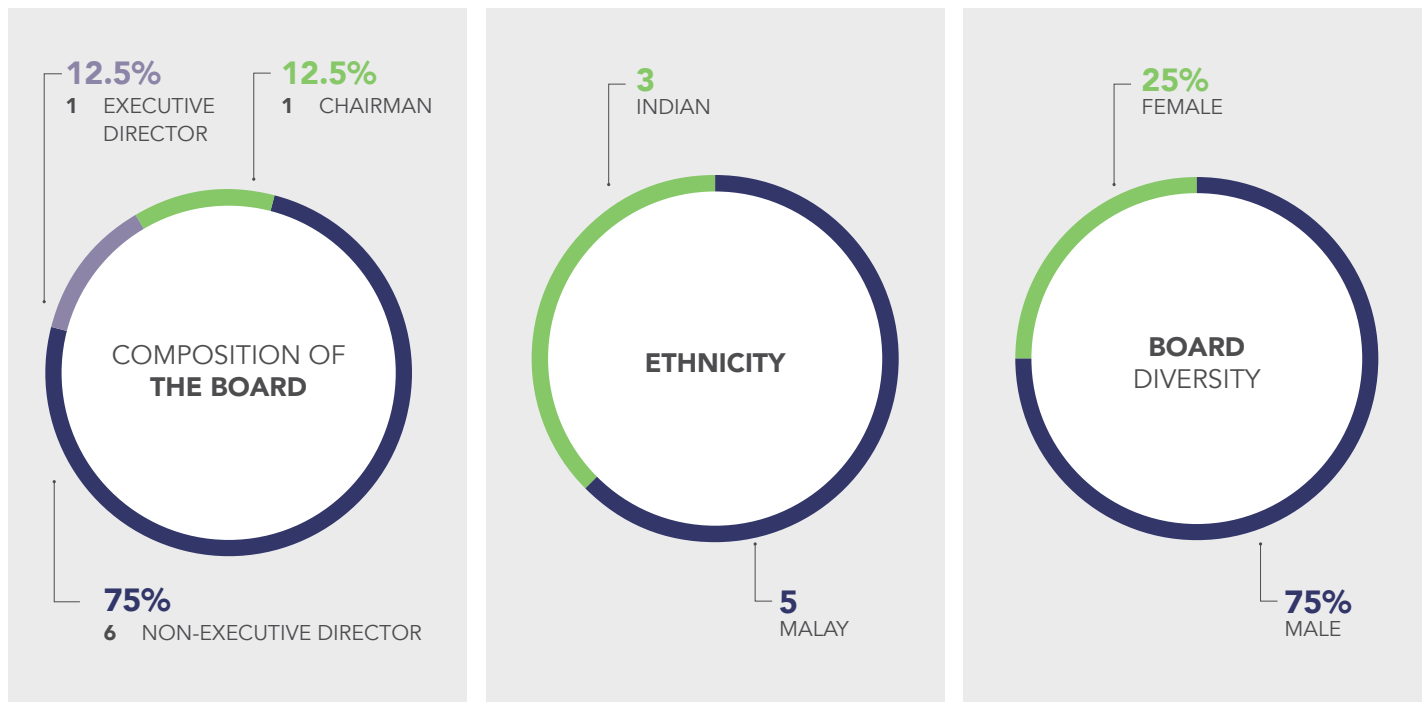
BUSINESS ETHICS AND INTEGRITY

The Board of Directors of KLCCP and KLCCRM are guided by the corporate governance principles, CoBE and charters for each board committee and is committed to representing the long-term interests of all holders of Stapled Securities.

KLCCP Stapled Group's commitment to good corporate governance is reflected through its effort in promoting compliance, integrity and transparency through the adoption of KLCCP Stapled Group's Shared Values, PETRONAS' Code of Business Ethics (CoBE), Anti-Bribery & Corruption (ABC), No Gift Policy and Whistleblowing Policy.

	Employees	Supply Chain
Communication Channels	<ul style="list-style-type: none"> • KLCC Shared Values • PETRONAS Code of Conduct & Business Ethics • PETRONAS Anti-Bribery & Corruption Manual • No Gift Policy • Gift Register • Asset Declaration • PETRONAS Integrity Compliance Framework • PETRONAS Whistleblowing Policy • Induction Trainings 	<ul style="list-style-type: none"> • Imposed provision in all contracts requiring third parties to comply with CoBE • Imposed provision of Anti-bribery and corruption clauses in all contracts requiring third parties to comply with • Continuous engagement with third parties to ensure compliance with CoBE and ABC Manual
Feedback Channels	<ul style="list-style-type: none"> • Whistleblowing Reporting Platform 	

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Code of Business Ethics (CoBE)

At KLCCP Stapled Group, we adhere to the PETRONAS' Code of Business Ethics (CoBE) which contains detailed policy statements on the standards of behavior and ethical conduct expected of each individual. The CoBE which was rolled out to the KLCC Group in 2012, serves as a guiding principle on how every employee, management and directors are expected to conduct his or her work. The CoBE applies to all employees and directors within the KLCCP Stapled Group and we continue to pursue good business ethics amongst the employees and stakeholders and endeavour to achieve the highest standards of integrity through the adherence to the CoBE.

The CoBE is benchmarked to international standards and outlines the behaviour and ethical conduct expected of employees, directors and other stakeholders in the way we do business which is reflected by the policies and procedures which deals with confidentiality, conduct and work discipline and corporate gifts and workplace harassment. It not only promotes legal and procedural compliance, but also provides guidance to ensure individual behavior is in line with the KLCC Shared Values.



For the year under review, KLCCP Stapled Group continued to communicate the CoBE to all employees as well as third parties performing work for or on behalf of KLCCP Stapled Group through its corporate website, meetings, corporate events and inclusion of CoBE in all new employees induction programme. During the year, 51 new employees were introduced to the CoBE and were required to sign a declaration of adherence to the CoBE. Our Human Resource also organised the CoBe WEEK with the topic of the day focusing on fighting corruption and ethical practices covering matters relating to solicitation, bribery and corruption, gifts, entertainment and corporate hospitality and money laundering. Among the activities conducted include the CoBE conversation and knowledge sharing with employees, CoBE Refresher on selected topic, CoBE e-Learning and CoBE Feedback Survey from staff on the superior in supporting CoBE.

Anti-Bribery and Corruption (ABC)

The Anti-Bribery and Corruption (ABC) Manual and the No Gift Policy, as adopted from PETRONAS has been KLCCP Stapled Group's reference in dealing with unethical conduct and is now part of the culture in our efforts to eliminate all forms of bribery and corruption within the organisation. The ABC Manual was developed to supplement the general policy statements set out in the CoBE on fighting corruption and unethical practices and outlines detailed explanation on procedures for dealing with improper solicitation, bribery and corruption and addressing of ethical issues. New initiatives will continue to be rolled out to create greater awareness on integrity as prescribed in the ABC Manual.

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KLCCP Stapled Group's strong stance of zero-tolerance against bribery and corruption extends to its business dealings with third-party service providers and vendors. Pursuant to the ABC Manual, KLCCP Stapled Group requires that its agreements with third-party service providers and vendors incorporate anti-bribery and anti-corruption provisions. In line with this commitment, every reported case has been dealt with meticulously, with all fairness and according to lawful practices. In the past two years, we have had 11 cases reported and investigated which resulted in either termination of services, resignation or non-renewal of contract.

To further strengthen our efforts in promoting ethical practices across the organisation, KLCCP Stapled Group continued to communicate and engage with employees at all levels through displays of posters at all office sites as well as conducted talks on integrity to uphold the core values and not engage in corrupt or unethical practices. This serves as a reminder to all employees to maintain the highest standards of integrity at work and in all business dealings.

Assets Declaration and Gift Register

The KLCC Group's Assets Declaration and Gift Register was launched in December 2017. This Assets Declaration is for the Group to ensure Management and employees do not abuse their power for personal gain or acquire assets through unlawful means or dealings. This Assets Declaration will be a means to anchor the issue of ethics and integrity within the Group. Employees will be required to declare their assets to the organisation through the Human Resource Division via sealed envelopes to ensure confidentiality.

KLCC Group also subscribes to the *No Gift Policy* which we have implemented since 2012. Under this policy, employees are prohibited to give or receive gifts of any kind from any parties it has dealings with. With the launch of the Gift Register and in accordance to the *No Gift Policy*, all gifts received by employees would need to be registered and returned to the sender to ensure adherence to this policy.

Whistleblowing Policy

The KLCCP Stapled Group adopts a zero tolerance policy against all forms of bribery and corruption. The Whistle-Blowing Policy facilitates as a communication and feedback channel for employees to report on any misconduct within the organisation. This reflects our commitment and strong stance against any misconduct within this organisation. The Whistleblowing policy, as adopted from PETRONAS provides an avenue for employees and members of the public to disclose any misconduct or malpractices within KLCCP Stapled Group. It encourages openness and transparency and heightens ethical business conduct and provides trusted and accessible channels to report corruption, fraud and dishonest practices at the workplace.

Employees and members of the public who raise or disclose any malpractices can do so without doubt or fear of reprisals as the whistleblower is assured confidentiality of identity, to the extent reasonably practicable, even post completion of investigation, so long as the disclosure is made in good faith. Whistleblowers are also kept updated on outcomes of the disclosure made, adhering to procedures in place.



i The Corruption-Free Pledge signing by the Group's Management Leadership Team

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As part of the PETRONAS Group, all reported whistleblowing incidents are escalated to the PETRONAS Whistleblowing Committee set up to deliberate upon the disclosures made, determine next course of action and monitor progress until case closure. The Committee meets at least once a month and provides updates to the Internal Audit Management Committee as well as Board Audit Committee.

The organisation's ongoing efforts to promote the Whistleblowing Policy and its established platforms entailed displaying communication collateral at strategic locations within KLCCP Stapled Group's office premises such as at the PETRONAS Twin Towers, Menara 3 PETRONAS and Menara Dayabumi.



Our Whistleblowing Policy is available at <http://www.klcc.com.my/sustainability/governance.php>

Dealings in Stapled Securities

KLCCP Stapled Group adopts the Dealings in Stapled Securities policy, a Memorandum of Insider Trading, for Directors and employees which advocates best practices pursuant to the MMLR. It sets out prohibitions against dealing in the Stapled Securities when in possession of unpublished price sensitive information and knowledge of facts or materials. The directors are issued guidelines and are notified in advance of the closed period for trading in Stapled Securities and are regularly reminded of the laws of insider trading and to refrain from dealing in Stapled Securities on short-term basis.

RISK MANAGEMENT

Risk management is an integral part of KLCCP Stapled Group's business at both strategic and operational levels. An effective and sound risk management system is important for KLCCP Stapled Group to achieve its business strategies and objectives. KLCCP Stapled Group has an established KLCC Group Enterprise Risk Management Governance Framework which outlines the risk policy, risk governance and structure, risk measurement and risk operations and system.

The Risk Management Oversight Structure which consists of the Boards, Audit Committees, Management Committee and Risk Management Committee sets out the structure used to assign responsibility for risk management and facilitates the process for assessing and communicating risk issues from operational levels to the Boards.

KLCCP and KLCCRM Boards developed an integrated robust risk management system for business resiliency focusing on three key areas.

Enterprise Risk Management

KLCCP Stapled Groups' Enterprise Risk Management (ERM) Framework is a structured and holistic approach to identify, assess, treat and monitor risk aimed to reduce the likelihood and impact of all identified risks to enhance ability to achieve strategic objectives. It sets out the six key elements comprising Governance, Context Setting, Risk Assessment, Risk Treatment, Risk Monitoring and Review and Continual Improvement which enable KLCCP Stapled Group to manage risks in an integrated, systematic and consistent manner.

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The framework provides a standard and consistent approach across KLCCP Stapled Group in achieving the following key attributes in risk management:

- Full accountability in managing risk at respective entity
- Application of risk management in decision making
- Continuous communication with external and internal stakeholders, including comprehensive and frequent reporting on risk management performance
- Risk management as part of KLCCP Stapled Group's management processes and culture in achieving the organisation's objective.

This is to provide a balanced view for informed decision making through richer risk conversations and considerations of risk reward trade-off. Risk assessment is carried out prior to any decision point using the risk assessment guideline which is aligned to ISO 31000.

Annually, the Group Enterprise Risk Management Department facilitates and coordinates the Group-wide Risk Profiling exercise that requires business and corporate executive leaders to proactively identify, assess and document material risks and the corresponding key controls and mitigating measures needed to address them. Material risks and their associated controls are consolidated and reviewed at KLCCP Stapled Group level before they are presented to the Risk Committee, Audit Committee and the KLCCP and KLCCRM Boards.

KLCCP Stapled Group utilises the INTERISK system as a risk tool to effectively manage and monitor risk profiles. It embeds the industry standard risk management process of ISO 31000. The INTERISK system drives active risk conversations and analysis monitoring through a dashboard, reinforces effective risk governance and assurance practices and provides a seamless flow of information and processes along the risk management value chain.

Crisis Management

A comprehensive set of processes aimed to prepare the organisation to respond and manage crisis in the risk areas to protect and save people, environment, assets and reputation.

A Crisis Management Plan (CMP) is in place to address and respond to incidents where risk mitigation fails or when full prevention of the risk occurring is unlikely. This includes the emergency response, emergency management and crisis management.

During the year, KLCCP Stapled Group conducted Fire Drill and Evacuation exercises for tenants at PETRONAS Twin Towers, Menara 3 PETRONAS and Menara Dayabumi to test the effectiveness and robustness of the Crisis Management Plan. A demonstration on proper usage of Fire Extinguishers was also conducted for tenants at PETRONAS Twin Towers to promote awareness of the dangers of fire hazards and the proper and effective operation of fire extinguishers within the workplace.

At MOKL Hotel, the Crisis Management Team members have responsibility with reference to their sections based on time sequence and direct responsibilities. The Hotel Manager and General Manager chair monthly meetings to outline simulation schedules and participate in the simulations. The local police authorities work with the hotel during the simulations to reflect a "real time authentic" scenario. Our hotel staff are trained yearly on the Business Continuity Management Plans and simulations are held yearly to ensure that we are prepared for any eventualities.

Business Continuity Management

The KLCCP Stapled Group's Business Continuity Plan (BCP) covers the failure of business operations in ICT, business supply chain, assets and its people. The BCP aims to provide guidance in resuming key business functions in the event the CMP fails to contain the incident and when it escalates into a prolonged disaster that has a major or catastrophic impact on the business in terms of financial, operation and reputation.

Annual BCP Simulation Exercises are carried out to test the recovery strategy at virtual office and the effectiveness of identified Primary and Alternate Workforce for business resumption of the Critical Business Functions.

At MOKL Hotel, BCP is demonstrated in an organisational chart that outlines the Crisis Management Team, Emergency Response Team and Business Recovery Team who are responsible in dealing with incidents and crisis related to hotel operations.

Senior leadership and other department heads are part of this structure led by the Deputy Crisis Management team member and Crisis Management Leader. They conducted over 24 Emergency Response Plan scenarios and simulations involving hotel leadership and staff participation to increase the hotels readiness. All simulations are documented and then audited by senior leadership and an independent auditor on an annual basis.

Integrity Action Plan

During the year, KLCCP Stapled Group embarked on the journey to develop the KLCC Integrity Action Plan to manage integrity risk within the KLCCP Stapled Group in ensuring our commitment to do business with integrity and to support the Group's zero tolerance against all forms of bribery and corruption.

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The aim of the KLCCP Stapled Group's Integrity Action Plan is to strengthen the existing system and procedures to address the root causes of integrity issues resulting from poor enforcement, weak internal control and acceptance culture. The Integrity Action Plan is also aligned to the requirements governed under ISO 37001 Anti-Bribery Management System.

THE 6 PRINCIPLES SAFEGUARDING OUR BUSINESSES

<p>1 PROPORTIONATE PROCEDURES to prevent potential integrity issues through clear, practical, accessible, effectively implemented and enforced procedures.</p>	<p>4 DUE DILIGENCE in respect of the entities who will perform services for or on behalf of the Group in order to mitigate potential issues</p>
<p>2 TOP LEADERSHIP COMMITMENT to fight corruption and foster the culture of zero tolerance against all forms of bribery and corruption</p>	<p>5 COMMUNICATION AND TRAINING to ensure good understanding and effective implementation of anti-corruption and bribery policy</p>
<p>3 RISK ASSESSMENT on internal and external factors to identify potential integrity issues</p>	<p>6 MONITORING AND REVIEWING procedures and integrity programmes for effective implementation</p>

An online survey was also conducted to gauge the level of awareness and understanding of the whole integrity management system. This included assessing the extent of the institutionalised integrity compliance standard in the Group's daily operations, the response to integrity issues and issues and insights into corporate integrity based on the experiences and perception of the employees. About 440 employees participated in the survey and the result concluded that majority of participants are fully aware and familiar with the KLCC Shared Values, the Culture Beliefs and the CoBE.

Another initiative which we undertook during the year as part of our integrity journey was the Corruption-Free Pledge event held in December 2017. The event was attended by the managerial staff of the Group which witnessed members of the Management Leadership Team led by the Chief Executive officer signing the Corruption-Free Pledge document in the presence of representatives from the Malaysian Anti-Corruption Commission (MACC).

The Integrity Action Plan addresses five categories of integrity risk concerns.

Category	Description
Bribery	Offering, promising, giving, accepting, or soliciting of an advantage as an inducement for an action, which is illegal, unethical, or a breach of trust or to refrain from acting.
False Claim	False/fraudulent claim is a financial fraud scheme whereby contractors make unentitled claims (i.e. approve claim beyond progress payment); falsify financial statement to qualify for bidding process; and fraudulent claims by staff.
Non-compliance	Non-compliance to standard operating procedures (SOP) occurs when employees collude with other employee/external parties to override administrative procedures and internal controls
Abuse of Power	Abuse of power occurs when employees misuse their position for personal gains such as procuring favours/gifts from contractors.
Misappropriation	Misappropriation of funds involving fake invoices, forged signatories and duplicate invoices occurs due to weakness in internal controls.

This Integrity Action Plan will be implemented across the key critical business units during the course of 2018 and will enable KLCCP Stapled Group to identify potential corruption risk and the appropriate mitigation to further strengthen our resiliency model.