



DELEUM

**Exploring Opportunities
for Synergistic Growth**

**2018
ANNUAL
REPORT**



EXPLORING OPPORTUNITIES FOR SYNERGISTIC GROWTH

The starburst design on this cover with its multiple facets serves to reflect the energy of Deleum's thrust towards growing its value deriving from the synergy of our three core business segments.



OUR MISSION

To Provide Sustainable Growth and Enhance Stakeholders' Value



OUR VISION

To be the Market Leader in our Operating Segments Domestically and a Regional Presence by 2020



OUR SHARED VALUES

- Integrity
- Professionalism
- Health, Safety & Environment
- Excellence

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OUR PEOPLE OUR SUCCESS

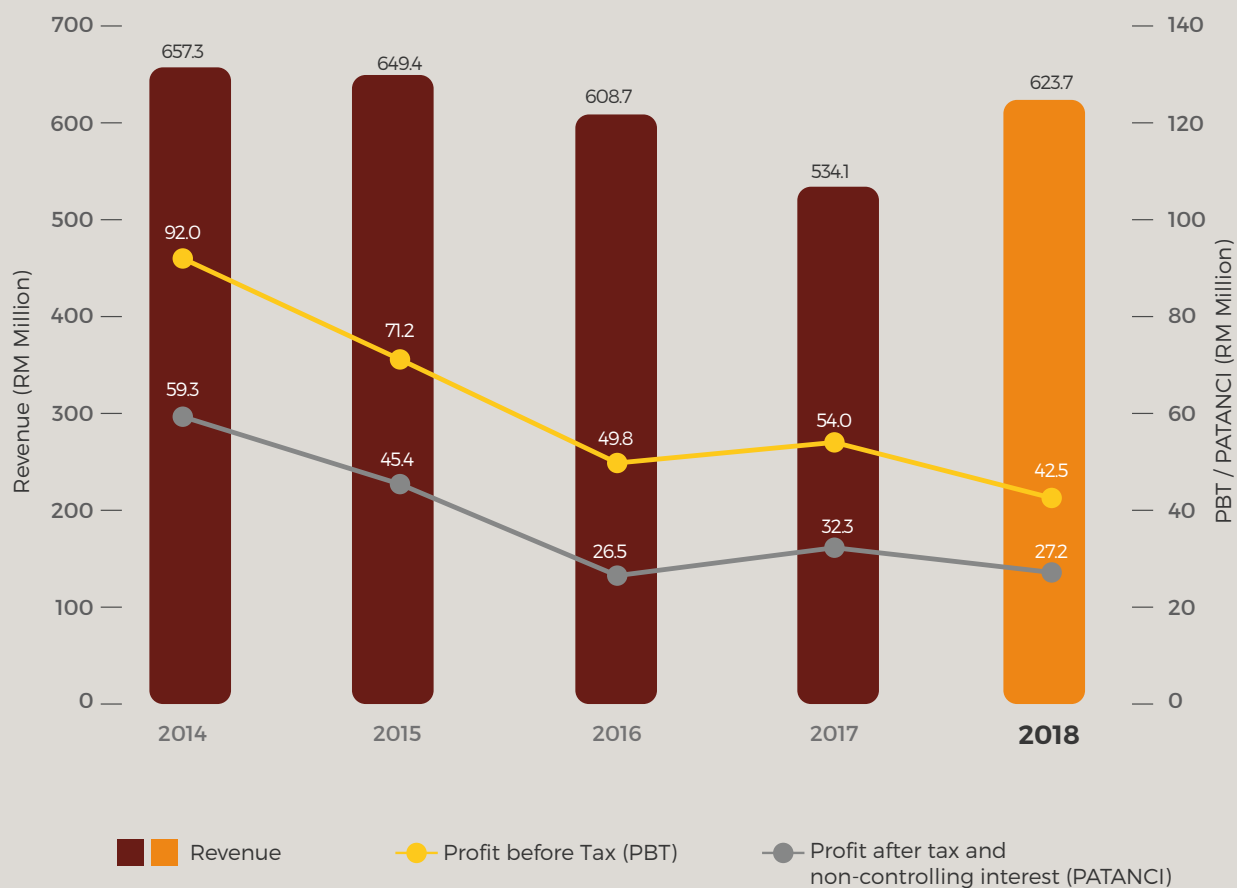




FINANCIAL HIGHLIGHTS

FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014 - 2018

	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Revenue	657,273	649,398	608,652	534,058	623,685
Gross profit	157,969	149,176	128,521	139,868	124,451
Earnings before interest, tax, depreciation and amortisation (EBITDA)	116,861	108,275	87,502	87,119	73,889
Share of associates' results	13,727	5,642	223	(385)	2,275
Share of joint venture's results	-	775	684	857	1,139
Profit before tax	91,994	71,152	49,767	54,025	42,548
Profit after tax	70,651	55,539	32,821	39,261	29,829
Non-controlling interest	(11,327)	(10,131)	(6,308)	(6,983)	(2,660)
PATANCI	59,324	45,408	26,513	32,277	27,169
Number of shares ('000)	400,000	400,000	400,000	400,195	401,126



FINANCIAL RATIOS

	2014	2015	2016	2017	2018
Return on equity (%)	21.6	15.5	8.8	10.0	8.2
Return on total assets (%)	8.9	6.7	4.0	5.3	4.1
Gearing ratio (%)	56.5	46.9	36.4	23.6	19.1
Net asset per share (RM)	0.69	0.73	0.75	0.80	0.83
Dividend per share (Sen)	7.5	5.5	3.5	4.3	3.5
Dividend yield (%)	4.7	5.0	3.5	4.5	3.6

EBITDA

RM73.9

MILLION

2017:

RM87.1 MILLION

RETURN ON EQUITY

8.2%

2017:

RM10.0%

SHAREHOLDERS' EQUITY

RM331.6

MILLION

2017:

RM322.0 MILLION

PATANCI

RM27.2

MILLION

2017:

RM32.3 MILLION

TOTAL FIXED ASSETS

RM152.1

MILLION

2017:

RM164.3 MILLION

DIVIDEND PER SHARE

3.5

SEN

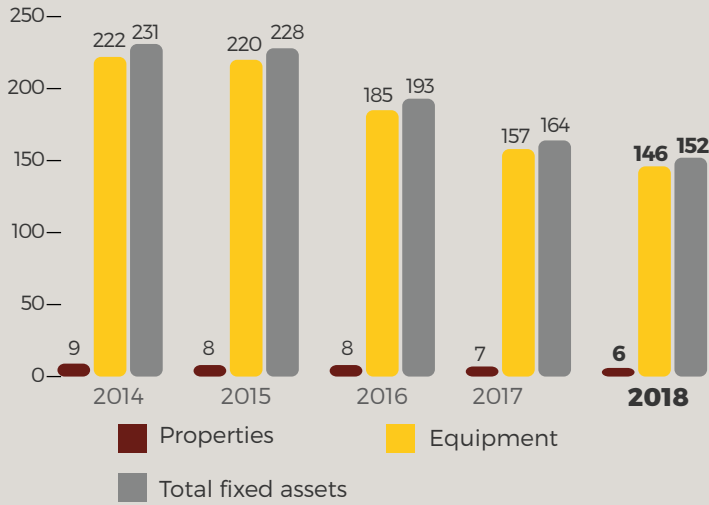
2017:

RM4.3 SEN

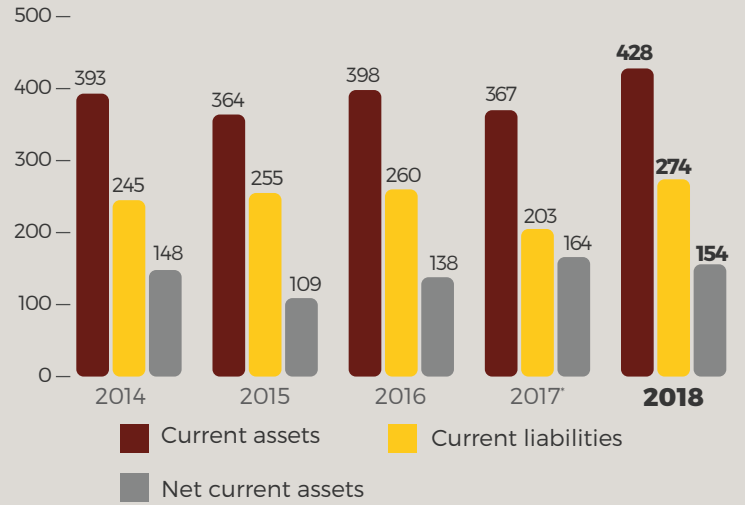
FINANCIAL HIGHLIGHTS (CONTINUED)

FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014 - 2018

PROPERTY, PLANT AND EQUIPMENT (RM MILLION)

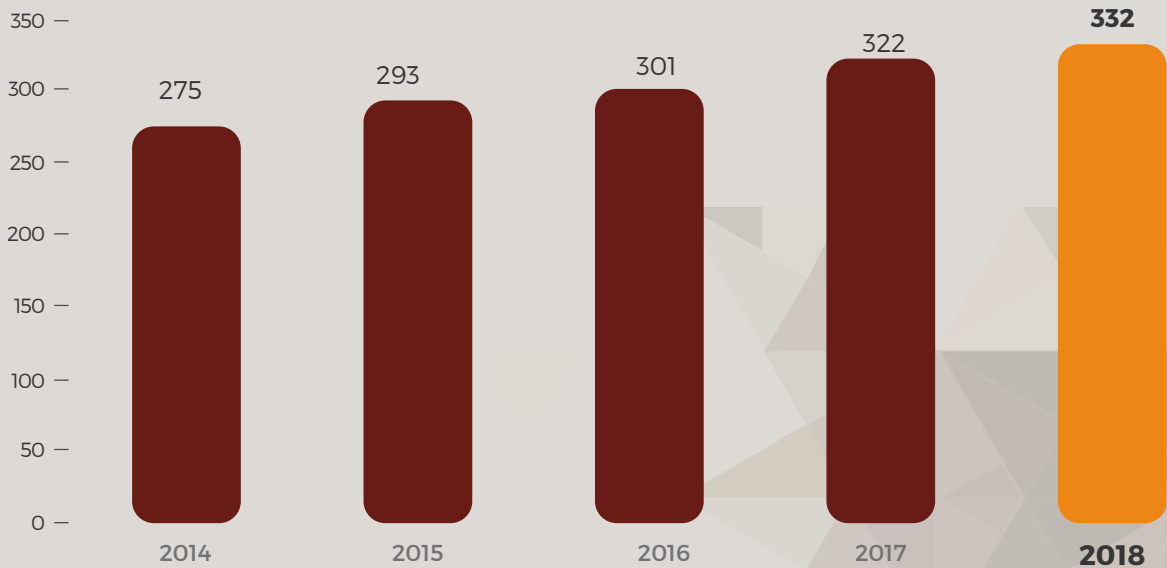


NET CURRENT ASSETS (RM MILLION)

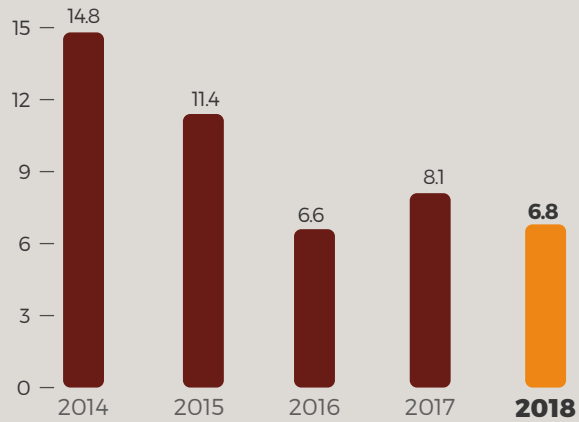


* 2017 current assets and current liabilities have been restated prospectively to reflect the effects of changes in accounting policies and to conform with current year presentation. No restatement is done for financial years prior to 2017

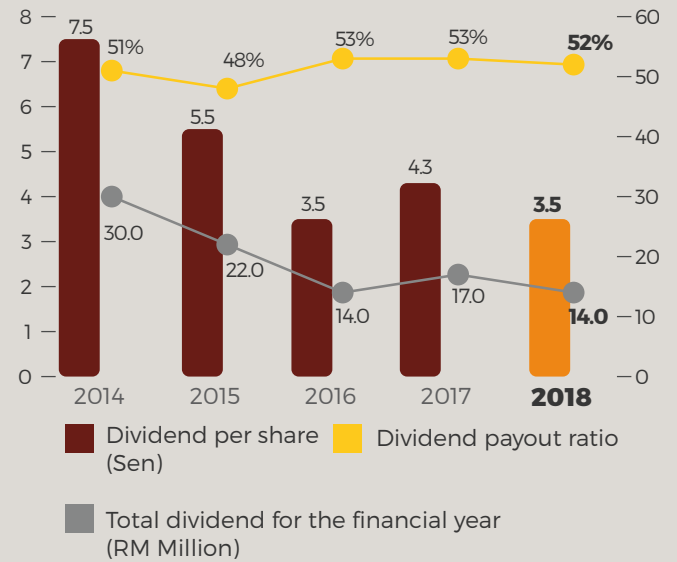
SHAREHOLDERS' EQUITY (RM MILLION)



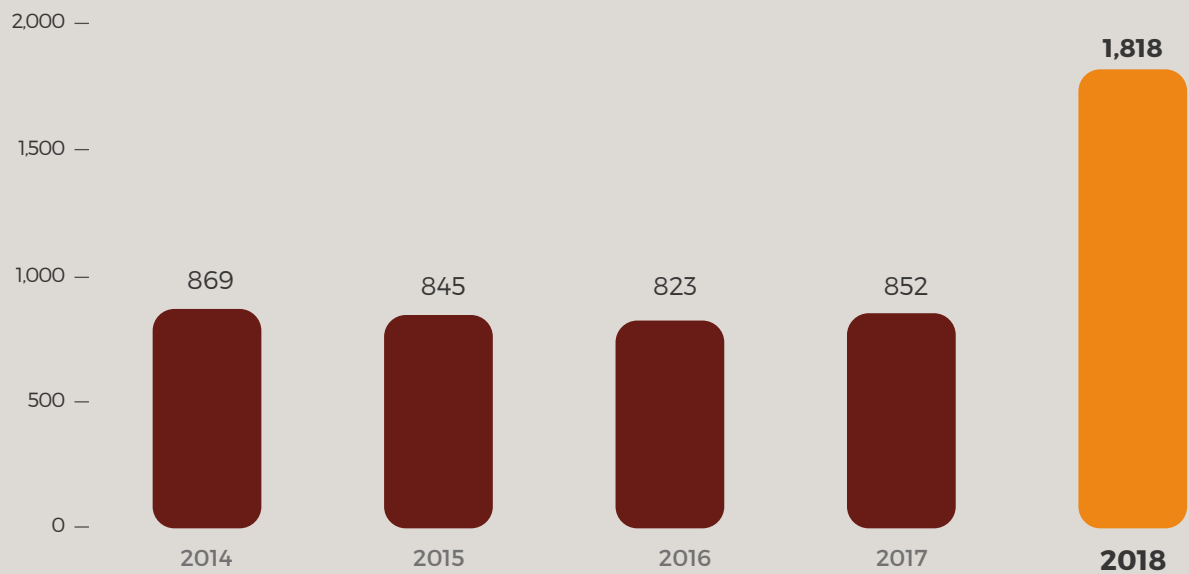
EARNINGS PER SHARE
(SEN)



DIVIDENDS



EMPLOYEES



CORPORATE INFORMATION

BOARD OF DIRECTORS

DATO' IZHAM BIN MAHMUD

Non-Independent
Non-Executive Chairman

DATUK VIVEKANANTHAN A/L M.V. NATHAN

Non-Independent
Non-Executive Deputy Chairman

NAN YUSRI BIN NAN RAHIMY

Group Managing Director

DATUK ISHAK BIN IMAM ABAS

Independent Non-Executive
Director

DATUK IR (DR) ABDUL RAHIM BIN HASHIM

Senior Independent
Non-Executive Director

DATUK NOOR AZIAN BINTI SHAARI

Independent Non-Executive
Director

LEE YOKE KHAI

Independent Non-Executive
Director

AUDIT COMMITTEE

DATUK ISHAK BIN IMAM ABAS

(Chairman)

DATUK IR (DR) ABDUL RAHIM BIN HASHIM

LEE YOKE KHAI

JOINT REMUNERATION AND NOMINATION COMMITTEE

DATUK IR (DR) ABDUL RAHIM BIN HASHIM

(Chairman)

DATO' IZHAM BIN MAHMUD

DATUK VIVEKANANTHAN A/L M.V. NATHAN

DATUK ISHAK BIN IMAM ABAS

DATUK NOOR AZIAN BINTI SHAARI

LEE YOKE KHAI

BOARD RISK COMMITTEE

LEE YOKE KHAI

(Chairman)

DATUK VIVEKANANTHAN A/L M.V. NATHAN

DATUK NOOR AZIAN BINTI SHAARI

COMPANY SECRETARIES

LEE SEW BEE

MAICSA NO. 0791319

LIM HOOI MOOI

MAICSA NO. 0799764

REGISTERED OFFICE/ HEAD OFFICE

NO. 2, JALAN BANGSAR UTAMA 9
BANGSAR UTAMA
59000 KUALA LUMPUR, MALAYSIA
TEL : 603-2295 7788
FAX : 603-2295 7777
EMAIL : INFO@DELEUM.COM
WEBSITE : WWW.DELEUM.COM

SHARE REGISTRARS

BOARDROOM SHARE REGISTRARS SDN. BHD.

(formerly known as Symphony
Share Registrars Sdn. Bhd.)
LEVEL 6, SYMPHONY HOUSE
PUSAT DAGANGAN DANA 1
JALAN PJU 1A/46
47301 PETALING JAYA
SELANGOR DARUL EHSAN
MALAYSIA
TEL : 603-7849 0777
FAX : 603-7841 8151/52

STOCK EXCHANGE LISTING

BURSA MALAYSIA SECURITIES
BERHAD
MAIN MARKET
STOCK CODE: 5132

AUDITORS

PRICEWATERHOUSECOOPERS PLT

LEVEL 10, 1 SENTRAL
JALAN RAKYAT
KUALA LUMPUR SENTRAL
P.O. BOX 10192
50706 KUALA LUMPUR, MALAYSIA
TEL : 603-2173 1188
FAX : 603-2173 1288

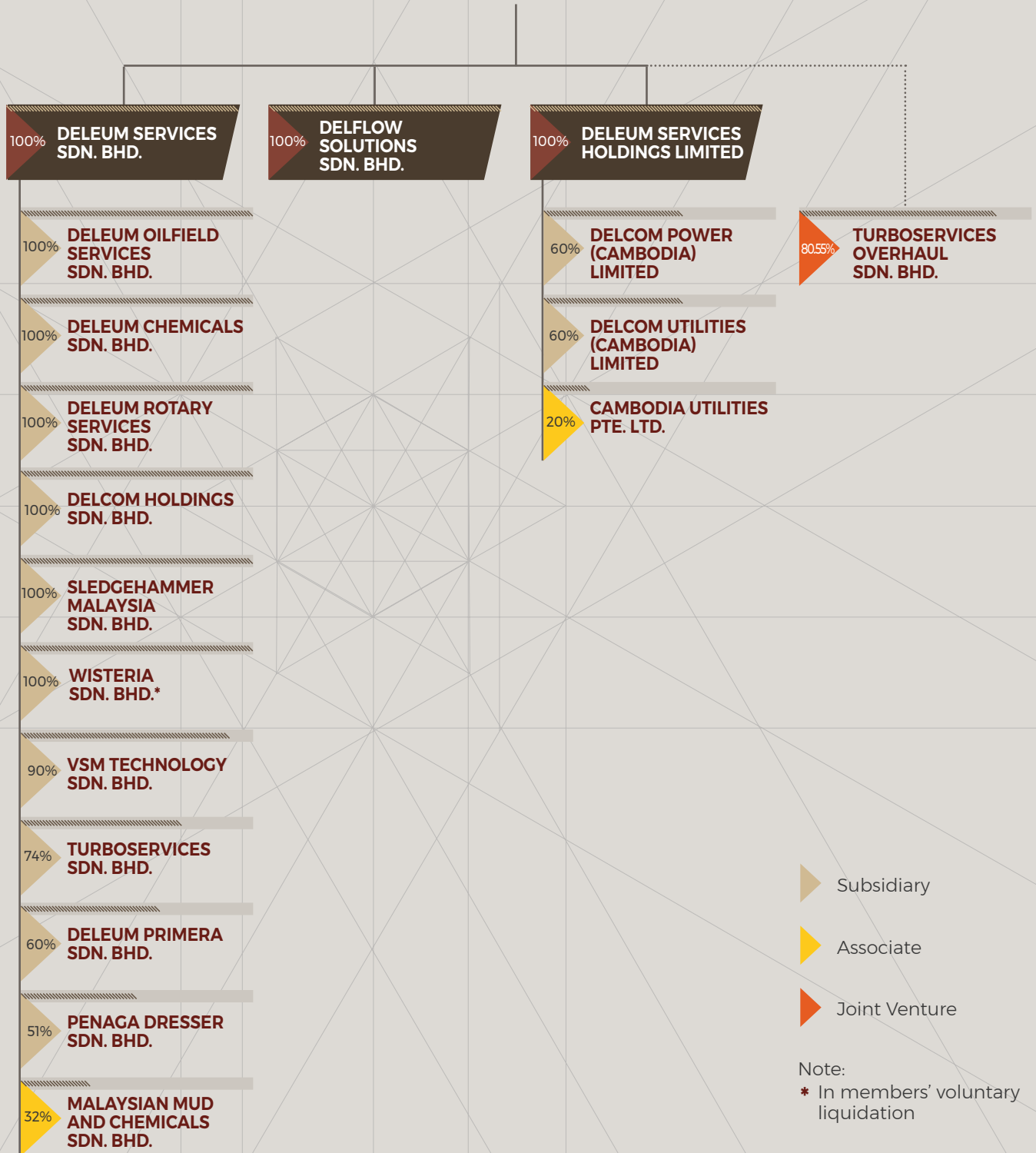
PRINCIPAL BANKERS

HSBC BANK MALAYSIA BERHAD
STANDARD CHARTERED BANK
MALAYSIA BERHAD
MALAYAN BANKING BERHAD
AMBANK (M) BERHAD

GROUP CORPORATE STRUCTURE

AS AT 31 MARCH 2019

DELEUM BERHAD



PROFILES OF DIRECTORS



DATO' IZHAM BIN MAHMUD

Non-Independent Non-Executive Chairman

BOARD COMMITTEE



Dato' Izhah bin Mahmud (Malaysian, aged 78, Male) was appointed to the Board on 21 December 2005.

He holds a Bachelor of Science Degree (Honours) in Economics from Queen's University Belfast, UK and a Master of Arts (Economics Development) from Vanderbilt University, USA. He is one of the co-founders of Deleum Services Sdn. Bhd. (Deleum Services) (formerly known as Delcom Services Sdn. Bhd.), a wholly-owned subsidiary of Deleum Berhad via his family holding company, IM Holdings Sdn. Bhd.

Dato' Izhah joined the Federal Treasury in 1965 and attained the level of Principal Assistant Secretary and was subsequently seconded to the Malacca State Development Corporation as General Manager in 1972. In 1974, he embarked on his banking career and joined Aseambankers Malaysia Berhad as General Manager and was later promoted to Managing Director in 1979, a position he held until his retirement in 1996. During this period, he served as a Director of various subsidiaries of the Maybank Group and Cagamas Berhad.

He joined Deleum Services as its Chairman upon retirement and was subsequently appointed Executive Chairman in 2000. He was the Executive Chairman of Deleum Berhad until his retirement on 31 May 2010 and subsequently became the Non-Executive Chairman. He previously also served on the Boards of RHB Capital Berhad, RHB Bank Berhad, Renong Berhad, Opus Berhad, AMMB Holdings Berhad and AmlInvestment Bank Berhad.



DATUK VIVEKANANTHAN A/L M.V. NATHAN

Non-Independent Non-Executive Deputy Chairman

BOARD COMMITTEES



Datuk Vivekananthan a/l M.V. Nathan (Malaysian, aged 78, Male) was appointed to the Board on 21 December 2005. He is one of the co-founders of Deleum Services.

He joined ESSO Malaysia in the Instrumentation and Electrical Engineering Services Department in 1962 and undertook assignments at ESSO refineries in Malaysia and Thailand. He then worked for Mobil Refinery, Singapore and subsequently was the Project Engineer with Avery Laurence (S) Pte. Ltd. on various first ever offshore projects in Brunei, Thailand and Indonesia. He had also attended training with Yokogawa Electric Works in Japan. He later joined Teledyne Inc. and was based in USA for training in management before being promoted as Marketing Director of its Far East Operations.

In 1982, together with his founding partners, Datuk Vivekananthan successfully spearheaded Deleum Services' venture into the oil and gas industry. He was appointed as the Managing Director and later re-designated as President of Deleum Services. He was the Deputy Executive Chairman of Deleum Berhad until his retirement on 31 May 2010 and subsequently became the Non-Executive Deputy Chairman.

He sits on the Board of International Conference and Exhibition Professionals (ICEP), the organiser of conferences and exhibitions hosted by PETRONAS. He is an Honorary Member of the Malaysian Gas Association since May 2016 after having served as its Council Member from 2004 and Treasurer from 2008 until May 2016. Datuk Vivekananthan is a Director of Malaysian Philharmonic Orchestra and a member of the Board of Trustees of Dewan Filharmonik PETRONAS since November 2014.



Audit Committee

Joint Remuneration &
Nomination Committee

Board Risk Committee



NAN YUSRI BIN NAN RAHIMY

Group Managing Director

Nan Yusri bin Nan Rahimy (Malaysian, aged 47, Male) was appointed to the Board on 1 March 2011.

He graduated from the Royal Melbourne Institute of Technology (now RMIT University), Australia with a Bachelor of Engineering Degree (Honours) in Mechanical Engineering in 1996. He has been a member of the Society of Petroleum Engineers since 2004 and a member of the American Society of Mechanical Engineers since 2014 and also an alumni of the INSEAD Business School.

Nan Yusri has been involved in the Oil & Gas, and the Energy Industry for more than 20 years. He joined Deleum Services as a Marketing Executive supporting the turbomachinery business in April 1996 and was later re-designated to Application Engineer in November 1996. He subsequently held several senior positions within the Group including Senior Marketing Manager, Assistant Vice President - Business Development, Vice President (VP) - Exploration and Production, Chief Operating Officer - Oilfield Services and Chief Executive Officer (CEO) of Deleum Oilfield Services Sdn. Bhd. (DOSSB). In September 2010, he was promoted to CEO of Deleum Services, the holding company of DOSSB, before being appointed to his current position.

He was appointed a Council Member of the Malaysian Gas Association in May 2016. He sits on the Board of International Conference and Exhibition Professionals (iCEP) as Alternate Director to Datuk Vivekananthan a/l M.V. Nathan. He is also a member of the Student Development Advisory Council of Universiti Teknologi PETRONAS since December 2014.



DATUK ISHAK BIN IMAM ABAS

Independent Non-Executive Director

BOARD COMMITTEES



Datuk Ishak bin Imam Abas (Malaysian, aged 73, Male) was appointed to the Board on 21 March 2007. He is a Fellow of the Chartered Institute of Management Accountants and a member of the Malaysian Institute of Accountants.

He was the Finance Director of Pfizer (M) Sdn. Bhd., Bursar of Universiti Kebangsaan Malaysia, Finance Director of Western Digital (M) Sdn. Bhd. and Accountant in Pernas International Holdings Berhad prior to joining PETRONAS in 1981.

During his tenure at PETRONAS, he held various senior positions including Deputy GM Commercial of PETRONAS Dagangan Berhad, Senior GM Finance of PETRONAS, Senior VP Finance of PETRONAS, CEO of KLCC (Holdings) Sdn. Bhd. and KLCC Property Holdings Berhad. He was also a member of the Board of Directors of PETRONAS and several of its subsidiaries. In April 2006, he retired from PETRONAS as Senior VP. He continued to be CEO of KLCC (Holdings) Sdn. Bhd. and KLCC Property Holdings Berhad until his retirement in April 2007.

Datuk Ishak is currently the Non-Executive Chairman of Putrajaya Holdings Sdn. Bhd. He is also the Non-Executive Director of KLCC Property Holdings Berhad, a public company listed on the Main Market of Bursa Malaysia Securities Berhad, Kuala Lumpur City Park Berhad and KLCC REIT Management Sdn. Bhd., all of which are subsidiaries of PETRONAS.

He is a Non-Executive Director of Integrated Petroleum Services Sdn. Bhd.

PROFILES OF DIRECTORS (CONTINUED)



DATUK IR (DR) ABDUL RAHIM BIN HASHIM

Senior Independent Non-Executive Director

BOARD COMMITTEES



Datuk Ir (Dr) Abdul Rahim bin Hashim (Malaysian, aged 65, Male) was appointed to the Board on 15 November 2013.

He graduated with a B.Sc. (Electronics & Electrical) Engineering from the University of Birmingham, UK in 1976 and has also completed the Advanced Management Programme at Harvard Business School in 1997.

He started his career in PETRONAS as an Electrical Engineer soon after graduation. He held various senior positions including Managing Director and CEO of PETRONAS Penapisan (Melaka) Sdn. Bhd. and Malaysian Refining Company Sdn. Bhd., VP of Human Resource Management Division and VP for Gas Business of PETRONAS. He was the VP of Research and Technology Division of PETRONAS from April 2006 until his retirement in December 2008. He also held directorships in several PETRONAS subsidiaries including PETRONAS Gas Berhad, PETRONAS Dagangan Berhad, PETRONAS Carigali Sdn. Bhd. and Malaysia LNG Sdn. Bhd., all of which he relinquished upon retirement.

Datuk Ir (Dr) Abdul Rahim is the Past President of the International Gas Union (2009- 2012), the host of the 25th World Gas Conference held in Kuala Lumpur in 2012. He helmed the presidency of Asia Pacific Natural Gas Vehicle Association from 2003 to 2007 and the presidency of the Malaysian Gas Association from 2003 to 2013. He has served as a Board Member of the Board of Engineers Malaysia. He was a member of the National Science and Research Council of Malaysia and served as a commissioner at the Energy Commission of Malaysia from 2009 to 2016.

He is the Vice Chancellor of University of Malaya since 1 November 2017. Prior to the appointment, he was the Vice Chancellor/CEO of Universiti Teknologi PETRONAS for 5 years from 1 November 2012 to 31 October 2017. He was a director of Institute of Technology PETRONAS Sdn. Bhd. from 2010 to 2017. He was appointed a member of the Board of Advisor of the Higher Education Leadership Academy under the Minister of Higher Education in November 2015 for a period of three (3) years. He was appointed a member of the Academy of Sciences Malaysia (ASM) Council on 22 April 2017.

Datuk Ir (Dr) Abdul Rahim is a director of ICE Petroleum Engineering Sdn. Bhd. since November 2017 and a Board Member of Malaysia Convention & Exhibition Bureau (MyCEB) since October 2018.



DATUK NOOR AZIAN BINTI SHAARI

Independent Non-Executive Director

BOARD COMMITTEES



Datuk Noor Azian binti Shaari (Malaysian, aged 70, Female) was appointed to the Board on 1 January 2015. She is a Barrister-At-Law of Lincoln's Inn London having been called to the English Bar in May 1971.

Upon graduating, she joined the Malaysian Judicial and Legal Service and served for over 30 years until her retirement in July 2004. During her tenure with the said service, she held various positions, amongst them being Deputy Parliamentary Draftsman, Official Assignee Malaysia, Treasury Solicitor, Sessions Court Judge, Deputy Head of Civil Division, Chairman of the Special Commissioners for Income Tax and Chairman of Tribunal for Consumer Claims.

After her retirement from the Malaysian Judicial and Legal Service, she was appointed as a Judge of the High Court of Malaya and she presided over cases in the Commercial, Civil and Criminal Divisions. She retired from her position as High Court Judge of Malaya in July 2014.

Datuk Noor Azian is a Registered Arbitrator with the Asian International Arbitration Centre (AIAC). She also sits on the Board of Affin Hwang Investment Bank Berhad where she is the Chairman of the Board Risk Management Committee and a member of Nomination and Remuneration Committee.



Audit Committee

Joint Remuneration &
Nomination Committee

Board Risk Committee



LEE YOKE KHAI

Independent Non-Executive Director

BOARD COMMITTEES



Lee Yoke Khai (Malaysian, aged 61, Male) was appointed to the Board on 15 March 2019. He is a Fellow of the Institute of Chartered Accountants Australia and a member of the Malaysian Institute of Accountants and Malaysian Association of Certified Public Accountants. He holds a Bachelor of Economics (Accounting) from Monash University, Australia.

Mr Lee started his career with Price Waterhouse Melbourne, Australia as an Audit Assistant in 1978 and joined Price Waterhouse Malaysia (currently known as PricewaterhouseCoopers PLT) ("PwC") in 1981. He was an Audit Partner of PwC from 1991 until his retirement in 2018.

During his tenure with PwC, he was the partner responsible for the East Malaysian practice, and involved in the listing of various companies on Bursa Malaysia Securities Berhad. He was the Risk Management Partner in 2006 until 2012, responsible for the overall risk management strategy for the firm. In 2012, he was elected to the Oversight Board with oversight over the management of the firm and served until 2016.

Mr Lee was also the Leader of Technology group and Emerging Markets group during his career with PwC. In 1999, he was appointed Leader of the Global Risk Management unit for Malaysia and lead a number of significant assignments in risk management and internal audit for large corporations.

Mr Lee has extensive experience within the audit profession covering a wide range of industrial and commercial operations in Malaysia and Australia. He was Engagement Leader on large multinational corporations in various sectors including plantations, upstream and downstream oil and gas, information technology, construction and property development, manufacturing and services industries. In addition, he has experience in investigations, share valuations and due diligence.

Notes:

1. Directors' attendance at Board and Board Committee meetings during the financial year ended 31 December 2018 are set out in the Corporate Governance Overview Statement and Audit Committee Report.
2. The above Directors have no family relationship with any Director and/or major shareholder of Deleum Berhad, have no conflict of interest with Deleum Berhad, have not been convicted of any offence within the past five (5) years, and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.

PROFILES OF KEY SENIOR MANAGEMENT



**JAYANTHI A/P
GUNARATNAM**

TITLE

Group Chief Financial Officer

NATIONALITY / AGE / GENDER

Malaysian / 46 / Female

DATE OF APPOINTMENT

1 January 2015

**ACADEMIC / PROFESSIONAL
QUALIFICATIONS**

- Bachelor of Accountancy (Honours), Universiti Utara Malaysia
- Member of Malaysian Institute of Accountants (MIA)

WORKING EXPERIENCE

Joined Deleum in 2001, and has held various positions, the last being General Manager of Finance, Administration and Procurement

PRESENT DIRECTORSHIP

- (i) Listed Entity: Nil
- (ii) Other Public Companies: Nil



LEE SEW BEE

TITLE

Senior General Manager
- Group Corporate Services/
Company Secretary

NATIONALITY / AGE / GENDER

Malaysian / 57 / Female

DATE OF APPOINTMENT

1 May 2013

**ACADEMIC / PROFESSIONAL
QUALIFICATIONS**

- Associate Member of The Institute of Chartered Secretaries and Administrators, UK (ICSA)
- Associate Member of The Malaysian Chartered Secretaries and Administrators (MAICSA)

WORKING EXPERIENCE

Joined Deleum in 1989 as Company Secretary and the last position held was the Vice President of Corporate Services

PRESENT DIRECTORSHIP

- (i) Listed Entity: Nil
- (ii) Other Public Companies: Nil



HENG PHOK WEE

TITLE

Chief Executive Officer
Deleum Services Sdn. Bhd.

NATIONALITY / AGE / GENDER

Malaysian / 47 / Male

DATE OF APPOINTMENT

1 April 2018

**ACADEMIC / PROFESSIONAL
QUALIFICATIONS**

- Bachelor of Chemical Engineering (Honours), Universiti Teknologi Malaysia
- Master of Business Administration (MBA), Universiti Malaya

WORKING EXPERIENCE

Joined Turboservices Sdn. Bhd. in 2008 as General Manager and the last position held was the Chief Operating Officer of Deleum Services Sdn. Bhd.

PRESENT DIRECTORSHIP

- (i) Listed Entity: Nil
- (ii) Other Public Companies: Nil



AHMAD UZHIR BIN KHALID

TITLE

Chief Executive Officer
Deleum Oilfield Services Sdn. Bhd.

NATIONALITY / AGE / GENDER

Malaysian / 53 / Male

DATE OF APPOINTMENT

1 April 2018

ACADEMIC / PROFESSIONAL QUALIFICATIONS

- Bachelor of Electrical Engineering
University of Idaho, USA

WORKING EXPERIENCE

Joined Deleum Oilfield Services Sdn. Bhd. in 2010 as Chief Operating Officer

PRESENT DIRECTORSHIP

- (i) Listed Entity: Nil
- (ii) Other Public Companies: Nil



MAZRIN BIN RAMLI

TITLE

Chief Executive Officer
Deleum Primera Sdn. Bhd.

NATIONALITY / AGE / GENDER

Malaysian / 39 / Male

DATE OF APPOINTMENT

1 April 2018

ACADEMIC / PROFESSIONAL QUALIFICATIONS

- Bachelor of Material (Honours)
Universiti Kebangsaan Malaysia

WORKING EXPERIENCE

Joined Deleum Primera Sdn. Bhd. in 2011 as Chief Operating Officer

PRESENT DIRECTORSHIP

- (i) Listed Entity: Nil
- (ii) Other Public Companies: Nil



AZMAN BIN JEMAAT

TITLE

Chief Executive Officer
Penaga Dresser Sdn. Bhd.

NATIONALITY / AGE / GENDER

Malaysian / 51 / Male

DATE OF APPOINTMENT

1 March 2018

ACADEMIC / PROFESSIONAL QUALIFICATIONS

- Bachelor of Mechanical Engineering,
University of Wollongong,
Australia

WORKING EXPERIENCE

Joined Penaga Dresser Sdn. Bhd. in 2013 as General Manager and the last position held was the Chief Operating Officer of Penaga Dresser Sdn. Bhd.

PRESENT DIRECTORSHIP

- (i) Listed Entity: Nil
- (ii) Other Public Companies: Nil

The above Key Senior Management members have no family relationship with any Director and/or major shareholder of Deleum Berhad, have no conflict of interest with Deleum Berhad, have not been convicted of any offence within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.

MESSAGE FROM THE CHAIRMAN



DEAR SHAREHOLDERS,

ON BEHALF OF THE BOARD OF DIRECTORS, I AM PLEASED TO PRESENT THE ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF DELEUM BERHAD (DELEUM OR THE GROUP) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (FY2018).

The year 2018 marked the fourth consecutive year in which the oil and gas industry continued to experience challenging business conditions amidst market volatility. The start of 2018 brought the industry hope when the price of Brent crude recovered from between USD45-55 per barrel previously to touch approximately USD70 per barrel in January 2018 and then went on to hit the year's high of USD86 per barrel in early October.

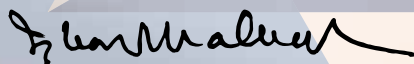
The industry's excitement, however, was short-lived as the price of Brent lost more than a third of its value from its October high amidst faltering global economic growth and surplus crude production, and dropped to USD53 per barrel by the end of 2018.

When the oil prices began their upward trend in the third quarter of the year, there was an increase in activity levels and planned programmes as well as a surge in the issuance of invitations to bid from customers. This resulted in the award of contracts to our Oilfield Services and Integrated Corrosion Solution segments. The contributions from the contracts that we secured

are expected to be realised from FY2019 onwards.

Despite this volatile operating environment, I am pleased to report that Deleum continued to prove its resilience and remain profitable in FY2018. The year saw us strengthening the topline of our Oilfield Services and Integrated Corrosion Solution segments as well as the core competencies across these segments. These segments also went on to explore new areas of opportunities on the downstream front. We also worked to optimise our cost efficiencies and working capital besides conserving our free cash.

At the same time, we focused our efforts on selectively expanding the Group's international footprint as well as leveraged on the Six Key Focus Areas of our Strategic Plan that called for our businesses to be streamlined, strengthened and made more sustainable. These efforts have helped the Group to grow, maintain its position and explore future opportunities.



DATO' IZHAM BIN MAHMUD
Chairman

MESSAGE FROM THE CHAIRMAN (CONTINUED)

FINANCIAL PERFORMANCE

For FY2018, Deleum generated profit after tax and non-controlling interest (PATANCI) of RM27.2 million and revenue of RM623.7 million. The Group's PATANCI dropped 15.8% from RM32.3 million in the preceding year despite a 16.8% rise in revenue from RM534.1 million previously. This was caused by margin compressions experienced by all segments across the Group. Similar to the preceding year's results, both the Power and Machinery and the Oilfield Services segments delivered positive segment results, albeit lower. The segment results for the Integrated Corrosion Solution however, dropped significantly despite being supported by higher revenue. This was mainly due to mobilisation costs incurred in the rolling out of the MCM contract and preparatory costs to service the new contracts. The Power and Machinery segment maintained its position as the biggest revenue generator for the Group contributing 57.8% of the year's revenue. The Oilfield Services and Integrated Corrosion Solution segments followed contributing 20.0% and 22.2% of the Group's revenue respectively. The Group will focus on strengthening its operations in the Power and Machinery segment whilst we work to further develop our other two core segments to attain optimal performance.

The Group maintained a healthy financial position as at end FY2018 with our total assets increasing by 8.7% to RM660.4 million in comparison to RM607.4 million in the preceding year,

whilst shareholders' funds grew 3.0% to RM331.6 million from RM322.0 million previously. Our borrowings reduced by 16.8% to RM63.2 million from RM76.0 million previously as a result of scheduled repayments made during the financial year. Meanwhile, our cash and bank balances decreased by 4.6% to RM134.9 million from RM141.4 million previously due to net repayment on borrowings, dividends paid, as well as plant and equipment acquisitions.

A detailed analysis of the operational and financial performances of our three core business segments can be referenced in the Management Discussion and Analysis section of this Annual Report.

SAFEGUARDING SHAREHOLDERS' INTERESTS

The Board of Directors of Deleum is grateful to our shareholders for your steadfast trust and support in us especially during these challenging times. We remain committed to safeguarding your interests and creating value for you. To this end, we are upholding our dividend policy of distributing a gross dividend of 50% of the Group's annual profit attributable to the equity holders of the Company. This is subject to the availability of adequate distributable reserves, operating cash flows requirements, financial commitments, expansion plans and other relevant factors to sustain our existing operations and support future business growth.

In respect of FY2018, the Company paid a first interim single tier dividend

of 1.25 sen per ordinary share on 25 September 2018, followed by a second interim single tier dividend of 2.25 sen per ordinary share on 22 March 2019. This brought the total dividend payout in respect of FY2018 to 3.50 sen per ordinary share totalling RM14.0 million (FY2017: RM17.0 million). This represents a dividend payout ratio of 51.5% of attributable earnings for the financial year which slightly exceeds the Group's dividend policy.

We take pride in that Deleum remains one of the few oil and gas service providers that continues to give out dividends to its shareholders despite the volatile industry climate. Following Deleum's listing in 2007, we have cumulatively paid dividends amounting to RM205.5 million since the financial year ended 31 December 2007. Our share price remains stable at approximately RM1.10 whilst the Group's market capitalisation has stood between RM400.0 million to





2018 PERFORMANCE



PATANGI

RM27.2million

FY2017 RM32.3million



SHAREHOLDERS' EQUITY

RM331.6million

FY2017 RM 322.0million

RM500.0 million these past three years. Our share capital has increased from 80.0 million ordinary shares in FY2007 to 401.1 million ordinary shares in FY2018 resulting from the following corporate exercises:

FY2008

- Bonus issue of 20.0 million new ordinary shares on the basis of one new ordinary share for every four existing ordinary shares.

FY2012

- Bonus issue of 50.0 million new ordinary shares on the basis of one new ordinary share for every two existing ordinary shares.



MESSAGE FROM THE CHAIRMAN (CONTINUED)



“ AS WE MOVE INTO 2019, YOUR BOARD REMAINS CAUTIOUSLY OPTIMISTIC ABOUT OUR PROSPECTS. WHILST THE GLOBAL ECONOMIC SLOWDOWN IS OF A CONCERN, THE IMPACT OF GEOPOLITICAL TURMOIL AND TRADE DISPUTES ARE ALL CONTRIBUTING TO UNCERTAINTY FOR THIS YEAR. ”

FY2014

- Bonus issue of 50.0 million new ordinary shares on the basis of one new ordinary share for every three existing ordinary shares.
- Sub-division of every one ordinary share of RM1.00 each into two new ordinary shares of RM0.50 each. Pursuant to this sub-division, 200 million ordinary shares of RM1.00 each were subdivided into 400 million ordinary shares of RM0.50 each.

FY2017

- Issuance of 0.2 million ordinary shares pursuant to the Long-Term Incentive Plan (LTIP).

FY2018

- Issuance of 0.9 million ordinary shares pursuant to the LTIP.

CORPORATE GOVERNANCE

Your Board recognises that transparency and good business practices are fundamental to running a sustainable and reliable organisation as good governance equates to good business. As such, we remain dedicated to upholding ethical conduct and implementing stringent internal controls across our operations in compliance with the appropriate governance structure and policies.

In FY2018, we continued to develop and enhance our risk framework and also undertook risk assessment and engagement activities. All these initiatives were executed as part of our efforts to ensure the sustainable, long-term growth of our businesses, to strengthen shareholder value and investor confidence.

For the year in review, our subsidiaries garnered several accolades for exhibiting operational excellence. On the Quality Health, Safety, and Environment (QHSE) front, Deleum Oilfield Services Sdn. Bhd. was acknowledged for its outstanding QHSE performance in 2018 by Enquest. Meanwhile, Deleum Primera Sdn. Bhd. was recognised for its Health, Safety, Security and Environmental (HSSE) performance by MISC Berhad in conjunction with the MISC Group Contractors HSSE Forum 2018.

The Sustainability Statement in this Annual Report underscores our ongoing efforts in this area.

OUTLOOK AND PROSPECTS

As we move into 2019, your Board is cautiously optimistic about the Group's prospects. The global economic slowdown remains a concern whilst the impact of ongoing geopolitical turmoil and trade disputes are all contributing to the year's uncertain outlook.

On the domestic front, the Malaysian oil and gas sector remains hopeful about a turnaround and is on course for a cyclical recovery in 2019. Whilst the price of Brent crude is expected to average around USD65 per barrel in 2019, oil price volatility, will most likely persist.

I am pleased to report that as of 31 March 2019, Deleum had a healthy order book of approximately RM2.3 billion and a tender book of

approximately RM140.4 million. We are actively pursuing and participating in tenders and projects in tandem with the activities planned for 2019.

As Deleum explores opportunities for synergistic growth in the near future, we will carry on reinforcing integration efforts across our core segments by tapping our financial strengths and resources. We will also continue our close collaboration with key stakeholders to provide customer-centric solutions. At the same time, we will focus on managing costs and working capital, whilst conserving free cash to retain our competitiveness. We will also look to explore new business opportunities which are synergistic with our core businesses.

As we expand into international markets such as Brunei, Indonesia and the Middle-East for the provision of specialised products and services, we aim to strengthen our foothold in these geographies. In line with our Vision Statement, we are working towards establishing Deleum as a market leader in our respective operating segments domestically and to establish a regional presence by 2020.

ACKNOWLEDGEMENTS

Our stakeholders have faithfully stood with us in these challenging times and we would like to recognise them for their worthy support. On behalf of the Board of Directors, I would like to express my sincere appreciation to

our shareholders, customers, suppliers, business partners and financiers for their unwavering support and confidence in Deleum.

I wish to extend my deep gratitude to my fellow Board members for their valuable insights, perceptive guidance and stewardship that has helped to steer us through difficult times. On behalf of the Board, I wish to record our appreciation to Datuk Chin Kwai Yoong, who resigned from the Board on 19 February 2019. We thank him for his invaluable contribution to Deleum these past 12 years and wish him every success in his endeavours. I also wish to extend a warm welcome to Mr Lee Yoke Khai who joined the Board on 15 March 2019. His profile can be found on page 13 of this Annual Report.

Last but not least, I also extend the Board's appreciation to our Group Managing Director, Senior Management and all Deleum's personnel for their diligence and untiring dedication in carrying out their duties.

We look forward to your continuing support.

Yours sincerely



DATO' IZHAB BIN MAHMUD
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

THE YEAR IN REVIEW BROUGHT WITH IT MUCH PROMISE FOR THE OIL AND GAS INDUSTRY AS THE PRICE OF BRENT CRUDE ROSE FROM USD70 PER BARREL IN JANUARY 2018 TO TOUCH USD86 PER BARREL IN EARLY OCTOBER 2018, ITS HIGHEST PRICE POINT IN FOUR YEARS. HOWEVER, THE INDUSTRY'S EXCITEMENT SOON WANED AS THE PRICE OF OIL BEGAN TO DECLINE, PLUNGING TO USD53 PER BARREL BY THE END OF 2018, ON THE BACK OF A SURPLUS SUPPLY OF CRUDE OIL, SLOWING MARKET DEMAND AND FLAGGING GLOBAL ECONOMIC GROWTH. AMIDST THE YEAR'S FLUCTUATING OPERATING ENVIRONMENT, BUSINESS SUSTAINABILITY CONTINUED TO BE THE CENTRAL THEME AT DELEUM.

Whilst the year in review saw activity levels within Deleum's operations beginning to pick up, particularly within the upstream sector, the ongoing downward pressure on margins continued to pose a challenge for the Group. To bolster our operations, we continued to focus our efforts on enhancing cost efficiencies, managing our working capital and preserving our free cash. At the same time, we carried on exploring downstream opportunities through our three core business segments whilst selectively expanding our international market base. As a result of us strengthening our business fundamentals, core competencies, organisational and operational structures as well as leveraging on our revitalised strategies, Deleum remained profitable for the financial year ended 31 December 2018 (FY2018).

As we continue to put in place the building blocks that are spurring us to integrate, innovate and add diversity across our businesses, we remain confident of Deleum's ability to deliver long-term, sustainable growth.

OUR BUSINESS AND STRATEGY

Business Overview

Deleum Berhad is an investment holding company with a focus on business activities within the upstream oil and gas sector, particularly the exploration and production fronts. With 37 years of operational experience to its name, Deleum has emerged as a key integrated service provider, which through its subsidiaries, provides a variety of specialised products and support services to oil and gas players.

Deleum remains committed to its goal of providing sustainable growth and enhancing stakeholders' value. To enhance business sustainability, we continue to strengthen our capabilities across our three core business segments comprising the Power and Machinery, Oilfield Services and Integrated Corrosion Solution segments. With these segments remaining resilient, we continue to turn in a steadfast performance and create value for our stakeholders despite the difficult oil and gas operating environment.

To grow our business in a sustainable manner, we continue to emphasise our pursuit of downstream business activities. A dedicated team has been assigned to this area to reach potential downstream targets. Our downstream activities to date include integrated tank maintenance as well



as pipeline and heat exchanger activities where we are leveraging on niche technologies such as rust and paint removal technology and specialty cleaning chemicals. At the same time, we are targeting potential energy-related business opportunities within the non-oil and gas industries.

Our entry into the downstream sector is congruent with our efforts to position ourselves as an integrated service provider for both upstream and downstream activities. We have currently identified and are working in different focus areas which will further contribute to our revenue growth in 2019 and beyond. We will continue to establish strategic and synergistic alliances, primarily in the oil and gas industry, which will help us to explore new avenues for

revenue. With this goal in mind, we will also continue to ramp up our activities surrounding new markets and growth areas on both a local and regional scale.

The last few years have seen our Power and Machinery segment providing project management and installation services for gas turbines retrofits and refurbishments regionally (in India, Myanmar, and the Philippines). Our field service representatives have been offering maintenance and troubleshooting services to gas turbine installations within the region. We intend to continue exploring and leveraging on opportunities within these areas.

“ AS WE CONTINUE TO PUT IN PLACE THE BUILDING BLOCKS THAT ARE SPURRING US TO INTEGRATE, INNOVATE AND ADD DIVERSITY ACROSS OUR BUSINESSES, WE REMAIN CONFIDENT OF DELEUM’S ABILITY TO DELIVER LONG-TERM, SUSTAINABLE GROWTH. ”

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



Meanwhile, our self-operated businesses in the Oilfield Services and Integrated Corrosion Solution segments continue to focus their efforts on expanding their footprints into neighbouring countries, namely Indonesia, Singapore, Brunei and the Middle East by tapping strategic partnerships and sound strategies.

Where we had previously cut back on exploring international markets due to the uncertainties in the oil and gas industry, we are today once again ramping up our efforts but in a more calculated manner. We will leverage on solid market insights as well as strong relationships with our business partners and customers to ensure a good measure of success in our endeavours.

Strategic Overview

In line with our goal of ensuring the sustainable growth of our business, especially in light of the new market realities, Deleum continues to be guided by a one plus three-year Strategic Plan that emphasises Six Key Focus Areas (KFAs). Designed to streamline, strengthen and enhance our business sustainability, these internal and external KFAs are spelt out as follows:

Internal KFAs

Cost Management & Cash Management

This calls for us to closely monitor and review operational expenses with the purpose of maximising productivity and improving efficiency. The efficient supervision of working

capital and cash flows to meet scheduled commitments is also a key aspect here. Cost Management and Cash Management will continue to be a priority for the Group even as we continue to emphasise business sustainability. The measures we have implemented to date has helped us to manage our cost more efficiently and we will continue to explore more cost effective practices.

Human Capital Development

As a Group, we believe that our success is directly related to the success of our employees as individuals. To this end, we will continue to focus on inculcating our employees in the areas of multitasking and creativity, our culture and our organisational behaviour. We also work on strengthening our people's skill sets and competencies through effective

**EXTERNAL
KEY FOCUS AREA**

DOWNSTREAM BUSINESS

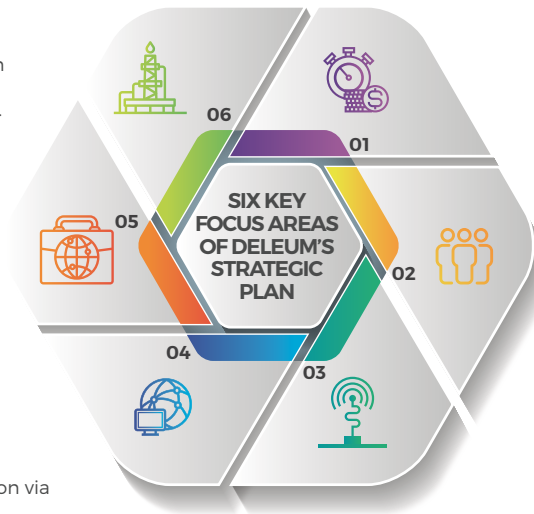
- Leverage on integration between the three core business segments and undertake continuous engagement activities targeting customers within the oil and gas industry.
- Penetration into potential downstream businesses which include petrochemical, refining and gas plants.

INTERNATIONAL BUSINESS

- Expand market base internationally via potential projects.
- Leverage on contracts secured overseas.
- Expand regional markets.

TECHNOLOGY

- Explore technology-based diversification via principals, partnerships, technical collaborations, or mergers and acquisitions.
- Identify technologies that will strengthen our value proposition as an integrated solutions provider and ability to embark on larger scale projects.



**INTERNAL
KEY FOCUS AREA**

COST MANAGEMENT AND CASH MANAGEMENT

- Close monitoring and reviewing of operational expenses.
- Maximise productivity and improve efficiency.
- Close monitoring of working capital and cash flows to meet scheduled commitments.

HUMAN CAPITAL DEVELOPMENT

- Focus on human capital development in terms of leadership competencies and succession planning.
- Focus on people management in the areas of multitasking, creativity, evolving mindsets, culture and behaviour within the organisation.

INTERNAL AND EXTERNAL COMMUNICATION

- Close monitoring and reviewing of operational expenses.
- Maximise productivity and improve efficiency.
- Close monitoring of working capital and cash flows to meet scheduled commitments.

training and development activities to ensure our workforce remains relevant to the market. At the same time, we will continue to emphasise development in terms of leadership competencies and succession planning. Plans are underway to strengthen our talent management framework.

Internal and External Engagement

Recognising that clear communication across the board are essential for smooth operations, the Group will ensure seamless alignment between our business units through cultivating an effective working culture and strengthening inter-business unit engagements. We will also continue to build up customer and business partner relationships, whilst ensuring successful delivery, development and support of day-to-

day business activities. In line with our efforts to be a one-stop integrated service provider, we will continue to undertake measures to centralise our expertise and resources.

External KFAs

Downstream

On the Downstream business front, we will continue to leverage on integration between the three core business segments and undertake engagement activities targeting oil and gas customers. Our ventures into potential downstream businesses include the petrochemical, refining and gas plant segments. Where in FY2018 we held back on our pursuit of downstream businesses in view of the challenging operating environment, moving into 2019, we will adopt a more assertive approach

when promoting our businesses and exploring opportunities, predominantly related to integrated corrosion solutions, specialty chemicals, as well as maintenance, repair and overhaul (MRO) services.

International Business

The Group's vision is to become "the market leader in our operating segments domestically and to establish a regional presence by 2020." Our efforts to expand our market base internationally involves exploring potential new projects and leveraging on existing contracts. Where 2018 saw us establishing valuable connections and laying down the foundations for future regional expansion, 2019 will see us setting up an office in Indonesia under the Integrated Corrosion Solution segment.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



We will also increase our focus and activity levels internationally in the Oilfield Services segment, mainly in the well completion and specialty chemicals activities. Today we are actively pursuing various opportunities in Southeast Asia and the Middle East. In the Middle East, we are identifying and working with potential partners in the United Arab Emirates, Qatar and Oman whilst we are conducting a pilot test in Saudi Arabia.

Technology

We will continue to explore technology-based diversifications through principals, partnerships, technical collaborations or mergers and acquisitions. Through these efforts, we aim to identify technologies that will strengthen our value proposition as a comprehensive solutions provider.

FINANCIAL PERFORMANCE IN FY2018

For FY2018, Deleum generated revenue of RM623.7 million and profit after tax and non-controlling interest (PATANCI) of RM27.2 million. PATANCI dropped 15.8% from RM32.3 million in the preceding year despite a 16.8% rise in revenue from RM534.1 million previously.

The year saw the Power and Machinery segment registering lower segment results of RM36.0 million (FY2017: RM39.1 million) and revenue of RM360.2 million (FY2017: RM364.4 million). The Oilfield Services segment delivered slightly lower segment results of RM14.4 million (FY2017: RM14.5 million) on the back of higher revenue of RM124.8 million (FY2017: 119.4 million). The segment results for the Integrated Corrosion Solution

segment dropped significantly in FY2018 by 258.5% or RM10.6 million to a loss of RM6.5 million (FY2017: profit of RM4.1 million) despite higher revenue of RM138.2 million (FY2017: RM49.7 million).

The Power and Machinery segment continued to be the biggest revenue contributor in FY2018. The Group will continue to undertake concerted efforts to strengthen the revenue contributions from the Oilfield Services and Integrated Corrosion Solution businesses.

Liquidity and Capital Resources

The Group's cash and bank balances decreased to RM134.9 million as at 31 December 2018 from RM141.4 million of the preceding year. The decrease of RM6.5 million was mainly attributed to net repayment on borrowings and dividend payouts during the year offset by net cash generated from operating activities.

Gearing Ratio

The gearing ratio of the Group as at 31 December 2018 improved to 0.19 times as compared to 0.24 times as at 31 December 2017. The gearing ratio is calculated as total debt (RM63.2 million) divided by total shareholders' equity (RM331.6 million). The drop in gearing ratio was attributed to the scheduled repayment of borrowings made during the financial year.



Capital Commitments and Funding Sources

The Group’s total capital commitments authorised for investment, property, plant and equipment amounted to RM72.5 million as at 31 December 2018, of which RM19.1 million of capital expenditure has been contracted for but not incurred. The remaining capital commitment of RM53.4 million relates to capital expenditure that has been authorised but not contracted for of RM52.6 million, and share of capital commitment of a joint venture of RM0.8 million. The capital commitment that has been authorised and contracted for relates to that for general contract requirements, enhancement to our workshop facilities, and a long-term investment, in addition to the purchase of other equipment to prepare the Group for its current operations and future expansions. Details of the borrowings and maturity profile of such borrowings are disclosed accordingly in Note 26 to the Financial Statements for FY2018.

Contingent Liabilities

The Group has provided guarantees amounting to RM38.1 million to third parties in respect of operating requirements, utilities and maintenance contracts.

Capital Management

The Group’s capital management activities revolve around being able to achieve a capital structure that offers high shareholder value whilst also ensuring the sustainability of the Group. To this end, the issue of new shares or debts, quantum of dividends, as well as the return of capital to shareholders may be adjusted to maintain an optimal capital structure.

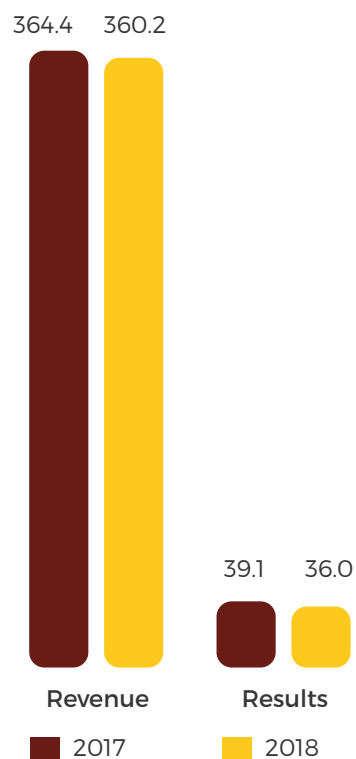
PERFORMANCE BY BUSINESS SEGMENTS

Power and Machinery

Segment Offering

- Provision of gas turbine packages, aftersales support and services
- Supply, installation, repair and maintenance of valves and flow regulators
- Maintenance services for motors, generators and transformers

Performance Highlights (RM Million)

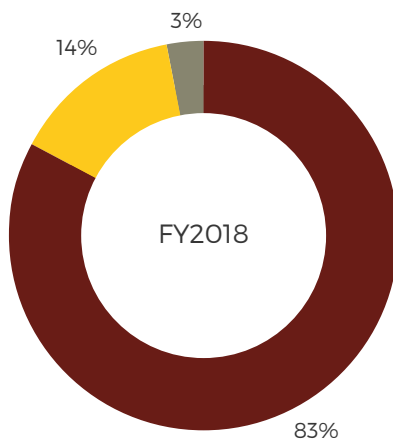


In FY2018, the segment results for the Power and Machinery segment fell by 7.9% or RM3.1 million to RM36.0 million from RM39.1 million previously as a result of unfavourable sales composition. Lower segment results were mitigated by a foreign exchange loss of RM0.4 million in FY2018 as compared to a loss of RM5.5 million recorded in the previous year.

The segment’s revenue fell due to a lower number of work orders for turbine parts, repairs and maintenance services and valve and flow regulator activities. This was offset by strong orders for exchange engines and retrofit projects as well as commission income earned on oil and gas projects.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Operational Highlights



- Provision of gas turbines packages, aftersales support and services
- Supply, installation, repair and maintenance of valves and flow regulators
- Motors, generators and transformers maintenance services

The Power and Machinery segment worked to expand its product and service offering through collaborations with its existing and new principals. The team also continued to work closely with the Group's existing customers to provide innovative solutions to optimise the efficiency of their equipment. These measures helped the segment offset the loss of revenue due to customers cutting back on their spending on new projects and aftermarket activities. All in all, the decrease in market demand continued to have a dampening effect on the sales of new gas turbines as well as potential earnings from scheduled maintenance, retrofit projects and other after-sales activities.

In FY2018, Deleum Rotary Services Sdn. Bhd. (DRSSB), which is an Original Equipment Manufacturer (OEM) Authorised Service Workshop for several renowned motors and generators, maintained its spread of offerings. DRSSB continues to provide inter-functional support especially in the area of MRO for motors and generators sets. The company has since expanded its services to include pumps and impeller services and will be exploring further opportunities in the non-oil and gas, power and water sectors.

The segment's control and safety valves business under Penaga Dresser Sdn. Bhd. (PDSB), bolstered its businesses in both East and Peninsular Malaysia over the course of the year. The company's service facility located in Miri - the Sabah-Sarawak Engineering Centre - supported PDSB's activities and enhanced operational efficiencies and after-sales services in East Malaysia. The centre will continue to execute valve repairs, overhauls and service turnaround activities for customers located in Sarawak, Labuan and Sabah. In Peninsular Malaysia, PDSB set up a new workshop at Pengerang, Johor to effectively and efficiently serve PETRONAS' Refinery and Petrochemical Integrated Development (RAPID) customers. This workshop, named as the Johor Engineering Centre (JEC), is expected to be fully operational by the second quarter of 2019.



Looking Ahead

With good insights into how to navigate the turbulent markets it plays in, the Power and Machinery segment will continue to reinforce its positioning as a regional service provider. Plans for geographic expansion are underway which will see the segment exploring opportunities to provide services across the region especially by way of retrofit work, project management and field services. On the technical front, the Power and Machinery segment will continue to enhance its capabilities via consolidation and cross-training exercises. This will enable the segment to cater to a broader range of technical requirements as well as support its principals' local and regional expansion plans.



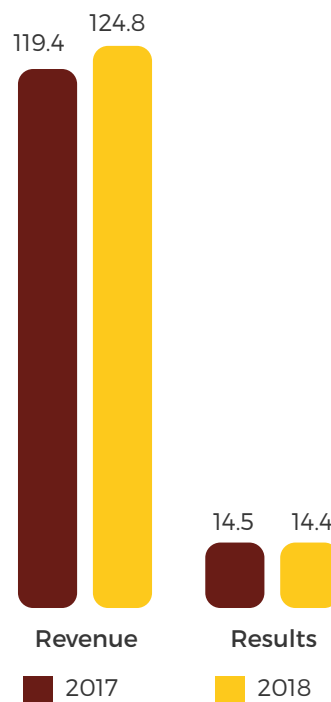
Additionally, the segment is looking to expand its scope and offerings by way of overhaul, maintenance and technical services as well as its valve business through technical collaboration with existing and new principals and partners. The respective businesses within the segment too will set their sights on exploring new markets and opportunities in a more aggressive manner.

Oilfield Services

Segment Offering

- Slickline equipment and services (Slickline)
- Asset Integrated Solutions (A.I.S.)
- Specialty Chemical and Well Stimulation (SCWS)

Performance Highlights (RM Million)



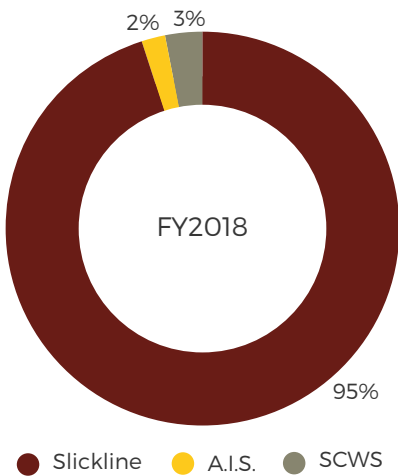
The Oilfield Services segment saw its FY2018 segment results marginally fall by 0.7% or RM0.1 million to RM14.4 million from RM14.5 million previously. This was attributable to softer pricing power, mitigated by a reduction in finance costs due to the paring down of borrowings.

The segment's revenue increased from RM119.4 million to RM124.8 million mainly as a result of stronger revenue contribution from slickline activities.

This, however, was offset by lower work orders for well intervention and enhancement services as well as oilfield chemicals.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Operational Highlights



The Oilfield Services segment which is helmed by Deleum Oilfield Services Sdn. Bhd. (DOSSB) focuses primarily on upstream activities in the sub-surface sector. The segment comprises three main business units, namely the Slickline Services, Asset Integrated Solutions (A.I.S.), and Specialty Chemical and Well Stimulation (SCWS) units.

The Slickline Services Unit, the segment’s core business continues to play its role as the largest operator of slickline packages in Malaysia. Supplying more than 49% of Malaysia’s total requirements in FY2018, the unit provides slickline equipment and services for production and drilling operations of Production Sharing Contractors (PSCs) in Peninsular and East Malaysia. In the first half of 2018, the overall utilisation rate for maintenance callout packages in Peninsular Malaysia was 32% higher than the rate for the second half of

the year. This was in tandem with fluctuating oil prices throughout 2018.

The Oilfield Services segment remains committed to procuring new business and to scoping out new opportunities for FY2018, DOSSB retained 80% of its existing contracts and went on to add several new slickline contracts to its pool. These included existing slickline contracts for PETRONAS Carigali Sdn. Bhd., Exxonmobil Exploration Production Inc (EMEPMI) and Sapura Exploration & Production. Amongst the new contracts was one secured from Sarawak Shell Berhad (SSB)/ Sabah Shell Petroleum Company Limited (SSPC) in August 2018 for

the Provision of Slickline Equipment and Services for three years with an optional two-year extension. In the offing are plans to establish a strategic partnership with a gas lift valve manufacturer to provide self-operated supply and service offerings.

The A.I.S. unit is an integrated services solutions provider that undertakes cased hole logging, well intervention services and sub-surface engineering activities. It offers a varied range of products, services and customised solutions through the innovative and viable integration of resources and capabilities within and beyond the Oilfield Services segment. The





unit aims to be a provider of niche solutions in the asset lifecycle by consolidating and integrating the products and services via slickline conveyance.

For the year in review, the A.I.S. unit continued to accord customers comprehensive, high quality and cost-effective solutions. As a forward-thinking solutions provider, the unit recognises that its tools and expertise are integral to its success and as such continues to develop its in-house expertise whilst strategically collaborating with selected service providers to ensure it is able to provide leading edge solutions to its customers. On the technology front, the A.I.S. unit has been working towards strengthening its logging interpretation and data processing offering by adding new software and log interpretation tools. Targeted for completion by 2019, these enhancements will enable the team to cater to in-house interpretation requirements.

The A.I.S. unit has helped to bolster the strength of the Oilfield Services by addressing specific customer needs ranging from simple maintenance services to more complex design and management projects. The unit continues to explore opportunities for strategic partnerships with technology entities that will help enhance its competencies as well as service and product offerings. In FY2018, the A.I.S. unit's well intervention and sub-surface engineering business continued to upgrade its services by embedding relevant new technologies. Despite the reduction in customer budgets, the unit was successful in marketing new customised technology products and services.

The SCWS unit which is responsible for the provision of specialty chemical and well stimulation services, offers integrated chemical solutions, flow assurance, integrated pipeline cleaning, tank cleaning and pumping services. In 2018, the unit not only maintained its ISO 9001 and ISO 14001 certification, it also re-designed

its existing products and services to optimise their cost and improve their effectiveness. The changes, which included improvising the local content in terms of manpower and local blending, made the unit's spread of offerings more cost efficient and helped strengthen its market position. To expand its business tool portfolio, SCWS introduced more conveyance systems such as pumping units, mini-coils and nitrogen packages. The SCWS unit also fine-tuned its international marketing strategy and collaborated with local partners and agents to provide customers a better range of offerings. This business will build upon these to boost revenue from 2019 onwards.

Looking Ahead

Moving forward, Deleum's Oilfield Services segment will be looking to explore more opportunities in the upstream sectors, drive research activities and forge new partnerships with multinational companies as it

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

explores international markets. The segment will continue to leverage on its solid services and delivery track record, good health and safety practices, competent crew members, and the availability of a large number of slickline packages for deployment.

The segment will also continue to reinforce its position as the market leader for slickline services in Malaysia. Currently, the segment maintains 43% of its domestic market contracts for slickline services in comparison to 49% in FY2018. The lower number can be attributed to the tenure of several contracts having ended in 2018, of which some are still pending awards.

The A.I.S. and SCWS units are set for expansion in the year 2019. The A.I.S team is looking to increase its upstream oil and gas services with new product and service lines under the umbrella of its cased hole logging services business. Amongst the products and services scheduled in the pipeline are downhole camera services, the MIT 40, leak detection tools and various new logging and intervention tools. The unit is also actively pursuing and forging technical partnerships with multinational technology establishments. The SCWS unit will also continue to pursue business opportunities abroad in Indonesia, Brunei, Thailand and the Middle East.

During the year, the segment has received an order to carry out a field trial for slickline services in Saudi Arabia to be carried out in 2019. This trial is crucial for the segment's penetration into the market going forward. In addition, the segment has

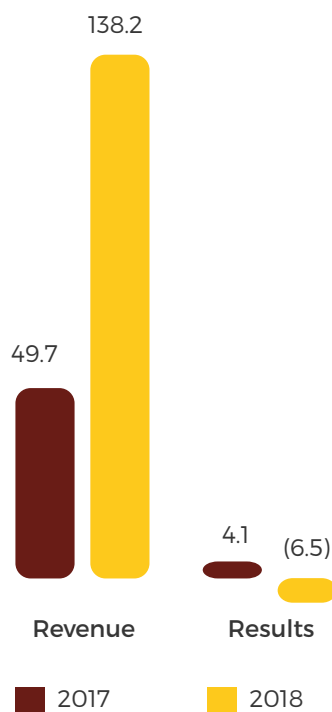
also engaged with a well established oil and gas partner in Abu Dhabi and the collaboration will support the segment entering the market in the region of the United Arab Emirates.

Integrated Corrosion Solutions

Segment Offering

- Provision of low dust, environmentally friendly blasting technology for surface preparation
- Coating removal by controlled induction heating
- Passive fire protection services
- Integrated maintenance, construction and modification services
- Slickbar products and combat services for oil spills

Performance Highlights (RM Million)



The Integrated Corrosion Solution segment recorded higher revenue of RM138.2 million in FY2018, a 178.1% or RM88.5 million increase in comparison to the preceding year. This was due to the secured maintenance, construction and modification (MCM) services contract but was offset by the reduced contribution from the Pan Malaysia blasting contract which expired in November 2017. Despite the higher revenue, the segment incurred a pre-tax loss of RM6.5 million in comparison to the corresponding year due to the costs involved in maintaining the Sponge-Jet blasting business in anticipation of securing fresh contracts from bids. Two new contracts for Alternative Blasting and Painting and Riser Corrosion Prevention System and Maintenance were awarded in the second half of FY2018 by PETRONAS Carigali Sdn. Bhd.

Operational Highlights

The Group's Integrated Corrosion Solution segment comes under the ambit of Deleum Primera Sdn Bhd (DPSB) which continues to penetrate new markets, retain existing customers, deliver satisfactory customer experiences and reinforce its competitive edge within the industry. DPSB also continues to strengthen its foothold by cross-selling the segment's technology-based products and ensuring the delivery of timely and quality services.

In FY2018, DPSB made significant progress by way of the MCM contract for PETRONAS Carigali Sdn Bhd. The MCM contract involves top side

maintenance, facility improvement programme, and the supply of marine spread.

DPSB is committed to providing a suite of cost-efficient and environmentally-friendly solutions that promote the operational safety of its customers. The company is the sole-distributor for Sponge-jet technology in Malaysia, Indonesia, Singapore, Brunei, Turkmenistan and Iraq. The contract for the provision of alternative blasting and painting by PETRONAS Carigali Sdn. Bhd. will see the company servicing the Peninsular Malaysia Assets, Sabah Assets, and Sarawak Assets (Sarawak Oil and Sarawak Gas) regions. It is valid for three years with an option to extend for one year.

In Indonesia, DPSB successfully completed two projects for Sponge-Jet blasting and painting activities.

Another one of the segment's green offerings is its rust and paint removal (RPR) technology maintenance services. DPSB is the sole distributor for the cost-effective and environmentally friendly green technology in Malaysia, Indonesia, Singapore and Brunei. In 2018, the RPR service was utilised for blasting and painting activities on helidecks and platforms in both Malaysia and Indonesia by customers looking to tap into green technology.

To further expand its servicing capabilities, DPSB has entered into a collaboration with Pinovo, an international world class supplier of

Health, Safety and Environmental leading, innovative and patented technology for the treatment, maintenance and inspection of industrial surfaces. DPSB plans to utilise Pinovo's vacuum blasting technology for surface preparation, depending on customers' preference. Today, DPSB is also playing the role of a distributor and promoter of Slickbar products and oil spill combat services.

In the year 2018, DPSB also received a Certificate Of Appreciation from PETRONAS in recognition of its participation in PETRONAS CONTRACTOR HSSE Mentorship program.

Looking Ahead

As Deleum moves into the new year, the Integrated Corrosion Solution segment will continue to strengthen its brand identity as an environmentally and economically friendly as well as sustainable solutions provider for the oil and gas industry. The segment is also looking forward to participating in more plant rejuvenation and revamp projects.

To increase productivity and improve efficiency which will lead to further cost savings for 2019, the segment will work on restructuring and re-engineering its processes. The segment remains committed to executing and completing work orders and projects without compromising on HSE measures whilst maintaining its profitability.

On the international front, the segment plans to pursue its expansion plans more aggressively. DPSB is currently in the process of laying down foundations to roll out its operations overseas. For the downstream ventures, DPSB managed to secure a project for the provision of blasting and painting services for a reel refurbishment project.

Joint Venture

Turboservices Overhaul Sdn. Bhd., Deleum's joint venture with Solar Turbines International Company (80.55%:19.45%), continues to enhance its ability to repair and overhaul a wide range of Solar Turbines' equipment in Malaysia.

Associate Companies



The Group has two associate companies, namely Malaysian Mud and Chemicals Sdn. Bhd. (2MC) and Cambodia Utilities Pte. Ltd. (CUPL). For FY2018, share of results of associates were higher by RM2.7 million contributed by 2MC. CUPL, on the other hand, remains dormant since the expiry of its build, operate and transfer agreement with Electricite Du Cambodge, Cambodia on 8 May 2015. The Group will continue to equity account for the results of CUPL until it ceases to be an associate.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)


BUSINESS RISKS

As per Bursa Malaysia Securities Berhad’s disclosure requirements, we are highlighting the key anticipated or known risks that we are exposed to that may have a material effect on Deleum’s operations, performance, financial condition and liquidity. We also outline the plans or strategies to mitigate these risks.

KEY RISK	DESCRIPTION	MITIGATION MEASURES
 <p>Operational</p>	<p>Operational risk relates to the risk of loss as a consequence of inadequate or ineffective processes, people and systems impacting the Group’s ability to meet its business objectives.</p> <p>This risk has heightened following the ongoing fluctuations in oil prices. To date, all Deleum’s key customers have embarked on operational efficiency programmes and reigned in their capital expenditure..</p>	<ul style="list-style-type: none"> • The Group has widened integration across its business segments to offer customers holistic solutions as well as new technological products and services in collaboration with and support from partners and suppliers. • We have implemented strict cost discipline measures including cost-effective processes to manage operational risk and prevent financial losses or damages to the Group’s reputation. • We have also increased measures to improve operational efficiency and productivity.
 <p>Financial</p>	<p>Financial risk involves the risk of market volatilities affecting exchange rates and interest rates which may in turn affect the value of our financial assets and liabilities. Among the key financial risks is currency volatility as a major portion of the Group’s revenue and costs are conducted in foreign currencies, primarily the US Dollar (USD).</p>	<ul style="list-style-type: none"> • Our management of currency fluctuations and monitoring of foreign currency-denominated business transactions are in line with the Board-authorized hedging policy and procedures. • We undertake close monitoring of the FOREX market through several activities including vetting through economic data and engaging with our panel bankers for views and opinions on the outlook for FOREX. • We ensure increased use of the available hedging tools to manage currency volatility. • The Group has obtained Ringgit Malaysia credit facilities (e.g. term loans, import credits and revolving credit) from reputable financial institutions rates which include agreed upon margins.

KEY RISK	DESCRIPTION	MITIGATION MEASURES
 <p data-bbox="265 868 332 900">Legal</p>	<p data-bbox="436 597 961 715">Legal risk is the risk of financial loss and reputation arising from a failure to comply with contractual terms or instances where the Group's interests are not properly protected.</p>	<ul data-bbox="981 597 1495 1066" style="list-style-type: none"> • The Group Legal Department and the business units maintain a close partnership in mitigating potential legal risks. The department reviews contractual terms to identify and highlight potential legal issues that may arise. • Management consults a Board member with legal expertise and experience on a needs basis; and where appropriate, external legal advice is sought, especially in specialised areas. • In terms of contractual compliance, the respective business units develop the contractual compliance framework for ongoing review and management of contracts.
 <p data-bbox="265 1351 332 1383">Safety</p>	<p data-bbox="436 1140 961 1283">The safety of people and assets is of utmost priority in the oil and gas industry and any adverse incident could result in significant financial loss and damage to the Group's reputation.</p>	<ul data-bbox="981 1140 1495 1432" style="list-style-type: none"> • We have established comprehensive safety policies and processes that clearly set out the safety measures which must be strictly adhered to by our employees and contractors. • We conduct periodic audits of our health and safety procedures and practices; implement drills; as well as roll out continuous health and safety awareness initiatives, meetings, reviews and programmes.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

KEY RISK	DESCRIPTION	MITIGATION MEASURES
 <p>Human Capital</p>	<p>Human Capital risk commonly stems from dealing with challenges in attracting talent, managing turnover and competency gaps. Human capital risk is the risk of execution failure caused by not having the right personnel. The oil and gas industry demands that the Group uses highly skilled and technically competent personnel.</p>	<ul style="list-style-type: none"> • The Group has in place comprehensive learning and development programmes to equip our people with the relevant knowledge and skills demanded by the industry. • Leaders assess the performance of their subordinates through an annual performance review exercise whilst addressing learning gaps through the establishment of our in-house Talent Management Framework. • Leadership capabilities are looked into, particularly in the area of bridging competency gaps between leadership tiers, as well as to equip leaders with the proper managerial skills so as to mitigate employee turnover. Leadership gaps are also continuously assessed to ensure we keep up with the ever-evolving people management landscape. • In 2018, Deleum’s Senior Management Team attended a customised valued-based Leadership Development Programme which emphasised the key values of leadership encompassing courage, compassion, integrity, responsibility, humility, honesty, loyalty and fairness. • The Group is consistently reviewing its position in terms of remuneration and benefits to ensure its efforts are compatible with the rest of the industry.

MOVING FORWARD

According to the International Monetary Fund's World Economic Outlook Update, January 2019, the economic global expansion is expected to grow at only 3.5% in 2019 (2018e: 3.7%). The slower growth is expected to come on the back of the effects of tariff increases in the United States and China last year, as well as the softer global growth momentum registered in second half FY2018 due to factors such as weakening financial market sentiment and escalating trade tensions.

Having a highly open economy, Malaysia is expected to be affected by these developments. Nevertheless, Malaysia will face these challenges with its diversified economy, a resilient external position and a strong financial system. According to Bank Negara Malaysia, the Malaysian economy is expected to have a steady growth between 4.3% to 4.8% in 2019 (2018: 4.7%).

As Deleum embraces a new financial year, we do so with a cautious optimism given the challenging global and domestic outlooks. The volatility of the past few years has made us accustomed to operating in difficult environment and have

served to strengthen our positioning as a long-term industry player. We are fully committed to remaining resilient and profitable even as we focus on our existing core businesses whilst intensifying our focus on other growth opportunities.

Deleum will continue to adopt a strategic positioning in its approach to both its sustainability and expansion initiatives. As such, we will continue to be guided by our Six Key Focus Areas as we focus on business sustainability, maximise productivity and assess potential opportunities for growth. The Group will continue to emphasise the themes of Consolidation, Innovation and Diversification even as we broaden our outlook to include growth and expansion in every aspect of our operations.

Having laid the groundwork for diversification in 2018, we will continue to seek out new opportunities and partnerships which will help to reinforce our positioning as a one-stop integrated service provider in both the upstream and downstream segments.

In terms of international opportunities, we will continue to establish ties with other service providers as part of our efforts to add value and

expand our footprint into selective international markets. Furthermore, we will continue to explore the latest technology and best practices to ensure that all our segments are operating efficiently and sustainably.

Our stable and resilient performance over the past few years have proven that our strategic framework is a solid base for the Group to build upon. As we move forward, we will continue to build on our successes to date through a commitment to upholding good governance and business ethics across our core businesses. As always, we remain committed to our goal of delivering sustainable and successful results for long-term.

SUSTAINABILITY STATEMENT

MESSAGE FROM THE GROUP MANAGING DIRECTOR

ON BEHALF OF THE MANAGEMENT OF DELEUM BERHAD, I AM PLEASED TO PRESENT OUR 2018 SUSTAINABILITY STATEMENT WHICH HIGHLIGHTS WHAT BUSINESS SUSTAINABILITY MEANS TO DELEUM AND DEMONSTRATES HOW WE REMAIN COMMITTED TO BALANCING OUT OUR ECONOMIC AMBITIONS WITH ENVIRONMENTAL AND SOCIAL CONSIDERATIONS. IT ALSO PORTRAYS THE GROUP'S COMMITMENT TO ELEVATING COMMUNITIES AND TO PROTECTING OUR ENVIRONMENT WHILST CARRYING OUT BUSINESS IN A TRANSPARENT, EFFICIENT AND RESPONSIBLE MANNER.



“

**WE INTEND TO
CONTINUE
DEVELOPING AND IMPROVING
OUR DISCLOSURE BY PROVIDING
COMPREHENSIVE INFORMATION ON THE
SCOPE OF OUR REPORTING.** ”

Investing in our people is important to us as they are Deleum's greatest asset and integral to our sustainable growth. The Group cultivates a working environment that elevates leadership capabilities as well as which encourages employees to be creative and innovative. We will continue to exemplify our shared values in every aspect of our working culture by upholding integrity, ensuring compliance, and providing opportunities for our employees' career progression.

Challenging times impacting the oil and gas industry has resulted in a competitive environment for all players across the oil and gas supply chain. In line with the Group's mission to provide sustainable growth and enhance stakeholders' value, business sustainability remains one of the key drivers for Deleum as we tackle the challenges within our industry and adapt to the new market realities.

We are committed to continuously strengthening our sustainability efforts by embedding positive economic, environmental and social elements throughout our operations and amongst our stakeholders. Moving forward, Deleum will work hard to leverage on the Group's synergies, strengths and resources to integrate sustainability into our everyday operations.

This Statement serves as a living document for us as we provide updates on our sustainability journey over the long-term. We call upon all our stakeholders to lend us their unwavering support as we work to take our sustainability endeavours up several notches.



NAN YUSRI BIN NAN RAHIMY
Group Managing Director

ABOUT THIS STATEMENT

This Sustainability Statement aims to communicate the steady progress that Deleum Berhad (Deleum or the Group) has been making in relation to our business sustainability endeavours. Developed in accordance with Bursa Malaysia Securities Berhad's (Bursa Securities) Main Market Listing Requirements, our 2018 Sustainability Statement highlight our efforts to balance out our steadfast economic progress with conscientious environmental and social considerations. We intend to continue developing and improving our disclosure by providing comprehensive information on the scope of our reporting. This Statement has been reviewed and approved by our Board of Directors.

REPORTING SCOPE AND BOUNDARY

We report on the Group's sustainability-related activities and performance between 1 January 2018 and 31 December 2018 (FY2018) which are limited to our operations in Malaysia over which Deleum has controlling interests as well as a joint venture entity.

SUSTAINABILITY STATEMENT (CONTINUED)

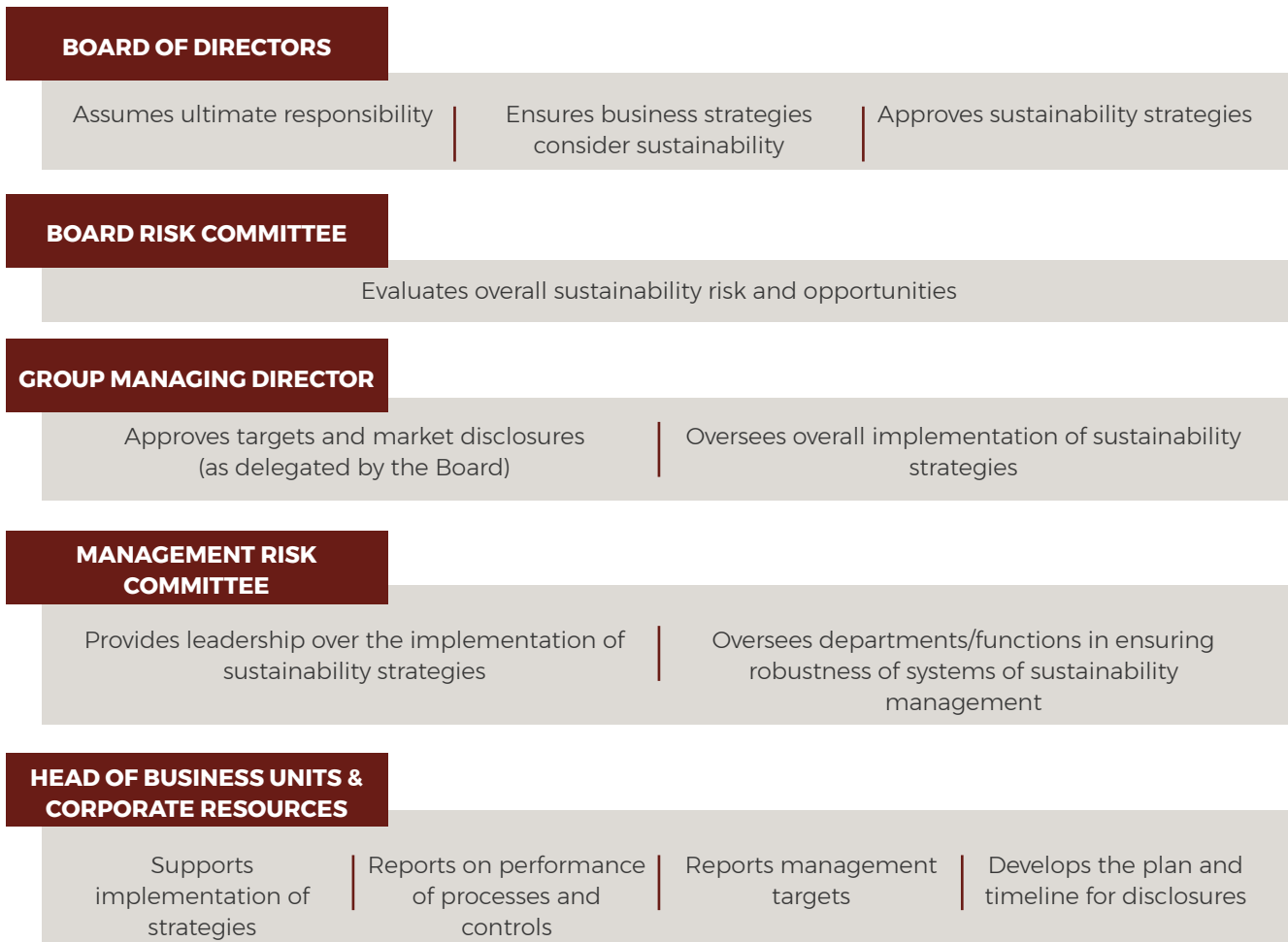
SUSTAINABILITY GOVERNANCE AND MANAGEMENT

We recognise how integral sustainability is to the continuity of our business, complementing our agenda for expansion and growth whilst delivering long-term value to our stakeholders. To this end, this year, we have formalised our sustainability governance structure to serve as the central channel through which we integrate sustainability strategies into our business.

As reflected in our sustainability governance structure, our sustainability agenda is spearheaded by the highest level of management to ensure the achievement of

our sustainability goals through actions taken at both management and operational levels. In general, our Board Risk Committee (BRC) evaluates both risks and opportunities in relation to our material sustainability matters, whilst our Management Risk Committee (MRC) provides leadership oversight over the implementation of sustainability strategies, taking into consideration input from the BRC. To ensure the quality and accuracy of our reporting, our Heads of Business Units and Corporate Resources monitor processes and reports on sustainability performance, where relevant. The roles and responsibilities of our sustainability governing bodies are illustrated below:

DELEUM'S SUSTAINABILITY GOVERNANCE STRUCTURE



STAKEHOLDER ENGAGEMENT

Our stakeholders are parties affecting, or who are affected by our actions, objectives or policies. We are continually gathering feedback on our stakeholders' interests and concerns about matters which may affect our ability to create and sustain value. This process allows us to better understand stakeholders' interests and concerns, and gives us a basis as to how to align our actions with their changing needs and expectations.

We communicate the Group's response to our stakeholders' concerns by addressing material sustainability matters of significant priority, as follows:

Stakeholder Groups	Engagement Platforms	Frequency	Topics Discussed	Material Sustainability Matters
Customer	Meetings and engagement sessions	Ad hoc	Products and services information, performance, feedback and complaints	<ul style="list-style-type: none"> Customer engagement
	Industry conferences and networking events	Ad hoc		
	Corporate website	Ad hoc		
	Exhibitions	Ad hoc		
Employees	GMD briefings	Quarterly	Company performance	<ul style="list-style-type: none"> Sustainable business performance and business opportunities
	QHSE updates	Monthly	QHSE matters	<ul style="list-style-type: none"> Environmental management Human capital management Safety
	Meetings and engagement sessions	Ad hoc	Staff performance reviews	<ul style="list-style-type: none"> Human capital management
	Staff activities		Team building	<ul style="list-style-type: none"> Workforce wellbeing
	Intranet		Company policies and procedures	<ul style="list-style-type: none"> Good governance and best practices
Suppliers and Contractors	Meeting and engagement sessions	Frequently	Products and services information and performance	<ul style="list-style-type: none"> Procurement practices
	Joint workshops and training sessions	Frequently		
	Corporate website	Ad hoc		
Shareholders and Investors	Group analyst briefings	Quarterly	Company performance, financials and dividend payments	<ul style="list-style-type: none"> Sustainable business performance and business opportunities
	Annual Report/Annual General Meeting	Annually		
	Media interviews and press releases	Ad hoc		
	Corporate website			

SUSTAINABILITY STATEMENT (CONTINUED)

Stakeholder Groups	Engagement Platforms	Frequency	Topics Discussed	Material Sustainability Matters
Financial institutions	Meetings and engagement sessions	Ad hoc	Company performance, financials	<ul style="list-style-type: none"> Sustainable business performance and business opportunities
	Corporate website			
Local Communities	Community engagement sessions	Quarterly	Community initiatives	<ul style="list-style-type: none"> Community outreach
	Corporate social responsibility events			
	Corporate website			
Government and Regulators	Meetings and engagement sessions	Ad hoc	Corporate governance, compliance and regulations	<ul style="list-style-type: none"> Good governance and best practices
	Corporate website			
Partners and Principals	Meetings and engagement sessions	Ad hoc	Business performance, planning and other commercial matters	<ul style="list-style-type: none"> Sustainable business performance and business opportunities Customer engagement
	Joint workshops and training sessions			
	Site visits			
	Exhibitions and social activities			
	Corporate website			



**Highlight Story:
Offshore Technology Conference (OTC) Asia**

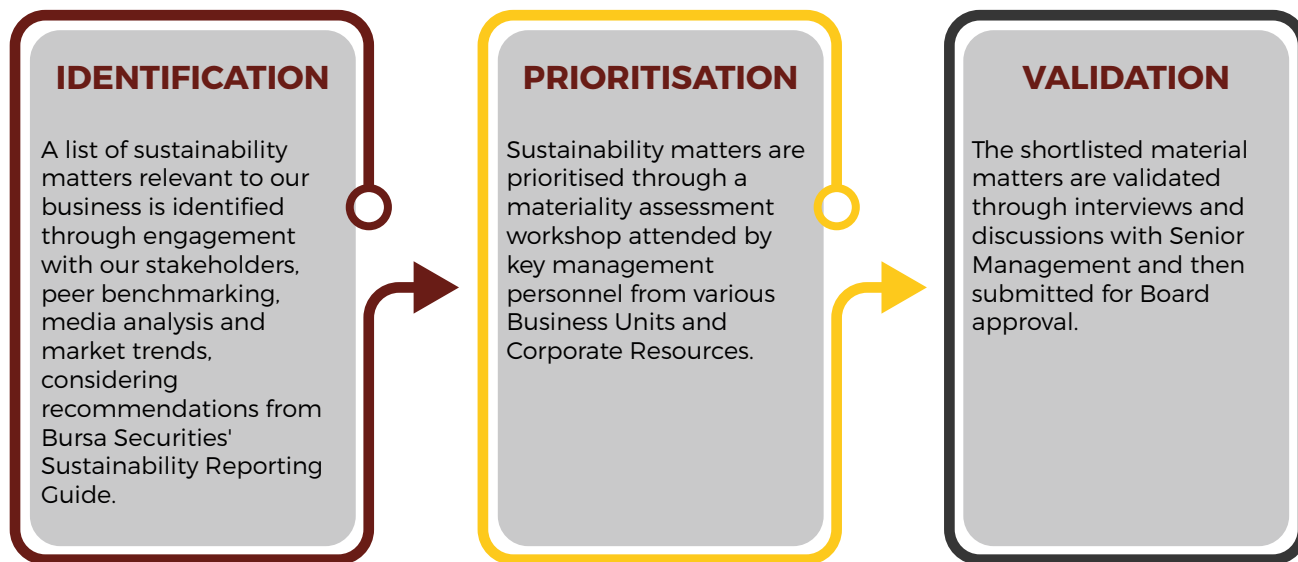
Deleum participated in the OTC Asia on 20-23 March 2018 at the Kuala Lumpur Convention Centre.

MATERIAL SUSTAINABILITY MATTERS

Material sustainability matters are matters that could substantively affect our ability to create value for our key stakeholders over the short, medium and long-terms. The identification of material sustainability matters enables us to focus our efforts and allocate resources to address high priority matters.

Our material sustainability matters are identified through a materiality assessment process, reviewed annually and updated as and when there are significant changes in our business operations or the external market environment.

Materiality Assessment Process:



In FY2017, we carried out a comprehensive materiality assessment process, including a materiality assessment workshop, as per the process highlighted above. For FY2018, the material sustainability matters were reviewed with the Senior Management, and were concluded to be still relevant to our business and stakeholders.

For FY2018, we have expanded our disclosure to include an additional material sustainability matter i.e. Customer Engagement. Our disclosure on material sustainability matters is structured according to the three Pillars of Sustainability i.e. the Economic, Environmental, and Social (EES) Pillars.

SUSTAINABILITY STATEMENT (CONTINUED)

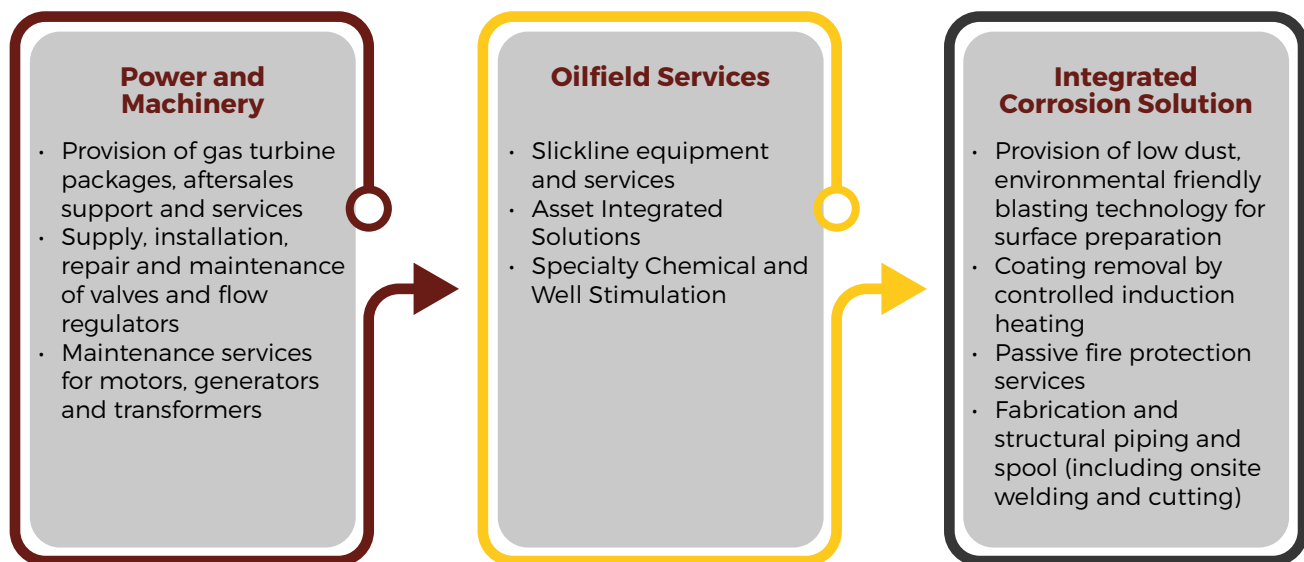
PILLARS	KEY THEMES	MATERIAL MATTERS
<p>Economic</p>  <p>Refers to the impact that our business has on the economic conditions in relation to our stakeholders</p>	<p>Economic Performance and Impact Features how economic performance is balanced out against environmental and social considerations</p> <p>Corporate Governance Defines how we manage our business in an ethical and responsible manner to maintain good governance and best practices</p>	<ul style="list-style-type: none"> · Sustainable business performance and business opportunities · Procurement practices · Customer engagement
<p>Environmental</p>  <p>Refers to the impact of our business on living and non-living natural systems, including land, air, water and environmental ecosystems</p>	<p>Environment Demonstrates our commitment towards managing our environmental impact</p>	<ul style="list-style-type: none"> · Environmental management
<p>Social</p>  <p>Refers to the impact our business has on the social system within our community</p>	<p>Managing Our People Defines how we manage our people and build a sustainable workforce</p> <p>Safety Demonstrates our commitment towards maintaining a safe working environment</p> <p>Corporate Social Responsibility Highlights our community outreach and development programmes</p>	<ul style="list-style-type: none"> · Human capital management · Workforce wellbeing · Safety · Community outreach

ECONOMIC

Key Theme: Economic Performance and Impact

The Group's economic performance is derived from our three business segments, namely Power and Machinery, Oilfield Services, and Integrated Corrosion Solution. We offer a wide range of specialised products and services to the oil and gas industry particularly in the upstream sector. A brief explanation on our key business segments is as follows:

Deleum's Business Segments



Sustainable Business Performance and Business Opportunities

Sustainable Business Performance

Sustainable business growth is essential to create sustainable value for our stakeholders. It enables us to care for our employees, allowing them to perpetuate our shared values and deliver on our corporate mission and vision, as well as enables us to play a role as a responsible corporate citizen.

Our one plus three-year Strategic Plan with its Six Key Focus Areas (as disclosed in the Management Discussion and Analysis (MD&A) section of this Annual Report), streamlines our efforts to both strengthen and sustain the growth of our business.

In FY2018, Deleum registered revenue of RM623.7 million and profit after tax and non-controlling interest (PATANCI) of RM27.2 million, attesting to the resilience of our business despite the challenges in the oil and gas industry.

As a key integrated service provider, we provide a variety of specialised products and services to oil and gas players in the upstream segment, and more recently, the downstream segment. Today, we remain well-positioned on the domestic front by offering a broader spectrum of integrated products and services to cater for diverse industry and market needs. To thrive in this challenging operating environment, we are constantly exploring new avenues to expand in the domestic market and the

SUSTAINABILITY STATEMENT (CONTINUED)

downstream oil and gas sector. The development in our international business footprint is evident through our ongoing effort to expand to Indonesia, Brunei and the Middle East, consistent with our aspiration to establish a regional presence by 2020.

We remain committed to our dividend policy of distributing a gross dividend of 50% of the Group's annual profit attributable to equity holders of the Company. This is subject to the availability of adequate distributable reserves, operational cash flows requirements, financial commitments, expansion plans and other relevant factors to sustain our existing operations and to support future business growth. For FY2018, we declared a total dividend of 3.50 sen per ordinary share representing 51.6% of our attributable earnings for the financial year.

A detailed analysis of our business performance as driven by our Strategic Plan is explained in the MD&A section of this Annual Report.

Leveraging on Digitalisation for Operational Resilience

Our business sustainability to a large extent has been due to our vigilance and adaptability to market trends. We have also embarked on digitalisation initiatives, for more efficient processes and greater environmental responsibility.

In FY2018, we digitalised our internal processes by leveraging on electronic forms (eForms) for greater operational efficiency and at the same time reduced our environmental footprint by using less paper. As at 31 December 2018, we had digitalised a total of 84 forms and we are in the midst of developing online test forms, designed by our in-house expertise.

As we wholeheartedly embrace digitalisation, we are also fortifying our cybersecurity measures by strengthening our internal processes and educating our employees. We understand the importance of implementing effective cybersecurity measures to protect our systems, networks and programmes from cyber attacks that could compromise our data integrity and privacy. To this end, our Group Information, Communication and Technology (ICT) Department uses effective and up-to-date firewall systems as well as maintains a filter report to identify cyber attacks at the first instance. We also regularly circulate awareness emails to our employees to educate them on how to take precautions against potential threats. In addition to that, we conduct town hall meetings, during which, we discuss matters such as effective cybersecurity measures. For the year in review, no cyber-breach incidents were identified.

Quality Products and Services

Our resilience amidst the year's challenging operating environment is testament to our consistent provision of quality products and services to our customers. We uphold internationally-recognised best practices and standards, such as the ISO 9001:2015 Quality Management System, to meet both our customers' and regulatory requirements, as well as to continually improve our operational efficiency. For our workshop service facilities in Kajang and Bintulu for maintenance, repair and overhaul activities, we comply with the International Electrotechnical Commission System for Certification to Standards Relating to Equipment for Use in Explosive Atmospheres (IECEx) to ensure that our processes and products conform to international standards.

Certification	Companies with Accreditation
ISO 9001: 2015 Quality Management Systems Certification ¹	<p>Deleum Services Sdn. Bhd. for the provision of the following products and services related to oil and gas exploration and production activities:</p> <ul style="list-style-type: none"> a) primarily wireline, wellhead and oilfield services (Deleum Oilfield Services Sdn. Bhd.) (DOSSB); b) assembly and supply of centralisers (DOSSB); c) chemicals supply and services (Deleum Chemicals Sdn. Bhd.); d) repair and overhaul of electrical and mechanical equipment including site work (Deleum Rotary Services Sdn. Bhd.) (DRSSB); and e) integrated corrosion, inspection and mitigation for surface preparation industry (Deleum Primera Sdn. Bhd.). <p>Turboservices Sdn. Bhd. for the provision of turbomachinery sales and services.</p>
International Electrotechnical Commission System for Certification to Standards Relating to Equipment for Use in Explosive Atmospheres (IECEx) ²	DRSSB

¹ ISO certifications by Det Norske Veritas – Germanischer Lloyd (DNV-GI) for Quality Management System

² Awarded by Safety in Mines Testing and Research Station (SIMTARS) Australia

Group Procurement Practices

We are committed to upholding transparency throughout our supply chain and to continually supporting local suppliers. This is evident in our commitment towards contributing to national economic development in an ethical and responsible manner.

Responsible Procurement Practices

Our procurement function is guided by our Group Procurement Policy and Vendor Code of Conduct. These policies dictate our dealings with local and foreign vendors, contractors and sub-contractors with the ultimate objective of obtaining the best products and services in the most effective, ethical, and sustainable manner.

Our Vendor Code of Conduct stipulates that new suppliers would be assessed from the Environmental, Social and Governance (ESG) perspectives with assessment for renewal every three years.

The Group Procurement department and Group Quality, Health, Safety and Environment (QHSE) department jointly conduct vendor audits in the interest of upholding compliance, integrity and security. Our selection process for vendor audits is based on the Kraljic matrix, whereby selected active vendors are reviewed to ensure their compliance with contractual specifications and deliverance capability. As and when the need arises, we may seek third party validation of our vendors.

SUSTAINABILITY STATEMENT (CONTINUED)

Local Sourcing towards Empowering the Local Community

We view working with local vendors as a means to encourage local socio-economic development. At the same time, it allows us to operate within reasonable and better-controlled costs. Reflecting this, 85.8% of the Group's vendors were local vendors in FY2018.

We have been selected as one of the Anchor companies by PETRONAS to support its Vendor Development Programme (VDP^x) in the nurturing and development of existing and new vendors capable of supporting the oil and gas and related services market.

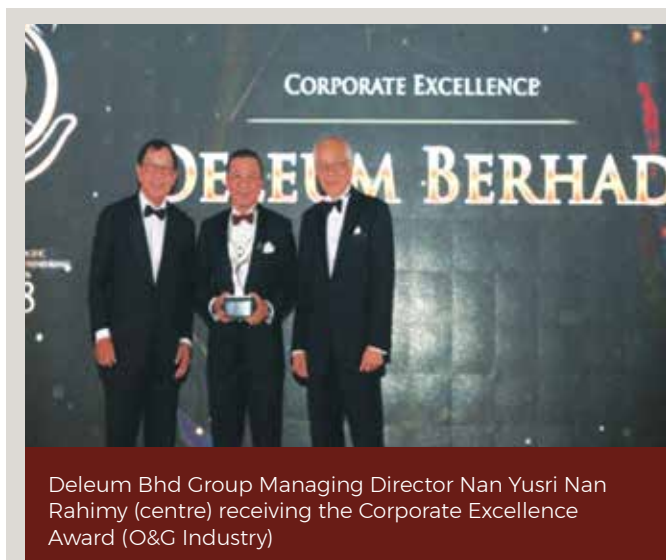
Through the principals that we represent or partner with, we are able to procure directly from Original Equipment Manufacturers (OEMs) to ensure that the products for our customers are of the highest quality. These procurement activities also facilitate the transfer of technology through the provision of training and services, thereby allowing us to contribute towards developing the local ecosystem.

Customer Engagement

Whilst we possess a diverse range of customers across our Power and Machinery, Oilfield Services and Integrated Corrosion Solution segments, we ensure our customer engagement activities are consistent across our portfolios. We are mindful of our customers' priorities and strive to remain responsive to their changing needs and interests. As such, we are committed to delivering quality products and services as well as ensuring customer satisfaction.

We maintain a seamless alignment between business units by cultivating an effective working culture and strengthening inter-business unit engagements. This is reflected in our focus on Internal and External Engagement as one of the Six Key Focus Areas in our Strategic Plan.

We are continuously refining our platforms for customer engagement: the two channels through which we accomplish this are our customer satisfaction survey and our customer grievance mechanism. In FY2018, Deleum Primera Sdn. Bhd. (DPSB) conducted customer satisfaction surveys to gain insights into our customers' business needs.



Deleum Bhd Group Managing Director Nan Yusri Nan Rahimy (centre) receiving the Corporate Excellence Award (O&G Industry)

In September 2018, the Group was conferred the Corporate Excellence Award for the Oil and Gas industry by Enterprise Asia at the Asia Pacific Entrepreneurship (APEA) 2018 event. This speaks volumes of Deleum's commitment towards business growth, corporate leadership and operational excellence. The APEA is a regional awards recognition programme which honours business leaders and organisations that achieve both outstanding performance in developing successful business, and continual commitment in valuing and practising social responsibility.

KEY THEME: CORPORATE GOVERNANCE

Good Governance and Best Practices

At Deleum, we are committed to maintaining the highest standards of business ethics and upholding the principles of good governance through our mission, vision and shared values. Our business conduct and ethics are guided by key policies, systems, processes, standard operating procedures and best practices, and are supported by our governance structure consisting of the following:

- Board of Directors
- Audit Committee
- Joint Remuneration and Nomination Committee
- Board Risk Committee
- Management Risk Committee
- Group Managing Director
- Business Units and Corporate Resources.

Details of our corporate governance practices are disclosed in the Corporate Governance Overview Statement of this Annual Report, whilst the details of our risk management and control structure and processes are disclosed in the Statement on Risk Management and Internal Control.

We strongly believe in the shared values of integrity, professionalism, health, safety and environment mindfulness as well as service excellence. Our shared values aim to promote transparency, accountability, and openness in communications.

Key guidelines to our corporate governance include the Code of Business Conduct (COBC) and Whistleblowing Policy.

Code of Business Conduct (COBC)

Our COBC provides guidelines that the Board and all employees are required to follow and adhere to. Available in both English and Bahasa Malaysia, it sets out the standards of integrity and ethical behaviour expected of our employees, directors, contractors, vendors, and any party conducting work for or on behalf of the Group. Its foundation is based on different areas covering, amongst others, the following:

- Anti-bribery and anti-corruption matters;
- Anti-money laundering and anti-terrorism matters;
- Compliance with laws and policies;
- Gifts, hospitality and entertainment;
- Conflicts of interest; and
- Equal opportunity matters.

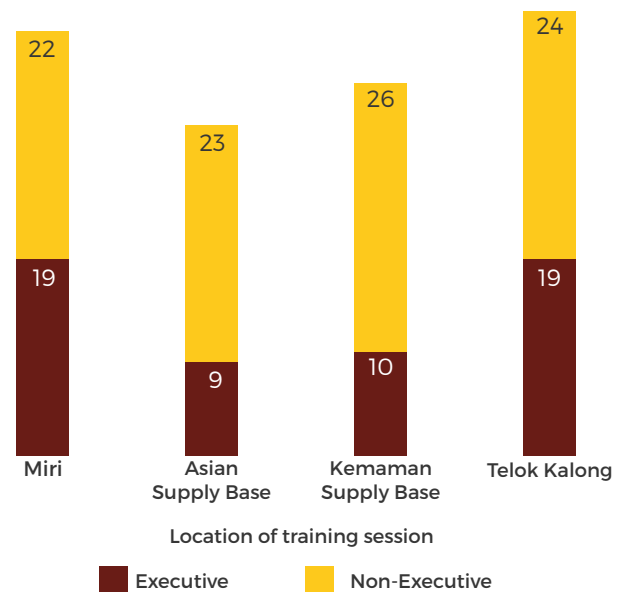
We take any violation of the COBC very seriously. Violation of any part of the COBC will result in strict disciplinary action under the relevant policies as may be deemed appropriate.

We embrace a culture of upholding the highest standard of integrity in our everyday dealings, and as such, our employees' understanding and practice of the principles outlined in the COBC takes precedence.

During the year, we conducted separate training sessions on Deleum's COBC policy for executive and non-

executive employees, reflecting their different focus areas performed. We conducted 152 formal training sessions in four locations throughout the year – 57 of these were for executives and 95 for non-executives. Employees who inevitably had to miss the training session were given separate informal training by their respective Base Managers.

The number of formal COBC training sessions held during the year is as follows:

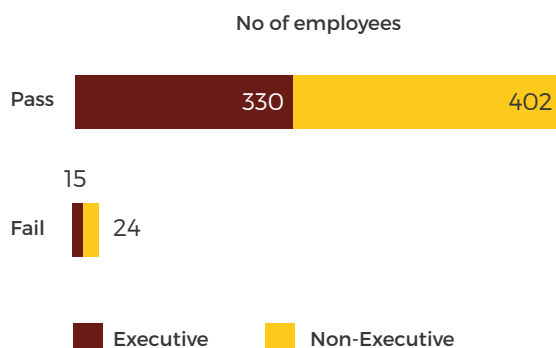


To assess our employees' understanding of the COBC policy, Group Human Resource (HR) Department conducted an assessment comprising 20 questions.

Our employees achieved an overall passing mark of 80% in relation to the assessments conducted during the year. Re-sits were offered to those who failed, with the aim of ensuring all employees eventually pass their assessment and have a sound understanding of our COBC policy. A detailed breakdown of the assessment results is as follows:

SUSTAINABILITY STATEMENT (CONTINUED)

COBC Assessment Results



Whistleblowing Policy

In line with our commitment towards promoting transparency, accountability and ethical behaviour throughout our businesses, we encourage our employees and external parties to report any suspected wrongdoing through our Whistleblowing Policy. Our Whistleblowing Policy provides an avenue for both internal and external parties to report any improper conduct or wrongdoing within the Group in a confidential and secure manner via dedicated channels.

Under our Whistleblowing Policy, a whistleblower's identity will be protected and kept confidential, thereby enabling all parties to report without any fear of repercussion. All cases reported will be addressed and investigated in accordance with the policy. In FY2018, no cases of whistleblowing were reported.

The details of Deleum's Whistleblowing Policy, including the information pertaining to reporting procedures, can be accessed via our corporate website.

Adherence to the PDPA

We are committed in protecting and keeping the personal data of the data subject processed by Deleum and its subsidiaries in accordance with the Personal Data Protection Act 2010 (PDPA).

Our PDPA policy and procedures are readily available for our employees' easy access through the intranet. The PDPA governance is spearheaded by the Group Managing Director, PDPA Committee and supported by the compliance officer and the designated compliance officer of the respective Business Units and Corporate Resources.

In FY2018, our compliance officer conducted four trainings, refresher and awareness sessions including two assessments.

PDPA compliance reporting and updates to the PDPA Committee are undertaken on a quarterly basis. In FY2018, there was neither any identified leak, theft, loss of personal data nor substantiated complaint received.

ENVIRONMENTAL

Key Theme: Environment

Environmental Management

Environmental Regulations and Compliance

Our Environmental Policy affirms our commitment to minimise the potential impact of our operations on the environment in locations where we operate. Through timely, adequate, corrective and protective measures, we strive to achieve a sustainable trade-off between our operational viability and any negative impact from our operations on the environment.

We ensure completeness in all our operations' compliance with environmental standards through the conduct of a self-assessment test based on the Department of Environment's (DOE) Guided Self-Regulation (GSR). In FY2018, we completed the Environmental Mainstreaming Tools (EMT) Checklist relating to the GSR.

For the year under review, we registered zero fines or sanctions in relation to environmental regulation breaches. We also maintained a zero Total Recordable Environmental Incident Frequency (TREIF) count.

Underscoring our commitment to upholding the highest environmental standards, Deleum Chemicals Sdn. Bhd. successfully obtained the latest ISO 14001:2015 Environmental Management Systems certification for specialty chemical supply and services. This certification covers the company's research and development laboratory as well as its blending, storage, transfer, chemicals handling, and scheduled waste management activities.

Waste Management

We promote the efficient use of resources in all our facilities by reducing the use of hazardous materials and products whilst practising effective waste management and recycling initiatives.

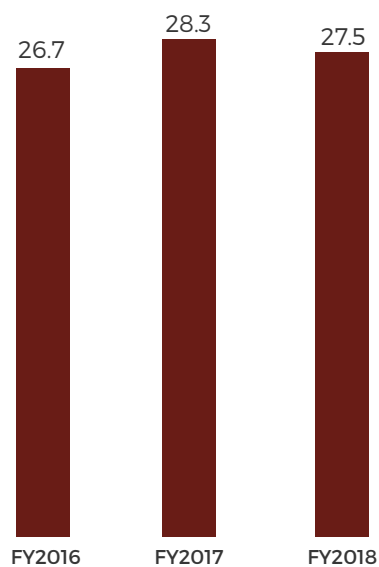
Our scheduled waste is managed by personnel who are deemed Certified Environmental Professionals in Scheduled Waste Management (CePSWaM), as required by the Environment Quality Act 1974 (EQA). During

the year, seven personnel from our various business units received CePSWaM training conducted by the Environment Institute of Malaysia (EiMAS). Of these, three personnel obtained competency certification in relation to the CePSWaM.

In FY2018, we received zero reports of scheduled waste incidents or fines from the local authorities.

The total scheduled wastes generated by Deleum for the last three consecutive years is as follows:

Total Scheduled Waste Generated (tonnes)



Water Management

Another key resource that we continuously strive to manage effectively is our water supply. One of the water conservation efforts undertaken by our operations is the rainwater harvesting initiative at our Teluk Kalong facility. In FY2018, our total water consumption was 2622 m³, of which 50 m³ was collected from rainwater harvesting.

Energy Efficiency

Responding to the need to achieve improved energy efficiency in our operations, we are gradually phasing out the use of conventional lightbulbs at all our facilities and replacing them with light emitting diodes (LEDs). This initiative commenced in the fourth quarter of 2018. As LED installation is costly on a big scale, our plan is to make changes in phases over the next few years.

Utilising Cleaner Technologies

In line with our commitment towards minimising environmental impact and protecting the community’s well-being, Deleum has embarked on offering services which utilise cleaner technologies.

Our Integrated Corrosion Solution segment represented by DPSB is primarily involved in abrasive blasting, removal of hazardous contaminants and painting. The Group has partnered with Sponge-Jet since 2012 to provide low dust abrasive blasting using sponge media abrasive technology for our customers. This technology provides a safe and clean method for blasting suppressing up to 99.9% of what would normally become airborne dust without disrupting customers’ ongoing operations.

Another technology – rust paint removal (RPR) – allows coating to be removed entirely without disintegrating and is completely free from contaminating agents. This makes disposal and recycling of waste easier and cheaper whilst limiting its impact on the environment.

SOCIAL

Key Theme: Managing Our People

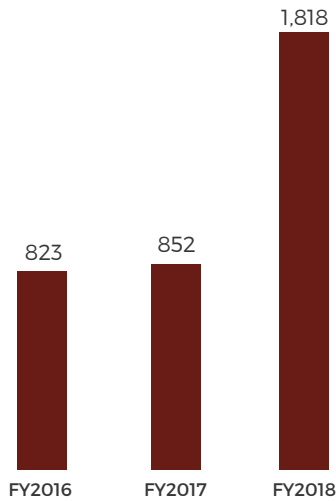
Human Capital Management

Underpinning our business growth is a high performing work culture that stems from our efforts on the Human Capital Development front, one of our Six Key Focus Areas. Human capital management plays a pivotal role in shaping the culture and dynamism of our people to ensure the success of our business. Our human capital management initiatives entail the championing of diversity practices in the workplace, the offer of various development programmes to upskill both our leaders’ and our employees’ competencies, the refinement of our engagement with our employees, as well as the attraction and retention of employees to sustain our talent pool.

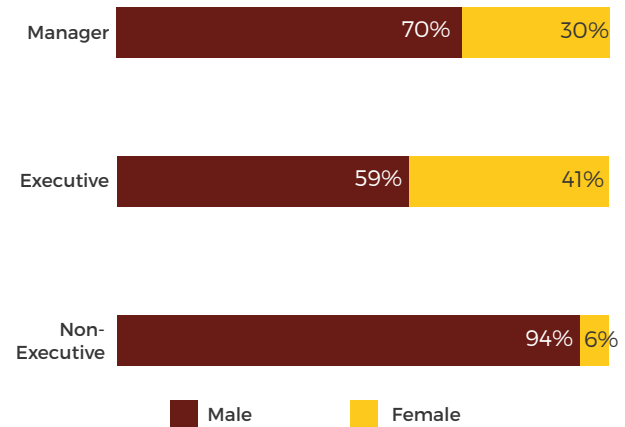
As of FY2018, the total number of Deleum’s workforce was 1,818, a surge from FY2017’s headcount of 852, following our mass hiring of casual workers for the new Maintenance, Construction and Modification Services contract. Casual workers are being hired on an ad hoc basis to service this contract as it provides us with the flexibility to respond to operational needs and manage our costs more effectively. Our turnover rate for FY2018 was 6.8%.

SUSTAINABILITY STATEMENT (CONTINUED)

Total Number of Employees



Employee Gender by Level



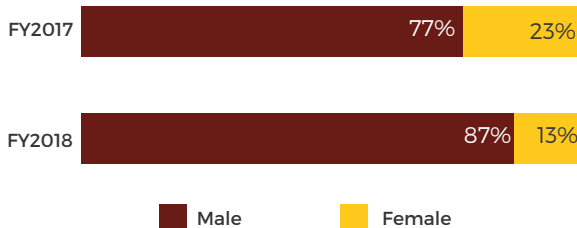
Diversity within the Workforce

At the heart of our human capital management agenda is a focus on embracing diversity. We recognise that diversity within the workforce will contribute to a wider range of viewpoints and skill sets. To this end, our Equal Opportunity Policy ensures that all our employees are provided with equal opportunities, with no age, gender, ethnicity or disability-based discrimination, as reflective of our support and practice of the Universal Declaration of Human Rights by the United Nations.

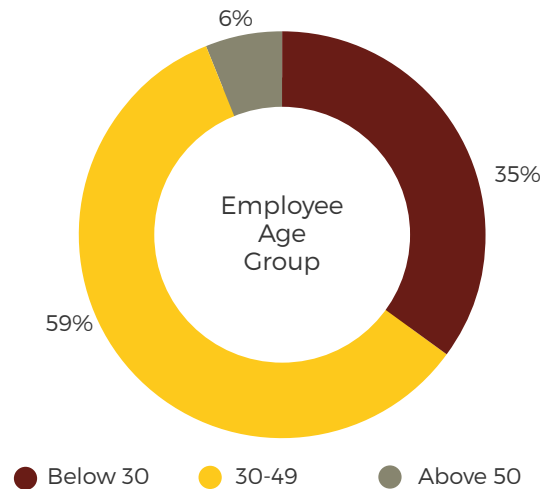
We continuously attract, develop and retain the best technical and non-technical talent, leveraging on the diverse functional capabilities of our people.

Our employees' breakdown and analysis are as follows:

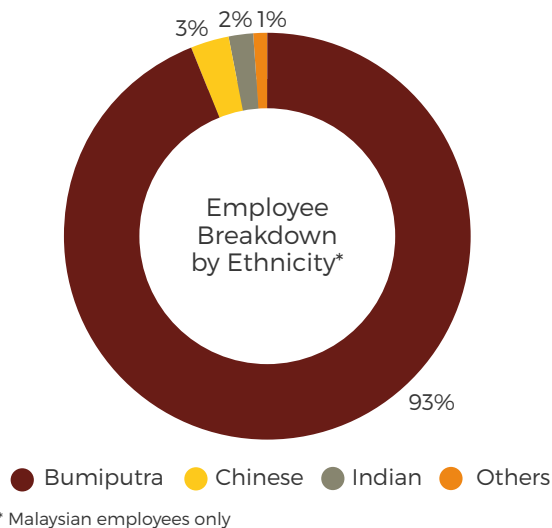
Employee By Gender (%)



Employee Age Group



Employee Breakdown by Ethnicity*



Our gender demography is skewed towards male employees, reflecting the industrial nature of our offshore-centric operations. We practise local hiring where possible to provide job opportunities within the oil and gas sector for Malaysians. In FY2018, approximately 99% of our employees were Malaysians.

Employee Training and Development

In FY2017, we established the Talent Management Framework, consisting of a succession planning structure emphasising leadership competencies. Last year, we continued to enhance the aforesaid framework through our Senior Management Development Programme, internal workshops and soft skill training sessions.

Our Senior Management Development Programme, entitled “Keepers of the Flame” was conducted in partnership with an external learning partner. Aiming to inspire the concept of “value-based leadership”, the programme was guided by the “8 flames of leadership”, namely, compassion, courage, honesty, integrity, humility, responsibility, loyalty and fairness. Through experiential learning, our leaders evaluated their leadership styles and how this impacted their peers and subordinates. Our leaders were encouraged to strengthen their leadership mind-sets by cultivating trust, respect, good problem

solving and communication skills, as well as by inculcating a sense of camaraderie across all levels of their dealings through a shared experience of overcoming challenges.

Our internal workshops include training sessions on Behavioural Event Interviewing (BEI) skills for our HR employees. The BEI training aims to provide an accurate representation of the behaviour of candidates applying for jobs. Through these sessions, our HR employees are enlightened about the methodologies and processes involved in conducting focused and probing BEI interviews for the purpose of accurately validating potential candidates’ credentials using various competency models. These training sessions are relevant to our succession planning activities.

Employee Engagement

We value employee engagement as one of the means to unite Deleum’s employees across the Group, bridging the gaps across all levels within the Group. We conduct performance review with our employees, at least once a year, to provide feedback on their performance and advice on their career development. Through these performance reviews, we are better able to understand our employees’ interests and concerns at the workplace and leverage on these findings to help improve our human capital management initiatives.

Employee Benefits

We extend ample consideration towards our employees’ welfare and familial commitments, reflecting the value that we accord our employees and their personal well-being. To continuously attract and retain our employees, we have in place several benefits including extension of our maternity leave from 60 days to 90 days and paternity leave from two to five days, and Time-Off Policy for our employees’ convenience. The Management periodically review our employees’ remuneration packages to ensure these remain competitive.

Workforce Well-being Practices

As a responsible employer, we care for our employees’ well-being. We recognise that the well-being of our employees affects their productivity levels and impacts our retention of talent.

SUSTAINABILITY STATEMENT (CONTINUED)

Corporate Wellness Activities

We continue to enhance our Corporate Wellness Programme introduced in FY2017 at head office to encourage our employees to practise healthy lifestyles. In FY2018, we conducted a wide range of existing and new activities linked to both mental and physical wellness to improve our employees' overall fitness and health which were well-received by our employees with 60% participating in at least one and some 40% participating in at least 9 out of 16 activities.

We aim to continue with this programme with the long-term goal of fostering a holistic culture of caring for our employees' well-being.

The following corporate wellness activities were conducted during the year:

Corporate Wellness activities for FY2018

Health Screening & Stress Management Talk

Date: 25 May 2018

Release & Relax

Date: 8 June 2018

Nutrition, Training & Lifestyle



Date: 29 June 2018

Corporate Wellness activities for FY2018

Build Your Own Breakfast



Date: 6 July 2018

Cookout Session @ The Cooking House



Date: 13 July 2018

Prehab Spine Care

Date: 20 July 2018

Corporate Wellness activities for FY2018

Lil Eden Terrarium



Date: 3 August 2018

Sports Injury & Rehab

Date: 17 August 2018

Nutrition Talk

Date: 3 September 2018

Skin Care Talk

Date: 7 September 2018

Mesti Fit Challenge

The Mesti Fit Challenge (MFC) is one of our main Corporate Wellness activities. Similar to the Dump Your Plump (DYP) challenge held in 2017, participants formed groups to participate in various physical activities on a weekly basis.

MFC is an 8-week challenge consisting of 16 classes, 4 video challenges and 2 talks. Key highlights from activities conducted include the GFX Sweat, GFX Body Combat, GFX Met Con, GFX Strength, Hiking Session, Pit Stop @ Fittie Sense, Grand Finale: Obstacle Challenge.

Throughout FY2018, MFC garnered 45 participants to form 15 groups, a surge in participation from the FY2017 DYP challenge which attracted 21 participants who formed 7 groups.

Generally, participants saw improvements in their overall health and fitness levels based on the evaluations of their body-fat and waist-to-hip ratios.

The majority of participants were satisfied with the activities conducted and are keen for this programme to continue.

Women's Week

Deleum's Women's Week is the Group's centrepiece for celebrating and empowering women in commemoration of women's strengths, potential and achievements. Held on 24-31 October 2018, Deleum's Women's Week featured various activities which were well-received by our employees as reflected in their encouraging participation rate of between 50% to 80%.



"Mesti Fit" Team Challenge Group Photo



Hiking Challenge



Grand Finale: Obstacle Challenge

SUSTAINABILITY STATEMENT (CONTINUED)

The activities from Deleum's Women's Week were as follows:

Activities	Highlights
Movie Day - Inspiring Women	We screened the movie <i>Hidden Figures</i> to elucidate women's potential to rise to the top of an organisation from the very bottom.
Grooming for Confidence	We conducted a half-day talk titled "The Power of Image Management" to educate participants on the tools and soft skills that could benefit their personal and professional lives. Participants were enlightened about the importance of non-verbal communication to increase their personal confidence and enhance interpersonal relationships as well as how these directly affected their job performance and productivity.
Female Safety and Protection	We conducted two programmes: (i) Road Survival and (ii) Violence Protection using Survival Art to educate women on how to prevent and defend themselves against violence on the road and other public areas.
Colour Day	By encouraging our employees to dress in the colour pink, we provided an avenue for both men and women to express their support towards the Women's Week's celebrations.
Women's Health Awareness Session	We conducted an informative health talk on female cancer awareness, in conjunction with and in support of Breast Cancer Awareness Month.

KEY THEME: SAFETY

Safety Practices

At Deleum, we recognise the importance of our employees working in a healthy and safe environment, and our provisions for our employees fully capture this responsibility.

Safety Procedures and Processes

The Group continues to be guided by our Health, Safety and Environment (HSE) slogan, "Collective Responsibility Towards HSE Excellence". Introduced in 2009, it serves to inculcate a sense of ownership and a collective responsibility in every employee to continuously improve Deleum's HSE performance.

Our Group HSE Management System (HSEMS) outlines our management approach towards all HSE-related aspects. Periodic audits of the HSEMS are undertaken at our operational facilities, whilst the system itself is reviewed annually by our HSE Committee.

We introduced the “10 Life Saving Rules of Deleum” which are to be strictly adhered to by our employees and contractors, reflecting our uncompromising commitment towards upholding our stakeholders’ safety and meeting their expectations.

10 LIFE SAVING RULES

-
1. **Valid Safe Work Permit**
Perform with valid safe work permit when required.
 2. **Energy Isolation**
Verify that there is no live energy before work begins.
 3. **Systems Override**
Obtain authorisation before overriding or disabling safety critical equipment.
 4. **Confined space entry**
Obtain authorisation before entering a confined space.
 5. **The Line of Fire**
Stay vigilant and keep a safe distance from area that has potential safety hazards.
 6. **Personal Protective Equipment**
Always use correct and approved PPE in accordance with safe work plan, permit or site requirements.
 7. **Perform Risk Assessment**
Identify all hazards associated with tasks and assess potential risks prior to commencing and during work.
 8. **Follow Prescribed Journey Management Plan**
Plan and execute necessary road transport journeys.
 9. **Mobile/Portable devices**
Do not handle your phone or any other mobile/portable communication when walking or driving.
 10. **Smoking and Ignition Sources**
Do not smoke outside designated area or bring potential ignition sources into process areas without authorisation.

In FY2018, our safety procedures related to working in confined spaces was revised to address the changing safety needs of our people and our facilities. This is reflective of our responsibility to ensure the rightful provision of up-to-date standards of safety at our workplaces.

We continuously strive to embed a safety culture within our daily operations. As reflected in our commitment towards upholding compliance, responsibility and care, we conduct the Chemical Hazards Risk Assessment (CHRA) at all operation sites that are potentially exposed to chemicals. This is done to ensure that the health and safety of our employees is not compromised. The CHRA forms part of the safety requirements of the Occupational Safety and Health (Use and Standard of Exposure of Chemicals Hazardous to Health) Regulations 2000, which we are in full compliance with.

SUSTAINABILITY STATEMENT (CONTINUED)

Group QHSE Governance

Our HSE Committee consists of ten members and is chaired by our Group Managing Director. The main functions of our HSE Committee are to:

- Review and develop HSE practices, policies and procedures;
- Develop annual HSE plans to meet our HSE objectives;
- Review 'leading safety indicators' and organise HSE programmes, review their effectiveness and make recommendations to the Management; and
- Conduct investigations into incidents and accidents occurring at the workplace and recommend remedial measures.

The HSE Committee meets every quarter to discuss HSE-related matters such as safety performance, plans and policies. The QHSE personnel conducts safety meetings, briefings and inspections on a regular basis across our business units, in addition to attending meetings with customers on HSE-related matters. Aside from ensuring that all parties aligned themselves with the up-to-date HSE requirements, these sessions did much to help build good rapport.

HSE Assurance and Management Review Process

We continue to monitor our HSE action plans and activities as part of our HSE Assurance and Management Review process. External reviews are conducted to assess our compliance with regulatory and contractual requirements in areas of HSEMS, HSE performance, risk assessment, permits, training and competency, drug and alcohol usage, as well as personal protective equipment (PPE) usage. Findings arising from external reviews are highlighted as part of the audit and inspection process and corrective measures are implemented accordingly.

In recent years, our audit process has been modified to take the form of a sharing session, to ensure buy-in from our contractors, insofar as they fully understand and adhere to HSE-related standards.

In FY2018, we conducted five audits on selected vendors or subcontractors.

Occupational Safety and Health (OSH) Safety Training Sessions

We conduct safety training for our employees based on requirements from our risk assessment, past incidents, customer contracts, regulatory authorities' directives and safety standards. Specific safety trainings are provided to enhance our employees' safety knowledge, operational techniques and competencies whilst meeting contractual and regulatory requirements. Most of our training sessions involve personnel working at sites, whom have been nominated by their operation managers to attend the aforesaid training.

The following key training sessions were held over the course of FY2018:

- 1) Control of Work (CoW);
- 2) Noise Hazard Awareness;
- 3) Assistant Medical Review Officer (AMRO) – Competence Person;
- 4) Life Saving Rules Awareness;
- 5) Hand & Finger Injury Awareness;
- 6) Drop Object Awareness;
- 7) Emergency Response Team (ERT); and
- 8) Waste Manager – Competence Person.

A few of our training sessions are recurring sessions that aim at ensuring our employees are continuously maintaining the highest level of awareness about safety measures. Deleum's 10 Life Saving Rules, Hand & Fingers Injury Awareness training, and Dropped Object Awareness training are some of our recurring training sessions.

OSH-Related Initiatives

Throughout the year, we conducted various OSH-related initiatives at both our head office and facilities towards meeting our stakeholders' safety requirements and their expectations. We disseminate safety awareness information such as the latest HSE-related updates to our employees via monthly bulletins.

The key highlights of our FY2018 OSH-related initiatives are as follows:

Initiative/Activity	Description
STOP Card	We uphold the highest standards of safety by conducting toolbox safety meetings on a daily basis. We reward the best STOP card issuer on a quarterly basis.
Risk Assessments	We conduct risk assessments before our employees begin working or during the Permit To Work (PTW) approval request to customers. We recently introduced an additional element in our review to include the element of Situational Awareness in the Job Hazard Analysis Form.
Permit To Work (PTW) system	Our in-house PTW system requires our employees to fill up the form for routine tasks. When working for our customers, our employees are required to request for a PTW and complete all necessary forms.
HSE Inspections	We conducted a total of five inspections, in addition to the regular QHSE inspections done by our QHSE coordinators on a monthly or quarterly basis.
First Aid & CPR Training	We engaged external trainers to conduct first aid training sessions and assessments for our employees.
Emergency Preparedness Drills	We conducted emergency drills for chemicals spillage at our Telok Kalong and Labuan facilities.
Evacuation and Desktop Drills	We conducted a total of five evacuation drills at various locations across our business operations.

Safety Performance

We have recorded 12.7 million free Lost Time Injury (LTI) man-hours with 2,378 days as of 28 February 2019 without an LTI since 25 August 2012. Our Total Recordable Case Frequency was at zero as of February 2019, outperforming the target of 1.20 set by PETRONAS.

SUSTAINABILITY STATEMENT (CONTINUED)

Awards and Recognitions

In FY2018, we received the following awards in recognition of our excellent HSE performance:

Award	Awarded to	Date of Award
Graded an "A" Rated Contractor by Petrofac for the Slickline Contract	DOSSB	2 April 2018
Focused Recognition for ensuring a safe and conducive worksite and enhancing HSE values at the D35 sites	DOSSB	3 May 2018
Focused Recognition for ensuring a safe and conducive worksite and enhancing HSE values at the Tembungo site	DOSSB	6 May 2018
Focused Recognition for demonstrating a high commitment to HSE	DOSSB	24 June 2018
Certificate of Appreciation in recognition of participation in the PETRONAS Contractor HSE Membership Programme as a "MENTEE"	DPSB	19 Oct 2018
HSSE Performance Recognition 2018 for outstanding performance and exceptional commitment to upholding HSE standards (from MISC Berhad)	DPSB	15 Nov 2018
Certificate of Appreciation in recognition of outstanding and excellent HSE performance in contributing to safe results (from Enquest)	DOSSB	1 Nov 2018
Certificate of Appreciation in recognition of valuable contribution towards Enquest Malaysia Wells ZERO LTI (2014-2018)	DOSSB	11 Dec 2018
Focused Recognition for successfully completing the ERB West A106 bridge plug and additional perforation (from PCSB SBO)	DOSSB	19 Dec 2018

KEY THEME: CORPORATE SOCIAL RESPONSIBILITY

Community Outreach Practices

Being a responsible corporate citizen and as part of our endeavours to create long-term stakeholder value, we continue to support impactful Corporate Social Responsibility (CSR) initiatives. We strongly believe in giving back to the community and managing our environment footprint in the areas we operate in based on three focal areas: Community, Environment and Workplace.

In conducting our CSR activities, our employees have consistently demonstrated their passion and a keen interest in reaching out and serving communities.

School Adoption Programme

Our participation in the "Promoting Intelligence, Nurturing Talent and Advocating Responsibility" (PINTAR) school adoption programme has enabled us to make a positive imprint on Sekolah Kebangsaan Kampung Bakam (SKKB), Miri Sarawak. Our adoption of SKKB demonstrates our continuous support towards promoting academic and non-academic growth of the school and its students, particularly through the following initiatives:

1. Motivational Programme for Year 6 Students;
2. Understanding Questions and Answers for Year 6 Students;
3. Ujian Pencapaian Sekolah Rendah (UPSR) Workshop;
4. Sports Carnival; and
5. Award of Excellence.

Community-Focused CSR Activities

We remain committed towards contributing to sustainable development by helping elevate the well-being of the community around us. Despite the economic downturn, we continue to engage the wider community through our various CSR activities. We believe that by extending care to the local community, we are helping to strengthen our employees' morale which in turn is cementing employee loyalty and motivating our people to carry out their duties more diligently.

Our main annual CSR activity is the Blood Donation Drive, conducted mostly at our head office. In FY2018, we expanded this drive to our operations in Kemaman and Miri, attracting a total of 257 blood donors.

Location	Date (2018)	Total Number of Participants	Total Pints of Blood Collected
Miri	28 April	82	62
Bangsar	2 May	82	62
Kemaman	3 May	93	71
Total		257	195



Kemaman



Miri



Bangsar

SUSTAINABILITY STATEMENT (CONTINUED)

Throughout FY2018, we conducted other CSR activities that celebrated festive or religious occasions or which saw to the specific needs of the community. The following is a summary of the activities we conducted:

Back to School Programme



Date : 26 January 2018
Category : Community

Deleum provided school uniforms to 105 underprivileged children from Pusat Aktiviti Kanak-Kanak (PAKK) Chow Kit.

Chinese New Year Donation Drive



Date : 14 February 2018
Category : Community

In conjunction with the Chinese New Year celebrations, we contributed groceries, electrical appliances, home appliances, festive food and snacks to Angel Children's Home Kuala Lumpur.

Earth Hour



Date : 23 March 2018
Category : Environment

Deleum's Group QHSE Department hosted a talk on smart electricity consumption and savings in conjunction with the Earth Hour.

PDK Open Day



Date : 14 April 2018
Category : Community

Deleum employees did their bit to support Pusat Pemulihan Dalam Komuniti (PDK) Mutiara in Labuan for People with Disabilities' Open Day in conjunction with its 10th Anniversary.

Ramadhan Donation Drive



Date : 13 June 2018
Category : Community

In conjunction with Ramadhan, Deleum donated groceries, basic medical equipment and electrical appliances to the Pusat Jagaan Nurul Jannah, a shelter for the elderly folks.

Aidilfitri Celebration with PAKK



Date : 22 June 2018
Category : Community

We celebrated Hari Raya Aidilfitri with 40 children from Pusat Aktiviti Kanak-Kanak (PAKK) Chow Kit with several activities including a bowling competition, talent show and dinner.

We Share, We Care



Date : 29 October 2018
Category : Community

Deleum volunteers helped clean up, distribute lunch packs and hygiene kits as well as provided barber services at this event. Over 100 residents from Pusat Transit Gelandangan, along with some homeless/underprivileged individuals within the community, benefited from this initiative.

Deepavali Donation Drive



Date : 2 November 2018
Category : Community

A group of Deleum volunteers visited Siddharthan Care Centre in conjunction with the Deepavali celebrations. They organised kolam art and jasmine garland activities, as well as distributed food items and Deepavali snacks.

7-A-Side Football Tournament



Date : 3 November 2018
Category : Workplace

Deleum's Group HSE organised a 7-a-side football tournament with participation from each of Deleum's Business Units and subsidiaries.

Deleum Secret Santa



Date : 14 December 2018
Category : Community

In conjunction with the Christmas celebrations, Deleum hosted a Secret Santa event for 18 underprivileged children from the Shelter. Activities included Christmas tree and cupcakes decoration, Christmas carolling and Christmas gift distribution.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

THE BOARD OF DIRECTORS (THE BOARD) OF DELEUM BERHAD (DELEUM OR THE COMPANY) REMAINS STEADFAST IN ITS COMMITMENT IN ENSURING THAT THE HIGH STANDARDS OF CORPORATE GOVERNANCE ARE CONSISTENTLY OBSERVED AND PRACTISED THROUGHOUT DELEUM AND ITS SUBSIDIARIES (COLLECTIVELY THE GROUP) IN FURTHERANCE OF THE GROUP'S MISSION, VISION AND SHARED VALUES. THE BOARD HAS ADOPTED AND OPERATED IN ACCORDANCE WITH HIGH STANDARDS OF CORPORATE GOVERNANCE WHICH IS ESSENTIAL FOR SUSTAINABLE LONG-TERM PERFORMANCE AND VALUE CREATION, WHERE PRACTICAL AND APPROPRIATE.

This Statement describes the overview of the application of the principles set out in the Malaysian Code on Corporate Governance 2017 (MCCG) and the extent to which the Group has complied with in relation to its corporate governance practices during the financial year 2018 (FY2018).

A. BOARD LEADERSHIP AND EFFECTIVENESS

I. Roles and Responsibilities of the Board

The Board has collective responsibility and accountability for the overall management, direction and performance of the Group and provides leadership within a framework of prudent and effective controls which enables risk to be appropriately assessed and managed.

It has the ultimate and overall responsibility for the entire affairs of the Group and the proper and effective conduct of its business. The Board establishes the vision and strategic objectives of the Group, directs the Company's strategic planning, financial, operational and resource management, key policies, risk assessment and

management and provides effective oversight of Management and stewardship of the Group's resources towards realising the Vision of the Group.

Each Director has duties to act in the interest of the Group and the Directors are, collectively and individually, aware of their responsibilities to the stakeholders for the manner in which the affairs of the Company are managed.

In discharging its functions and responsibilities, the Board is guided by the Board Charter. The Board assumes, amongst others, the following principal duties and responsibilities in discharging its fiduciary and leadership functions:

- (i) Reviewing and approving corporate strategies, business plans, budget and key policies whereby Management presents to the Board its recommended strategies and budget annually together with its proposed business plans for the ensuing year, for the Board's review and endorsement.

The Board plays a pivotal role in reviewing the Group's strategic direction and approving strategic plan of the Group to ensure that the strategic plan supports business sustainability and long-term value creation. The Board held a meeting in October 2018 to discourse on the business strategies and plans for 2019 and beyond, focusing on the challenging operating and trading environment. Prior to that, the Board held a meeting in September 2018 to engage with Key Management to discuss and set out the Group's strategies, operating and investments plans and budget for 2019 within the Group's risk tolerance levels.

- (ii) Reviewing, adopting and approving the Group's key operational initiatives, major investments and funding decisions including major capital commitments, participation in tenders or projects exceeding the prescribed value, material acquisitions and disposals and key policies.
- (iii) Reviewing and discussing the performance and execution of the Maintenance, Construction and Modification Services Contract for PETRONAS Carigali Sdn. Bhd. (PCSB) under Package C (Offshore)-Peninsular Malaysia Gas (MCM Contract) of Deleum Primera Sdn. Bhd. and setting the Board's expectations.
- (iv) Overseeing the conduct of the Group's businesses whereby the Group Managing Director is responsible for the day-to-day management of the business and operations of the Group and implementation of the Group strategies and policies as approved by the Board. He is well supported by the management team.

The Board is well informed of the overall progress of the Group. The Group Managing Director apprises the Board on a quarterly basis on the industry, business, prospects and issues faced by the Group.

- (v) Reviewing the risk management processes within the Group and ensuring the implementation of appropriate internal controls and mitigating measures to address such risks.

Through the Board Risk Committee (BRC), the Board oversees the risk management framework of the Group. The BRC advises and updates the Board on areas of risks and the adequacy of compliance and control procedures throughout the Group.

Details of the Group's risk management framework are set out in the Statement on Risk Management and Internal Control (SORMIC) on pages 90 to 96 of this Annual Report.

- (vi) Reviewing the adequacy and integrity of the Group's internal control and management information systems for compliance with relevant laws, rules, regulations directives and guidelines.

Details of the Group's internal control system and its effectiveness are set out in the SORMIC.

- (vii) Maintaining shareholder and investor relations whereby the Group strives to maintain an open and transparent channel of communication with its shareholders, investors, analysts and the public at large with the objective of providing a clear and complete picture of the Group's performance and financial position. The Group believes that a constructive and effective investor relationship is important and an essential factor in enhancing value

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

for its shareholders. Further details on the shareholder and investor relations are set out in Section C - "Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders" of this Statement.

- (viii) Reviewing and approving the implementation of Talent Management and Succession Planning Framework including the criteria for the role of Group Managing Director which are aligned to the Group's objectives on recommendation of the Joint Remuneration and Nomination Committee (JRNC).

The framework is meant to manage talent pools across the organisation ensuring the Group has a pipeline of talents for the sustainability of business and growth. It includes tools and methodology for succession planning for Group Managing Director's role as well as Leadership Competencies for the Group.

The Board also assumes the following duties, functions and responsibilities:

- approving annual and quarterly financial results and annual report;
- reviewing the effectiveness of the external auditors and their independence;
- reviewing and approving remuneration practices of the Group with particular emphasis on compensation payable to Senior Management;
- reviewing, adopting and implementing appropriate corporate disclosure policies and procedures; and
- appointment, promotion and re-designation of senior management positions.

There are matters reserved set out in the Board Charter for the Board's collective decision, which include the following:

- the overall corporate strategy and direction, business plans and annual budget including major capital commitments;
- participation in tenders or projects exceeding the prescribed value in relation to the core business of the Group and all amounts in relation to non-core business activities;
- material acquisitions and disposals of undertakings and properties; and
- key policies and the delegation of authority guidelines of the Company.

During the year, matters relating to the above were tabled by Management to the Board for discussion, consideration and approval.

Board Delegation

Whilst the Board retains full responsibility for guiding and monitoring the Company in discharging its responsibilities, it delegates the performance of certain of its functions to the Board Committees as detailed in this Statement, which provide the Board with recommendations and advice.

The Board has also delegated limits of authority to the Group Managing Director as specified in the Delegation of Authority Guidelines (DAG) on corporate and operational matters. The DAG sets out the specific approval thresholds for the Group Managing Director and it is regularly reviewed to reflect the dynamic changes within the Group. The Group Managing Director further delegates the authorities granted to him to the operational management team and other executives separately, to approve sales, procurement, capital expenditure, operational banking matters, human resources matters and other operational matters as provided in the operational DAG.

All matters not specifically reserved to the Board and which are necessary for the day-to-day operations of the Group are delegated to Management to operate within the DAG. Specifically, the responsibilities of Management are, amongst others:

- formulating, recommending and implementing the approved strategies and policies of the Group;
- managing the Group's resources, including but not limited to the Group's human, asset and financial resources to achieve the Group's objectives;
- developing, implementing and managing the Group's risk management and internal control systems and compliance to operate within the risk appetite set by the Board;
- keeping pace with industry and economic trends in the Group's operating environment; and
- providing the Board with accurate, timely and clear information to enable the Board to perform its responsibilities.

Chairman, Group Managing Director and Independent Directors

The Board practises a clear demarcation of responsibilities whilst maintaining the balance of power and authority. The positions of the Chairman, Deputy Chairman and Group Managing Director are held by separate persons and the clear separation of powers, roles and responsibilities ensures a balance of power and authority. There is no family relationship between the Chairman, Deputy Chairman and Group Managing Director.

Chairman

The Chairman leads the Board and is responsible for instilling good governance practices and leadership of the Board, ensuring its effectiveness on all aspects of its role and setting

its agenda. He presides over Board meetings and encourages positive contributions of all Directors at Board meetings and promotes an environment for open, robust and effective debate between all Board members and allows for constructive and dissenting views to be freely expressed. He is primarily responsible for the orderly conduct and effective working of the Board, and acts as a liaison between the Board and Management. The Chairman is non-executive and he is not involved in the day-to-day management of the Group.

Deputy Chairman

The Deputy Chairman supports the Chairman and also assists in high level business development and customer relations. The Chairman and the Deputy Chairman work closely with the Group Managing Director in the development of business, corporate policies and strategies for the Group.

Group Managing Director

The Group Managing Director leads the management of the Group and oversees the day-to-day running and management of the business and operations of the Group, advancing long-term shareholder value and implementation of the Board's policies and decisions.

Independent Non-Executive Directors

The Independent Non-Executive Directors are actively involved in various Board Committees. They contribute significantly to areas such as performance monitoring, enhancement of corporate governance and controls, and risk management and oversight. They provide independent and objective views, advice and judgement on management proposals to ensure that the interests of the Group and stakeholders are well taken into account.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

Senior Independent Non-Executive Director

Datuk Ir (Dr) Abdul Rahim bin Hashim, the Senior Independent Non-Executive Director, serves as the point of contact between the Independent Directors and the Chairman of the Board on sensitive issues and act as a designated contact to whom shareholders' concerns or queries may be raised. The Senior Independent Non-Executive Director may be reached at email: AbdulRahim.Hashim@deleum.com.

Company Secretaries

The Board is supported by suitably qualified, experienced and competent Company Secretaries in the discharge of its duties and responsibilities and has unhindered access to their advice and services. The Company Secretaries are members of The Malaysian Institute of Chartered Secretaries and Administrators (MAICSA).

The Company Secretaries play an advisory and consultancy role to the Board in relation to its roles and responsibilities, the Company's Constitution, Board's policies and procedures, and compliance with corporate governance matters and relevant regulatory and disclosure requirements, codes, guidelines and legislations. They are responsible for organising and facilitating Board and Board Committee meetings and the preparation and circulation of notices, agendas and Board papers. The agendas for the meetings are established prior to the meetings in consultation with the respective Chairs. At the meetings, the Company Secretaries are responsible for ensuring that all relevant rules and procedures are complied with advocating adoption of corporate governance best practices. The Company Secretaries ensure that the deliberations at the meetings are well captured and minuted and the resolutions passed are

recorded properly and accurately and kept in the statutory books at the registered office of the Company. Matters that required the necessary actions are communicated to the relevant Management personnel. The Company Secretaries are also responsible for:

- facilitating Director's induction and assisting in Directors' training and development;
- monitoring corporate governance developments and advising the Board on all corporate governance obligations and development in best practices;
- managing processes for shareholders' meeting; and
- communicating with shareholders as appropriate.

The appointment and removal of the Company Secretaries are decided and agreed by the Board as a whole.

Information provided to Directors

The members of the Board have full and unrestricted access to all information pertaining to the business and affairs of the Group. Prior to the meetings of the Board and Board Committees, all Directors are furnished with the agenda together with comprehensive Board papers containing information relevant to the business of the meetings. As a practice, Board papers in general are circulated within a reasonable period prior to the meetings and on average five (5) days before the meetings. This allows the Directors to have sufficient time to read the papers and to obtain further information, explanations or clarifications, where necessary, in order that deliberations at the meetings are focused and constructive. Where a Director is unable to attend a meeting, he/she may provide comments on the Board papers or discuss issues arising directly with the Chairman and/or Group Managing Director.

The Board is updated with the overview of the Group's financial performance and business activities at quarterly meetings. The financial performance is measured against the approved budget and the corresponding periods. Directors regularly receive additional information or updates on relevant matters from the Company between Board meetings.

The minutes of each Board meeting is circulated to all Directors for their perusal and comments, if any, prior to confirmation. In discharging their duties, all the Directors have full access to the advice and services of the Company Secretaries and other Key Management personnel. The relevant Key Management personnel are invited to attend meetings of the Board and Board Committees to report on matters relating to their areas of responsibility and to brief and provide clarifications and details on recommendations so as to enable the Directors to make independent and informed decisions.

The Directors are also empowered to seek external independent professional advice at the Group's expense should they consider it necessary in the furtherance of their duties. Approval may be obtained at the Board meeting where the matter is deliberated or from the Chairman of the Board. No Director had sought the services of any professional advisor during the year in the discharge of his/her duties.

External advisers may also be invited to relevant Board or Board Committee meetings, if necessary.

The Directors were briefed on relevant correspondences/communications from Bursa Malaysia Securities Berhad (Bursa Securities) and the Securities Commission from time to time and at quarterly meetings. The briefings for FY2018 included the following:

- launch of BURSASUSTAIN, a one-stop online portal designed as a one-stop knowledge and information hub on Corporate Governance and sustainability;
- amendments to the Listing Requirements on fees and charges arose from the Goods and Services Tax (Rate of Tax) (Amendment) Order 2018 and no-par-value regime under the Companies Act 2016 (CA 2016); and
- guidance on corporate disclosure of listed issuers' corporate website.

The Directors are apprised of all the Company's announcements to Bursa Securities. They are also apprised of the restriction in dealing with the securities of the Company at least 30 days prior to the release of the announcement on quarterly financial results. In addition, close periods are strictly enforced on Directors and Key Management personnel maybe in possession of market sensitive information prior to that information being made available to the public.

Board Charter

The Board has adopted a Board Charter which provides guidance to the Board in discharging its duties and responsibilities. The Board Charter, sets out, amongst others:

- composition of the Board;
- duties and responsibilities of the Board;
- division of responsibilities and powers between Chairman, Deputy Chairman and Group Managing Director;
- responsibilities of the Independent Non-Executive Directors and Senior Independent Director;
- matters reserved for the Board as well as those which the Board may delegate to the Board Committees, Group Managing Director and Management;

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

- reviewing and ensuring effective succession planning of Senior Management.
- establishment of Board Committees; and
- processes and procedures for convening Board meetings as well as operations and processes of the Board to promote the standards of corporate governance in line with the Group's shared values.

The Board Charter was last reviewed and revised in March 2019 and is available on the Company's corporate website www.deleum.com.

Directors' Code of Ethics

The Directors' Code of Ethics (Code) outlines certain standards of business conduct and ethical behavior to be observed by all Directors in discharging their duties and responsibilities to the highest standards of personal integrity and professionalism. The Code sets out, amongst others, the Directors' obligations in observing high standards of corporate governance, compliance with legal and statutory requirements, adherence to and upholding the principles of integrity, objectivity, accountability, openness, honesty and leadership and acting in good faith in the best interest of the Group. The Company communicates the Code to all Directors upon their appointment.

Under the Code, the Directors are required to avoid situations of conflict of interest between them as individuals and the interest of the Group and declare such interest at meeting where the matter is to be discussed. A Director should withdraw from the meeting and abstain during the relevant discussion or decision. The Board confirmed that no conflict of interest situation arose in the financial year just ended.

The Code is available on the Company's corporate website.

Code of Business Conduct

The corporate culture of integrity and honesty is applicable across the Group. The Group has in place a Code of Business Conduct (COBC) as a guidance to its Directors and employees as well as its contractors, subcontractors, consultants, agents and other service providers with regard to the Group's standard of integrity and rules of conduct to be observed in the performance of work and business practices. They are refrained from all improper conduct and dishonest or unethical behavior in their performance of work and business dealings with the Group.

The COBC covered the areas of, amongst others, conflict of interest, anti-bribery and anti-corruption, gifts, hospitality and entertainment, health, safety and environment, confidentiality, harassment, drug and alcohol policy and consequences of violation of the COBC.

A briefing on the COBC was conducted at office locations in Kemaman, Miri and Labuan for both executive and non-executive personnel in April 2018. All employees are briefed on the COBC and other key policies of the Group by the Human Resource Department to ensure their awareness and conformity of the same. Employees are required to ascertain their understanding of the COBC via annual awareness test through a set of questionnaires in bilingual (English and Bahasa Malaysia) administered by the Human Resource Department. The COBC policy is accessible via the Company's corporate website and intranet.

Whistleblowing Policy

Deleum has established a Whistleblowing Policy to provide an avenue and an independent feedback channel through which employees, customers, suppliers, professional advisers, contractors, subcontractors and any other third parties providing services to the Group may, in good faith and have reasonable grounds, report any wrongdoings in accordance with the procedure in the policy without fear of reprisal. Under the policy, a whistleblower will be accorded with protection of confidentiality of identity. Any employee or external party who has knowledge or is aware that any improper conduct has been, is being, or is likely to be committed within the Group is encouraged to report through the reporting channels as prescribed in the policy. All cases will be dealt in accordance with the policy and the investigation procedures.

The objective and purposes of the policy have been communicated and socialised to the employees and relevant parties. There was no case reported in 2018 via the Whistleblowing channel.

The policy is reviewed regularly and was last updated in May 2018. It is made available on the Company's corporate website and intranet.

Strategies promoting sustainability

The Board is cognisant of the importance of business sustainability and in assuming the Group's business, the impact on the environment, social and governance were taken into consideration on top of safeguarding the interest of the Group's employees, the community at large and marketplace in which the Group operates.

The Sustainability Statement is set out on pages 38 to 63 of this Annual Report.

II. Board Composition

During FY2018, the Board of Directors comprised seven (7) Directors with one (1) Executive Director and six (6) Non-Executive Directors, as follows:

Name	Designation
Dato' Izham bin Mahmud	Non-Independent Non-Executive Chairman
Datuk Vivekananthan a/l M.V. Nathan	Non-Independent Non-Executive Deputy Chairman
Nan Yusri bin Nan Rahimy	Group Managing Director
Datuk Ishak bin Imam Abas	Independent Non-Executive Director
Datuk Chin Kwai Yoong <i>(resigned on 19 February 2019)</i>	Independent Non-Executive Director
Datuk Ir (Dr) Abdul Rahim bin Hashim	Senior Independent Non-Executive Director
Datuk Noor Azian binti Shaari	Independent Non-Executive Director

As announced on 12 March 2019, the Board on the recommendation of the JRNC has on 12 March 2019 approved the appointment of Mr Lee Yoke Khai as director of the Company with effect from 15 March 2019. Mr Lee's profile is set out on page 13 of this Annual Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

The composition of the current Board has a well-balanced composition with an effective mix, ensuring that there is an effective and fair representation and also a balance of power and authority on the Board. The Board is appropriately structured to provide the required leadership and governance to realise the Company's mission, objectives and business strategies for the benefit of all stakeholders, in particular shareholders' interest. The Independent Directors make up more than half of the Board and exceeds the minimum as mandated by the Listing Requirements which stipulates that at least two (2) Directors or one-third (1/3) of the Board, whichever is higher, must be independent. The Independent Directors bring a wide range of experience and expertise to the Group's affairs, and carry significant weight in the Board's decision.

The members of the Board are selected on the criteria of proven skills and abilities in their particular field of endeavour and a diversity of outlook and experience which benefits the operation of the Board as the custodian of the business. It provides an effective blend of entrepreneurship, business and professional expertise in business and risk management, financial, legal and technical areas of the industry which the Group is involved in.

The profiles of each Director are presented on pages 10 to 13 of this Annual Report.

Tenure of Independent Directors

Practice 4.2 of the MCCG states the tenure of an independent director should not exceed a cumulative limit of nine (9) years and if the Board intends to retain an Independent Director beyond nine (9) years, it should justify and seek annual shareholders' approval. If the Board continues to retain the Independent Director after the twelfth year, the Board

should seek annual shareholders' approval through a two-tier voting process. The Guidance to Practice 4.2 of the MCCG states that in considering independence, it is necessary to focus not only on whether a director's background and current activities qualify him as independent but also whether the director can act independently of management.

The Board believes that a Director's independence should not be determined through the length of service as there are significant advantages to be gained from long-serving Directors who over the years have developed deeper understanding of the Group's business and possess insight and in-depth knowledge of the Group's business and affairs. As set out in the Board Charter, the Board does not encourage a Director whose term of appointment has exceeded a cumulative period of 12 years to be retained as Independent Director, unless upon assessment by an independent third party, the Board is satisfied that the said Director remains objective and continues to be independent in all aspects and will continue to seek shareholders' approval at general meeting for the retention of such Independent Director.

During FY2018, the Company had applied this practice as it sought the shareholders' approval at the 13th Annual General meeting held on 16 May 2018 to retain Independent Directors, namely Datuk Ishak bin Imam Abas and Datuk Chin Kwai Yoong, who have served more than nine (9) years on the Board. The shareholders by a significant majority of 99.9% supported their retention.

At the forthcoming 14th AGM proposed on 14 May 2019, Datuk Ishak would have served as Independent Director for more than 12 years. Datuk Chin has resigned from the Company on 19 February 2019. Datuk Ishak has confirmed

that he satisfies all the independence criteria as set out in the Listing Requirements. In line with the provisions of the Board Charter, an independent third party was engaged to provide an unbiased evaluation of Datuk Ishak and to assess if he continues to satisfy the quantitative assessment and qualitative assessment of independence in thought and mind.

The independent third party used a rigorous evaluation process which includes an assessment of Datuk Ishak's performance and effectiveness as an Independent Director by his peers through a rating assessment model and an interview session which serves as a moderation exercise to the responses by the Board members. The assessment was administered using instruments that deploy both qualitative and quantitative criteria covering his professional conduct, competence, integrity, understanding of his role and function in bringing independent judgement and objective view in the evaluation of the performance of Management, understanding of his duties on the Board and Board Committees as well as his time commitment. The outcome of the assessment by the independent third party was reported to the JRNC and the Board. The Board having considered the findings and results of the evaluation exercise views that the 'independence' of Datuk Ishak has not been impaired and will recommend to the shareholders to approve his retention as Independent Director.

The Board will seek shareholders' approval at the forthcoming 14th AGM to retain Datuk Ishak as Independent Director of the Company through a single-tier voting process. Although this is a departure from Practice 4.2, the Board views that the independent assessment by the third party confirms that Datuk Ishak's long tenure does not affect the manner in which he makes decision as an Independent Director

and the intended outcome of MCCG that Board decisions are made objectively in the best interests of the company taking into account diverse perspective and insights is still achieved.

Diversity

The Board believes that the requirement for diversity in skills, experience, gender, age and ethnicity can bring a greater range of viewpoints to boardroom debate and improve board dynamics. In this regard, the Board takes into consideration a candidate's background, gender, age and ethnicity and will make the necessary appointment based on good blend of competencies, skills, merits, extensive experience and knowledge and contribution to the overall working of the Board and the needs of the Group. Presently, the Board has one female Director in line with the Company's Board gender diversity policy to have at least one female Director. The Board will endeavour to meet the target of at least 30% women directors based on merits and effective blend of skills, experience and knowledge in areas identified, the size of the Board and the needs of the Company. The Board will do so to ensure there is greater women representation on the Board if the candidates are of equal standing.

The Board is satisfied that given the present mix of skills, independence, work experiences and industry knowledge, the Board composition meets the needs of the Group in line with the nature and scale of the business operations.

The Board recognises that workforce diversity in terms of gender, ethnicity and age, amongst others, can bring a variety of experiences and perspectives towards meeting the changing needs of the business environment and organisational growth. In this respect, the Group has in place the Equal Opportunity Policy.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

As at 31 December 2018, the workforce of the Group comprised 1818 employees in the proportion of 87% male and 13% female. The higher ratio of male employees is due to the nature of the Group's activities which are largely performed offshore. Currently, there are 29 employees holding senior management positions of the Group, of which seven are female. The Group is committed to the policy of equal pay for equal value and no divergence is tolerated on account of gender, age and/or ethnicity.

The Board, assisted by the JRNC, is responsible for developing succession plans for Board and Senior Management positions to ensure there is an appropriate dynamic of skills, experience, expertise and diversity.

Appointment and Re-election of Directors

The appointment of Directors is undertaken by the Board as a whole through a formal process as set out in the provisions of the Company's Constitution and upon the recommendation by the JRNC.

In general, the Board appoints its members through a selection process which involves the identification of candidate for directorship, evaluation and deliberation of suitability of candidate by the JRNC and recommendation to the Board. The JRNC in recommending new appointments to the Board will assess the suitability of an individual to be appointed to the Board by giving due consideration to the individual's skills, industry experience and knowledge, character, integrity and time to effectively discharge his or her role, gender, age and ethnic diversity. In respect of Independent Directors, the JRNC will assess whether the individual is able to exercise independent judgement and to demonstrate the values and principles associated with independence.

Selection of candidates to be considered for appointment as Directors is facilitated through recommendations from the Directors, major shareholders, Management or external parties including the Company's contacts in related industries, finance, legal and accounting professions. The Board will also consider sourcing candidates from other source to fill vacancy that may arise in the future. There was no appointment of Directors in FY2018.

In accordance with the Company's Constitution, at each AGM, one-third (1/3) of the Directors for the time being, or if their number is not three (3) or multiple of three (3), then the number nearest to one-third (1/3), shall retire from office and be eligible for re-election.

Directors who are appointed by the Board during a financial year are subjected to re-election by the shareholders at the next AGM to be held following their appointments. At the 14th AGM to be held on 14 May 2019, Mr Lee Yoke Khai, who was appointed as director of the Company on 15 March 2019, and being eligible, shall stand for re-election pursuant to Article 76 of the Company's Constitution.

All Directors, including the Group Managing Director, shall retire from office once at least in every three (3) years but shall be eligible for re-election.

The JRNC had assessed two (2) Directors namely, Dato' Izham bin Mahmud, the Non-Independent Non-Executive Chairman and Datuk Vivekananthan a/l M.V. Nathan, the Non-Independent Non-Executive Deputy Chairman standing for re-election pursuant to Article 78 of the Company's Constitution.

The JRNC agreed that both Dato' Izham and Datuk Vivekananthan met the criteria of character, experience and knowledge, integrity, competence and time commitment to effectively discharge their respective roles as Directors and recommended to the Board for endorsement of the Directors for re-election at the forthcoming 14th AGM.

Time Commitment

Board meetings for the ensuing financial year are planned and scheduled in advance by the Company Secretaries before the end of the financial year to enable all Directors to plan ahead.

The Chairman encourages active participation and full deliberation of issues brought up at the Board meetings. Decisions reached at the meetings reflect the consensus of the Board and not the views of any individual or group.

The Board Charter of Deleum provides that any Director, subject to the limitations on the number of directorships under the Listing Requirements or applicable laws, may accept new directorships which are not in conflict with the interests of Deleum's business and do not detrimentally affect his performance as a Director. In accepting such appointment, the Director shall take into consideration time spent on the appointment to enable him to devote sufficient time to carry out his duties to the Company. A Director shall seek guidance from the Chairman of the Board if there is any potential conflict of interest and shall upon appointment, notify the Company Secretaries who shall inform the Chairman and other members of the Board accordingly.

All Directors are expected to devote sufficient time for the effective discharge of their functions. None of the Directors of Deleum serve in more than five listed companies and the Group Managing Director of the Company does not serve as a director in other listed companies. The present directorships in external organisations held by Deleum's Directors do not give rise to any conflict of interests nor impair their ability to discharge their responsibilities to the Company.

The Board recognises the need to spend time with Senior Management to discuss the business strategies, plans and performances of the Group. All Board members have committed their time to this effect. The Board had pre-budget offsite meeting with the Management to discuss the long-term strategies and vision of the Group after engaging and discussing with the heads of business units on plans for the next cycle of strategy and budget setting for the Deleum Group for 2019. The goal was to lead and achieve a sustainable and successful business for all stakeholders based on commitments and action plans.

During FY2018, ten (10) meetings of the Board were held to approve quarterly financial results, statutory financial statements, the annual report, dividends, business plans as well as to review the performance of the Company and its operating subsidiaries, governance matters and other business development matters. The Board is satisfied with the level of time commitment given by Directors towards fulfilling their roles and responsibilities as Directors as evidenced by their attendance at the Board, Board Committee meetings and the AGM as follows:

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

Attendance of Directors at the meetings held during FY2018

Name of Director	Board Meetings	AGM	Board Committees		
			AC	JRNC	BRC
Dato' Izham bin Mahmud	10/10	1/1	-	3/3	-
Datuk Vivekananthan a/l M.V. Nathan	9/10	1/1	-	2/3	3/4
Nan Yusri bin Nan Rahimy	9/10	1/1	-	-	-
Datuk Ishak bin Imam Abas	10/10	1/1	4/4	3/3	-
Datuk Chin Kwai Yoong <i>(resigned on 19 February 2019)</i>	9/10	1/1	4/4	2/3	4/4
Datuk Ir (Dr) Abdul Rahim bin Hashim	10/10	1/1	4/4	3/3	-
Datuk Noor Azian binti Shaari	9/10	1/1	-	3/3	4/4
Total number of Meetings Held during FY2018	10	1	4	3	4

Directors' Training and Induction

The Board believes that continuous training for Directors is vital for the Directors to gain insight and be kept updated on changes and developments in the market place, state of economy and corporate regulatory framework.

On a quarterly basis, the Directors are briefed and updated on any relevant amendments to the Listing Requirements as well as applicable new statutory and regulatory requirements, corporate governance, accounting standards and taxation.

In addition, the Directors also attended various training programmes, seminars and conferences including those organised by the relevant regulatory authorities to be apprised, updated and to further enhance their knowledge and understanding of the business environment, regulatory requirements and corporate governance.

The Company Secretaries keep Directors informed of relevant external training programmes. The training programmes attended by Directors are recorded and maintained by the Company Secretaries.

For FY2018, Directors' attendance at briefings, seminars, conferences and training programmes are as follows:

Director	Date	Programmes
Dato' Izham bin Mahmud	17 January 2018	· Updates on Changes to Company Law & Listing Requirements
	16 March 2018	· Corporate Governance Briefing Session: MSSG Reporting & CG Guide
Datuk Vivekananthan a/l M.V. Nathan	17 January 2018	· Updates on Changes to Company Law & Listing Requirements
	4 December 2018	· Breakfast Series "Companies of the Future - The Role for Boards"

Director	Date	Programmes
Nan Yusri bin Nan Rahimy	17 January 2018	• Updates on Changes to Company Law & Listing Requirements
	6 February 2018	• IGU Diplomatic Gas Forum
	8 February 2018	• AMCHAM CEO Briefing: The ROI of TN50
	16 March 2018	• Corporate Governance Briefing Session: MSSG Reporting & CG Guide
	20-23 March 2018	• Offshore Technology Conference Asia 2018 (OTC Asia 2018) as Programme Committee
	25-28 March 2018	• Solar Turbines Owners' Conference 2018 (STOC 2018)
	25 – 29 June 2018	• World Gas Conference 2018 (WGC 2018)
9 August 2018	• Advocacy Programme on CG Assessment Using The Revised Asean CG Scoreboard Methodology (Malaysian PLCs)	
Datuk Ishak bin Imam Abas	17 January 2018	• Updates on Changes to Company Law & Listing Requirements
	4 December 2018	• Breakfast Series "Companies of the Future - The Role for Boards"
Datuk Chin Kwai Yoong <i>(resigned on 19 February 2019)</i>	17 January 2018	• Updates on Changes to Company Law & Listing Requirements
	22 November 2018	• Budget Dialogue with the Minister of Finance and PwC
Datuk Ir (Dr) Abdul Rahim bin Hashim	17 January 2018	• Updates on Changes to Company Law & Listing Requirements
	1 March 2018	• Corporate Governance Briefing Sessions: MSSG Reporting & CG Guide
Datuk Noor Azian binti Shaari	17 January 2018	• Updates on Changes to Company Law & Listing Requirements
	1 March 2018	• Fide Forum Event - Navigating the VUCA World
	16 March 2018	• Corporate Governance Briefing Sessions: MSSG Reporting & CG Guide
	27 March 2018	• Bursa Workshop: Cyber Resilience Moving Beyond Compliance

The Board through the JRNC had assessed the training needs of each Director and is satisfied that the Directors have received the necessary training during FY2018.

III. Board Committees

The Board has established three (3) Board Committees namely the AC, the JRNC, and the BRC. The Board Committees are entrusted with specific responsibilities to oversee the Group's affairs, and operate within their own clearly defined Terms of Reference.

The Board Committees will deliberate and review matters within their Terms of Reference in greater detail and report on matters deliberated together with their recommendations to the Board. The Board is kept apprised of the activities and the decisions of the Board Committees through circulation of minutes of the meetings of the Board Committees and oral presentations made by the Chairman of the respective Board Committees at Board meetings.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

Joint Remuneration and Nomination Committee

The JRNC comprises Non-Executive Directors, a majority of whom are Independent Directors. The Chairman of the JRNC, Datuk Ir (Dr) Abdul Rahim bin Hashim is the Senior Independent Non-Executive Director of the Company.

During FY2018, the JRNC comprised the following:

Name	Designation
Datuk Ir (Dr) Abdul Rahim bin Hashim	Chairman of JRNC/ Senior Independent Non-Executive Director
Dato' Izham bin Mahmud	Member/Non- Independent Non- Executive Chairman
Datuk Vivekananthan a/l M. V. Nathan	Member/Non- Independent Non- Executive Deputy Chairman
Datuk Ishak bin Imam Abas	Member/ Independent Non- Executive Director
Datuk Chin Kwai Yoong <i>(ceased as member on 19 February 2019)</i>	Member/ Independent Non- Executive Director
Datuk Noor Azian binti Shaari	Member/ Independent Non- Executive Director

As announced on 12 March 2019, the Board on the recommendation of the JRNC has approved the appointment of Mr Lee Yoke Khai as member of the JRNC with effect from 15 March 2019.

The JRNC is primarily responsible for the following:

- (i) reviewing and recommending appropriate remuneration packages including short and long-term incentives for Executive Directors and Key Management personnel;
- (ii) identifying and recommending new candidates to be appointed to the Board and memberships to the Board Committees;
- (iii) developing, maintaining and reviewing the criteria to be used in the recruitment process and annual assessment of all Directors;
- (iv) evaluating the effectiveness of the Board, Board Committees and each individual Director, including reviewing the Board's required mix of skills, knowledge, expertise, experience, professionalism and other qualities and core competencies;
- (v) undertaking annual assessment of the independence of the Independent Directors;
- (vi) assisting the Board in examining the size of the Board with a view to determining the impact of the number of directors on its effectiveness;
- (vii) formulating policies on Board composition, nomination and election process;
- (viii) reviewing and ensuring that all Directors receive appropriate induction and continuous training programmes; and
- (ix) reviewing the Board's succession plan.

During FY2018, three (3) meetings of the JRNC were held. The attendance of members at JRNC meetings is set out on page 76.

The Board is satisfied that the JRNC is discharging its duties in accordance with its Terms of Reference which was last reviewed on 26 February 2018 and is available on the Company's corporate website.

As appointed by the Board, the JRNC also undertook the role of the Plan Committee for the implementation and administering of the Group's Long-Term Incentive Plan (LTIP) in accordance with the By-Laws of the LTIP which was approved by the shareholders on 27 May 2014.

During FY2018, the following activities were undertaken by the JRNC:

- (i) reviewed the Terms of Reference of the JRNC in line with the practices of MCCG and particularly in the following areas:
 - sources of identifying candidates for appointment of directors;
 - selection process and criteria for appointment of directors; and
 - objectives, duties and responsibilities of the Committee.
- (ii) reviewed the Directors' Remuneration Framework for Non-Executive Directors which sets out the quantum and guidelines of payment of Directors' Fees and Meeting Allowances for Non-Executive Directors;
- (iii) reviewed the establishment of remuneration framework on determining the remuneration of Executive Directors and Key Senior Management;
- (iv) discussed and reviewed the replacement of company cars for the Chairman and the Deputy Chairman;
- (v) discussed and reviewed the proposed vehicle allowance in lieu of company car for the Group Managing Director and Group Chief Financial Officer;
- (vi) discussed and reviewed the annual bonus for the employees and the Group Managing Director in respect of FY2017 and made recommendation for the Board's approval;
- (vii) discussed salary review for the Group Managing Director;
- (viii) discussed and reviewed salary adjustment, promotion and re-designation for senior management;
- (ix) conducted annual evaluation of the Board's effectiveness and performance covering the assessment of the Board, each individual Director, each Board Committee, and independence of the Independent Directors;
- (x) assessed and recommended the retention of two Independent Directors, who have served for a cumulative term of more than nine years but less than 12 years, to continue to act as Independent Directors of the Company. Their assessment was based on the criteria to ensure that they can continue to bring independence and objective judgment.;
- (xi) reviewed the training courses attended by the Directors;
- (xii) reviewed the Directors who are due for re-election at the Company's 13th AGM and recommended their re-election;
- (xiii) reviewed the proposed key performance Indicators (KPIs) for the Group Managing Director and recommended the same for the Board's approval;
- (xiv) reviewed the Talent Management Framework exercise including the criteria for the role of Group Managing Director for succession planning purposes; and
- (xv) the vesting of the following ordinary shares in Deleum (Deleum Shares) under the Restricted Share Incentive Plan (RS Award) of the LTIP to selected eligible employees:
 - 297,200 Deleum Shares under the Third Tranche of First Grant;
 - 450,100 Deleum Shares under the Second Tranche of Second Grant; and
 - 183,100 Deleum Shares under the Second Tranche of Special Grant.

The Company did not grant any shares under the LTIP during FY2018 based on the current market situation.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

Audit Committee

The AC has responsibility for oversight of the Company's financial statements, related party transactions, system of internal control, the Company's relationship with its external auditors and effectiveness of internal audit procedures.

A full AC Report enumerating its membership and a summary of its activities during the financial year is set out on pages 97 to 105 of this Annual Report.

Board Risk Committee

The BRC assists the Board to oversee the implementation of the Group's risk management framework. It ensures the Group has in place a sound enterprise risk management framework and such framework has been effectively implemented to enhance the Group's ability to achieve its strategic objectives. The Management Risk Committee manages the day-to-day operational and business risks. It holds its monthly meeting with structured agenda.

The composition of the BRC and a summary of its activities during the financial year are set out in Section B II - "Risk Management and Internal Control Framework" of this Statement.

Annual Assessment of Board, Board Committees and Individual Directors

The Board through the JRNC and facilitated by the Company Secretary, annually assesses the effectiveness of the Board, Board Committees and the contribution of each individual Directors by way of a set of customised questionnaires. For FY2018, the assessment was conducted online in line with the Group's digitalisation efforts. Summary of results of the annual assessment are tabled to the JRNC for deliberation and reported to the Board.

The outcome of the evaluation for FY2018 highlighted certain key focus areas and future priorities for the Board's consideration, amongst others, including the following:

- enhancement in risk assessment holistically and ensuring effective implementation of mitigation action plans and meeting business objectives.
- consideration for Board membership, persons with IT knowledge and expertise especially one with exposures to cyber security and risks, and with skills of a qualified engineer with operational experience on platforms and rigs.
- revisit the LTIP which was aimed at driving performance and as a retention strategy for senior management and key personnel.

Annual Assessment of Independence

The assessment of the independence of each of the Independent Directors is undertaken annually according to set criteria as prescribed by the Listing Requirements. In addition, the individual's ability to exercise independent judgement and to demonstrate the values and principles associated with independence such as impartiality, objectivity, and consideration of all stakeholders' interests is also assessed.

Based on the evaluation, the JRNC and the Board concluded that all the Independent Directors of the Company continue to demonstrate conduct and behaviour that are essential indicators of independence, and that each of them is independent of the Company's management and free from any business or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interest of the Company. The Board was satisfied that the Independent Directors continued to exercise independent and objective judgement and

acted in the interest of the Company and its stakeholders. None of the Independent Directors have any interests in the Company other than shares held amounting to less than 1% and there are no other areas of business conflicts.

IV. Remuneration of Directors and Key Senior Management

The objective of the Group's remuneration policies is to provide fair and competitive remuneration to its Board and Senior Management for retaining a high-quality team for the Group. The Remuneration Framework for Executive Directors and Key Senior Management is available on the Company's corporate website.

The details of Directors' and Key Senior Management's remuneration received or to be received for FY2018 (both from the Company and the Group) are as follows:

(a) Remuneration of Executive Director (Group Managing Director)

During FY2018, the Group Managing Director received the following total remuneration from the Company and did not receive any remuneration from the subsidiaries of the Group:

Director/ Group Managing Director	Remuneration (RM)						
	Fees	Salaries and bonuses	Defined contribution plan	*Estimated monetary value of benefits-in- kind	LTIP	#Other emoluments	Total
Nan Yusri bin Nan Rahimy	-	1,293,000	193,950	20,525	185,082	9,183.95	1,701,740.95

* Comprised of prescribed value of company car and driver

Comprised of contribution to Social Security Organisation (SOCSSO), Employment Insurance Scheme (EIS) and club subscription fees.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

As set out in the contract of employment of the Group Managing Director, Nan Yusri bin Nan Rahimy, the compensation payable to him consists of:

- Monthly salary;
- Annual discretionary bonus based on the Group's performance and as recommended by the JRNC and approved by the Board;
- Defined contribution plan;
- Medical and insurance coverage and club subscriptions; and
- Company car and driver.

In addition to the above, the Group Managing Director is entitled to participate in the Group's LTIP scheme.

The Group Managing Director's remuneration package is structured so as to link to corporate and individual performance, aligned with the corporate objectives, and approved by the Board. He is not entitled to any Director's fee from the Group nor is he entitled to receive any meeting allowances for Board or Board Committee meetings. The JRNC reviews the performance of the Group Managing Director annually and submits recommendation to the Board on adjustments in remuneration and/or reward to reflect the Group Managing Director's achievement for the year.

Termination of the contract may be exercised by either party by giving three (3) months' notice in writing.

During FY2018, Nan Yusri bin Nan Rahimy was vested the following shares under the RS Award of the LTIP:

- (i) 48,600 Deleum Shares under Third Tranche of First Grant on 2 March 2018;
- (ii) 72,700 Deleum Shares under Second Tranche of Second Grant on 22 March 2018; and
- (iii) 49,800 Deleum Shares under Second Tranche of Special Grant on 12 June 2018.

(b) Remuneration of Non-Executive Directors

The payment of Directors' fees and meeting allowances for Non-Executive Directors are based on the Non-Executive Directors' Remuneration Framework. The framework is available on the Company's corporate website.

Non-Executive Directors are entitled to Directors' fees and additional fees for chairing or sitting in Board Committees except for the Chairman and Deputy Chairman who do not receive any additional fees. They are each provided a car, a driver and club subscriptions. Non-Executive Directors are not entitled to participate in the LTIP of Deleum or any incentive plan for employees of the Group.

During FY2018, the Non-Executive Directors' fees and meeting allowances were paid in accordance with the Non-Executive Directors' Remuneration Framework, as follows:

Designation	Fixed fee per month (RM)
Chairman	25,000
Deputy Chairman	25,000
Members of the Board	4,000

Board Committees' Fees:

Designation	AC (Fixed fee per month) (RM)	JRNC (Fixed fee per month) (RM)	BRC (Fixed fee per month) (RM)
Chairman	2,500	1,000	1,000
Members of the Committee	2,000	1,000	1,000

Fixed meeting allowances are also paid to Non-Executive Directors covering expenses incurred in the course of their duties except for the Chairman and Deputy Chairman.

The Board as a whole determines the remuneration of Non-Executive Directors which is subject to the approval of the shareholders at the AGM. There is no change in the fees and meeting allowances paid to the Non-Executive Directors during FY2018 until the date of AGM in 2019 i.e. 14 May 2019.

The Directors' Remuneration Framework for Non-Executive Directors is available on the Company's corporate website.

For FY2018, the total remuneration received by the Non-Executive Directors individually from the Company are set out below. They did not receive any remuneration from the subsidiaries of the Group:

Directors	Fees (RM)	Salaries and bonuses (RM)	Defined contribution plan (RM)	*Estimated monetary value of benefits-in- kind (RM)	Meeting Allowances (RM)	*Other emoluments (RM)	Total (RM)
Dato' Izham bin Mahmud (Chairman of Board)	300,000	-	-	22,700	-	4,151.59	326,851.59
Datuk Vivekananthan a/l M.V. Nathan (Deputy Chairman of Board)	300,000	-	-	22,700	-	18,684.30	341,384.30
Datuk Ishak bin Imam Abas (Chairman of AC)	90,000	-	-	-	29,000	-	119,000
Datuk Chin Kwai Yoong (Chairman of BRC) <i>(resigned as Director on 19 February 2019)</i>	96,000	-	-	-	27,500	-	123,500

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

Directors	Fees (RM)	Salaries and bonuses (RM)	Defined contribution plan (RM)	*Estimated monetary value of benefits-in-kind (RM)	Meeting Allowances (RM)	#Other emoluments (RM)	Total (RM)
Datuk Ir (Dr) Abdul Rahim bin Hashim (Chairman of JRNC)	84,000	-	-	-	24,000	-	108,000
Datuk Noor Azian binti Shaari	72,000	-	-	-	20,500	-	92,500
Total (RM)	942,000	-	-	45,400	101,000	22,835.89	1,111,235.89

* Comprised of prescribed value of company car and driver

Comprised of club subscription fees

Directors and Officers of the Group are covered under a Directors and Officers Liability Insurance Policy against any liability incurred by them in their discharge of duties while in office. However, they are not indemnified if any negligence, fraud, breach of duty or trust is proven against them.

(c) Remuneration of Senior Management

For FY2018, the aggregate total remuneration paid to Deleum Group's top five (5) Key Senior Management personnel, who are not Directors, comprising the Group Chief Financial Officer and four (4) Chief Executive Officers of the subsidiaries of the Group is RM4,128,606.55, as follows:

Remuneration (RM)							
Salaries and bonuses	Defined contribution plan	** Fixed Allowances	*Estimated monetary value of benefits-in-kind (RM)	LTIP	#Other emoluments	Total	
2,889,784	398,768	432,461.30	94,815.25	308,161	4,617	4,128,606.55	

** Comprised of car allowance

* Comprised of prescribed value of company car and driver, petrol consumption and mobile expenses

Comprised of contribution to SOCSO and EIS

In addition, they are covered under the Group insurance policies for Term Life, Hospitalisation and Personal Accident. The annual discretionary bonus is based on the individual's and the Group's performance as recommended by the JRNC and approved by the Board.

The top five (5) Key Senior Management personnel's remuneration received during the financial year is categorised within the disclosure band as follows:

Remuneration Band (RM)	Number of Key Senior Management personnel
RM750,001 – RM800,000	2
RM800,001 – RM850,000	2
RM900,001 – RM950,000	1

The Board is of the view that the disclosure in the above manner is appropriate.

No Director or Key Senior Management personnel is involved in deciding his/her own remuneration.

B. EFFECTIVE AUDIT AND RISK MANAGEMENT

I. Audit Committee and Financial Reporting

The Board is assisted by the AC to oversee the Group's financial reporting process, the quality of its financial reporting and also to ensure that the financial statements are drawn up following appropriate accounting policies and in accordance with the provisions of the Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS) and the CA 2016. The accounting policies, once adopted, are consistently applied and supported by reasonable judgments and estimates.

The Group Managing Director and the Group Chief Financial Officer provided assurance in writing to the AC that adequate processes and controls are in place, that appropriate accounting policies had been adopted and applied consistently, and that the relevant

financial statements gave a true and fair view of the state of affairs of the Company and the Group.

Statement of Directors' Responsibilities in Relation to Audited Financial Statements

The Directors are required by the CA 2016 to prepare the financial statements for each financial year which have been made out in accordance with the applicable MFRS, IFRS and the requirements of the CA 2016. The Board is responsible for presenting a balanced, clear and comprehensive assessment of the Group's financial position, performance and prospects through the quarterly and annual audited financial statements released to the shareholders.

In preparing the financial statements of the Group for FY2018, the Directors have:

- adopted the appropriate accounting policies and applied them consistently;
- ensured compliance with the MFRS, IFRS, CA 2016 and any material departures have been disclosed and explained in the financial statements;
- made estimates and judgments which are reasonable and prudent; and
- ensured the financial statements have been prepared on a going concern basis and give a true and fair view of the state of affairs of the Company and the Group.

The Directors have inquired of Management and the Auditors in respect of any fraud or irregularities impacting the Group. No such matter was reported to the Board in 2018.

The Directors are responsible to ensure that the Group and the Company keep accounting records which disclose the financial position of the Group and of the Company with reasonable accuracy, enabling them to ensure that the financial statements comply with the CA 2016.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

The Directors are responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and of the Company and to detect and prevent fraud and other irregularities.

External Auditors

The Company's external auditors continue to report to the Company on their findings which are reported in the Company's financial reports with respect to each year of audit on the statutory financial statements and the review of the quarterly announcements. The AC and the Board have established formal and transparent arrangements to maintain appropriate relationships with the Company's external auditors in respect of all their professional services rendered to the Group.

As prescribed in the AC's Terms of Reference, the AC is responsible for the recommendations of the appointment of external auditors, considering the adequacy of experience, resources, audit fee and any issues regarding resignation or dismissal of the external auditors.

The external auditors also submitted their independence statement to the Board as part of their audit process. In order to further maintain independence of the external auditors, the audit partner-in-charge is rotated every five (5) years with the last rotation in FY2016. Assessment of the external auditors is disclosed in the AC Report.

II. Risk Management and Internal Control Framework

The Board acknowledges its responsibility for ensuring the maintenance of a sound system of internal controls and risk management. The Company has the Enterprise Risk Management (ERM) Policy and ERM Framework to ensure a proper and structured enterprise risk management processes for the identification, assessment, response, monitoring and reporting of risks on an enterprise wide basis. The BRC reviewed the ERM Framework as and when it is necessary. The ERM Framework was last reviewed and revised on 22 August 2017.

Board Risk Committee

The BRC comprises a majority of independent directors to oversee the Company's risk management framework and policies.

During FY2018, the members of the BRC are as follows:

Name	Designation
Datuk Chin Kwai Yoong <i>(ceased as chairman on 19 February 2019)</i>	Chairman/ Independent Non- Executive Director
Datuk Vivekananthan a/l M. V. Nathan	Member/Non- Independent Non- Executive Deputy Chairman
Datuk Noor Azian binti Shaari	Member/ Independent Non- Executive Director

As announced on 12 March 2019, the Board on the recommendation of the JRNC has approved the appointment of Mr Lee Yoke Khai as Chairman of the BRC with effect from 15 March 2019.

During FY2018, four (4) meetings of the BRC were held and the attendance of members at BRC meetings is set out on page 76.

The BRC is primarily responsible for the following:

- (i) reviewing the Group's risk profile and appetite and establishing and monitoring the effectiveness of the risk management framework, systems, plans, and processes for identifying, evaluating, monitoring and reporting of risks;
 - (ii) identifying, reviewing and evaluating risks facing the Group and reviewing the adequacy of the Group's processes and procedures to identify and mitigate key organisational risks;
 - (iii) ensuring that continuous risk assessment and monitoring of key risk indicators and exposures are performed by Management based on the Group's risk profile and appetite and that adequate risk mitigation processes, action plans and controls formulated and implemented by Management are functioning effectively;
 - (iv) making necessary recommendations to the Board on risk management and control, where appropriate; and
 - (v) updating the Board on the activities of the BRC at the quarterly Board meetings.
- (iii) reviewed the revision of ERM Framework;
 - (iv) reviewed COBC Questionnaire for employees' online awareness test;
 - (v) reviewed the Control Self-Assessment Checklist for the Group's Key Risk Profile and the results;
 - (vi) notation of the minutes of the Management Risk Committee (MRC);
 - (vii) reviewed the compliance checklists of three major contracts;
 - (viii) reviewed the project risk assessment for the MCM Contract;
 - (ix) reviewed the Explosive Items Handling Report ;
 - (x) reviewed the revised Standard Operating Procedures for explosive items;
 - (xi) reviewed the Depreciation Policy for Deleum Oilfield Services Sdn. Bhd.;
 - (xii) reviewed the outcome of interim interview with external auditors on risk management and internal audit function for FY2018;
 - (xiii) reviewed the Key Risk Profile of Penaga Dresser Sdn. Bhd.;
 - (xiv) reviewed the gap analysis between PETRONAS Contractors Code of Conduct on Human Rights and Deleum's Equal Opportunity Policy and Grievance Policy;
 - (xv) reviewed the Overview of Business Continuity Management; and
 - (xvi) reviewed and revised the Terms of Reference of the MRC.

More comprehensive information is set out in the SORMIC.

Internal Audit Function

Deleum engaged the services of BDO Governance Advisory Sdn. Bhd. as the outsourced Internal Audit Function, which reports directly to the AC and is independent from Management. It has full access of the Group's entities, records and personnel.

A summary of the Internal Audit Function's responsibilities and activities is set out in the AC Report.

The Terms of Reference of the BRC was last reviewed and revised on 22 August 2017 and is available on the Company's corporate website.

During FY2018, the following activities were undertaken by the BRC:

- (i) reviewed the revision of Group's Key Risk Profile comprising Operational and Market, Regulatory, Legal, Human Capital, Safety and Financial risks;
- (ii) reviewed the Group's Risk Impact perimeters;

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONTINUED)

C. INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

I. Communication with Stakeholders

The Board values the importance of an effective open dialogue with the shareholders and investment community. In this respect, the Group has established processes to ensure disclosures made are clear, accurate, relevant and timely for the shareholders and investment community to make informed investment decisions and enjoy equal access to the information.

The Group continued to engage with the analysts and fund managers on investor relations. The Group held two (2) analyst briefings in FY2018 to provide updates to the investment community. Additional group briefings, private meetings, teleconferences, and media related interviews were also held as and when required. Presentation materials of the analyst briefings were posted on the Company's website to ensure universal access to the same. These investor relations initiatives provide an avenue for dialogue between institutional investors, fund managers and analysts with the Senior Management. It also serves as an effective platform for the fund managers and analysts to receive a balanced and complete view of the business operations, financial performance, key operating statistics and corporate development and challenges facing the Group.

Information on the Group's business operations and financial performance is also disseminated through various readily accessible channels including the announcements of quarterly and annual results via Bursa Securities, Annual Report, media releases and the Company's corporate website. The various disclosures are guided by the Listing Requirements and the

Group's Corporate Disclosure Policy which outlines the timing and manner of disclosure of material information. The Group maintains high confidentiality measures with regard to undisclosed material information.

Deleum's corporate website at www.deleum.com provides quick access to the corporate information of the Group and is regularly updated to incorporate the latest development of the Group. The Group's corporate information, financial results, governance information, statutory announcements, stock information, press releases and corporate related activities are assessable via the Company's corporate website. The website also has an e-mail alerts service where shareholders and anyone who are interested may register to receive the latest announcements on the Group via e-mail. Shareholders' and other stakeholders' queries and concerns affecting the Group can be conveyed to Datuk Ir (Dr) Abdul Rahim bin Hashim, the Senior Independent Non-Executive Director of Deleum who can be reached as follows:

Datuk Ir (Dr) Abdul Rahim bin Hashim

c/o Company Secretary
No. 2, Jalan Bangsar Utama 9
Bangsar Utama
59000 Kuala Lumpur
Tel : +603-2295 7790
Fax : +603-2295 7777
Email : AbdulRahim.Hashim@deleum.com

Shareholders and investors may also direct their queries to the following persons:

Ms Lee Sew Bee

Senior General Manager – Group Corporate Services/Company Secretary
Tel : +603-2295 7790
Fax : +603-2295 7777
Email : SewBee.Lee@deleum.com

Ms Lee Hooi Woen

General Manager – Group Finance
 Tel : +603-2295 7732
 Fax : +603-2295 7777
 Email : HooiWoen.Lee@deleum.com

II. Conduct of General Meetings

AGM is an important channel as it is the principal forum for dialogue and interaction amongst shareholders, the Board and Management and for receiving constructive feedback from shareholders. Shareholders who are unable to attend are allowed to appoint proxies to attend and vote on their behalf.

The notice of AGM will be sent to shareholders at least 28 days ahead of the meeting date together with the Audited Financial Statements and agenda for the meeting. At the AGM, the Group Managing Director presents the Group's financial highlights and business activities to the shareholders. The 14th AGM will be convened on 14 May 2019.

All Directors including the Chairman of the AC, JRNC and BRC as well as the external auditors were present at the last AGM held on 16 May 2018 to provide meaningful response to questions addressed to them. The Chairman provided ample time for shareholders to participate in the Questions and Answers session. Suggestions and comments communicated by shareholders were noted by the Board and Management.

Poll voting for all resolutions as set out in the notice of the AGM was conducted via electronic means to expedite verification and counting of votes. An independent scrutineer was appointed to validate the votes cast at the AGM. The outcomes of voting were announced to Bursa Securities after the AGM and posted in the Company's corporate website.

III. Dividends

Deleum continues to commit to its dividend policy of distributing 50% of the Group's annual profit attributable to the equity holders of the Company, subject to the availability of adequate distributable reserves, operating cash flow, financial commitments and expansion plans. For FY2018, the Company declared two dividend payments amounting to 3.50 sen per share which were paid within 30 days from the entitlement date.

COMPLIANCE STATEMENT

The Board recognises and subscribes to the importance of the principles and best practices set out in the MCCG. In this respect, where practical and appropriate, the Board has applied the principles and recommendations under the MCCG for FY2018.

The application of each Practice set out in the MCCG during FY2018 and the explanation for a departure is disclosed in the Corporate Governance Report which is available in the Company's corporate website www.deleum.com.

The Board has deliberated, reviewed and approved this Corporate Governance Overview Statement and the Corporate Governance Report on 12 March 2019.

STATEMENT ON RISK MANAGEMENT AND 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) AND IS IN LINE WITH THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2017 (MCCG).

BOARD RESPONSIBILITIES

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

The Board is aware that the risk management and internal control systems can only provide reasonable and not absolute assurance against the risk of material errors, misstatement, fraud or occurrences of unforeseeable circumstances.

RISK MANAGEMENT

Board Risk Committee

The Board Risk Committee (BRC) is chaired by an Independent Non-Executive Director. The BRC meets on a quarterly basis to review the effectiveness of the risk management process and reports arising from risk management activities and also to discuss new and emerging risks.

The duties and responsibilities of the BRC are set out in the Corporate Governance Overview Statement of this Annual Report.

Management Risk Committee

The Management Risk Committee (MRC) was established in 2017 to manage risks on a dynamic basis given that all manner of risks are inherent in our businesses. This Committee provides a platform for members of the Senior Management team to bring their cumulative knowledge and experiences of the trading conditions, operating environment and regulatory requirements to facilitate the identification and monitoring of existing and emerging risks impacting the businesses. The MRC is chaired by the Group Managing Director (GMD) and meets on a monthly basis where matters discussed at the MRC is reported to BRC on a quarterly basis.

The MRC's duties include:

- i. the Group's key risks are deliberated and taken into account in the Group's business strategies,
- ii. the process of risk identification up to the mitigation plans are appropriately considered,
- iii. the risk framework including the strategies, policies and action plans are effectively implemented and
- iv. monitoring and reporting to the Board the risk activities undertaken on a quarterly basis.

During the year, the Terms of Reference for MRC were revised and subsequently approved by the BRC. The revisions included the induction of the Chief Executive Officer of Penaga Dresser Sdn. Bhd. as a new MRC member.

The day-to-day management of risks is the responsibility of the GMD and the heads of business units are responsible in representing the GMD's obligation to all business units. The Senior Management team assisted by Group Risk Department continuously supports the GMD in integrating risk management strategies, policies, risk tolerance, risk appetite and reviewing the application of risk management practices across the Group in line with Deleum's Enterprise Risk Management (ERM) Framework.

KEY RISKS 2018

Operational Risk

Operational risk relates to the risk of loss as a consequence of inadequate or ineffective processes, people and systems impacting the Group's ability to meet its business objectives. This risk was heightened following the continuous fluctuations in oil prices. All our key customers had embarked on operational efficiency programs and reigning in capital expenditures. To manage this risk, the Group widened its integration across the business units to offer customers holistic solutions, new technological products and services in collaboration with partners whilst emphasising on strict cost disciplines alongside measures to improve operational efficiency and productivity.

The Management's mandate is to manage operational risks in a cost-effective manner to prevent financial loss or damage to the Group's reputation. In this context, the Board is reasonably satisfied that the risk had been managed appropriately in light of the difficult trading conditions. Whilst the Group's revenue earned since 2014 were volatile, the Group remained profitable and operating cash generation remained positive and facilitated the fulfilment of our dividend policy.

Financial Risk

Financial risk involves the risk of market volatilities affecting exchange rates and interest rates which may affect the values of our financial assets and liabilities.

One of the Group's key financial risks is currency volatility. A major portion of the Group's revenue and costs are conducted in foreign currencies, primarily the US Dollar (USD). To manage this risk, the Group has in place a Board authorised hedging policy and procedures to manage currency fluctuations. The Board strictly prohibits any speculative activity on currencies.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

To fund its operations the Group relies on Ringgit Malaysia credit facilities from reputable financial institutions. These comprise mainly term loans, import credits and revolving credits. The costs of these facilities are mainly based on the lending institutions' rates which include agreed upon margins. The Board believes that the existing strategies and policies and processes in place are appropriate and effective in managing interest rate risk.

Legal Risk

Legal risk is the risk of financial loss or damage to the Group's reputation arising from failure to comply with contractual terms or the possibility that the Group's interest is not properly protected.

The Group Legal Department partners closely with the business units in mitigating potential legal risks. The department reviews contractual terms to identify and monitor regularly on potential legal issues that may arise. The Group benefits from having a Board member with legal expertise and experience whom Management consults on a need basis. External legal advice may be sought where appropriate, especially in specialised areas.

Safety Risk

The safety of people and assets is a top priority in the oil and gas industry and any adverse incident could result in significant financial loss and damage to the Group's reputation. Hence the Group has in place comprehensive safety policies and processes to address this risk and its effectiveness could be measured by the fact that as of February 2019, the Group had recorded 12.7 million free Lost Time Injury man-hours since 25 August 2012. In recognition of our excellent safety record in 2018, the Group was awarded, amongst others, HSE Achievement Awards by PCSB, MISC and EnQuest. The details of these awards are disclosed in the Sustainability Report on page 60.

Human Capital Risk

Human Capital risk commonly stems mainly from dealing with challenges in attracting talent, managing turnover and competency gaps. The Group has in place

comprehensive learning and development programmes to equip our people with relevant knowledge and skills demanded by the industry. Annually, leaders assess performance of people through annual performance review exercise whilst addressing learning gaps through the establishment of Individual Development Plans. Leadership capabilities are also looked into, particularly in the area of bridging competency gaps between leadership tiers and equipping leaders with managing capabilities in mitigating employee turnover.

In 2018, the Senior Management Team attended the customised valued-based Leadership Development Program. The program emphasises on key values of leadership such as compassion, courage, integrity, responsibility, humility, honesty, loyalty and fairness. Leadership gaps are continuously being assessed in keeping up with the evolving landscape of managing people. Apart from that, the Group is consistently reviewing our position in terms of remuneration and benefits in our effort to ensure compatibility within the industry.

In the Group's effort to enhance the employability of women, the Group revised maternity benefits from 60 days to 90 days, alongside with the enhancement of paternity benefits.

Risk Management Process

The risk management process in Deleum is consistent with The Committee of Sponsoring Organizations of the Treadway Commission (COSO) ERM Framework. The risk management approach taken in Deleum is a bottom-to-top review process. The development of risk profiles begins with assessment at the business unit level before escalating upwards to the executive suite including the MRC and subsequently to the BRC. These assessments depend significantly on inputs from various levels of employees, particularly the key business and process owners. Therefore, a clear understanding by all employees that managing risks is a collective responsibility is central to the Group's risk management process.

Control Self-Assessment Checklist

A Control Self-Assessment (CSA) checklist is a tool developed to assess the adequacy of processes and controls in place within all business units.

The CSA has enabled the Management to track the processes and controls that were put in place to mitigate risks and acts as a check and balance mechanism to ensure that effective action plans, processes and controls are in place. During the year, the CSA for the Group's Key Risk had been reviewed by the Group Risk Management Department and were satisfied with the responses provided.

Risk Briefings and Awareness Sessions

During the year, risk briefings were held with senior managers on a quarterly basis whilst awareness sessions were conducted for all relevant personnel from operational business units and corporate resource units. This is to ensure that the risk processes are reasonably understood and that personnel involved are able to identify and address risks appropriately. Besides being briefed on the ERM Framework and the revisions made, the participants were also informed of the Group's key risks, impact, control measures and action plans.

Risk sessions are also conducted for the project team in respect of large projects during the bidding process to ensure that material risks are identified, assessed and their impact are factored in shaping the business and pricing strategies. This is in accordance with the Project Risk Management Guideline that defines the scope and process for the identification, assessment, management and monitoring of project risks.

Project risks identified are documented in the project risk registers. The assessment is performed using qualitative and quantitative methods to determine the risk exposure. The project risk registers are maintained and reviewed accordingly throughout the project duration to ensure that the risk response strategy and mitigation plans are implemented and monitored regularly.

CONTROL STRUCTURE

The key features of the Group's control structure are as follows:

- **The Board**

The Board provides direction and oversight and is supported by the Joint Nomination and Remuneration Committee (JRNC), Audit Committee (AC) and BRC. Their terms of reference and responsibilities are defined, and together with the Board Charter are available for reference on the Company's corporate website.

The specific lines of responsibility, accountability and delegation of authority as approved by the Board are to facilitate the Group's daily operations and rest with the GMD and the Senior Management team accordingly.

- **Strategic Business Planning, Budget and Reporting**

The planning process for the ensuing year starts with the strategy setting meeting between the Board and the GMD. The deliberations and the decisions are then taken forward in the preparation of the Group Strategic Plan and Budget which sets out clearly the overall objectives, strategies, operating and capital budgets which are approved by the Board in November/December before the commencement of the new financial year. Detailed budgets are prepared by the operational business units and corporate resources units and submitted to the Group Finance Department which consolidates these into a Group Budget. Besides that, an offsite Board meeting between the Board, GMD and GCFO is held to give the Board an avenue to further discuss, deliberate business strategies of the Group for the upcoming year. These expectations are then shared with the Senior Management team in the development of the 2019 Strategies and Budget for the Group.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

The strategic plan covers the Group's strategies and key focus areas for the upcoming year, including operating and financial performance, key business indicators, regional and international expansion plans, key focus areas, core values, Quality, Health, Safety and Environment (QHSE), resource utilisation, capital expenditure, cash flow projection, facilities and operational support, and human capital development.

Upon approval of the strategy and budget, the Group's performances against budget were reported to GMD whilst respective business units' performances were reported to heads of business units and discussed at the monthly Exco meeting.

The Board reviews the results against budget and historical results on a quarterly basis in conjunction with the public announcement of the Group's quarterly results. Concurrently, Management provides a rolling forecast/outlook of the business and any changes in plans and directions are deliberated and sanctioned by the Board accordingly.

- **Audit Committee**

The AC evaluates the adequacy and integrity of the Group's internal control system. The AC reviews internal control matters raised by the internal and external auditors and Management. Where appropriate, the AC is briefed on matters pertaining to corporate governance, financial reporting standards, listing requirements, legal and regulatory requirements as well as key matters affecting the interim and annual financial statements. Details of the AC's activities and responsibilities are further discussed and are set out in the AC Report of this Annual Report.

- **Internal Audit**

The Internal Audit function is undertaken by BDO Governance Advisory Sdn. Bhd. (BDO), a firm that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors.

BDO's primary role is to review the state of the internal controls maintained by the Group and to provide assurance to the AC on the adequacy and integrity of the internal controls and governance framework of the Group. They provide an independent and objective assessment on the adequacy and effectiveness of the risk management, internal control and governance processes.

Details of the Internal Audit reviews conducted during the year are set out in the AC Report.

- **Group Values and Code of Conduct (COBC)**

The Group values are communicated through the Group's corporate statement and each employee is required to comprehend and observe the Group's COBC upon commencement of employment. The Group's Shared Values and COBC are available on the Company's corporate website and the Group's intranet accessible by all employees.

Furthermore, updates on COBC and/or business policies and principles from business partners and customers are communicated to all employees. For contractors, subcontractors, vendors and other service providers, the COBC is directly communicated via our business terms and conditions.

To promote further awareness amongst the employees and visitors, posters covering key critical COBC points such as harassment, anti-bribery, drugs and alcohol are placed at the Group's offices and work places.

To ensure that all employees are aware of and familiar with the COBC, briefings are conducted at office locations in Miri, Labuan and Kemaman. In addition, an awareness test is set for employees to affirm their knowledge, understanding and compliance with the COBC. The test is conducted on an annual basis. During the year, separate tests were conducted for Executive and Non-Executive employees accordingly, and all employees including Board of Directors had successfully participated in the test.

The human rights policy was established during the year and it supersedes the existing Equal Opportunity disclosure in the COBC. Deleum is responsible to comply and socialise the Universal Declaration of Human Rights which is embedded in all contracts with PETRONAS and it is the responsibility of Deleum to ensure that these rights are complied with by Deleum and its business partners. The 30 Human Rights of Universal Declaration of Human Rights has been included as part of the Human Resource Policies of Deleum and is socialised with employees during their onboarding induction by HR.

The Human Rights of Universal Declaration of Human Rights is published in Deleum's corporate website in dual languages (Bahasa Malaysia and English). Suppliers and subcontractors were informed to refer to Deleum's corporate website and reminders of the Policy are mentioned in the Group's purchase orders.

- **Whistleblowing Policy**

The Whistleblowing Policy facilitates employees of the Group and external parties to report any wrongdoings and provides assurance of confidentiality and safeguards against victimisation. The Board is pleased to note that there was no case reported during the year via the Whistleblowing channel.

The policy was last reviewed by the Board and updated in May 2018 in line with current practices. The policy is available on the Company's corporate website.

- **Authorisation Limits**

Authorisation limits in respect of organisational requirements for decision-making limits such as purchasing of goods and/or services, cash management and disbursements, contracting, treasury and banking transactions, human resources and approval of agreements for ordinary course of business are clearly defined and documented for each level of management within the Group. The guidelines also set out matters reserved for the Board's decision. The limits are reviewed and updated regularly to reflect the business environment, operational and structural changes.

- **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 by Management and periodically by Internal Auditors to ensure that gaps in policies and controls are addressed and where required, policies and procedures are augmented and revised to meet with the changing business dynamics. The process improvement section within the Group reviews the efficiency and effectiveness of the processes and procedures to meet the Group's business goals.

- **Quality Management System (QMS) and Environmental Management System (EMS) Audit**

The Group QHSE Department is responsible for the Group's QMS and EMS certification and audit. The Group successfully maintained its ISO 9001:2015 certification under Deleum Services Sdn. Bhd. (DSSB) covering the products and services of Deleum Oilfield Services Sdn. Bhd. (DOSSB), Deleum Chemicals Sdn. Bhd. (DCSB), Deleum Primera Sdn. Bhd. (DPSB) and Deleum Rotary Services Sdn. Bhd. (DRSSB).

In July 2017, Turboservices Sdn. Bhd.'s (TSSB) ISO 9001:2015 was independently certified. The Group also maintained its ISO 14001:2015 EMS certification for DCSB. These certifications provide assurance to customers of the delivery of quality products and services and compliance with regulatory requirements.

During the year under review, planned audits for ISO certification were performed by Certified IRCA (International Registered Certified Auditors) Internal Auditors on DSSB, DOSSB, DCSB, DRSSB, DPSB, TSSB, Group Information Communication Technology Department, Group Human Resource Department and Group Procurement Department. The audits confirmed these Companies' and Department's continued compliance with the relevant ISO standards.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

• Corporate Secretariat and Compliance

The Company Secretarial function is under the stewardship of the Company Secretaries whose roles and responsibilities are discussed in the Corporate Governance Overview Statement of this Annual Report.

ADEQUACY AND EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Board had reviewed the effectiveness of the Group's risk management and internal control systems for the year under review and up to the date of approval of this Statement for inclusion in the Annual Report.

The Board is satisfied with the Group's ongoing processes for identifying, evaluating, managing and monitoring the risks of the business, including the scope and frequency of reports on both risk management and internal controls.

The Board is of the opinion that there are sufficient controls and appropriate management action plans in place to meet the business objectives and strategies of the Group.

No weaknesses in internal control that have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report were noted. Deleum's internal control systems are not extended to the associate companies in which the Group's interests are safeguarded through board representation.

CONCLUSION

The external and internal auditors, in the course of executing their work based on the pre-approved review plans had highlighted their findings and recommendations for addressing the deficiencies and lapses in controls noted during their work. On the basis of the work conducted, they did not note any significant deficiencies in the internal control system.

For the financial year under review, the Board had received representations from the GMD and Group Chief Financial Officer, that the risk management and internal control processes were adequate to safeguard shareholders' investments and the Group's assets.

REVIEW OF THIS STATEMENT

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Audit and Assurance Practice Guide (AAPG) 3 issued by the Malaysian Institute of Accountants. AAPG 3 does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

Based on the procedures performed, nothing had come to their attention that caused them to believe that the Statement on Risk Management and Internal Control set out above was not prepared in all material respects 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 nor was it factually incorrect.

This statement is made in accordance with the resolution of the Board dated 25 February 2019.

AUDIT COMMITTEE REPORT

DURING FINANCIAL YEAR 2018 (FY2018), THE AUDIT COMMITTEE (AC) HAS CONTINUED TO PLAY A KEY OVERSIGHT ROLE ON BEHALF OF THE BOARD. THE AC PROVIDES ASSISTANCE TO THE BOARD IN FULFILLING THE BOARD'S RESPONSIBILITIES TO DELEUM BERHAD (DELEUM OR THE COMPANY) AND ITS SHAREHOLDERS BY REVIEWING AND MONITORING INTEGRITY OF THE FINANCIAL REPORTING PROCESS AND ACCOUNTING RECORDS OF DELEUM AND ITS SUBSIDIARIES (THE GROUP).

The AC reviews the Group's system of internal control, audit process, compliance and governance. In addition, the AC monitors the independence and effectiveness of the external auditors, and receives reports and presentations from internal auditors relating to their internal control review. The management of risks is the responsibility of the Board Risk Committee (BRC) which reports directly to the Board. The Chair of the BRC is also a member of the AC.

(I) CONSTITUTION

The AC had discharged its function and carried out its duties as set out in the Terms of Reference (TOR) of the AC which is accessible through the Company's corporate website at www.deleum.com under the 'Corporate Profile' section. Where necessary, the TOR will be reviewed accordingly. The last review and revision were done in February 2018.

(II) MEMBERSHIP

During FY2018, the AC comprised solely of independent directors as follows:

Name of AC Members	Appointment Date	Designation
Datuk Ishak bin Imam Abas	21 March 2007	Chairman of AC/ Independent Non-Executive Director
Datuk Chin Kwai Yoong <i>(ceased as member on 19 February 2019)</i>	21 March 2007	Member/ Independent Non-Executive Director
Datuk Ir (Dr) Abdul Rahim bin Hashim	15 November 2013	Member/ Senior Independent Non-Executive Director

As announced on 12 March 2019, the Board on the recommendation of the Joint Remuneration and Nomination Committee (JRNC) has approved the appointment of Mr Lee Yoke Khai as member of the AC with effect from 15 March 2019.

AUDIT COMMITTEE REPORT (CONTINUED)

The composition of the AC meets the requirements of paragraph 15.09(1) of Bursa Malaysia Securities Berhad (Bursa Securities) Main Market Listing Requirements (Listing Requirements) which stipulates that the AC must be composed of not fewer than three (3) members, of which, all must be non-executive directors, with a majority of them being independent directors, and at least one (1) member must be a member of the Malaysian Institute of Accountants (MIA) or fulfilled the requirements as prescribed under the Listing Requirements. The AC members come from different professional and business backgrounds with two (2) members from the accounting background and are members of the MIA.

The members of the AC have sufficient understanding of the Group's business to continuously apply a critical and probing view on the Company's financial reporting process, transactions and other financial information.

(III) COMMITTEE MEETINGS

During FY2018, the AC held four (4) meetings which were attended by all members as reflected below:

	Name	No. of attendance and meetings
Chairman	Datuk Ishak bin Imam Abas	4/4
Members	Datuk Chin Kwai Yoong <i>(ceased as member on 19 February 2019)</i>	4/4
	Datuk Ir (Dr) Abdul Rahim bin Hashim	4/4

By invitation, the Group Managing Director, the Group Chief Financial Officer and other relevant senior management personnel, and representatives from the external and internal auditors attend the AC meetings to brief and provide clarification to the AC on their areas of responsibility. Invitations were extended to other Directors to AC meetings to share their knowledge and experiences.

The external auditors were present during deliberations at all AC meetings on matters relating to external audit and internal audit. Time was also set aside for both the external and internal auditors to have separate private discussions with the AC in the absence of Executive Director and Management or employees of the Company.

Besides the external and internal auditors, Management presented their reports on the financial results and other matters that required the AC's approval. At the Board meeting, the Chairman of the AC presented the recommendations of the AC and highlighted the relevant findings and issues.

The AC meetings were conducted in accordance with the requisite quorum as stipulated in the TOR of the AC, which requires at least two (2) members to be present with the majority to be Independent Directors. In addition to the AC meetings, certain AC members have pre-AC meetings with Management and discussions with external auditors on the quarterly and annual results prior to the AC meetings to enable early escalation of any significant issues to the AC with a view to a timely resolution. The Company Secretary is the Secretary of the AC who keeps records of the minutes of the AC meetings. Minutes of each AC meeting is circulated to the AC members after the meeting for review and comments before confirmation at the next AC meeting and subsequently tabled to the Board meeting for notation.

(IV) SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE

During the financial year under review, the AC's key focus areas were as follows:

- Quarterly and annual financial results and annual reporting;
- External audit;
- Internal audit; and
- Related party transactions.

1. Financial Results and Annual Reporting

- (a) Reviewed with Management and the external auditors the appropriateness of the unaudited quarterly interim reporting and annual financial statements, before recommending them to the Board for consideration and approval and the release of the Group's results to Bursa Securities, with emphasis being given to:
- the quality and appropriateness of accounting policies and practices;
 - the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
 - key areas in which significant judgements and estimates have been applied and used for the preparation of the financial statements;
 - whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
 - any correspondence from regulators in relation to financial reporting; and
 - the significant audit issues the AC considered in relation to the financial reporting.

When considering the quarterly interim reporting and annual financial statements, the AC considered the quarterly financial reporting from the Group Finance function and the report from the external auditors on their quarterly review and annual audit. In this respect, the AC reviewed the significant audit and accounting issues and the Group's critical accounting policies, with particular focus on the following:

Asset Impairment Testing

The judgements in relation to asset impairment largely relate to the assumptions underlying the calculation of the value in use of the business being tested for impairment, primarily the achievability of

the long-term business plans and macroeconomic assumptions underlying the valuation process.

This review was centred on the carrying value of an investment in an associate company and the plant and equipment in the Oilfield Services segment.

Following an impairment charge of certain assets made in an associate company in the preceding year, Management has continued to monitor the associate company's performance to ensure there is no further impairment indicator to the carrying value of the investment in the associate company and its assets. With improved financial results reported in the associate company and utilisation of its assets, it is concluded that no further impairment was required.

With respect to the plant and equipment in the Oilfield Services segment, the segment has successfully secured new slickline contracts with certain existing customers and new customer. In addition, there are contracts extension granted by two existing customers until mid of financial year 2019. In this respect, impairment indicator does not exist and no impairment was required on these assets.

The AC has satisfied itself that the assessment and related actions taken have been properly prepared by Management and reviewed by the external auditors.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. The Group has diversified range of business activities that different recognition method is applied for goods, services and performance milestone.

The Group has adopted MFRS 15 "Revenue from Contracts with Customers" in the current financial year. The core principle on MFRS 15 is that an

AUDIT COMMITTEE REPORT (CONTINUED)

entity recognises revenue to depict the transfer of promised goods and services to customers for an amount that reflects the consideration to which the entity expects to be entitled on exchange for those goods or services. Revenue is recognised when a customer obtains the use of and obtain the benefits from the goods or services moving from the transfer of risk and reward principles. The adoption of MFRS 15 has resulted in the changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in MFRS 15, the Group has elected to adopt the modified retrospective approach. Appropriate disclosures in the financial statements in accordance with the accounting standard have been reviewed by the external auditors.

The AC is satisfied that the assessment has been properly prepared by Management and reviewed by the external auditors.

- (b) Reviewed the annual consolidated audited financial statements for the year under review before recommending to the Board for consideration and approval. The review was to ensure that the financial reporting and disclosures were updated and in compliance with:
- Listing Requirements of Bursa Securities;
 - Companies Act 2016 and other relevant legal and regulatory requirements; and
 - Applicable approved Malaysian Financial Reporting Standards and International Financial Reporting Standards.
- (c) Reviewed the Statement on Risk Management and Internal Control and the AC Report to ensure adherence to legal and regulatory reporting requirements prior to the Board's approval for inclusion into the Annual Report.

2. External Audit

- (a) Reviewed the external auditors' scope of work, audit plan and audit strategy for FY2018 to ensure appropriate focus on the key risk areas.
- (b) Reviewed the external auditors' report to the AC in relation to the reviews of the quarterly results and announcements along with resolution of issues highlighted in their report to the AC.
- (c) Reviewed the external auditors' report to the AC for the year under review in relation to the audit and accounting issues arising from the audit and Management's responses.
- (d) Reviewed the internal control findings and system of internal control and discussed the impact on the overall soundness of the internal control procedures and processes.
- (e) Reviewed other matters relating to accounting, auditing, financial reporting practices and processes, legal, regulatory and taxation matters of the Group.
- (f) Reviewed the independence and objectivity of the external auditors.
- (g) Monitored the non-audit related fees paid to the external auditors, M/S PricewaterhouseCoopers PLT (PwC) so that the services provided did not affect the objectivity and independence of the external auditors. The fees paid to PwC in FY2018 in relation to non-audit services were RM161,300 (2017: RM57,450) compared to the fees paid in relation to the statutory audit and other audit related fees of RM587,000 (2017: RM573,904).
- (h) Reviewed the performance and effectiveness of the external auditors and recommended to the Board for their re-appointment, remuneration and fees for statutory audit.

- (i) Reviewed with the external auditors the impact of new or proposed changes in accounting standards, regulatory requirements including changes in tax legislation and recent development. The AC will continue to monitor and review with the external auditors on regulatory updates and the impact to the accounting, auditing and financial reporting practices and processes.
 - (j) Held two (2) private meetings with the external auditors without the presence of the Executive Director and Management or employees of the Company. The meetings focused on the external auditors' assessment on Management's attitude and responses to adherence to the Group's core values of ethics and integrity, adequacy and competencies of the accounting and support staff at a subsidiary, execution and performance of the Maintenance, Construction and Modification Services Contract (MCM Contract) of Deleum Primera Sdn. Bhd. (DPSB). In addition, key audit matters were discussed. The AC is satisfied that appropriate actions were taken to address the issues and concerns raised by the external auditors arising from these meetings.
 - (k) Carried out evaluation of the external auditors and internal auditors, the details of which are in Section (VI) – "Evaluation" of this Report.
- (c) Reviewed the Internal Audit reports, audit recommendations made and Management's responses to these recommendations, including actions taken to improve the system of internal control and procedures covering, amongst others, the following areas:
 - review of the sales to receipt, procurement to payment and operations of Deleum Chemicals Sdn. Bhd. to evaluate the adequacy and effectiveness of the internal controls of the Group;
 - quarterly reviews of the compliance with policy and of overall operations pertaining to procurement, payables and payment, vendor and management at DPSB, and evaluations and analysis of project team structure project performance, financials and recovery rate of the MCM Contract to support the AC's oversight over the MCM Contract and to identify areas for improvement;
 - review of the business operations of Deleum Oilfield Services Sdn. Bhd. to determine the Company's strategic plan on oilfield services resources and term loan repayment obligation;
 - review of the revenue to credit control cycle of Oilfield Services and Power & Machinery segments. The review also encompassed the customer credit management and sales and collections; and
 - review of the sales to receipt, procure to pay and operations of Penaga Dresser Sdn. Bhd. to ensure compliance with the Group's policies and procedures.

3. Internal Audit

- (a) Reviewed and approved the Internal Audit Plan prepared by the internal auditors, BDO Governance Advisory Sdn. Bhd. (BDO) to ensure the adequacy of its scope and coverage of the Group's activities.
- (b) Reviewed and assessed the resources, performance and competency of the internal auditors.
- (d) Ensured that appropriate and prompt remedial actions and improved procedures were implemented by Management arising from the findings raised in the internal audit reviews and in respect of outstanding issues identified from the follow-up audits.

AUDIT COMMITTEE REPORT (CONTINUED)

- (e) Reviewed the Statement on Risk Management and Internal Control to ensure that it is consistent with the state of internal controls of the Group.
- (f) Held one (1) private meeting with the internal auditors without the presence of the Executive Director and Management or employees of the Company to discuss any areas of concern.

4. Related Party Transactions

- (a) Apprised the recurrent related party transactions to ensure that the amounts transacted were within the approved shareholders' mandate obtained.
- (b) Reviewed the related party transactions of the Group to ensure that they are based on the Group's normal commercial terms and are not to the detriment of the Group's minority shareholders.
- (c) Reviewed the adequacy of procedures and processes in identifying, monitoring, reviewing and reporting of related party transactions.
- (d) Reviewed the circular to shareholders in respect of the annual shareholders' mandate for recurrent related party transactions prior to recommendation to the Board for consideration and approval.

5. Deleum Berhad Long-Term Incentive Plan (LTIP)

In February 2018, the AC reviewed and verified that the allocation of shares granted under the LTIP for the financial year 2017 was in compliance with the By-Laws of the LTIP approved by the Board and shareholders of the Company. There was no grant made under the LTIP during FY2018.

6. Whistleblowing

The Group has put in place a Whistleblowing Policy to provide an avenue for employees and any other parties who deal with or provide services to the Group to report any genuine concerns or wrongdoings in accordance with the procedures in the policy. The AC shall be updated as and when there are cases reported or any concerns raised. There was no reported case of wrongdoings in 2018.

During the financial year, the AC has reviewed the proposed revision to the Whistleblowing Policy and provided its comments and recommendation to the Board for approval.

Further details of the Whistleblowing Policy are set out in the Corporate Governance Overview Statement.

7. Training

Members of the AC are encouraged to stay abreast of developments in accounting, finance and relevant regulatory matters in order to discharge their duties effectively. During FY2018, the AC members attended seminars and training sessions offered by regulators and other appropriate bodies or organisations including the following:

- Updates on Changes to Company Law and Listing Requirements
- Breakfast Series "Companies of the Future - The Role for Boards
- Budget Dialogue with the Minister of Finance and PwC
- Corporate Governance Briefing Sessions : MSSG Reporting & CG Guide

They were also briefed by Management, external and internal auditors and external consultants on corporate governance practices, changes to accounting, taxation, auditing and reporting requirements as well as the Listing Requirements and Companies Act 2016.

(V) INTERNAL AUDIT FUNCTION

The AC is supported by BDO, a well-established firm that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors (IIA), as the Internal Audit Function (IAF) of the Group. The IAF is carried out in accordance with The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. In carrying out the internal audit for the Group, the IAF team is headed by an Executive Director of BDO who possesses the relevant qualifications and experience and who is assisted by no fewer than four staff including a senior manager.

The IAF's primary role is to assist the AC in reviewing the state of the systems of internal control maintained by Management and to provide assurance to the AC on the adequacy and integrity of the internal control and governance framework of the Group. The IAF reviews and assesses whether the systems of internal control and related procedures are effective and provides recommendations to strengthen internal control procedures and processes.

The IAF, based on its findings, noted that there was no material absence or lapse in internal controls that could result in the Group being exposed to major downside risks, material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report. Deleum's internal control system is not extended to the associate companies, in which the Group's interests are safeguarded through board representations.

The IAF is effective and able to function independently of the activities it audits and reports directly to the AC. The IAF team has, and has exercised, direct access to the members of the AC as deemed necessary. The AC reviews and approves the internal auditors' annual audit plan. The IAF also works closely with the external auditors to avoid any activity overlap and to share their findings.

During the financial year, the internal auditors attended the AC meetings and the cost incurred for the outsourced IAF in respect of FY2018 amounted to RM145,774 (2017: RM88,875). The activities carried out by the IAF were as follows:

- (a) Conducted Internal Audit engagements consistent with the annual audit plan presented and approved by the AC.

The plan adopts a risk-based methodology by focusing on key risk areas, which is partly guided by the Group's Enterprise Risk Management framework. The plan is designed and executed upon with the express objectives of testing financial, operational and compliance controls of the Company, as well as the design and operation of key business processes operated. Each annual plan is reviewed throughout the course of the fiscal year and presented to Management and the AC to ensure continued relevance of areas covered in each fiscal year.

A minimum of four (4) internal control reviews is performed a year under each audit plan. The work performed includes financial and operational reviews across the three main business segments with emphasis on contract compliance, project management, inventory management, revenue management and credit control, procurements and the use of the Enterprise Resource Planning implementation. Their findings, together with related recommendations and Management's responses thereto, are reported to the AC on a quarterly basis.

- (b) Reviewed the adequacy and integrity of the system of controls to ensure there is a systematic methodology for identifying, assessing and managing risk areas with regard to:

- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations;
- safeguarding of assets and resources; and
- compliance with laws, regulations and contractual obligations within the Company's governance, operations and information systems.

AUDIT COMMITTEE REPORT (CONTINUED)

- (c) Conducted follow up reviews on actions taken by Management in implementing their recommendations arising from prior audits.

The Company continues to outsource its IAF to BDO as opposed to establishing an in-house IAF after considering the size of the Group as well as in-house resources and difficulty in attracting and retaining qualified and competent internal audit staff. Since its engagement in 2007, BDO has built up a good understanding of the Group's business and the peculiarities of the industry in which the Group operates, and is capable of focusing its time on the higher risk auditable areas. The leadership and key members of the IAF team have worked on the Company's internal audit engagements consistently.

BDO has no relationship with the Group and is independent from Management, staff, Directors and substantial shareholders. The AC is of the opinion that BDO is independent and objective in carrying out its role as IAF.

The AC is satisfied with the services provided by BDO, which have added value and are cost effective. The AC intends to continue with the engagement of BDO as IAF of the Group due to their understanding and knowledge of the Group's business and industry, systems and processes and people and culture.

(VI) EVALUATION

1. External Auditors

The Group has a policy to assess the suitability, objectivity and independence of the external auditors. The AC reviewed and evaluated the suitability, performance and independence of the external auditors with feedback obtained from the AC members, Management, internal auditors and senior Finance personnel engaged with the audit. Self-assessment by the external auditors, PwC

was also carried out for this purpose. Summary of the results of the completed questionnaires were tabled to the AC for review and deliberation at the AC meeting. The evaluation of the external auditors covered the areas of:

- governance and independence;
- communication and interaction with the AC with focus on their audit planning/audit strategy, audit findings/audit finalisation and completion;
- quality of services and sufficiency of resources in respect of the firm, processes, technical knowledge and competency of the audit team; and
- audit fee.

In the evaluation, the AC also takes into account the relevant professional and regulatory requirements, the effectiveness of the audit process and the relationship with the external auditors as a whole, including the provision of any non-audit services.

As part of the annual audit exercise, the Company had obtained written assurance from PwC confirming that they are and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements. PwC has complied with the requirement of the MIA and the firm's Guidelines in rotating audit partners every five (5) years. A former engagement audit partner will not be eligible for Board appointment, until he or she has observed a cooling-off period of at least two (2) years. The Group also restricts the employment of former employees of the external auditors to ensure independence of the external auditors and for avoidance of any conflict of interest. During FY2018, no employment was offered to any former partner and/or staff of PwC.

The non-audited services conducted during FY2018 comprised mainly of tax services. As a policy, before appointing the external auditors to

undertake any non-audit services, considerations would be given as to whether this would create a threat to the external auditors' independence or objectivity. The Management is obliged to obtain confirmation from the external auditors on their independence. All engagements of the external auditors to provide non-audit services are subject to the approval of the AC.

During FY2018, the amount of audit fees and non-audit fees paid/payable to PwC or a firm or corporation affiliated to PwC by the Company and the Group respectively were as follows:

	Company (RM)	Group (RM)
Statutory audit fee	284,000	587,000
Non-audit fee	116,050	161,300

The provision of non-audit services by PwC during FY2018 did not compromise its independence and objectivity as the non-audit services was conducted by different teams from the statutory audit team of PwC. The AC concluded that it continues to be satisfied with the performance of PwC and that throughout the year the objectivity and independence of PwC in relation to the audit was not in any way impaired by either the nature of the non-audit related services, the level of non-audit fees charged, or any other facts or circumstances.

The Board on the recommendation of the AC, is satisfied that PwC remains effective, objective and independent in carrying out its role as external auditors of the Company. The Board has at the Board meeting held on 25 February 2019 approved the AC's recommendation for the re-appointment of PwC for the ensuing year to be tabled at the forthcoming Fourteenth Annual General Meeting for shareholders' approval.

2. Internal Auditors

The AC had reviewed and evaluated the suitability, adequacy of the scope, competency, quality of services and sufficiency of resources of the IAF in respect of FY2018 with feedback obtained from the AC members, Management and external auditors as well as self-assessment by the internal auditors prior to the meeting. Summary of results of the assessment was tabled to the AC for deliberation at the meeting.

The AC was satisfied with the performance and suitability of the IAF and approved the renewal of the outsourced IAF for the ensuing year.

3. Audit Committee

The Board through the JRNC had conducted an annual evaluation and assessment on the performance of the AC and its members in respect of FY2018. The evaluation was based on self-assessment carried out by the AC members to monitor their overall effectiveness in meeting their responsibilities.

The evaluation focused on the structure and process including the composition and level of accountability and responsibility demonstrated by the AC. The JRNC was satisfied that the AC had carried out its duties and responsibilities effectively in accordance with its TOR and had demonstrated a high level of diligence, independence and commitment in discharging its responsibilities. The results of the evaluation were reported to the Board accordingly.

The AC members have considerable accounting, financial and business experience and the Board is satisfied with the composition of the AC and considers that the membership as a whole has sufficient relevant expertise and resource to discharge its responsibilities effectively.