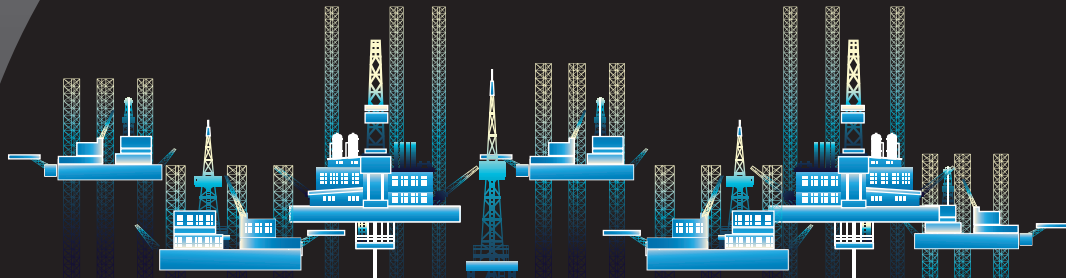


**VELESTO**  
energy



**STRIVING  
TOGETHER**

annual report 2019



# ABOUT THIS REPORT



## COVER RATIONALE

This cover concept highlights our use of the phrase “return to black” to symbolise our business recovery. The silhouettes of our seven jack-up drilling rigs, a hydraulic workover unit and the workman in the background symbolise our collective strengths and team synergy focused on achieving success together. It represents our resilience and endurance through challenging times. It is to show how we, together overcome them by standing united as a Company, as we embrace these challenges as foundations for further growth.

Velesto Energy Berhad (“VELESTO”) and its subsidiaries (“VELESTO GROUP”) is proactively initiating its adoption of Integrated Reporting (“<IR>”) through progressive introductory phases in line with its corporate disclosure with internationally established reporting standards.

VELESTO’s adoption of <IR> is consistent with ongoing strategic efforts to futureproof the organisation amidst a dynamic and fast-changing operating environment and global landscape, towards ensuring a sustainable presence within the highly niched but competitive oil and gas sector.

The adopted reporting framework provides various reporting content and components that is designed to deliver a comprehensive reporting narrative that is understandable, valuable and constructive for the benefit of stakeholders.

In essence, the VELESTO FY2019 report is focused on presenting shareholders and other readers with a concise yet comprehensive presentation of the Group’s ability to generate financial and non-financial values for stakeholders over the short, medium and long-term while showing both past performance and the Group’s prospects going forward.

## MATERIAL SCOPE & BOUNDARY

The following report encompasses VELESTO’s business operations, activities, processes and employees, which includes Velesto Group’s applicable subsidiaries in supporting the oil and gas industry. Intending to go beyond reporting financial data, this report will emphasise on VELESTO Group’s short, medium and long-term value creation.

The material scope of this report is regulated by existing standards of relevant and accurate data collection in a consistent manner which, unless otherwise specified, currently reflects VELESTO Group’s drilling and workover business operations and undertakings. As VELESTO Group strives to persistently expand its proven drilling services and technology into more strategic international markets and regions of geographical focus, we are confident that future reports will be further imbued with valuable information obtained without compromise from these global operational assets.

## FRAMEWORKS APPLIED

Our report has been prepared in accordance with the following regulatory frameworks:

- International Integrated Reporting Council Integrated Reporting Principles Based Framework
- Main Market Listing Requirements (“MMLR”) of BURSA
- Bursa Malaysia Sustainability Reporting Guide, 2nd Edition 2018
- FTSE4Good Index Disclosures (FTSE Russell’s ESG Data Model)
- Malaysian Code on Corporate Governance (“MCCG 2017”)
- Companies Act 2016 (“Act”)
- Malaysian Financial Reporting Standards (“MFRS”)
- International Financial Reporting Standards (“IFRS”)
- ISO 31000 Risk Management Standard

## RELATED INFORMATION

This report is accompanied with additional online disclosures for our valued shareholders, investors and stakeholders including consolidated and quarterly financial statements, policies, corporate governance documents, and other associated data. This information is referred to in this report and additionally disclosed on VELESTO’s company website under the Investor Relations online portal at <http://ir.chartnexus.com/velesto-energy/>.

VELESTO Group’s latest corporate presentations and Bursa announcements can also be found under the Investor Relations online portal (see “Presentations” and “Bursa Announcement” tabs respectively) at <http://ir.chartnexus.com/velesto-energy/>. News and press releases on VELESTO Group are also available on our corporate website at <https://velesto.com/media-centre/>.

## FORWARD LOOKING STATEMENTS

This report also comprises of statements referring to VELESTO Group’s future predictions of its overall industry outlook and expected risks entailed, tactical geographical expansion, excellent health, safety and environmental performance, sustainability, rig utilisation rate, revenue opportunities, and value chain improvement prospects. Such informational assumptions have been derived from existing forecast models and current market conditions that may arbitrarily vary due to a myriad of factors beyond VELESTO Group’s control.

As such, all forward-looking statements in this report are not categorically definite and actual plans and results relating to VELESTO Group’s future operations or finances may significantly diverge from said statements in this report. Forward-looking statements issued in this report have not been reviewed or audited by an external auditor.

## FEEDBACK AND INQUIRIES

VELESTO Group is open to receiving feedbacks and inquiries on the information presented in this report which can be channelled towards our Investors Relations unit at +603 2096 8788 or by email at [investor.relations@velesto.com](mailto:investor.relations@velesto.com).

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# OVERVIEW OF VELESTO ENERGY BERHAD

VELESTO is a Malaysia-based multinational provider of services for the upstream sector of the oil and gas industry.

In our drilling services business, apart from our home base in Malaysia, we also have experience operating in other parts of South East Asia, providing drilling services for exploration, development and production wells with our fleet of offshore drilling rigs.

VELESTO is also a provider of workover services through its fleet of hydraulic workover units.

VELESTO is able to offer the services mentioned above through its impressive fleet, which consists of seven wholly owned premium jack-up drilling rigs, namely NAGA 2, NAGA 3, NAGA 4, NAGA 5, NAGA 6, NAGA 7 and NAGA 8, and four hydraulic workover units, namely GAIT 1, GAIT 2, GAIT 5 and GAIT 6. The Group's assets are highlighted in further detail in Our Assets section on page 7.

These rigs are designed to meet the recent demands of the industry. As such, with our drilling capabilities, VELESTO is able to bring service top notch services with international presence. Further information on our business strengths and strategies as well as operating environment is provided in Our Strategy section of this Annual Report on page 47.

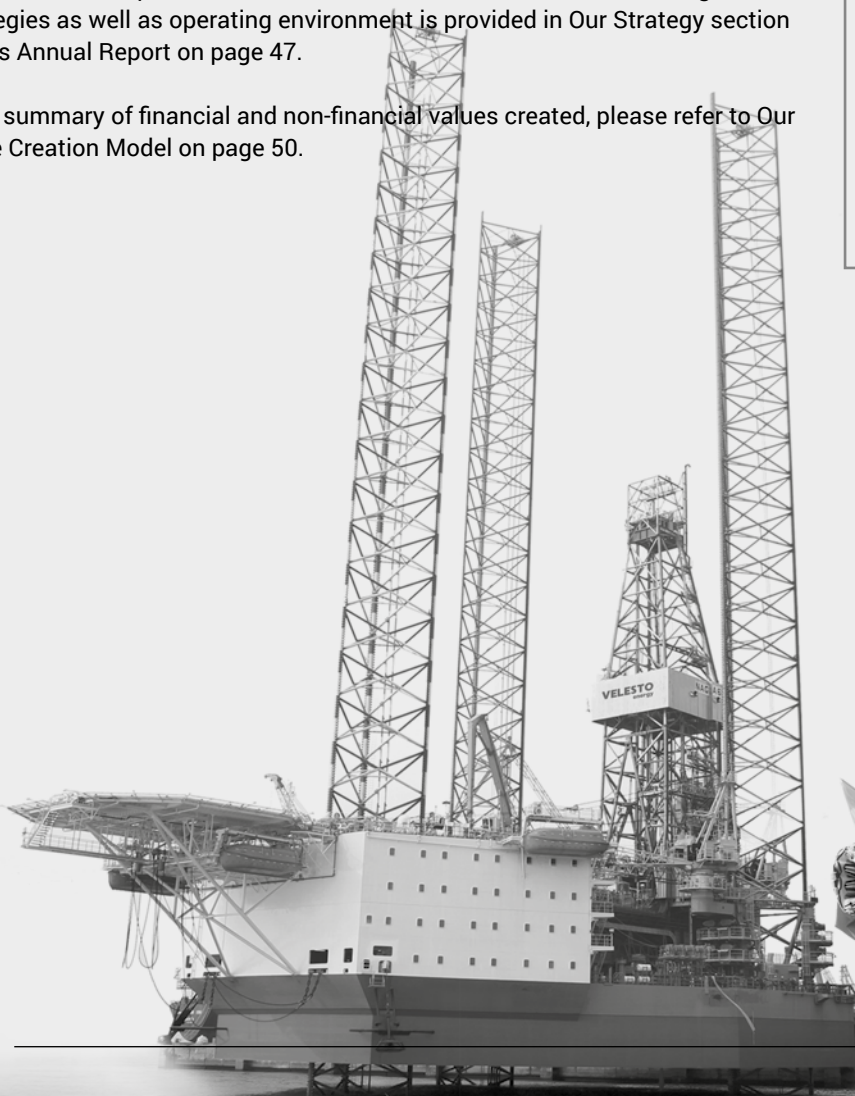
For a summary of financial and non-financial values created, please refer to Our Value Creation Model on page 50.

## OUR VISION

To be a leading player in the oil and gas industry, operating both domestically and globally supported by proven track records, true spirit, quality services and healthy growth potential.

## OUR MISSION

Developing a Malaysian-owned company that provides quality services to the oil and gas industry and maintaining standards by matching - if not surpassing - other international companies providing similar global services.



# CORE VALUES



## INTEGRITY

We do the right things at all times.  
We act with honesty and adhere to the highest standards of moral and ethical values.  
We are accountable, open and responsible in all that we do.  
We earn people's trust.

---



## LEADERSHIP

We inspire to be the leader in our business.  
We support and encourage our people to become a competent and recognised team in the industry.  
We embrace humility, clear communication, teamwork and respect.  
We lead by example.

---



## EXCELLENCE

We are passionate to do our best to exceed expectations.  
We are committed, disciplined and focused to achieve excellence in everything we do.  
We oblige safety as our utmost priority.  
We continuously identify and innovate better ways to improve our own targets and beyond what people and customers expect of us.  
We deliver value through performance, innovation and service quality.

---



## AGILITY

We are strong and committed to our objectives, and are able to adapt to changes.  
We are willing to improve ourselves and our Company.  
We are proactive to create new and better ways to address challenges.  
We are resilient and committed to create value.

---



## PEOPLE-FOCUSED

We care for our people who are the greatest assets to our organisation.  
We respect and value the diversity of our people and their opinions.  
We recognise the efforts and achievements; appreciating and rewarding our people when they do good things and guide them to improve when they perform below expectations.  
We work as a team, respecting and supporting each other.

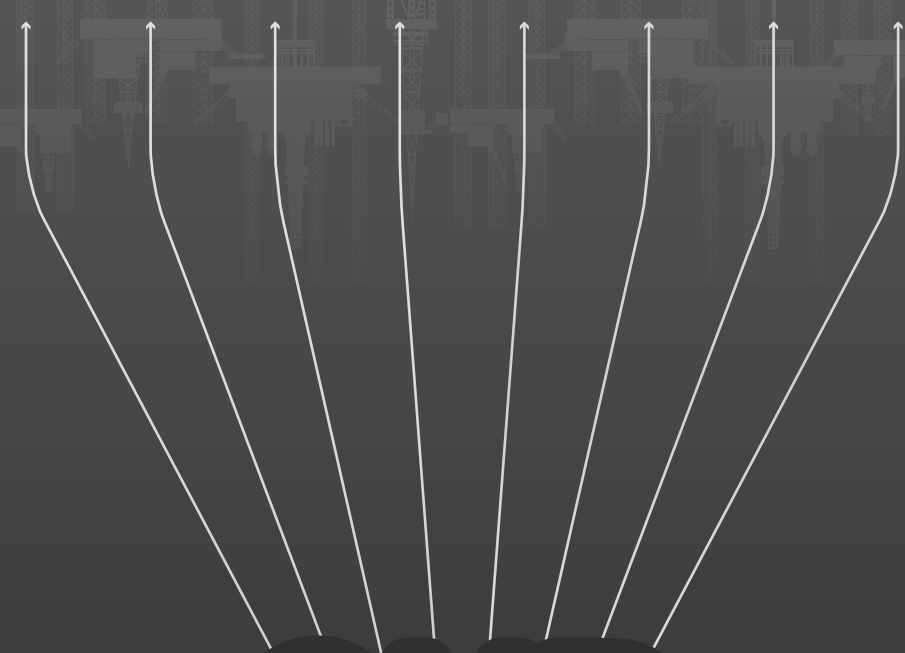
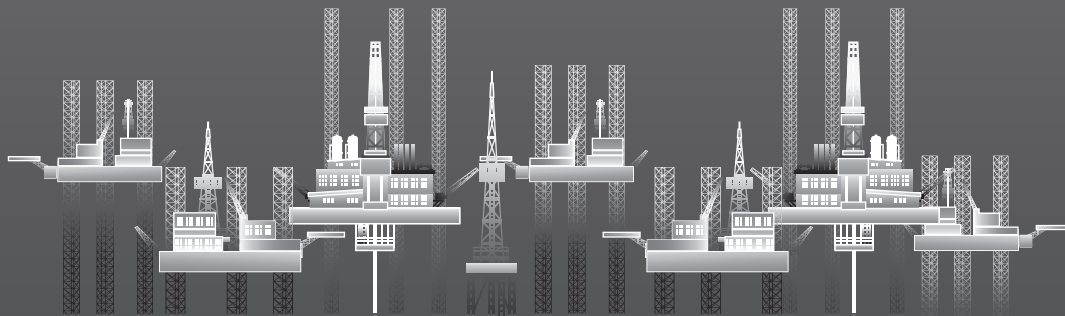




HOLD HANDRAIL

VELESTO  
energy





# OUR ASSETS



JACK-UP  
DRILLING  
RIGS



HYDRAULIC  
WORKOVER  
UNITS



OILFIELD  
SERVICES



# JACK-UP DRILLING RIGS

## NAGA 2



Design	GustoMSC-C-CJ46-X100D
Delivery	October 2009
Construction Yard	PT. Drydocks World Graha, Batam, Indonesia
Jack-Up Type	Independent Leg Jack-Up Drilling Rig
Classification	DNV
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	350 feet

## NAGA 3



Design	GustoMSC-C-CJ46-X100D
Delivery	September 2010
Construction Yard	PT. Drydocks World Graha, Batam, Indonesia
Jack-Up Type	Independent Leg Jack-Up Drilling Rig
Classification	DNV
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	350 feet

## NAGA 4



Design	Keppel FELS B Class
Delivery	March 2013
Construction Yard	Keppel FELS Yard, Singapore
Jack-Up Type	Independent Leg Jack-Up Drilling Rig
Classification	ABS
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	400 feet

## NAGA 5



Design	Keppel FELS B Class
Delivery	March 2014
Construction Yard	Keppel FELS Yard, Singapore
Jack-Up Type	Independent Leg Jack-Up Drilling Rig
Classification	ABS
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	400 feet

## NAGA 6



Design	GustoMSC-C-CJ46-X100D
Delivery	September 2014
Construction Yard	China Merchants Heavy Ind. (Shenzhen) Co. Ltd. China
Jack-Up Type	Independent Leg Jack-Up Drilling Rig
Classification	ABS
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	375 feet

## NAGA 7



Design	GustoMSC-C-CJ46-X100D
Delivery	January 2015
Construction Yard	China Merchants Heavy Ind. (Shenzhen) Co. Ltd. China
Jack-Up Type	Independent Leg Jack-Up Drilling Rig
Classification	ABS
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	375 feet

## NAGA 8



Design	Keppel FELS B Class
Delivery	September 2015
Construction Yard	Keppel FELS Yard, Singapore
Jack-Up Type	Independent Leg Jack-Up Drilling Rig
Classification	ABS
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	400 feet



# HYDRAULIC WORKOVER UNITS

## GAIT 1



Year built	2001
Max. Pulling Capacity	340,000 lbs
Max. Snubbing Capacity	150,000 lbs

## GAIT 2



Year built	2003
Max. Pulling Capacity	460,000 lbs
Max. Snubbing Capacity	225,000 lbs

## GAIT 5



Year built	2010
Max. Pulling Capacity	460,000 lbs
Max. Snubbing Capacity	225,000 lbs

## GAIT 6



Year built	2014
Max. Pulling Capacity	460,000 lbs
Max. Snubbing Capacity	225,000 lbs



# OILFIELD SERVICES

## CHINA TIANJIN PLANT



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### DATO' ABDUL RAHMAN AHMAD

(Chairman/Non-Independent Non-Executive Director)

Date of appointment: 19 January 2017

### ROHAIZAD DARUS

(President/Non-Independent Executive Director)

Date of appointment: 31 January 2012

### RAZALEE AMIN

(Independent Non-Executive Director)

Date of appointment: 2 May 2013

### DATO' IBRAHIM MARSIDI

(Independent Non-Executive Director)

Date of appointment: 2 May 2013

### MOHD RASHID MOHD YUSOF

(Senior Independent Non-Executive Director)

Date of appointment: 23 June 2017

### ROWINA GHAZALI SETH

(Independent Non-Executive Director)

Date of appointment: 23 June 2017

### HAIDA SHENNY HAZRI

(Non-Independent Non-Executive Director)

Date of appointment: 23 June 2017

### RIZAL RICKMAN RAMLI

(Non-Independent Non-Executive Director)

Date of appointment: 21 March 2018

### DATO' DAYANG FATIMAH JOHARI

(Independent Non-Executive Director)

Date of appointment: 24 May 2018

### DATUK TONG POH KEOW

(Independent Non-Executive Director)

Date of appointment: 29 August 2019

### CHEAH TEK KUANG

(Independent Non-Executive Director)

Date of retirement: 29 May 2019

## BOARD AUDIT COMMITTEE

- Razalee Amin (Chairman)
- Dato' Ibrahim Marsidi
- Dato' Dayang Fatimah Johari
- Datuk Tong Poh Keow – appointed on 19 September 2019
- Cheah Tek Kuang – retired on 29 May 2019

## BOARD NOMINATION AND REMUNERATION COMMITTEE

- Dato' Ibrahim Marsidi (Chairman)
- Rowina Ghazali Seth
- Dato' Dayang Fatimah Johari
- Rizal Rickman Ramli – appointed on 19 September 2019
- Cheah Tek Kuang – retired on 29 May 2019

## BOARD RISK MANAGEMENT COMMITTEE

- Mohd Rashid Mohd Yusof (Chairman)
- Razalee Amin – appointed on 19 September 2019
- Rowina Ghazali Seth
- Haida Shenny Hazri
- Rizal Rickman Ramli – ceased on 19 September 2019
- Cheah Tek Kuang – retired on 29 May 2019

## BOARD WHISTLE-BLOWING COMMITTEE

- Datuk Tong Poh Keow (Chairperson) – appointed on 19 September 2019
- Razalee Amin
- Mohd Rashid Mohd Yusof – appointed on 19 September 2019
- Haida Shenny Hazri – appointed on 19 September 2019
- Dato' Ibrahim Marsidi – ceased on 19 September 2019
- Rizal Rickman Ramli – ceased on 19 September 2019

## BOARD EXECUTIVE COMMITTEE – Dissolved on 19 September 2019

## COMPANY SECRETARIES

- Lee Mi Ryoung (MAICSA 7058423)
- Rafiza Ghazali (MIA 43580)

## SHARE REGISTRAR

### Securities Services (Holdings) Sdn. Bhd.

(Registration No. 197701005827 (36869-T))

Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Malaysia  
Telephone : +603-2084 9000 Facsimile : +603-2094 9940

## SHARE REGISTRAR APPOINTED FOR 10TH AGM

### Tricor Investor & Issuing House Services Sdn. Bhd.

(Registration No. 197101000970 (11324-H))

Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia  
Telephone: +603-2783 9299  
Facsimile: +603-2783 9222  
Email: is.enquiry@my.tricorglobal.com

## AUDITORS

### Ernst & Young PLT

(Registration No. 202006000003 (LLP0022760-LCA)) & AF 0039

Level 23A, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia  
Telephone: +603-7495 8000 Facsimile: +603-2095 5332

## PRINCIPAL BANKERS

- Affin Bank Berhad Group
- CIMB Bank Berhad Group
- Maybank Berhad Group

## REGISTERED OFFICE

Level 18, Block 3A, Plaza Sentral  
Jalan Stesen Sentral 5  
50470 Kuala Lumpur, Malaysia  
Telephone: +603-2096 8788  
Facsimile: +603-2274 7787

## STOCK EXCHANGE LISTING

Main Market of BURSA  
Stock Name: VELESTO  
Stock Code: 5243

## WEBSITE

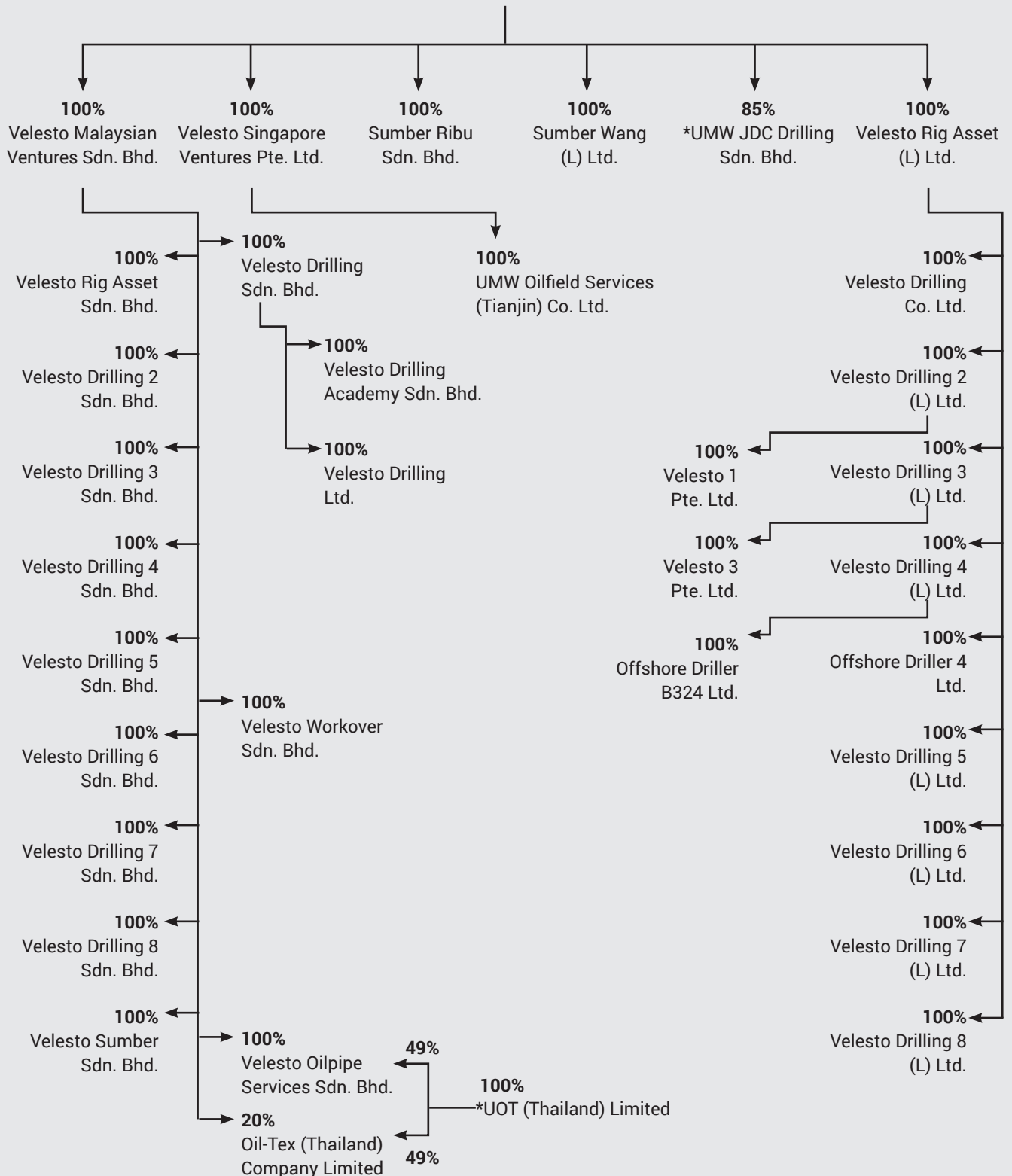
www.velesto.com

## E-MAIL ADDRESS

info@velesto.com

# GROUP CORPORATE STRUCTURE

## VELESTO ENERGY BERHAD



Note:  
\*In the process of Members's Voluntary Liquidation

# CALENDAR OF EVENTS

## FEBRUARY

---



**12 February 2019**  
Zakat Lunch Talk by PPZ MAIWP  
KL Office



**23 February 2019**  
Fire Safety Awareness at Home & Work  
Miri, Sarawak



**27 February 2019**  
Visit by PTTEP  
NAGA 6

## MARCH

---



**5 March 2019**  
Visit by Malaysia Petroleum  
Management  
NAGA 8

## APRIL

---



**10 April 2019**  
SMART's COOL Motivation and Goal  
Setting  
SK Taman Bunga Raya 1, Selangor



**20 April 2019**  
Minggu Saham Amanah Malaysia 2019  
Sungai Petani, Kedah





## MAY

---



**2 May 2019**  
SMART's COOL  
Science Experiential Workshop  
SK Taman Bunga Raya 1, Selangor



**19 May 2019**  
Visit by PETRONAS Carigali  
NAGA 2



**29 May 2019**  
9th Annual General Meeting  
Menara Kembar Bank Rakyat, Kuala Lumpur



**30 May 2019**  
High Visibility Safety Vest Distribution  
Plaza Sentral, Kuala Lumpur

## JUNE

---



**17 June 2019**  
Visit by HESS  
NAGA 8



**23-25 June 2019**  
Asia Oil & Gas Conference 2019  
Kuala Lumpur



**26 June 2019**  
SMART's COOL UPSR Math Workshop  
SK Taman Bunga Raya 1, Selangor

# CALENDAR OF EVENTS

## JULY



**1 July 2019**  
Onboarding for New Trainee Electronic Technician  
KL Office



**25 July 2019**  
Ladies Grooming Session  
KL Office



## AUGUST



**12-16 August 2019**  
HSE Legal Assessment  
NAGA 8



**19-21 August 2019**  
Drilling For Non-Drillers Training  
INSTEP, Terengganu



**21 August 2019**  
Unity Lunch Talk by PPZ MAIWP  
KL Office

## SEPTEMBER



**5 September 2019**  
ASNB Lunch Talk  
KL Office



**9 September 2019**  
PROLINTAS GCE-Duathlon  
Bukit Jelutong, Selangor



**20-22 September 2019**  
Velesto Energy Family Day  
Lost World of Tambun, Perak

## OCTOBER

---



**6 October 2019**  
PETRONAS Orchid Fun Run  
Kuala Lumpur



**9 October 2019**  
Health Day & Blood Donation Drive  
Plaza Sentral, Kuala Lumpur



**12 October 2019**  
Solat Hajat & Tazkirah  
Menara Kembar Bank Rakyat, Kuala Lumpur



**16 October 2019**  
Beach Clean Up & Coastal Pollution  
Awareness  
Port Dickson, Negeri Sembilan



**22 October 2019**  
HSE & Operational Excellence  
Conference 2019  
Kuala Lumpur

## NOVEMBER

---



**13 & 14 November 2019**  
SMART's COOL "Train the Teachers"  
Plaza Sentral, Kuala Lumpur



**13-17 November 2019**  
Management Visit  
NAGA 7

# CALENDAR OF EVENTS

## DECEMBER

---



**2 December 2019**

Visit by Group CEO & President, PNB  
KL Office



**3 December 2019**

School Holiday Programme: Robotics  
Workshop  
KL Office



**7 December 2019**

HSE Training  
NAGA 7



**11 December 2019**

Management Visit  
NAGA 3



**24 December 2019**

Fabric Recycling Initiative  
Plaza Sentral, Kuala Lumpur



# DIRECTORS' PROFILES

## **DATO' ABDUL RAHMAN AHMAD**

Chairman,  
Non-Independent Non-Executive Director

Malaysian | 51 | Male

**Date of appointment:** 19 January 2017

### **Qualification**

Master of Arts in Economics  
– Cambridge University, UK

### **Length of Service**

**(as at 30 April 2020)**  
3 years and 3 months

### **Membership of Associations**

Institute of Chartered  
Accountants in England and  
Wales

**Number of Board of Directors  
meetings attended in FY2019**  
10/10

### **Membership of Board Committees**

None

### **Any other board directorships in public companies**

Listed Entity:  
• Sime Darby Berhad

Other Public Companies:  
None

### **Working Experience**

Dato' Abdul Rahman Ahmad ("Dato' Abdul Rahman") began his career at Arthur Andersen, London and later served as Special Assistant to the Executive Chairman of Trenergy (M) Berhad/Turnaround Managers Inc (M) Sdn. Bhd. He subsequently joined Pengurusan Danaharta Nasional Berhad, the country's national asset management company as Unit Head and later went on to become Executive Director of SSR Associates Sdn. Bhd.

Dato' Abdul Rahman was the Group Managing Director/Chief Executive Officer of Malaysian Resources Corporation Berhad and subsequently served the same position for Media Prima Berhad. He was then appointed as the Chief Executive Officer of Ekuiti Nasional Berhad and thereafter served as the President and Group Chief Executive Officer of Permodalan Nasional Berhad. Presently, he is the Non-Independent Non-Executive Chairman of Sime Darby Berhad.

### **Declaration**

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past five years nor any public sanction or penalty by any relevant regulatory bodies during FY2019.



## ROHAIZAD DARUS

President,  
Non-Independent Executive Director

Malaysian | 55 | Male

**Date first appointed to the Board of Directors:** 31 January 2012

### Qualification

Bachelor of Science in  
Mechanical Engineering –  
California State University,  
Long Beach, USA

**Length of Service  
(as at 30 April 2020)**  
8 years 3 months

### Membership of Associations

- Board of Engineers,  
Malaysia
- Institute of Engineers,  
Malaysia

**Number of Board of Directors  
meetings attended in FY2019**  
10/10

**Membership of Board  
Committees**  
None

**Any other board directorships  
in public companies**  
Listed Entity:  
None

Other Public Companies:  
None

### Working Experience

Rohaizad Darus ("Rohaizad") began his career with PETRONAS Gas Sdn. Bhd. in 1988. He later joined Texas Instruments (M) Sdn. Bhd. until 1990.

Subsequently, he joined Esso Production Malaysia, Inc. until 1995. Before joining Huptec Engineering Sdn. Bhd. until 1998.

From 1998 to 2003, he worked for Sarku Engineering Services Sdn. Bhd., which later became a subsidiary of SapuraCrest Petroleum Berhad ("SapuraCrest"), a predecessor of Sapura Energy Berhad as Executive Director and rose to become its Chief Executive Officer. In SapuraCrest, he held various positions including that of Executive Director of a number of local and foreign subsidiaries of SapuraCrest, which were involved in offshore and onshore soil investigation, marine surveying and hydrographic activities. He was also responsible for managing the company's marine vessels and other major assets.

In 2007, Rohaizad was appointed as the Director of Offshore Construction Project Division of SapuraCrest. This division performed offshore construction activities including transportation, installation and commissioning of platform, jacket, pipelines and cables as well as topside maintenance and other offshore and onshore modification works.

In 2008, he was appointed Chief Operating Officer of SapuraCrest, a position he held until 2010 before becoming Chief Executive Officer, where he was responsible for the management of the overall operations, financial and support functions of the SapuraCrest Group. During his tenure, he was appointed to the Board of Directors of Tioman Drilling Company Sdn. Bhd., a company involved in all offshore drilling operations under the group. His final appointment before he left SapuraCrest in December 2011 was as Chief Executive Officer of the Oil & Gas Construction Services Division.

### Declaration

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past five years nor any public sanction or penalty by any relevant regulatory bodies during FY2019.



# DIRECTORS' PROFILES

## RAZALEE AMIN

Independent Non-Executive Director

---

Malaysian | 67 | Male

---

**Date first appointed to the Board of Directors:** 2 May 2013

### Qualification

- Bachelor of Economics in Accounting - University of Malaya, Malaysia
- Postgraduate Diploma in Accounting – University of Malaya, Malaysia

### Length of Service (as at 30 April 2020)

6 years and 11 months

### Membership of Associations

- Malaysian Institute of Accountants
- Malaysian Institute of Certified Public Accountants
- Financial Planning Association of Malaysia

### Number of Board of Directors meetings attended in FY2019

9/10

### Membership of Board Committees

- Chairman of Board Audit Committee
- Member of Board Risk Management Committee
- Member of Board Whistle-Blowing Committee

### Any other board directorships in public companies

Listed Entity:

- Duopharma Biotech Berhad
- UMW Holdings Berhad

Other Public Companies:

None

### Working Experience

Upon his graduation, Razalee Amin ("Razalee") began his career with Messrs Hanafiah Raslan & Mohamad, a firm of Chartered Accountants.

In 1983, he joined Sateras Resources (Malaysia) Berhad as the Group Financial Controller before moving on in 1987 to assume the position of Senior Vice President in the Investment and Acquisitions Division of MBf Finance Berhad.

In 1994, Razalee joined Damansara Realty Berhad as its Senior General Manager before starting his own Chartered Accountants firm, Messrs Razalee & Co two years later where he is the Managing Partner.

### Declaration

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past five years nor any public sanction or penalty by any relevant regulatory bodies during FY2019.





## DATO' IBRAHIM MARSIDI

Independent Non-Executive Director

---

Malaysian | 68 | Male

---

**Date first appointed to the Board of Directors:** 2 May 2013

### Qualification

Bachelor of Economics  
(Analytical) - University of  
Malaya, Malaysia

### Length of Service

(as at 30 April 2020)

6 years and 11 months

### Membership of Associations

None

### Number of Board of Directors meetings attended in FY2019

10/10

### Membership of Board Committees

- Chairman of Board  
Nomination &  
Remuneration Committee
- Member of Board Audit  
Committee

### Any other board directorships in public companies

Listed Entity:

Telekom Malaysia Berhad

Other Public Companies:

None

### Working Experience

Dato' Ibrahim Marsidi ("Dato' Ibrahim") started his career with Malayan Banking Berhad in 1979 as a Sub-Accountant. Later the same year, he joined PETRONAS and was actively involved in the development of PETRONAS domestic marketing activities. In the course of his career with PETRONAS, Dato' Ibrahim held a number of Senior Management positions such as the position of Senior Manager of Eastern and Northern Region, General Manager of Liquefied Petroleum Gas and Retail Business in PETRONAS Dagangan Berhad ("PDB") and as the General Manager of Crude Oil Group, PETRONAS.

With his extensive experience, Dato' Ibrahim was appointed as the Managing Director and Chief Executive Officer of PDB, a company listed on BURSA, the formation of which he had played a deep role. During his tenure leading PDB, he spearheaded its transformation by developing the company's brand and business strategy as well as the development of administrative and electronic payment systems. Dato' Ibrahim retired from this position in December 2007.

### Declaration

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past five years nor any public sanction or penalty by any relevant regulatory bodies during FY2019.



# DIRECTORS' PROFILES

## MOHD RASHID MOHD YUSOF

Senior Independent Non-Executive Director

Malaysian | 64 | Male

**Date first appointed to the Board of Directors:** 23 June 2017

### Qualification

ACCA,  
Advanced Management  
Program, Wharton Business  
School, Pennsylvania, USA

### Length of Service (as at 30 April 2020)

2 years and 11 months

### Membership of Associations

- Chartered Association of Certified Accountants, UK
- Malaysian Institute of Accountants

### Number of Board of Directors meetings attended in FY2019

9/10

### Membership of Board Committees

- Chairman of Board Risk Management Committee
- Member of Board Whistle-Blowing Committee

### Any other board directorships in public companies

Listed Entity:

- Scicom (MSC) Berhad
- Media Prima Berhad

Other Public Companies:

- Standard Chartered Bank Malaysia Berhad
- Sistem Televisyen Malaysia Berhad

### Working Experience

Mohd Rashid Mohd Yusof ("Mohd Rashid") commenced his career with PETRONAS in 1980 and has held various financial positions in PETRONAS such as Head of Group Accounting, Head of Group Treasury and Head of Group Internal Audit. He was also appointed as Financial Director of Engen Limited ("Engen"), before assuming Senior Management positions as Chief Executive Officer of Malaysian International Trading Corp ("MITCO") and later as Managing Director/Chief Executive Officer of Engen in South Africa and Vice President of Supply Chain & Risk Management at PETRONAS.

As the Managing Director/Chief Executive Officer of Engen in South Africa, he was the Chairman of the South African Petroleum Industry Association ("SAPIA") for the year 2007.

During the course of his career at PETRONAS, Mohd Rashid has also served as a Director for several companies in the group, including Putrajaya Holdings, Enpet Insurance Ltd. (Isle of Man), Trustee of the PETRONAS Retirement Benefit Fund, Director and Chairman of PETRONAS-ICT, Director of KLCC (Holdings) Sdn. Bhd. and Energas Insurance (Labuan) Ltd.

### Declaration

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past five years nor any public sanction or penalty by any relevant regulatory bodies during FY2019.



## ROWINA GHAZALI SETH

Independent Non-Executive Director

Malaysian | 59 | Female

**Date first appointed to the Board of Directors:** 23 June 2017

### Qualification

Bachelor of Science Degree in Computer Science, Northern Illinois University, USA

### Length of Service (as at 30 April 2020)

2 years and 11 months

### Membership of Associations

None

### Number of Board of Directors meetings attended in FY2019

10/10

### Membership of Board Committees

- Member of Board Risk Management Committee
- Member of Board Nomination & Remuneration Committee

### Any other board directorships in public companies

Listed Entity:

- UEM Edgenta Berhad

Other Public Companies:

- Hong Leong Islamic Bank Berhad

### Working Experience

Rowina Ghazali Seth ("Rowina") began her career in SHELL in the Information Technology Division in 1985 and she has more than 30 years of experience in the oil and gas industry gained in all aspects of strategic government relations, external and reputation management.

She has held various local and global positions in SHELL's upstream, downstream and business operations and had served as the General Manager Corporate Affairs and Director of SHELL Business Services Sdn. Bhd. Her last position was as Director, Government Affairs at SHELL Malaysia, building the function from inception and pioneering the lead role.

Rowina's forte is in frontline roles, managing complex issues with Government, often include situations involving material business value, reputational risk and geo-political dimensions (e.g. South China Sea/border/NGO disputes), and other issues requiring escalation to the Prime Minister's office. Rowina displayed strong interpersonal skills and develop mature relationships amongst senior levels of Government, with British and Dutch foreign offices, business chambers, and counterparts in PETRONAS and oil and gas organisations.

### Declaration

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past five years nor any public sanction or penalty by any relevant regulatory bodies during FY2019.



# DIRECTORS' PROFILES

## HAIDA SHENNY HAZRI

Non-Independent Non-Executive Director

Malaysian | 46 | Female

Date first appointed to the Board of Directors: 23 June 2017

### Qualification

- LLB and BComm (Accounting & Finance), University of Melbourne, Australia
- LLM, University of Malaya, Malaysia

### Length of Service (as at 30 April 2020)

2 years and 11 months

### Membership of Associations

None

### Number of Board of Directors meetings attended in FY2019

10/10

### Membership of Board Committees

- Member of Board Risk Management Committee
- Member of Board Whistle-Blowing Committee

### Any other board directorships in public companies

Listed Entity:

- Privasia Technology Berhad

Other Public Companies:

None

### Working Experience

Haida Shenny Hazri ("Haida") has more than 20 years of experience in the oil and gas industry.

Haida commenced her career with PETRONAS and she undertook legal and commercial roles in PETRONAS E&P, LNG and Technology businesses. Her last post in PETRONAS was Chief Executive Officer, Petronas Technology Ventures Sdn. Bhd. She also served on various Boards of PETRONAS companies such as PETRONAS Technical Solutions Sdn. Bhd., PETROSAINS Sdn. Bhd., Lanzatech NZ Ltd. and Lanzatech USA Ltd. Whilst in PETRONAS, she was part of various Corporate Strategic studies.

In Sapura Energy (previously known as SapuraKencana), she held the position of Vice President of Strategy and New Ventures (E&P) and was involved in the building up of the E&P business for Sapura.

Haida also held the position of Chief Executive Officer, Matrix Reservoir Sdn. Bhd., owner and operator of Tok Bali Supply Base, that built and operationalised the third supply base in Malaysia. She was also the CEO of Bintulu Supply Base Sdn. Bhd.

### Declaration

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past five years nor any public sanction or penalty by any relevant regulatory bodies during FY2019.



## RIZAL RICKMAN RAMLI

Non-Independent Non-Executive Director

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Malaysian | 42 | Male

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**Date first appointed to the Board of Directors:** 21 March 2018

### Qualification

- Master of Business Administration, J.L. Kellogg School of Management, Northwestern University, USA
- Bachelor of Arts in Economics, University of Chicago, USA

**Length of Service (as at 30 April 2020)**  
2 years 1 month

**Membership of Associations**  
None

**Number of Board of Directors meetings attended in FY2019**  
9/10

**Membership of Board Committees**  
Member of Board Nomination & Remuneration Committee

**Any other board directorships in public companies**  
Listed Entity:

- Sime Darby Property Berhad

Other Public Companies:

- Pelaburan Hartanah Nasional Berhad
- MIDF Property Berhad
- Lanjut Golf Berhad

### Working Experience

Presently, Rizal Rickman Ramli ("Rick") is the Chief Investment Officer, Real Estate for Permodalan Nasional Berhad ("PNB").

Prior to joining PNB, Rick served as the Country Managing Partner for the Boston Consulting Group ("BCG") in Malaysia. During his time at BCG, he has worked on client assignments in more than 10 countries globally and was also based out of BCG's London office.

Rick has extensive experience working on projects in the oil and gas sector having supported energy clients on various assignments including on topics such as new business build, growth strategy, and industry transformation.

### Declaration

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past five years nor any public sanction or penalty by any relevant regulatory bodies during FY2019.



# DIRECTORS' PROFILES

## DATO' DAYANG FATIMAH JOHARI

Independent Non-Executive Director

Malaysian | 64 | Female

Date first appointed to the Board of Directors: 24 May 2018

### Qualification

- Bachelor of Arts (Honours) – Universiti Sains Malaysia, Pulau Pinang
- Masters in Human Resources Administration (HRA) – University of Scranton, Pennsylvania, USA

**Length of Service (as at 30 April 2020)**  
1 year and 11 months

**Membership of Associations**  
None

**Number of Board of Directors meetings attended in FY2019**  
10/10

### Membership of Board Committees

- Member of Board Audit Committee
- Member of Board Nomination & Remuneration Committee

### Any other board directorships in public companies

Listed Entity:  
None

Other Public Companies:  
None

### Working Experience

Upon her graduation, Dato' Dayang Fatimah ("Dato' Dayang") began her career with as a Temporary Teacher at Kolej Tun Datuk Patinggi Abdillah, Sarawak from 1979 until 1980.

Dato' Dayang started her career as Superintendent of Customs in June 1980. She was later promoted to Senior Superintendent of Customs in 1985, Assistant Director of Customs in 1990, Senior Assistant Director II in 1998, Senior Assistant Director I in 2000 and Deputy Director of Customs in 2006. During these years she served as the heads of different sections / divisions of Customs; namely the Import & Export Division, the Enforcement Division, the Technical Services Division and Customs Division. In the year 2011, Dato' Dayang was promoted as Director of Royal Malaysian Customs Academy ("AKMAL") in Melaka. She was responsible for the basic training of new Customs officers, in-house training for Customs staff and also coordinating and jointly organising international Customs courses locally with the World Customs Organisation ("WCO") in Brussels. She was the first woman director of AKMAL since its inception in 1957. She served as Director of AKMAL from 2011 to October 2014. In January 2015, AKMAL was accorded the WCO Certificate of Merit.

In October 2014, Dato' Dayang was transferred to Sarawak as the State Director of Customs. During her tenure as State Director, she was involved in the working committees with the State Government of Sarawak on Bilateral meetings such as the Socio Economic Malaysia/Indonesia (Sosek Malindo), doing liaison work during state official and sports events. Dato' Dayang retired in August 2016.

### Declaration

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past five years nor any public sanction or penalty by any relevant regulatory bodies during FY2019.



## DATUK TONG POH KEOW

Independent Non-Executive Director

Malaysian | 66 | Female

**Date first appointed to the Board of Directors:** 29 August 2019

### Qualification

- Diploma in Commerce, Kolej Tunku Abdul Rahman
- Examination of the Institute of Chartered Secretaries and Administrators, UK

**Length of Service (as at 30 April 2020)**  
8 Months

### Membership of Associations

- Fellow of the Association of Chartered Certified Accountants, UK
- Malaysian Institute of Accountants

**Number of Board of Directors meetings attended in FY2019**  
3/3

### Membership of Board Committees

- Member of Board Audit Committee
- Chairperson of Board Whistle-Blowing Committee

### Any other board directorships in public companies

Listed Entity:  
None

Other Public Companies:  
None

### Working Experience

Datuk Tong Poh Keow ("Datuk Tong") began her career as secretarial assistant with Siva, Heng & Monteiro in 1978 and was promoted to manager of secretarial services and audit in 1980 before she left the firm to join Shapadu Holding Sdn. Bhd. in 1981 where she was an accountant and company secretary until March 1983.

Datuk Tong joined Highlands & Lowlands Berhad in November 1983 as an accountant and assistant company secretary. In 1985, she joined Kumpulan Guthrie Berhad and had since held various senior positions until her promotion to Chief Financial Officer ("CFO"). In 2007, she was appointed as the CFO of Sime Darby Plantation Berhad for about half year prior to assuming the role of the Group CFO of Sime Darby Berhad ("SDB") in 2008 where she served for about 9 years until her appointment as Executive Director/Group CFO of Sime Darby Property on 30 November 2017. She retired as Group CFO of Sime Darby Property on 31 March 2019. She has served the Sime Darby Group for 36 years.

Datuk Tong was named the Best CFO in Malaysia for 2014, 2015 and 2017 at the Institutional Investor Corporate Awards - Alpha Southeast Asia and Best CFO for Investor Relations (Large Cap) for 2013, 2014 and 2017 at Malaysia Investor Relations Awards.

### Declaration

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past five years nor any public sanction or penalty by any relevant regulatory bodies during FY2019.



# OUR LEADERS



**ROHAIZAD DARUS**  
President/Non-Independent Executive Director

• Aged 55                      • Male                      • Malaysian

For details of the President's profile, please refer to page 21 (Profile of Board of Director) of this Annual Report.



**RAFIZA GHAZALI**  
Chief Financial Officer and Joint Company Secretary

• Aged 48                      • Female                      • Malaysian

**Qualifications**

- Postgraduate Diploma in Strategy & Innovation – Said Business School, University of Oxford, UK
- Postgraduate Diploma in Applied Finance & Investment – Securities Institute of Australia, Australia
- Bachelor of Science in Economics (Accounting & Finance major) - The London School of Economics & Political Science

**Past Employment**

- Arthur Andersen Australia
- Pengurusan Danaharta Nasional Berhad
- Nikkei Pacific Corporate Advisor
- RHB Investment Bank
- Bank Negara Malaysia
- Cagamas Berhad
- Sime Darby Berhad

**Membership of Association**

- Institute of Chartered Accountants of Australia
- Malaysian Institute of Accountants

**Date appointed to the current position**

8 January 2018

**Declaration**

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past five years.
- Has never been convicted for any offence within the five years nor any public sanction or penalty by any relevant regulatory bodies in FY2019.





**ABDUL HADI ABDUL BARI**  
Chief Commercial Officer

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• Aged 44                      • Male                      • Malaysian

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**Qualifications**

- Post Graduate Diploma in Applied Finance & Investment – Securities Institute of Australia, Australia
- Bachelor of Business Administration (Honours) in Finance, Multimedia University, Malaysia
- Diploma in Investment Analysis, Universiti Teknologi MARA, Malaysia

**Past Employment**

- Innosabah Securities Sdn. Bhd.
- Permodalan Nasional Berhad
- TL Geosciences Sdn. Bhd. (a wholly owned subsidiary of SapuraCrest Petroleum Berhad)
- MISC Berhad
- Asian Geos Sdn. Bhd. (a Gardline Geosciences UK Company)

**Membership of Association**

Nil

**Date appointed to the current position**

1 December 2018

**Declaration**

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past five years.
- Has never been convicted for any offence within the five years nor any public sanction or penalty by any relevant regulatory bodies in FY2019.



**ADRIN SHAFIL AHMAD NASIR**  
Chief Operating Officer

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• Aged 42                      • Male                      • Malaysian

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**Qualifications**

- Bachelor of Science in Electrical and Computer Engineering - Cornell University, USA

**Past Employment**

- ExxonMobil Malaysia
- Nippon Oil Exploration
- BHP Biliton Petroleum Sabah Corporation
- Inpex Offshore North West Sabah Inc
- Petrofac Malaysia Ltd.

**Membership of Association**

Nil

**Date appointed to the current position**

1 July 2019

**Declaration**

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past five years.
- Has never been convicted for any offence within the five years nor any public sanction or penalty by any relevant regulatory bodies in FY2019.

# OUR LEADERS



**CHONG EU JIN**  
Head, Oilfield Services

• Aged 43      • Male      • Malaysian

**Qualifications**

BEng (Honours) - University Lincolnshire and Humberside, UK

**Past Employment**

- Cameron International Sdn. Bhd.
- Aquaterra Energy Sdn. Bhd.
- Destini Berhad

**Membership of Association**

Nil

**Date appointed to the current position**

15 April 2020

**Declaration**

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past five years.
- Has never been convicted for any offence within the five years nor any public sanction or penalty by any relevant regulatory bodies in FY2019.



**NOOR ASHIAH YANG**  
Head, Human Resources

• Aged 51      • Female      • Malaysian

**Qualifications**

Bachelor of Arts (Honours) in Economics - University of Laurentienne, Canada

**Past Employment**

- Bumi Armada Berhad
- Petra Energy Berhad
- Sapura Crest Petroleum Berhad
- Sapura Acergy Sdn. Bhd.
- Eden Group Berhad
- Dialog Group Berhad
- Renong Berhad

**Membership of Association**

Nil

**Date appointed to the current position**

2 December 2019

**Declaration**

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past five years.
- Has never been convicted for any offence within the five years nor any public sanction or penalty by any relevant regulatory bodies in FY2019.



**LEE MI RYOUNG**

Head, Legal & Secretarial and Company Secretary

• Aged 43 • Female • Malaysian Permanent Resident

**Qualifications**

- Company Secretary, ACIS – Malaysian Institute of Chartered Secretaries and Administrators
- Barrister at law, Inns of Court School of Law
- LL.B Bachelor in law – University College London, UK
- Post Graduate Diploma in International Commercial Arbitration – The Chartered Institute of Arbitrators, London UK
- Post Graduate Diploma in Professional Legal Skills – City University, London UK

**Past Employment**

- British American Tobacco (Malaysia) Berhad
- Petroliam Nasional Berhad (PETRONAS) and Malaysian LNG Group of Companies
- Shell Malaysia Trading Sdn. Bhd. and Shell Refining Company (FOM) Berhad
- Yeng Chong Realty Berhad
- Shook Lin & Bok

**Membership of Association**

- Malaysian Institute of Chartered Secretaries and Administrators
- Chartered Institute of Arbitrators
- Honourable Society of Gray's Inn, London, UK

**Date appointed to the current position**

15 July 2019

**Declaration**

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past five years.
- Has never been convicted for any offence within the five years nor any public sanction or penalty by any relevant regulatory bodies in FY2019.



**MUHAMMAD IMRAN ABD HALIM**

Head, Business Systems

• Aged 41 • Male • Malaysian

**Qualifications**

- LLB (Honours) Degree – University Kebangsaan Malaysia, Malaysia
- Post Graduate Diploma in Islamic Banking & Finance – International Islamic University of Malaysia.

**Past Employment**

- Attorney General's Office
- HSBC Bank Malaysia Berhad
- Ambank Group
- Permodalan Nasional Berhad

**Membership of Association**

Nil

**Date appointed to the current position**

5 November 2018

**Declaration**

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past five years.
- Has never been convicted for any offence within the five years nor any public sanction or penalty by any relevant regulatory bodies in FY2019.

# OUR LEADERS



**MOHD ALI MOHD SAIBI**  
Head, Health, Safety & Environment

• Aged 49      • Male      • Malaysian

#### Qualifications

Professional Diploma in Safety, Health & Environment – Universiti Selangor, Malaysia

#### Past Employment

- Royal Malaysian Air Force (RMAF)
- Adinin Works & Engineering (Brunei) Sdn. Bhd.
- Bintulu Engineering & Trading Sdn. Bhd.
- Petra Resources Sdn. Bhd.
- Murphy Oil Co. Ltd.
- Brunei Shell Petroleum Co. Sdn. Bhd.
- Schlumberger Brunei
- Petrofac Development Sdn. Bhd.
- Petronas Refinery & Petrochemical Corporation
- Hengyuan Refining Company

#### Membership of Association

Nil

#### Date appointed to the current position

17 December 2018

#### Declaration

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past five years.
- Has never been convicted for any offence within the five years nor any public sanction or penalty by any relevant regulatory bodies in FY2019.



**MARYAM SALWAANA KAMAL MOHD KAMAL**  
Head, Corporate Communications

• Aged 41      • Female      • Malaysian

#### Qualifications

Bachelor of Human Sciences (Honours) in Communications - International Islamic University, Malaysia

#### Past Employment

- AD.Diction Advertising Sdn. Bhd.
- Media Prima Berhad

#### Membership of Association

Nil

#### Date appointed to the current position

1 October 2017

#### Declaration

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past five years.
- Has never been convicted for any offence within the five years nor any public sanction or penalty by any relevant regulatory bodies in FY2019.



**NORZALIZAH ALIAS**

Head, Internal Audit

• Aged 47 • Female • Malaysian

**Qualifications**

Bachelor of Accountancy (Honours) - Universiti Teknologi MARA, Malaysia

**Past Employment**

- PricewaterhouseCoopers
- JF Apex Securities Berhad
- Afrizan Tarmili Khairul Azhar (AFTAAS)
- KPMG
- Export-Import Bank of Malaysia Berhad
- Sapura Kencana Petroleum Berhad
- Ranhill Capital Sdn. Bhd.

**Membership of Association**

- Malaysian Institute of Accountants
- The Institute of Internal Auditors Malaysia

**Date appointed to the current position**

1 March 2018

**Declaration**

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past five years.
- Has never been convicted for any offence within the five years nor any public sanction or penalty by any relevant regulatory bodies in FY2019.



**MOHAMMAD HAFIZ SAPARANI**

Head, Integrity Governance Unit

• Aged 43 • Male • Malaysian

**Qualifications**

Bachelor of Accountancy (Honours) - Universiti Teknologi MARA, Malaysia

**Past Employment**

- MISC Haulage Services Sdn. Bhd.
- MAA Assurance Berhad
- MAA Holdings Berhad
- SapuraCrest Petroleum Berhad
- SapuraKencana Petroleum Berhad

**Membership of Association**

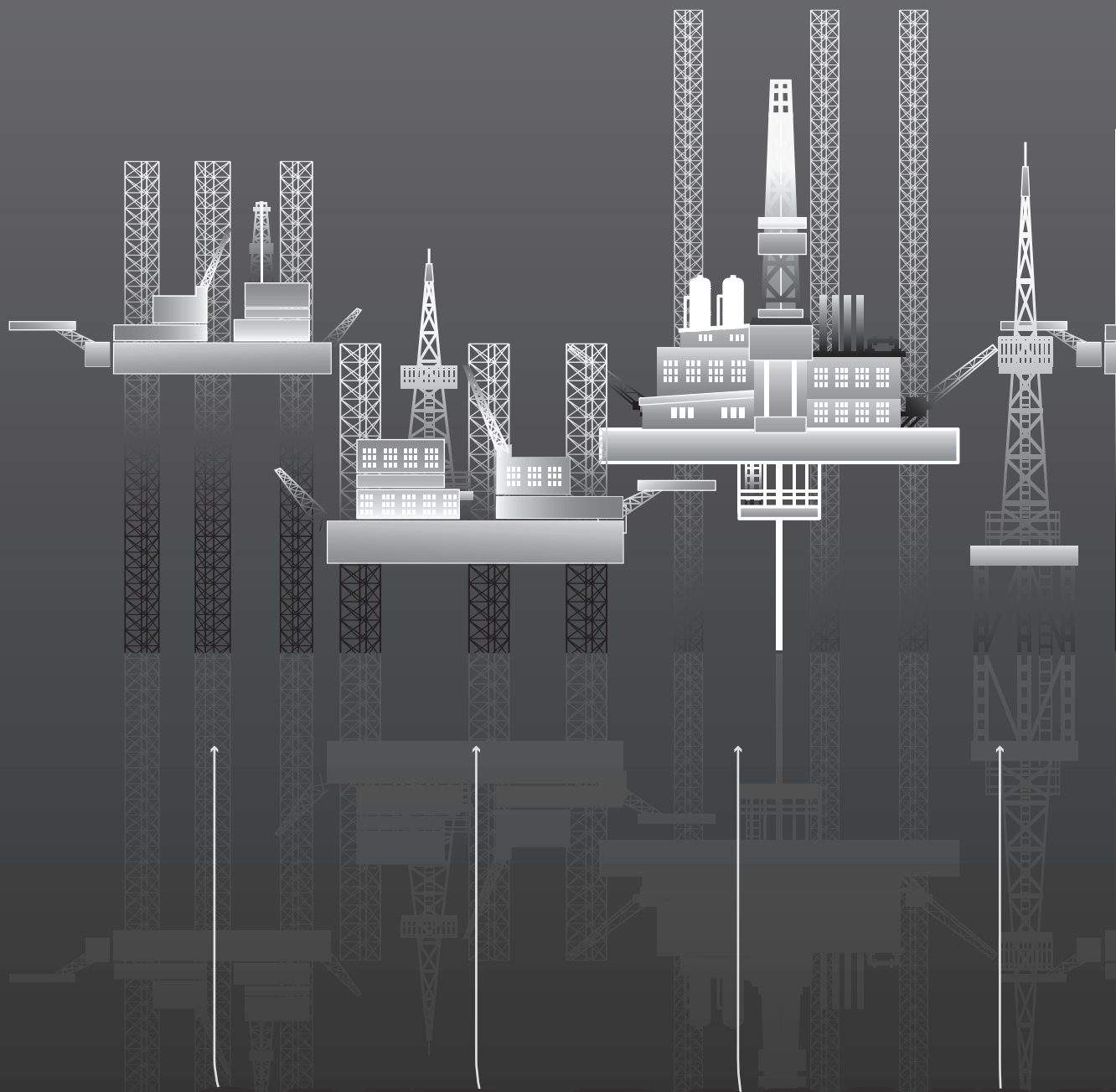
- Malaysian Institute of Accountants
- The Institute of Internal Auditors Malaysia

**Date appointed to the current position**

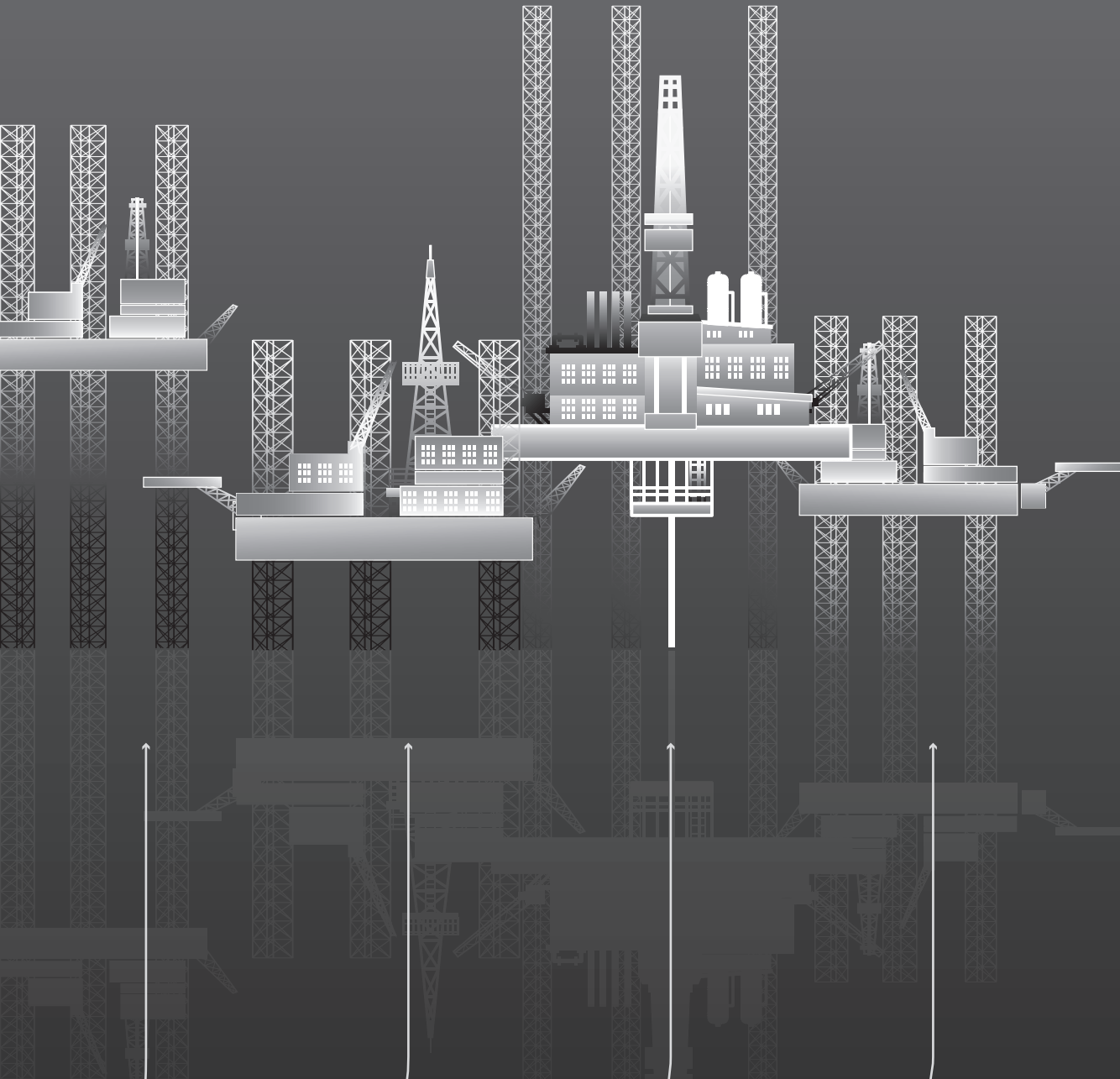
1 January 2020

**Declaration**

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past five years.
- Has never been convicted for any offence within the five years nor any public sanction or penalty by any relevant regulatory bodies in FY2019.



# OUR BUSIN

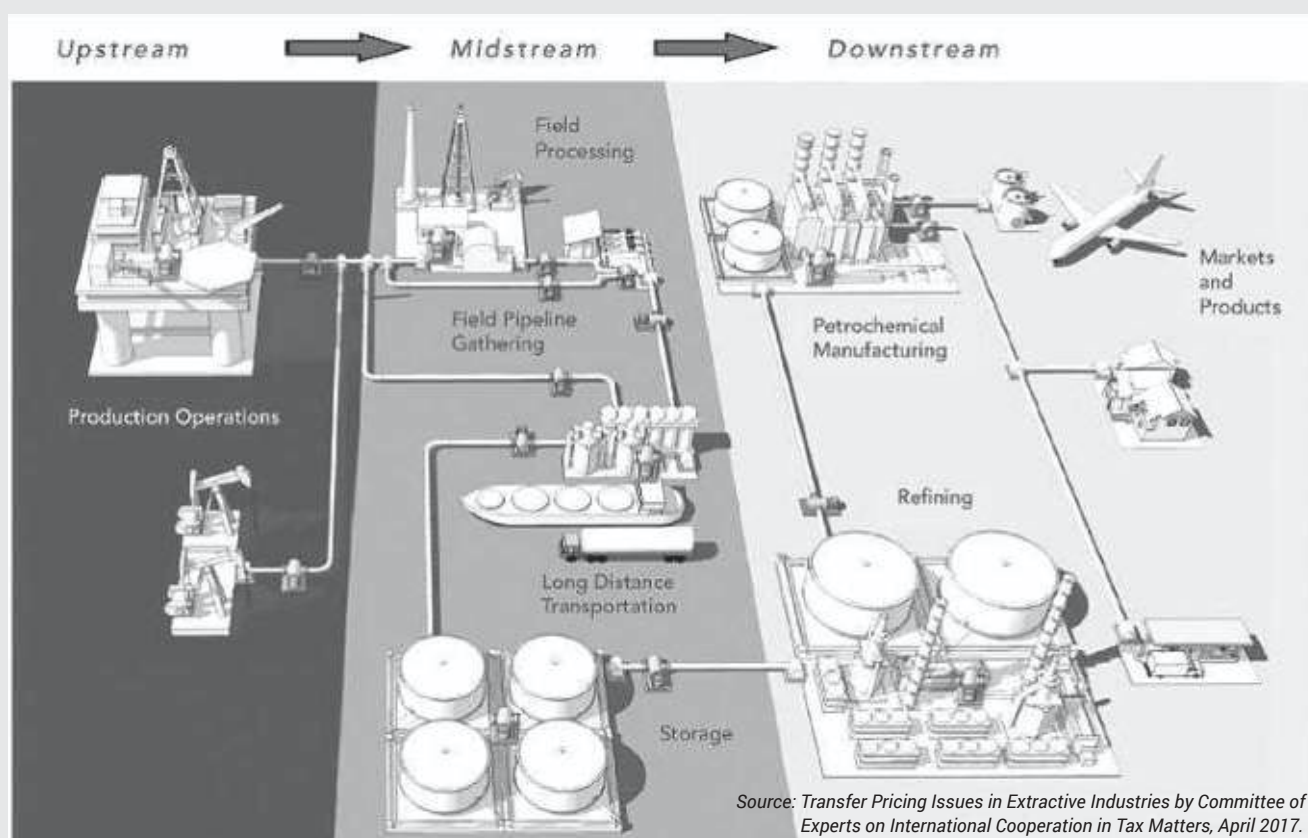


# ESS MODEL

# OUR INDUSTRY VALUE CHAIN

## THE OIL AND GAS VALUE CHAIN

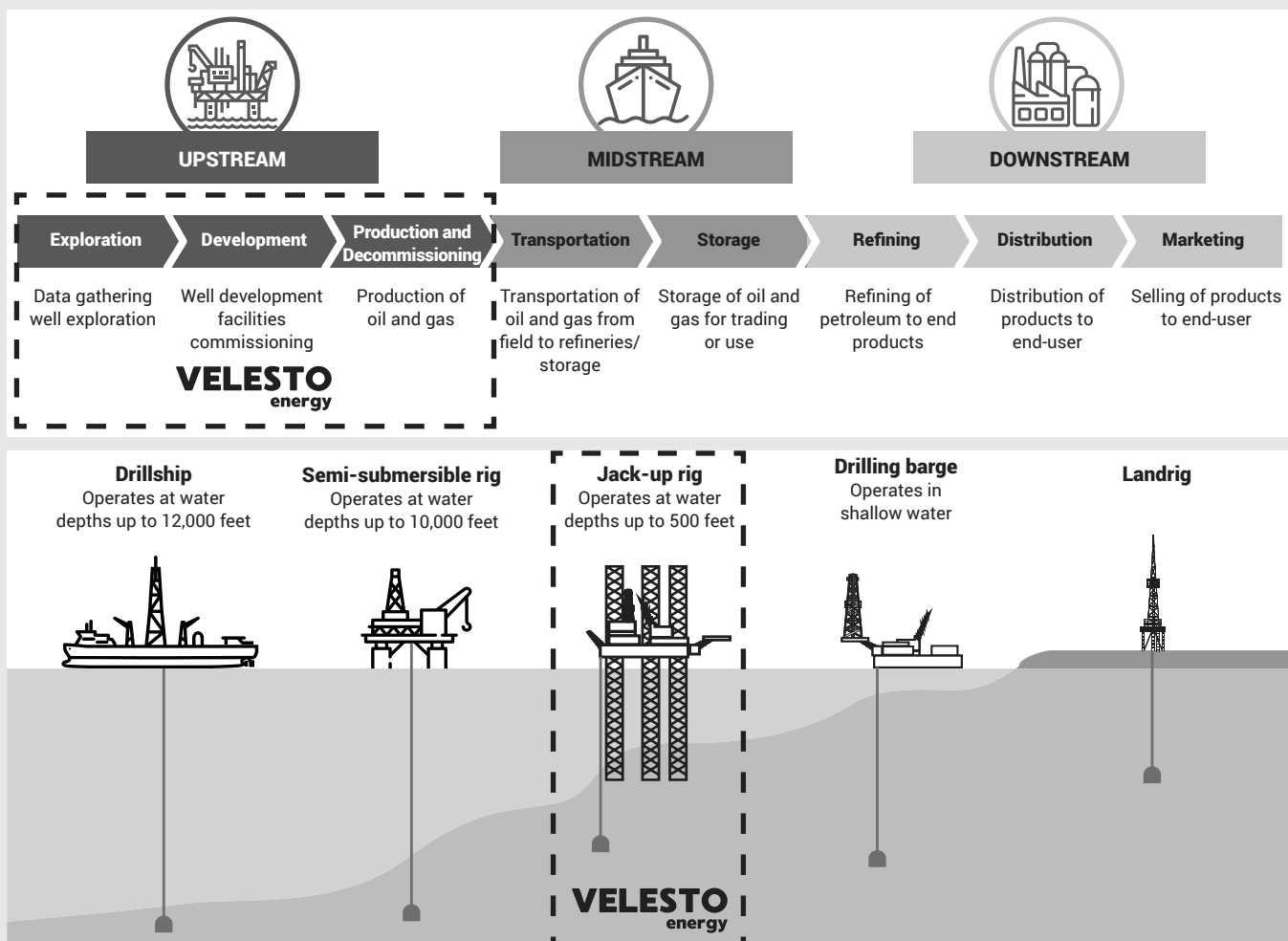
Essentially, the oil and gas value chain comprises a wide range of activities, which can be categorised into three main sections; upstream, midstream and downstream.



CATEGORY	UPSTREAM	MIDSTREAM	DOWNSTREAM
PRINCIPAL ACTIVITIES	Essentially all activities related to finding crude oil and gas sources offshore or onshore, and extraction and production of the same.	Processing and storage of crude oil and natural gas as well as transportation of the same.	Refining of crude oil via distillation and other processes into end consumer, commercial or industrial products.  Crude oil is essentially converted into a final product such as jet or automotive fuel, or is used as an ingredient in the production of petrochemicals, olefins, glycols, polymers, methanol, ammonia and fertilisers.
INVOLVEMENT	YES	NIL	NIL



## VELESTO WITHIN THE UPSTREAM VALUE CHAIN



VELESTO Group operates in the upstream value chain, primarily focusing on exploration, development and production activities.



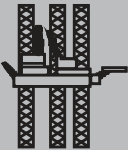

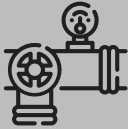
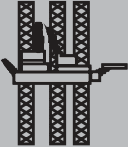
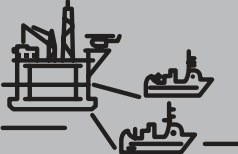
VELESTO owns and operates seven premium jack-up drilling rigs, which are capable of operating in water depths of up to 400 feet. This is ideal for the shallow waters of South East Asia. VELESTO Group also provides hydraulic workover services as well as well intervention and rejuvenation, plug and abandonment and decommissioning activities.

Revenue streams come from exploration and drilling contracts secured via tenders from Malaysia's national oil and gas company, PETRONAS Carigali Sdn. Bhd. ("PCSB") and other oil and gas majors such as Hess Exploration and Production Malaysia B.V. ("Hess"), ConocoPhillips Sarawak Limited ("ConocoPhillips"), Roc Oil (Sarawak) Sdn. Bhd. ("Roc Oil"), Repsol Oil & Gas Malaysia Limited ("Repsol"), PTTEP HK Offshore Ltd. ("PTTEP"), MDC Oil & Gas Ltd. ("Mubadala"), Sarawak Shell Bhd. ("Shell"), and more.

Contracts are based on number of well basis or number of days duration with an agreed day charter rates with clients, which are constant regardless if oil and gas deposits are found or extracted.

# OUR INDUSTRY VALUE CHAIN

Following is a more specific illustration on how VELESTO plays its strategic role within the upstream value chain:

	<p>Oil and gas companies i.e. PCSB, Hess, ConocoPhillips, Roc Oil, Repsol, PTTEP and Shell obtain permission to source for oil and gas resources/deposits within a country's land borders or waters.</p>
	<p>Exploration, either onshore or offshore is conducted via geological surveys, gravity surveys, magnetic surveys and seismic surveys.</p> <p>If a location with potentially high oil and gas deposits is found, an oil platform is erected onsite for offshore and donkey for onshore locations.</p>
	<p>A drilling rig and drill crew that VELESTO provides facilitates drilling a well. A drilled well is a result of sequential drilling of multiple hole sizes (wellbores) to reach a subsurface target, below the seabed.</p> <p>VELESTO's jack-up drilling rig is positioned next to an oil and gas platform, or in open water to drill an exploration well. At these locations, drill pipe is used to drill down through the topside, and into the seabed to create wellbores, until the well reaches the target.</p> <p>Well drilling may take days, weeks or months to find oil. More than a single well may be drilled at any given location.</p> <p>The duration of drilling may vary based on soil conditions, weather, equipment quality and crew competency.</p>
	<p>VELESTO uses data sourced from the ongoing drilling process and well existing conditions, towards determining the optimum approach for drilling.</p> <p>The data is shared with the client and the decision on how to proceed or to shift to another promising location is made.</p>
	<p>If VELESTO finds oil or gas deposits during the exploration phase, the well is plugged and abandoned permanently.</p>
	<p>VELESTO installs production equipment using its rig to facilitate extraction of the oil and gas.</p> <p>Extraction now commences as the project transitions from exploration to production.</p>
	<p>The drilling rig is transported to a new exploration and/or new production location and the process is repeated.</p>

Through its jack-up drilling rigs, VELESTO Group plays a significant role in verifying potential oil and gas resources as well as providing a means for extracting found resources. VELESTO Group provides a cost competitive, efficient and sustainable solution towards meeting the growing demand for oil and gas.

# INDUSTRY OVERVIEW

FEATURES	DESCRIPTION
<p>The Industry (Pros and Cons)</p>	<p><b>Pros:</b></p> <p>Growth in the oil and gas industry has historically been driven by increase in global economic activities, resulting in an increase in energy demand. While investment and activities might be cyclical, they are likely to recover in the long term as oil and gas producers need to replace declining production capacity and reserves.</p> <p>On the back of the decline in oil demand and prices starting in Quarter 2, 2020, OPEC+ has committed to cut production by 10 million barrels per day. In addition, US rig count has declined significantly, indicating US production of oil is likely to trend lower.</p> <p>Other positives include:</p> <ul style="list-style-type: none"> <li>• Potential reduction in global supply due to political turmoil and economic sanctions faced by several oil producing nations such as Libya, Iran, Venezuela and others.</li> <li>• A smaller pool of available rigs to meet growing demand. Globally, 15 jack-up rigs were scrapped in 2019. We expect scrapping activities to increase in 2020 as more older rigs are reaching the mandatory five-yearly Special Periodical Survey (“SPS”) and the cost of re-certifying the older rigs are not viable based on the low day charter rate seen in the last five years. This will lead to higher day charter and rig utilisation rates going forward.</li> </ul> <p><b>Cons:</b></p> <p>The benchmark Brent oil prices has recently fallen to USD26 - 30 per barrel as at end March 2020 due to the COVID-19 pandemic. The pandemic’s disruption to economic activities has plunged oil demand to historic low levels in Quarter 2, 2020, resulting in excess supplies and rising inventories.</p> <p>Our clients, which are oil and gas Exploration &amp; Production (“E&amp;P”) companies, are expected to experience a decline in cash flow and profitability, due to lower oil prices. This could in turn affect their ability to fund Capital Expenditure (“CAPEX”) such as exploration and development drilling programmes in the short term.</p> <p>From a longer-term perspective, the impact of climate change, global warming and other environmental and social factors have progressively led to a change in government policies towards transitioning to more sustainable forms of energy to power economic growth.</p> <p>In the wake of the Paris Accord 2015 and the Two-Degree movement which continues to gain traction, the emergence of renewable energy on the agenda of most governments has led to an increasing shift from fossil fuels, which includes oil and gas.</p> <p>While crude oil and other fossil fuels will continue to be vital to meeting the energy needs of the world in the short and medium term, the long-term future of the oil and gas sector will be impacted by solar, hydro, wind, offshore thermal energy, bio-diesel, electric vehicles and other renewal energy sources.</p>

# INDUSTRY OVERVIEW

FEATURES	DESCRIPTION
<p>VELESTO Group's Key Features/ Assets, Resources and Winning Factors</p>	<ul style="list-style-type: none"> <li>• The largest Malaysian owned drilling rig services operator.</li> <li>• Our high performance team of industry and operational specialists.</li> <li>• A proven track record for excellent performance, achieving a high degree of operational efficiency, as well as HSE performance.</li> <li>• Cost competitive operating base.</li> <li>• RM2.1 billion outstanding order book as at 31 December 2019.</li> <li>• Efficient supply chain.</li> <li>• Through its two supply bases, VELESTO Group is well positioned to operate anywhere within the South China Sea, thus being able to operate across the South East Asia region.</li> <li>• Strong financials with reducing debt and gearing.</li> <li>• Strong institutional support via its position as a government linked company.</li> <li>• Abu Dhabi National Oil Company ("ADNOC") registered and technically qualified.</li> <li>• A constant talent pipeline for the drilling industry via the Velesto Drilling Academy Sdn. Bhd. ("VDA").</li> <li>• Premium fleet of jack-up drilling rigs with some fleet upgraded with High Pressure, High Temperature ("HPHT") capabilities.</li> <li>• Able to undertake well rejuvenation and capping work via its hydraulic workover units.</li> <li>• Premium rigs with experienced personnel i.e. HPHT drilling experience.</li> <li>• Good relationship across the value chain (vendors, government agencies, port and supply base operators, etc.).</li> </ul>





# OUR OPERATING ENVIRONMENT

## CRUDE OIL PRICES

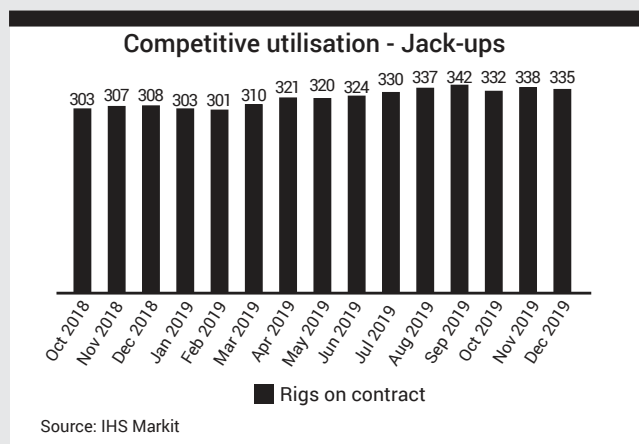
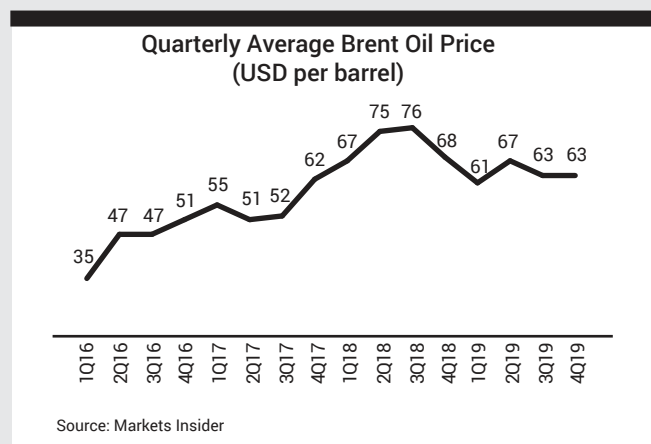
During the year under review, oil prices remained stable, hovering between USD55 - 70 per barrel on the back of steady demand and supply, which was attributed to strong quota discipline by oil producing nations as well as increased momentum for E&P activity.

Brent crude began FY2019 at USD54 per barrel and ended the year at USD66 per barrel. However, across the year, prices did reach highs of USD74 before coming down to below USD60. The year ended strongly for crude oil as the market reacted to the attack on Aramco's oil facilities. Average price for FY2019 was USD64.

Demand was supported by growth in brownfield activities.

There is a growing demand for drilling rigs but supply is still constrained due to attrition of older rigs, slower new supply as well as many rigs being unmaintained due to the four-year industry downturn. As such, rig utilisation rates picked up steadily throughout the financial year.

For more information on VELESTO's response to the operating environment and business performance, please refer to the Chairman's Statement and Management Discussion & Analysis sections of this Annual Report.



## RIG COUNTS & RIG UTILISATION RATES

In FY2019, the demand for drilling rigs was on the uptrend driven by the aforementioned increase in E&P momentum. Global marketed utilisation of jack-up drilling rigs increased to 86% from 80% while VELESTO achieved an average rig utilisation rate of 80%.

Jack-up rig count across Malaysia and the Joint Development Area ("JDA") consisting of waters off Malaysia and Thailand have increased from nine at the start of FY2019 to sixteen by year-end. This is close to PETRONAS' forecasted rig requirement of fifteen for FY2019.

## AVERAGE DAY CHARTER RATES

Despite rig utilisation increasing, average day charter rates in FY2019 still only showed marginal improvements. In FY2019, South East Asia day charter rates increased slightly to between USD60,000 - 70,000 while in Malaysia, rates averaged closer to USD70,000.

While day charter rates had still not recovered fully after the four year industry downturn, FY2019 was the second consecutive year that average day charter rates for rigs were on an uptrend.

# OUR BUSINESS MODEL

## OUR BUSINESS STRENGTHS

It is VELESTO Group's unique business strengths as a drilling rig service provider that enables the VELESTO Group to compete effectively in a dynamic marketplace.

As such, VELESTO Group seeks to harness its strengths to achieve a competitive advantage and to realise its set business and operational objectives. Our strengths serve as essential building blocks or fundamental strategic components that provide the nucleus of our business model.

Our business and operational strategies seek to leverage on our inherent strengths, while looking to capitalise on external trends and development including risks and opportunities.

<p><b>Largest Malaysian owned jack-up drilling rig services operator</b></p>	<p>Out of eight jack-up rigs owned by Malaysian entities in Malaysia, VELESTO Group owns and operates seven. Given the inherent industry preference for local contractors, VELESTO is well positioned to bid and secure Malaysian based contracts.</p>
<p><b>Premium rigs with experienced personnel i.e. HPHT drilling experience</b></p>	<p>VELESTO's seven jack-ups feature the latest in drilling rig technology and are supported by competent, experienced crews, many of which have been trained at the VDA.</p> <p>VELESTO drilling fleet also has the capabilities to install Light Weight Structures and decommissioning of oil platforms and working closely with clients from design stage to commissioning in ensuring the safety requirement is strictly adhered to ensure the success of this scope without any unwanted incidents.</p>
<p><b>Provision of hydraulic workover services</b></p>	<p>Beyond E&amp;P, VELESTO Group undertakes well rejuvenation and capping activities. This allows VELESTO Group to tap emerging opportunities as Malaysia's oil and gas industry matures, while providing more comprehensive solutions for clients.</p>
<p><b>Proven track record for excellent Health, Safety and Environmental performance</b></p>	<p>VELESTO Group continues to maintain an industry leading HSE track record which has consistently earned the approval and recognition of clients. With good HSE performance being a license to operate, VELESTO's HSE performance provides VELESTO Group with a competitive advantage when bidding for contracts.</p>
<p><b>Strong outstanding order book</b></p>	<p>VELESTO's RM2.1 billion order book as at 31 December 2019.</p>
<p><b>Strategic geographical presence</b></p>	<p>Through its two supply bases in Kemaman and Labuan, VELESTO Group is well positioned to operate anywhere within the South China Sea. This allows it to bid for contracts across South East Asia.</p>

# OUR BUSINESS MODEL

<p><b>Low operating cost base</b></p>	<p>Having rationalised its business model and operations, VELESTO Group now has achieved a low operating base that facilitates greater flexibility and competitive ability when bidding for contracts.</p>
<p><b>Efficient supply chain and strong stakeholder relationships</b></p>	<p>VELESTO Group is well supported by a professional network of vendors and suppliers that enables the Company to achieve operational efficiencies and quicker response to market.</p> <p>VELESTO's relationships with regulatory bodies and government agencies has enabled it to achieve strong socio-economic compliance.</p>
<p><b>Strong institutional support via its position as a government linked investment company investee</b></p>	<p>More than 50%-owned by Permodalan Nasional Berhad and funds under its management</p>
<p><b>Strong client relationships</b></p>	<p>VELESTO Group has developed strong relationships with oil and gas majors since its inception, which has enabled us to better understand clients' requirements towards providing optimum drilling rig services and solutions.</p>
<p><b>A constant talent pipeline for the drilling industry via the VELESTO Drilling Academy</b></p>	<p>VDA has enabled VELESTO Group to ensure a sufficient and well trained talent pool, who are able to operate to VELESTO high-standards towards delivering operational efficiency and productivity.</p>



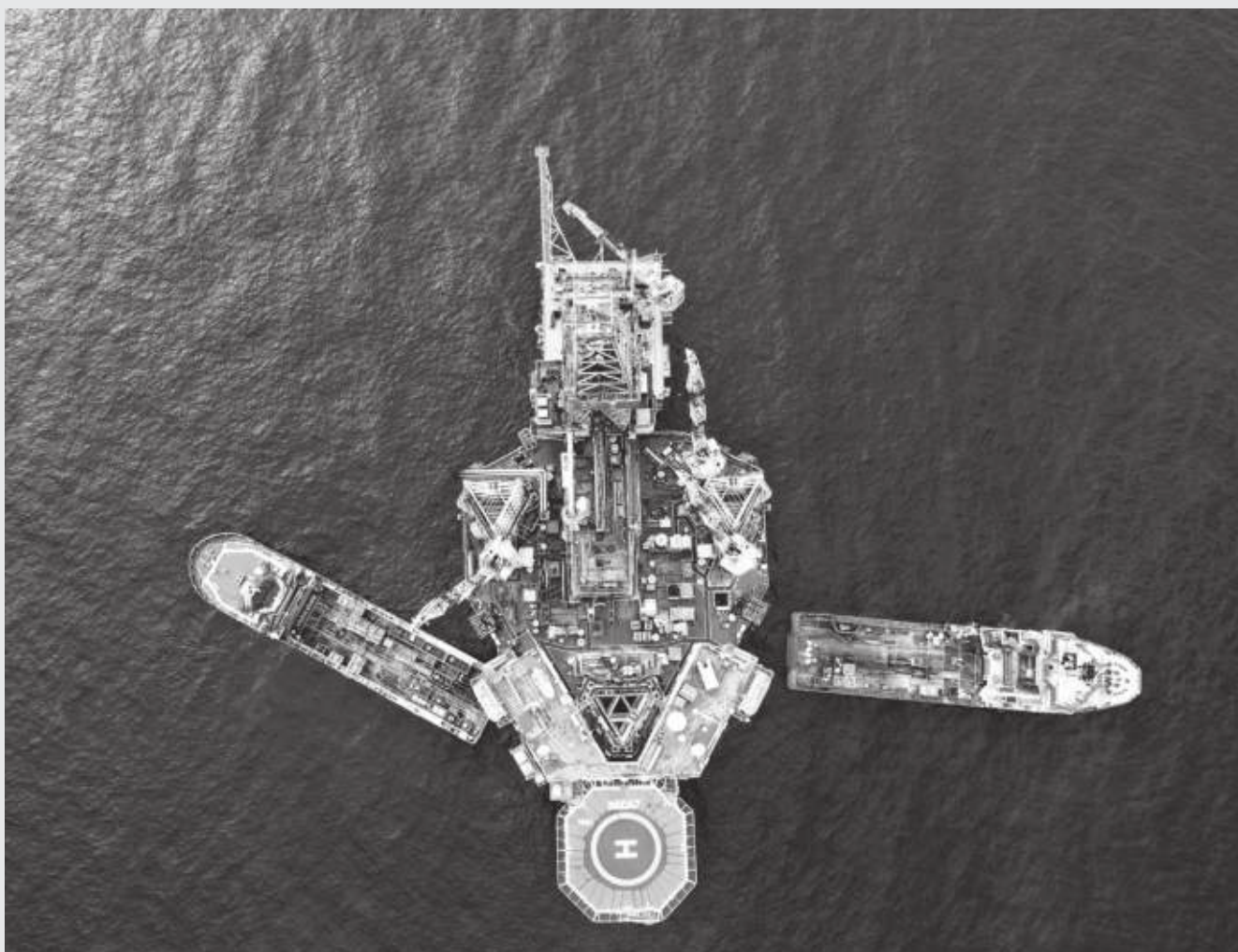


# OUR STRATEGY

We remain committed to our main strategy, which involves the following thrusts:

1. Maximising Returns
2. Organic Expansion
3. New Business
4. Enhancing Enablers

Our focus this year will be on maintaining our revenue via order book, utilisation and day charter rates. As you will appreciate, this will be very challenging, given the current industry outlook. Nevertheless, we believe our operational excellence and track record of working closely with our clients enables us to seek win-win solutions given the circumstances.



# GROUP RISKS

VELESTO continues to be cognisant of its risk factors and the impact of these factors on the Company's business strategies as well as financial and non-financial performance. Risks arise from the macro-economic operating environment, the oil and gas industry as well as from internally within the group.

Risks by nature, cannot be totally eliminated. However, all identified risks have effective mitigation plans towards avoiding or reducing potential impacts. VELESTO maintains a comprehensive Risk Register, which is updated on a quarterly basis.

Risks are assessed at all levels of VELESTO, with the Board having strong oversight on risks via its Board Risk Management Committee ("BRMC"). VELESTO has also implemented a robust risk management framework across the Group to effectively manage and mitigate risks.

For information on the Company's risk identification, assessment measures as well as internal systems and process controls, please refer to the SORMIC in page 152 of this Annual Report.

## Top Risk Factors

Risk Event	Response
Adverse changes in Government policies affecting the local oil and gas industry	Keep abreast of developments affecting government policies at national and state level, maintain good rapport and ensure adherence to existing policies.
Volatility of global crude oil prices, affecting the offshore drilling services industry	Exploring business diversification opportunities. Continue to institute cost efficiency and target for high rig utilisation at prevailing charter rates.
Critical system disruptions	Enhancing internal IT systems and establish sound data recovery system and processes.
Exposure to HSE event	Continuous emphasis on compliance to good HSE practices and culture, with regular HSE programmes and inspections.
Termination/Temporary suspension of contracts in certain circumstances i.e. weather conditions	Continue to negotiate improved terms and conditions. Continue to deliver high level of services and high level of engagement with the clients.

# RISK MITIGATION

The inherent nature of VELESTO Group's business operations dictates that VELESTO faces various business, financial, operational and other forms of risk. Risk is defined in terms of the probability of a particular negative incident from occurring, and the extent of the loss or damage arising from this incident.

VELESTO's overall management approach to risk management and mitigation is based on the internationally recognised ISO 31000 Risk Management Principles and Guidelines. Beyond the ISO 31000, our Enterprise Risk Management ("ERM") framework is augmented by our risk matrix (to measure the severity and probability of its risk factors) and a regularly updated Risk Register. In the event of disasters or business disrupting incidents, VELESTO has developed a comprehensive Business Continuity Plan ("BCP") which has been regularly tested via simulation exercises that were implemented during the financial year.

While VELESTO Group has adopted a proactive and vigilant stance towards risk, risks by nature can only be reduced or managed and not fully eliminated. Many risk factors are beyond the Group's control as a business entity. These include the price of crude oil, global developments or policies by countries that could influence demand and supply of crude oil, changing weather patterns, natural disasters and more.

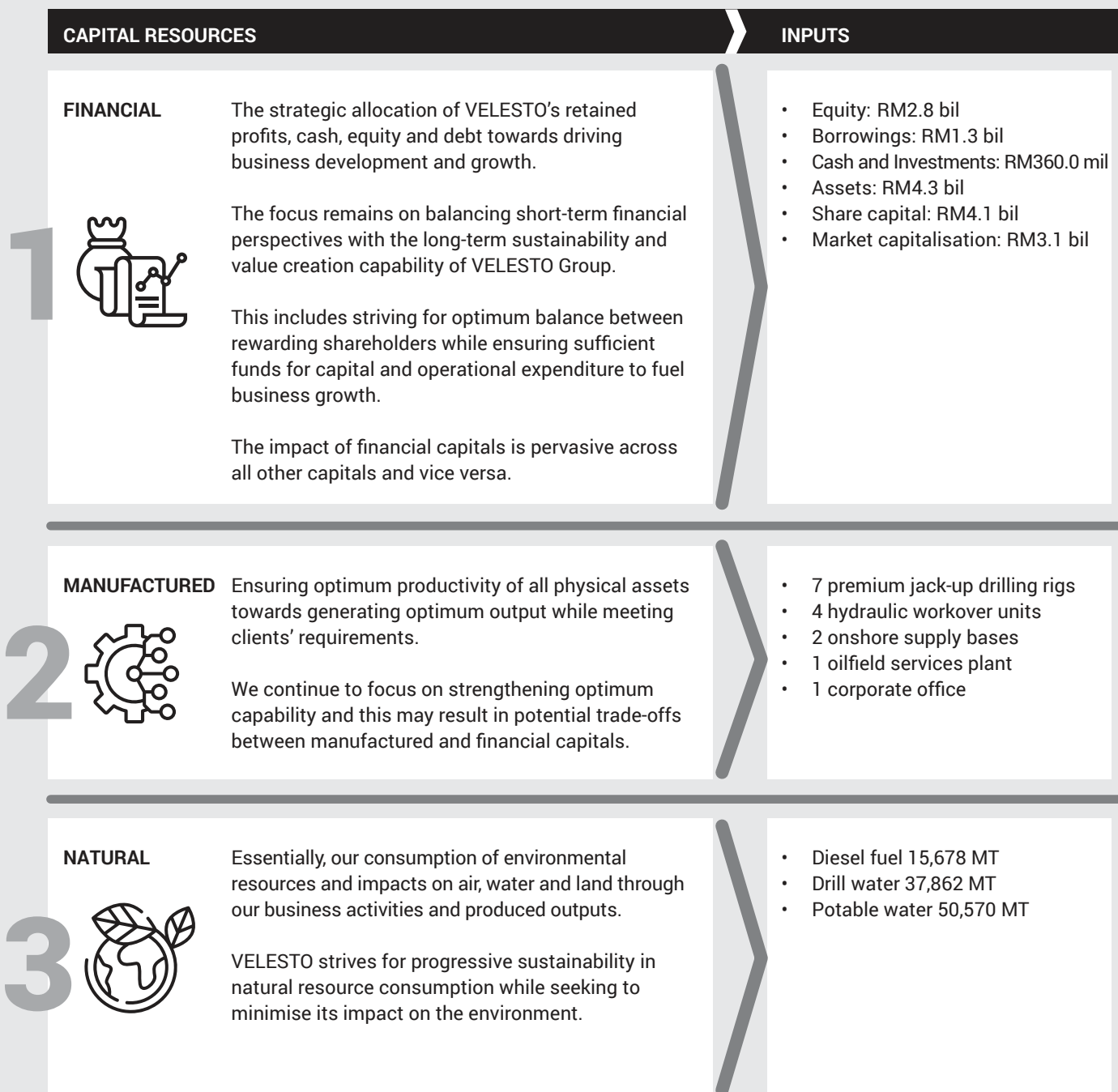
Risk is very dynamic in nature and what is deemed as significant group risk may change from time to time based on internal and external developments. Risk ratings are also subject to change from appropriate treatment strategies imposed by the Risk Owner i.e. implementation of Key Controls and Risk Action Plans.

Specific details of VELESTO's approach to risk management and mitigation including its ERM framework is given in the SORMIC in page 153 of this Annual Report.

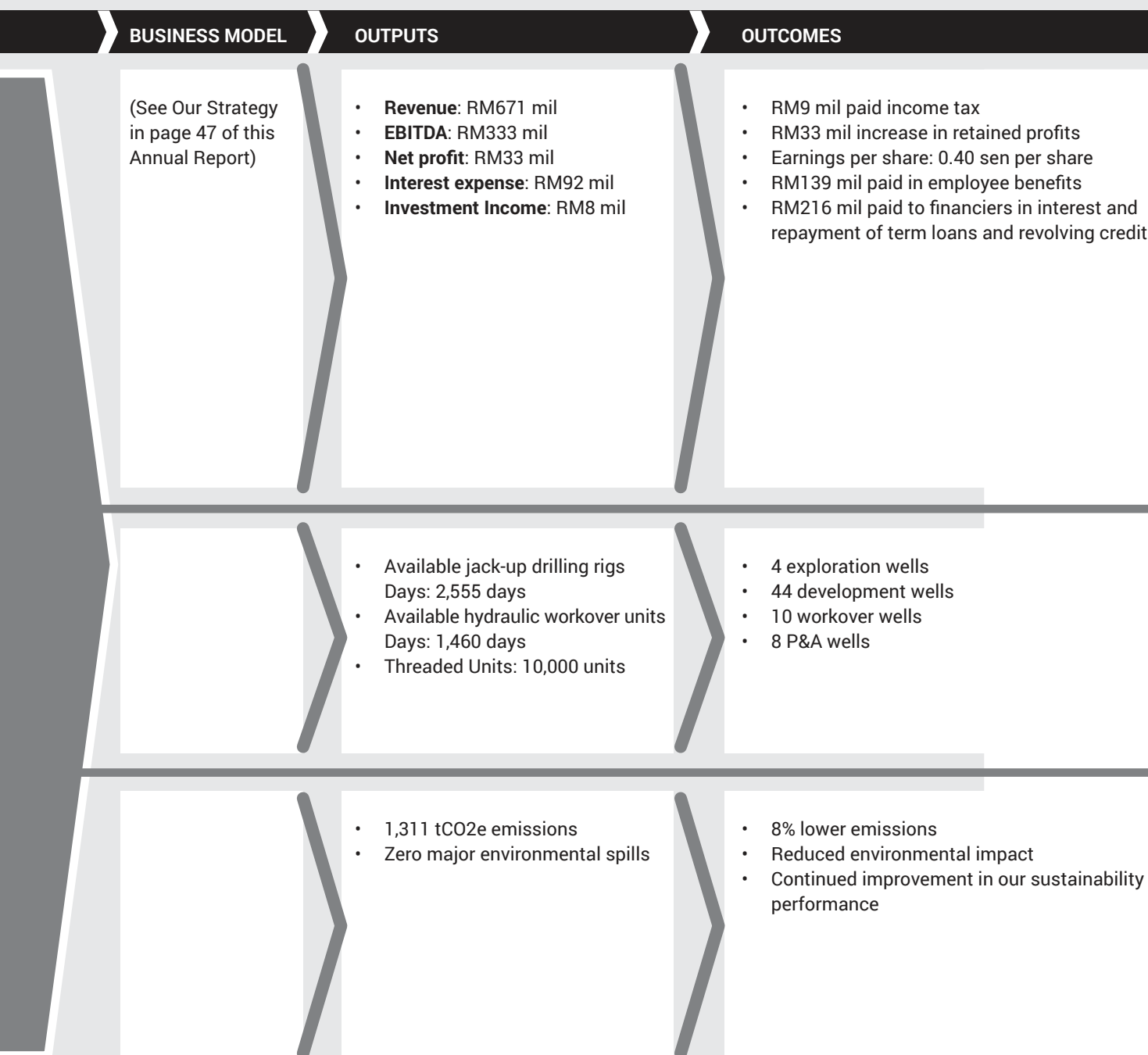
# OUR VALUE CREATION MODEL

VELESTO Group's Value Creation model provides a snapshot of how VELESTO utilises various capitals or resources towards producing a wide range of values and outcomes for stakeholders. This includes financial and non-financial values.

The model provides a comprehensive depiction of how VELESTO from start to finish operates as a business entity. We continue to refine our business model and overall strategic approach towards reducing or ensuring more sustainable consumption of capitals and in the process increase our creation of positive values.



For a detailed narrative on the Group's performance and values created, kindly refer to the Management Discussion & Analysis section on page 62 and the Sustainability Report on page 78.



# OUR VALUE CREATION MODEL

## CAPITAL RESOURCES

## INPUTS

4

### HUMAN



The acquisition, retention and development of competent talent to support VELESTO operations as well as to expand Malaysia's oil and gas talent pool, particularly in the drilling segment of the industry value chain.

Talent remains a core business focus and may lead to short-term capital trade-offs with financial capital but support long-term financial returns to improved productivity and higher employee retention rates.

- 715 strong workforce, 72% Malaysian
- 1,286 trainings attended
- RM6 mil training and development expenditure
- 88 Velesto Training Scheme ("VTS") candidates
- VDA

5

### INTELLECTUAL



Our innate industry experience, technical expertise and know-how as well as systems and processes that have distinguished VELESTO Group as Malaysia's leading drilling rig operator.

This collective reservoir of competence, ability and knowledge provides VELESTO with a competitive edge when bidding for contracts and setting the industry benchmark for operational excellence in drilling activities.

- High Performance Organisational Culture
- Best Practice, Globally recognised Management Systems:
  - ISO 9001:2015
  - ISO 14001:2015
  - OHSAS 18001:2007
- Group business model and business strategies
- Annual Business Plan
- 193 Policies and Procedures
- Vendor and local supply chain development

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### SOCIAL



The network of strong, strategic relationships that we have developed with key stakeholders. These include Shareholders, Customers, Suppliers, Environment, Employees, Government and Industry Affiliations and Communities.

These relationships are business focused as well as driven by sustainability and CSR motives.

- Investor Relations activities
- Stakeholder engagement
- Dialogue and discussion with government and regulatory bodies
- Proactive customer engagements
- Community and CSR engagements

**BUSINESS MODEL**

(See Our Strategy in page 47 of this Annual Report)

**OUTPUTS**

- 9% growth in workforce
- 17% low attrition rate
- 24 VTS absorbed trainees
- 338 VDA participants trained

**OUTCOMES**

- Overall employee engagement score of 75%

- Excellent and improving HSE track record
- 98% operating efficiency
- 0 Fatality, 1 Lost Time Injury, 1 Restricted Work Case, 2 Medical Treatment Case
- RM186 mil local procurement spend
- Development of additional two local vendors

- Various industry recognition awards
- continued strengthening of brand profile and credibility
- Improved perception with investors and stakeholders
- 69% local procurement rate

- 10 schools supported
- 3 Public Service Announcement safety signages and 150 high visibility vests
- 4 quarter investor/analysts briefings
- Consistent visibility in industry events such as AOGC and MSAM
- Continued support for MOGSC, PETRONAS' Sahabat Maritim, etc.
- Sharing of industry expertise via advisory to Herriot-Watt University Malaysia and Malaysia Petroleum Resources Corporation ("MPRC")

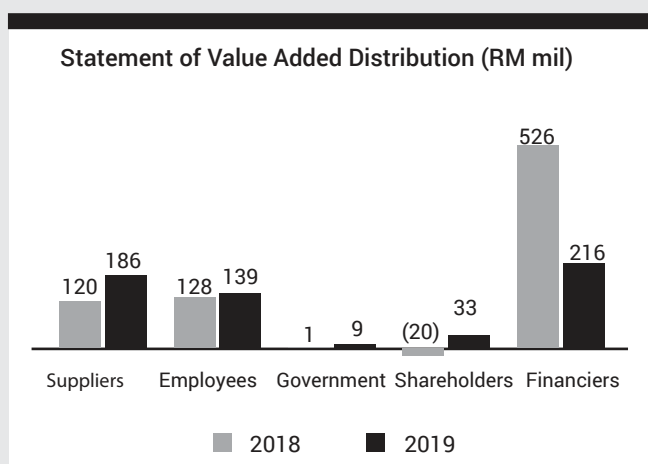
- Development of stronger stakeholder relationships.
- Realisation of CSR objectives and fulfilling of VELESTO's role as a good corporate citizen.
- Reflecting sustainable development in line with adopted UN SDGs
- Reduced traffic accidents among employees.
- Contribution to the development of Malaysia's oil and gas (drilling) talent pool.
- Development of industry conducive policies by the Malaysian government.

# STATEMENT OF VALUE ADDED DISTRIBUTION & SIMPLIFIED FINANCIAL STATEMENT

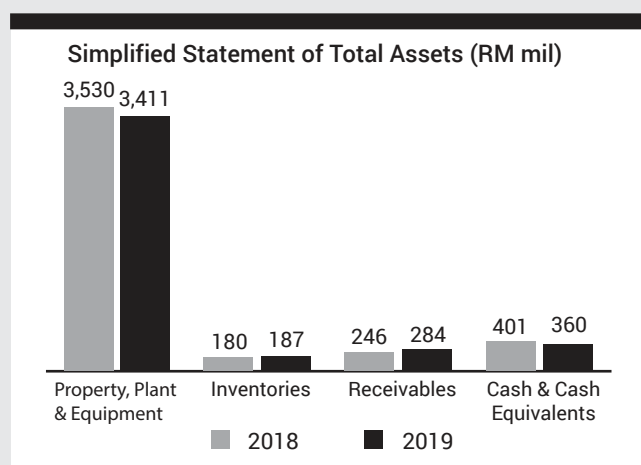
In FY2019, with improved financial performance, VELESTO has seen values generated and distributed to stakeholders increase. Key beneficiaries of higher value generated and distributed include employees, shareholders, the government and financiers.

Values distributed to the government have been in the form of higher taxes paid while to financiers consisted of net payment for borrowings and interest payments.

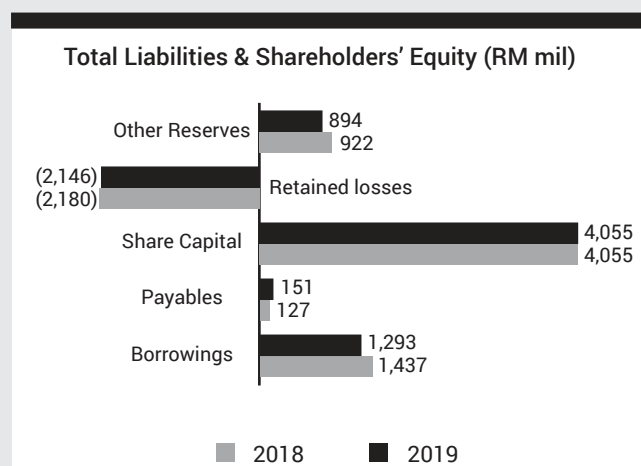
Following is a table that illustrates values created and distributed to multiple stakeholders in FY2019.



There is a general increase in values created and distributed in 2019 compared to 2018. This is attributed to higher drilling rig utilisation and workover units, which has resulted in increased revenues and correspondingly, purchases from suppliers. The only exception is values distributed to financiers, which has reduced significantly. This is due to a voluntary prepayment of loans made in 2018 amounting to RM397.4 million (FY2019: RM50.0 million).



Our property, plant, and equipment make up the largest portion of our total assets. Cash and cash equivalents have reduced mainly due to the net repayment of borrowings amounting to RM138.8 million, which includes quarterly instalment commitments and additional partial prepayment to pare down the term loan.



VELESTO has a large share capital while holding a significant amount of retained losses which was accumulated since FY2015 as a result of major provision for impairments made to the assets during the downturn of the oil and gas industry. The provision for impairments made at the Group level from FY2015 to FY2018 amounted to RM2.1 billion.



In order for a company to declare and pay dividends, it must have sufficient profits. At retained losses position, any profits that are not declared as dividend will be used to set off against retained losses. In order to preserve earnings for future potential dividend payment, VELESTO had on 25 February 2020 announced that the Company proposes to undertake a capital reduction exercise by reducing and cancelling of RM2,210,000,000 of issued share capital of the Company pursuant to Section 116 of the CA 2016. The corresponding credit of RM2,210,000,000 will be used to eliminate the accumulated losses of the Company while the balance, if any, will be credited to the retained earnings account of the Company, which may be utilised in such manner as the Board deems fit, as permitted by the relevant and applicable laws as well as the constitution of the Company.

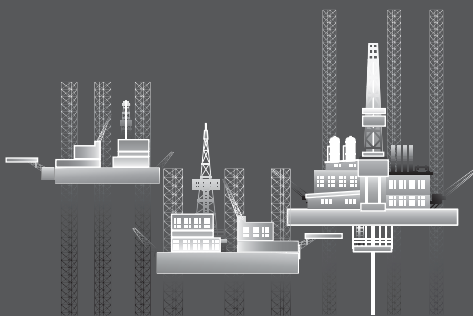


# CHAIRMAN'S STATEMENT



DEAR SHAREHOLDERS,

AS CHAIRMAN OF VELESTO, I AM PLEASED TO PRESENT THE  
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR FY2019.



## VELESTO IN FY2019

VELESTO ended FY2019 in a strong position, recording our first full year profit in five years since the start of the oil and gas industry downturn in 2014. Indeed, this is a significant achievement. Our return to profitability marks a milestone in the Group's continued journey of growth and transformation.

Our turnaround was made possible only by your Board and Management having been steadfast and focused in executing the various value creation initiatives that we had formulated over the past three years. The many sacrifices made and painful measures undertaken towards writing down our asset value, reducing debt, recapitalising our balance sheet, delivering cost efficiencies and operational improvements are clearly beginning to yield the desired results.

Our FY2019 performance is clear validation of the path we took and continue to take in ensuring the Group maintains its strategic direction towards continued growth and progress.

In fact, the transformation that we have undertaken is perhaps, more crucial than ever, given as I write to you, the world, the oil and gas industry, our country and your Company now face an unprecedented, existential crisis brought about by the COVID-19 pandemic.

The COVID-19 pandemic has severely affected the global economy, which together with the earlier dispute between OPEC and major oil producing nations on production cuts, has led to a rapid collapse in crude oil prices in the first quarter of 2020.

We are still deep in the middle of this human and economic crisis and it is intrinsically impossible to predict the outlook for the industry, given the magnitude and far-reaching impact of COVID-19.

However, your Board and the Management of VELESTO recognise the significant uncertainties and challenges that the entire industry will face in the immediate future. These difficulties are beyond our control, but accordingly, we must be prepared for another extremely difficult period in FY2020.

Rest assured your Board and Management will continue to take all the necessary actions required to ensure that the Group is able to navigate these challenges and sustain our business performance during this time of turbulence and adversity.

## REVIEWING THE FY2019 OPERATING ENVIRONMENT

The oil and gas industry in FY2019 was relatively stable, which helped support a growing momentum in activities. Crude oil price during the year was ranged bound between USD55 - 70 per barrel, a comfortable price range for oil and gas majors and national oil companies to maintain or even increase their investments into E&P and drilling activities.

Against this more stable backdrop, most oil majors and national oil companies took the opportunity to restore depleted reserves and ramp up production activities, both of which had reached record lows during the five year industry downturn.

# CHAIRMAN'S STATEMENT

## REVENUE

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**RM671** million

FY2018: RM574 million

## EBITDA

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**RM333** million

FY2018: RM279 million

## PAT/(LAT)

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**RM33** million

FY2018: (RM20 million)



Despite certain adverse events, such as the attack on Saudi Arabia's oil facilities, any price shocks were only temporary, whilst effects from the prolonged trade dispute between the US and China proved to be less impactful than initially anticipated. The overall market stability in FY2019 enabled the industry to have a relatively balanced demand and supply environment.

However, operating conditions remained challenging in FY2019 for most drilling providers both globally and in Malaysia. Whilst the increased activities led to greater demand for rigs, in Malaysia work was concentrated during peak season putting pressure on cost whilst charter rates remained relatively depressed given the still significant excess capacity.

### FINANCIAL PERFORMANCE - HEADWAY ACHIEVED ADMIST HEADWINDS

Notwithstanding the continued challenging operating environment, VELESTO performed commendably in FY2019, cementing our turnaround. Our rig utilisation rate improved from 73% to 80% on the back of more contracts secured and VELESTO saw a moderate recovery in day charter rates for its rigs as our clients allowed for a gradual escalation in prices as rigs excess supply began to recede, notably in the second half of FY2019.

Consequently, VELESTO's financial performance had also improved. Group revenue had strongly increased by 17% to RM670.8 million (FY2018: RM573.8 million), which is double the amount recorded during the worst year of the industry downturn in FY2016.

Management also continued its relentless focus to improve our operating and cost efficiency to further strengthen our business model and better compete in the market. On the back of this expanded revenue and a streamlined cost base, VELESTO in FY2019, posted a Group profit after tax ("PAT") of RM33.1 million (FY2018: loss after tax of RM20.4 million), after four years of consecutive losses. This performance has fulfilled my promise to you, which I made when appointed Chairman of the Group in 2017 to return the Company to profitability.

Our cashflow generative ability remained strong with EBITDA rising by 19% to RM332.7 million (FY2018: RM279.3 million). This allowed us to reduce our debt further with net debt declining to RM0.9 billion from RM1.0 billion recorded at the end of FY2018. The Group's assets now far exceed liabilities. We are in a healthy position to meet working capital requirements and discharge our debts and liabilities.

In essence, VELESTO has transformed from a loss-making, debt-laden entity and emerged as a much stronger and resilient entity, a robust potential industry leader, capable of operating sustainably in the new environment of lower crude oil prices over the long term.

Further details on VELESTO's financial performance is available in the Management Discussion & Analysis section of this Annual Report.

#### **ENHANCING SHAREHOLDER VALUE**

In tandem with our improving financial and business performance, VELESTO was one of the best performing stocks in BURSA for FY2019. VELESTO's share price rose from a low of 18 sen per share on 2 January 2019 to 38 sen per share by 31 December 2019, doubling the Group's market capitalisation to RM3.12 billion (FY2018: RM1.48 billion).

VELESTO's foreign shareholdings increased to 7.2% by year-end as our improved performance also attracted a greater number of foreign institutional funds. The decision of these institutional shareholders to invest in VELESTO reflects their growing confidence in the resilience of our business model and the prospects of the Group going forward. Their choice of VELESTO also attests to our exemplary sustainability performance and strong practice of corporate governance.



#### **COMMITTED TO CORPORATE GOVERNANCE - PROVIDING MORE COMPREHENSIVE BUSINESS PERSPECTIVES**

For this year's Annual Report, your Board has chosen to provide more strategic and comprehensive disclosures on the Group, beyond financial performance. These include disclosures on VELESTO's business model and strategies, the integral role the Company plays in the upstream value chain, the main risk factors faced, our resource dependencies as well as future strategic orientation and prospects.

Our reporting approach for FY2019 is in line with stakeholders' and the regulatory authorities call for Corporate Malaysia to provide more strategic and informed perspectives not forgetting practicing greater transparency for the benefit of shareholders, investors and other stakeholders. The intended outcome is to facilitate better understanding of

VELESTO's operations and strategic position as Malaysia's leading drilling rig provider.

Hence, for FY2019 VELESTO has commenced its journey towards implementing a globally recognised Integrated Reporting ("*<IR>*") Framework by adopting some key elements of the said Framework. In implementing this, the Board is of the view that substance is more important than form and believes the progressive *<IR>* adoption over time will be more meaningful and effective.

Once fully implemented, the Integrated Reporting will provide all VELESTO stakeholders with a complete perspective of VELESTO, and help illustrate how the Group is well positioned to sustain its growth momentum, leverage on emerging industry opportunities and continue creating sustainable, financial and non-financial value for stakeholders over the long term.

# CHAIRMAN'S STATEMENT

## COMMITMENT TO CORPORATE SUSTAINABILITY

FY2019 has seen VELESTO continue to expand its efforts in corporate sustainability. Various improvements have been made including enhancing disclosures and implementing strategic sustainability initiatives across the Group's identified material topics. These are: health and safety, talent management, operations and environment and risk management.

The Group has also established the VELESTO Sustainability Steering Committee, which has been mandated to drive the Group's sustainability agenda organisation wide.

A key sustainability highlight of FY2019 is the Group's inclusion into the FTSE4Good Bursa Malaysia Index. The index comprises listed companies that have exemplified strong corporate governance and sustainability performance. BURSA has also

upgraded the Group to the highest level, Tier One (Setting the Pace) in BURSA's sustainability rating.

These are noteworthy recognitions of our continued efforts to be a better corporate citizen and adopt the highest standards for accountability, transparency, integrity and business ethics. It also validates VELESTO's continued efforts to manage its environmental footprint and to deliver positive social impacts to the communities in which we operate in.

The full details of our sustainability performance are available in the Sustainability Report 2019 ("SR2019") section of this Annual Report. We are deeply committed to improving our sustainability performance going forward as we recognise that this will lead to a more robust and sustainable business model that will help drive long-term value creation for stakeholders.

## OUTLOOK AND PROSPECTS

We ended FY2019 on a positive note and with strong optimism going forward into FY2020. Prospects were initially promising given that our rigs utilisation outlook was strong – underpinned by existing contracts and a RM2.1 billion order book as at 31 December 2019. We saw evidence of rising charter rates as more oil companies expressed solid commitment to undertake increased E&P and drilling activities going forward.

The same sentiment was reflected by PETRONAS via its CAPEX programme of RM50 billion for FY2020 and its "3-Year Activity Outlook" issued in December 2019, which outlined a sustained jack-up rig requirement of 16 rigs per year for the next three years.



However, the recent collapse in oil prices to just USD26 - 30 per barrel as at end-March 2020 brought about by the global economic dislocations caused by the COVID-19 pandemic coupled with the continued dispute between OPEC and major oil producing countries means that the outlook faced by all players has become uncertain and impossible to predict.

Oil and gas service providers, such as VELESTO must be prepared for another possible period of sharp downturn in upstream activities and consequently, demand for our services. We pray that this contraction will be short, with a quick economic recovery but we must be ready should the adverse situation be protracted.

I wish to assure all shareholders that VELESTO has strong fundamentals and is in a much stronger position to navigate this incoming challenging period. We have weathered a four-year downturn prior to this. The lessons learnt and the strategic changes we have made during that adverse time will continue to hold us in good stead going forward.

Your Board and Management are fully committed to take all necessary actions to ensure that VELESTO not only prevails during this uncertain and difficult period, but is also well positioned to capitalise on the imminent industry recovery once these crises pass.

It must be remembered that our FY2019 return to profitability was achieved not just on the recovery of crude oil prices during the year. Rather, it is made possible by the difficult but absolutely necessary decisions to transform VELESTO Group into a more sustainable and resilient entity during the industry downturn. This inherent strength of the Group and its capabilities remain intact irrespective of the on-going crises.

By choosing to prioritise long-term business and operational sustainability, the Group is on a firmer footing towards entrenching its position as Malaysia's leading drilling services provider. We are also intrinsically better equipped to withstand and navigate the coming global economic challenges and industry turbulence.

#### **APPRECIATION AND ACKNOWLEDGEMENTS**

I wish to take this opportunity to acknowledge the contributions of Mr. Cheah Tek Kuang, who retired from the Board at the conclusion of VELESTO's 9th AGM in May 2019. The Board would like to thank him for his services over the last six years and we wish him well in his future endeavours. In his stead, the Board is pleased to welcome Datuk Tong Poh Keow who was appointed as an Independent/ Non-Executive Director, effective 29 August 2019. We look forward to working with her and benefiting from her wisdom and guidance going forward.

As always, we wish to extend our appreciation to all VELESTO employees who have contributed much to the Group, especially during our most challenging times. Your commitment, hard work, loyalty, discipline and professionalism have been the key towards the turnaround and transformation of our Group and no words can adequately express our appreciation for you.

Similarly, I wish to thank the Senior Management, and especially our President, Encik Rohaizad Darus for his strong leadership in steering the Company forward. Your resilience and commitment to the Company are exemplary.

We also convey our utmost gratitude to PETRONAS and our other customers, as well as our business partners, bankers, vendors and suppliers and shareholders for their continued support and confidence in VELESTO.

As Chairman, I also wish to thank my fellow board members for going through this difficult but rewarding journey together and for your wise counsel and stewardship of VELESTO in FY2019.

Together, we have come far and we will continue to work hard to overcome these new challenges with vigour and determination. We look forward to working with all staff to bring the company to its next level of excellence.

**ABDUL RAHMAN AHMAD**  
CHAIRMAN

# MANAGEMENT DISCUSSION & ANALYSIS



## INTRODUCTION

DESPITE THE VARIOUS HEADWINDS FACED IN FY2019, I AM PLEASED TO SHARE THAT VELESTO GROUP HAS REMAINED ON TRACK IN ACHIEVING ITS SET BUSINESS GOALS AND OBJECTIVES.





In 2019, amidst an industry backdrop of relatively stable oil prices, recovering E&P activity and VELESTO's improved operational and financial efficiencies and stronger competitive ability, the Group has returned to profitability while building its outstanding order book of contracts to RM2.1 billion.

It is on this note, that Management presents you with an account of the Group's progress, achievements and highlights during the financial year.

### OPERATING ENVIRONMENT OVERVIEW

In FY2019, the oil and gas sector remained stable with the benchmark Brent crude oil prices averaging between USD55 - 70 per barrel. The continued quota discipline by OPEC and non-OPEC major oil producers ("OPEC+") had ensured price stability.

Despite untoward developments such as the attack on Saudi Arabia's crude oil production facilities which had caused crude oil prices to surge upwards, such incidents only led to short-term price fluctuations, with equilibrium quickly being restored by market forces.

On the back of market stability, oil and gas majors and national oil companies maintained or increased their E&P activities in FY2019. The year saw a general increase in exploration and development drilling activities, towards shoring up depleting reserves and increasing existing production levels after a four year industry downturn.

According to IHS Markit, global marketed rig utilisation rates increased to 86% from 76% in 2018. Similarly, Malaysia also saw average rig utilisation increase to 86% from 63% in 2018. Rig count available for contracts globally remained stable at 450 rigs, but contracted demand increased from 345 to 390 rigs.

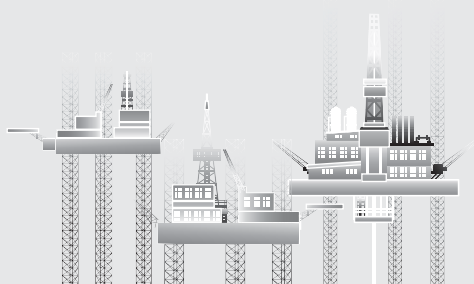
Consequently, average day charter rates in South East Asia were on the uptrend, though marginally. In FY2019, day charter rates improved to an average of USD60,000 - 70,000.

### FINANCIAL PERFORMANCE

On the back of increased industry activity, more contracts secured and higher rig utilisation, VELESTO posted a stronger financial and business performance. Group revenue in FY2019 grew a resounding 16.9% year-on-year to reach RM670.8 million (FY2018: RM573.8 million).

As in previous years, our Drilling Services segment, including Workover Services, remained the largest contributor to the Group's top-line performance and profitability, accounting for 98.4% and 99.6% respectively. The balance contribution stemmed from our Oilfield Services and other segments.

The Oilfield Services segment posted revenue of RM10.2 million, 37.0% lower, year-on-year (FY2018: RM16.2 million). The decline was due to the rationalisation exercise which was completed in 2018.

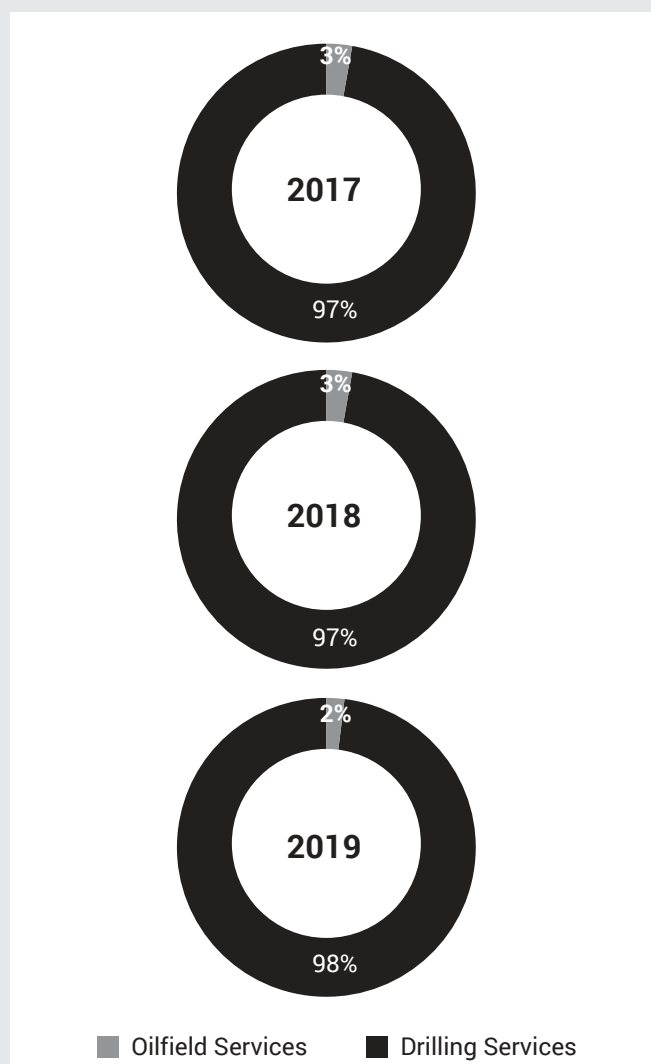


# MANAGEMENT DISCUSSION & ANALYSIS

Our hydraulic workover units have also seen greater utilisation on the back of well rejuvenation and Plug and Abandonment contracts secured.

Moving forward, with our outstanding order book of RM2.1 billion and most of our rigs contracted to 2022, the Group should see a further increase in its rig utilisation rates while having clearer revenue visibility for the next two to three years. However, due to the deteriorating oil and gas industry impacted by the COVID-19 pandemic, this outlook need to be reviewed further as there may be potential downsides.

## Segmental Revenue



## GROUP EARNINGS

Underpinned by stronger revenues, improved operational and financial efficiencies, VELESTO in FY2019 posted a profit before tax of RM42.5 million (FY2018: loss before tax of RM17.6 million).

This marks VELESTO's return to profitability after four straight years of continuous losses.

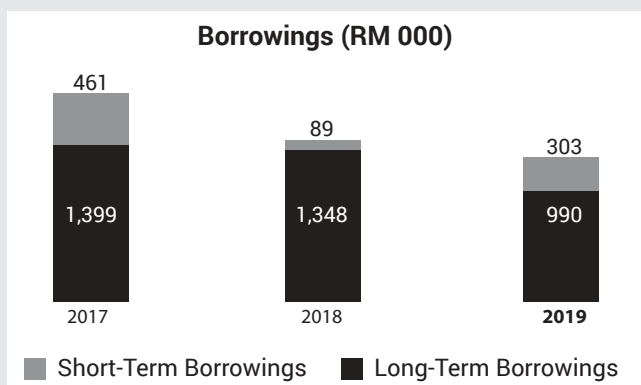
With higher rig utilisation, improved day charter rates and outlook in the oil and gas industry during the year, there was no impairment provision made for the Group's assets in FY2019. Although the industry outlook has deteriorated since then, we remain of the view that no provision is required at present, as the expectation is that most of the existing contracts for the Group's assets will continue.

The cost reduction exercises and efficiency improvements undertaken over the past several years during the industry downturn have resulted in VELESTO today standing strong on a robust business model and a lower operational base, which makes the Group more competitive when bidding for contracts.

## ASSETS & LIABILITIES, CAPITAL STRUCTURE & RESOURCES

The Group's assets continue to outweigh its liabilities. Working capital requirements have been met by stronger internally generated day-to-day cashflows and cash balances. The former being a direct result from the Group's higher rig utilisation in FY2019.

The increased cashflow and cash position has enabled VELESTO to further pare down its borrowings to reduce financing costs and overall liabilities while improving its gearing position.



<b>CASH FLOW, CASH &amp; BANK BALANCES (RM 000)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Net cash generated from/(used in) operating activities	(50,880)	166,535	211,202
Net cash (used in)/generated from investing activities	11,280	(172,434)	(57,825)
Net cash (used in)/generated from financing activities	415,195	(477,953)	(167,411)
Net (decrease)/increase in cash & cash equivalents	375,595	(483,852)	(14,034)
Effects of exchange rate changes	(38,938)	1,436	(5,124)
Cash & cash equivalents at beginning of the year	891,471	680,747	235,029
Cash & cash equivalents at end of the year	680,747	235,029	239,983
Cash & cash equivalents at end of the year, net of restricted cash	669,853	187,437	168,279

During the year, the Group made both scheduled and voluntary accelerated debt repayments and utilised Revolving Credit facilities for our working capital requirements. The net repayment of borrowings amounted to RM138.8 million.

Progressively, the Group has continued to improve its debt position. The Group's gross debt to equity ratio improved to 0.46 times from 0.51 times in FY2018. Financing costs have reduced by 2% with continued rationalisation and debt reduction as well as a due to a lower interest rate environment.



CAPEX and operational costs have also been further optimised in FY2019. We incurred a CAPEX of RM120 million, mainly due to on-going SPS conducted during the year.

Operational costs increased by only 3%, which is highly commendable considering the higher asset utilisation, increasing drilling activities and the general inflation rate in Malaysia. In addition, we have achieved cost savings of RM25.1 million from various internal initiatives.

The Group has established a more efficient and transparent procurement process to source for the best value proposition in the market and to optimise cost. Further details of our procurement policies and systems are provided in our SR2019.

# MANAGEMENT DISCUSSION & ANALYSIS

## CONTRACTS

In FY2019, VELESTO secured more than RM1.3 billion cumulatively in contracts as per the following:

DATE	CLIENT	CONTRACT DETAILS	RIG	ESTIMATED CONTRACT VALUE
12 February 2019	Hess	Contract Extension for provision of a high pressure, high temperature jack-up drilling rig for North Malay Basin for eighteen (18) months with an option for further extension.	NAGA 8	USD38.0 mil
22 April 2019	PCSB	Provision of Drilling Rig Services for PCSB's drilling programme for the duration of one year with an option of additional one plus one extension for each of the contracts.	NAGA 2	USD25.4 mil
			NAGA 3	USD25.4 mil
			NAGA 5	USD26.2 mil
			NAGA 6	USD27.6 mil
4 September 2019	PCSB	Provision of jack-up drilling rig "NAGA 7" for PCSB's drilling programme to drill two firm wells.	NAGA 7	USD8.0 mil
5 November 2019	Carigali Hess Operating Company Sdn. Bhd. ("Carigali Hess")	Provision of 10K jack-up drilling rig for 2020 Drilling Programme with Carigali Hess for a duration of three years with three extension options of six months each.	NAGA 8	USD131.0 mil
11 December 2019	Mubadala	Provision of jack-up drilling rig Unit & Services for Pegaga Development Drilling Campaign to drill seven firm wells.	NAGA 4	USD30 mil

With the exception of NAGA 4 and NAGA 7, all other VELESTO rigs are contracted to long-term contracts with some stretching into 2022 and 2023. This provides us with better certainty with regards to revenue stream and cashflow going forward for the next two to three years.

Our outstanding order book as at 31 December 2019 stood at RM2.1 billion. Of this, 85% are for long-term contracts defined as contracts with tenures extending beyond 12 months.

All of our rigs are presently operating within Malaysia.

We will continue to expand our order book by pursuing more contract awards going forward. As at 31 December 2019, VELESTO has tendered for RM3.3 billion in contracts including those outside of Malaysia.

## KNOWN TRENDS AND EVENTS

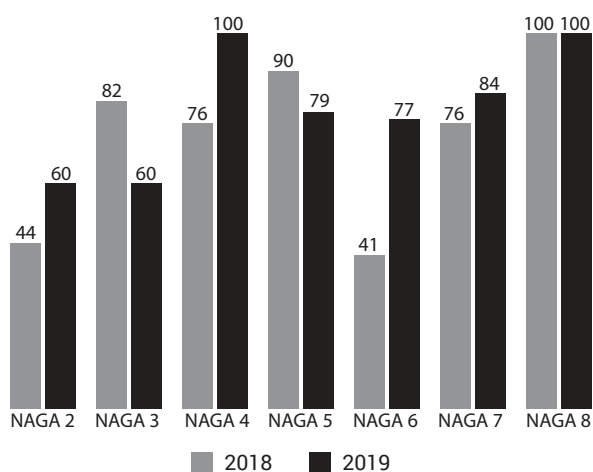
### DRILLING SERVICES SEGMENT PERFORMANCE

Overall rig utilisation rate for VELESTO stood at 80%, the Group's highest since 2014. All rigs except NAGA 3 and NAGA 5 saw increased year-on-year utilisation on the back of long-term contracts secured.

With the increased E&P activity and limited rig availability, the average day charter rate has also improved by approximately 2% compared to FY2018. The day charter rate appreciation was minimal due to a number of rigs still offering very competitive rates to secure contracts.

Though the day charter rate increase was smaller than anticipated, the continued rise reflected the generally stable industry conditions in 2019.

**Rig Utilisation Rate 2018 vs 2019**



On a related note, while rig utilisation was high, the requirement for several of VELESTO's rigs to undergo the mandatory SPS, which included refurbishment, upgrades and maintenance had impacted utilisation rates. SPS entails a rig being out of commission for six to eight weeks to undergo detailed structural checks and various inspections to ensure operational integrity. The process is conducted once every five years.

In FY2019, five rigs, NAGA 2, NAGA 3, NAGA 5, NAGA 6 and NAGA 7 underwent SPS. The Group utilised this downtime period for individual rigs to conduct refurbishment, upgrades and maintenance works as required.

Having completed the mandatory SPS for the bulk of our rigs during FY2019, the Group will be better positioned to optimise asset productivity going forward.

Our emphasis on ensuring the rigs are properly maintained has resulted in a high average operational efficiency of 98.2% in FY2019. Costly downtimes were kept at a minimum and the rigs were generating revenue at most times.

## OILFIELDS SERVICES SEGMENT PERFORMANCE

As the result of the rationalisation exercise on some subsidiaries in the Oilfield Services segment in FY2018, the segment in FY2019 recorded a profit before tax of RM1.6 million (FY2018: loss before tax of RM13.7 million) despite lower revenue achieved of RM10.2 million (FY2018: RM16.2 million).

The Group will continue to evaluate the viability of the only remaining subsidiary in the Oilfield Services segment and will take necessary actions to ensure preservation of value and profitability of this segment to the Group.

## TALENT MANAGEMENT & PEOPLE DEVELOPMENT

The Group has always prioritised talent development even during the downturn period. The skills, acumen and professional contributions of our workforce remain VELESTO Group's greatest asset.

Given the improvements in our business performance in FY2019, we have further increased employee training programmes and initiatives for both our rig and shore-based personnel. Our efforts have been rewarded as we continue to see continued high staff retention.

As at 31 December 2019, our total workforce stood at 715 employees (2018: 658 employees).

Aside from VELESTO's own talents, the Group has continued to focus on developing talent for the Malaysian oil and gas industry via its wholly-owned subsidiary, Velesto Drilling Academy ("VDA").

In FY2019, VDA has been a significant non-financial highlight for the Group. By training drilling talents, the Group is directly addressing the acute shortage of local drilling professionals. In FY2019, VELESTO Group through VDA trained over 338 drilling talents. Since its inception, VDA has provided training to over 1,255 professionals.

VDA maintains a strict non-discriminatory policy as it continued to accept trainees from competing rig operators and companies. In fact, VDA's reputation as a leading drilling training academy has seen talents from outside Malaysia attending courses at VDA.

Through VDA, VELESTO continues to clearly express its commitment to national interest and industry sustainability above business advantage or profits. The full details on VDA and other talent development initiatives are provided in the SR2019.

In addition, Senior Management of VELESTO also participated in various external advisory panels at both industry and academic levels. These include providing advisory and reviewing certain universities' academic curriculums and participating in various forums and events involving industry professionals and students.

# MANAGEMENT DISCUSSION & ANALYSIS

In developing both professional and personal behaviour and culture among our people in line with VELESTO's aspirations, the Group in FY2019, launched a new set of Core Values. iLEAP was coined to summarise the values, which will enable us to leap forward as we continue to grow and overcome challenges. The iLEAP Core Values are Integrity, Leadership, Excellence, Agility and People-Focused.

## EMPLOYEES' SHARE OPTION SCHEME

On 31 October 2019, the shareholders of VELESTO approved the establishment of an Employees' Share Option Scheme ("ESOS") of up to 7.5% of the total number of issued shares.

The objective of the ESOS is to promote entrepreneurial leadership, instil a greater sense of ownership among staff, strengthen the alignment of employees to shareholders' interest and create a more competitive compensation package to strengthen employee retention efforts.

The ESOS will only have an impact on the issued and paid-up capital of VELESTO once the options are exercised three years from the date of offer, starting from November 2022 or any such earlier date as determined by the ESOS Committee.

The shares to be issued arising from the ESOS ("ESOS Shares") will rank pari passu with the then existing ordinary shares of the Company, save and except that the ESOS Shares will not be entitled to any dividends, rights, allotments and/or other forms of distributions that may be declared, made or paid, where the entitlement date precedes the date of issuance of the ESOS Shares. There was no other change in the issued and paid-up ordinary capital of the Company in FY2019.

As at 31 December 2019, approximately 109.6 million share options have been accepted by eligible staff under the scheme.



## SUSTAINABILITY & CORPORATE SOCIAL RESPONSIBILITY

Beyond financial performance, in FY2019, VELESTO has also increased its commitment on a wide range of Economic, Environmental and Social ("EES") matters, as well as matters in relation to corporate governance.

The Group's sustained efforts in upholding sustainability has rewarded when VELESTO was included in the FTSE4Good Bursa Malaysia Index. The listing comprises a select group of public listed Malaysian companies who have exemplified good EES practices.

In addition to being included in the above index, VELESTO has also been upgraded to Tier 1 (Setting the Pace) for our Sustainability disclosures by BURSA.

Both recognitions are clear validations of VELESTO as a responsible business entity that has embedded sustainability within its business model, business strategies and business operations. This also puts us in the eye of international investors, especially global funds who beyond financial results evaluate companies based on their Environmental, Social and Governance ("ESG") performance.

Our environmental focus in FY2019 has been on achieving emissions efficiency, greater utilisation of seawater in our operations as opposed to fresh water and prevention of oil spillage into the sea. We also organised activities to preserve the environment such as environmental awareness programmes and beach cleaning activities.

Beyond environmental performance, we have also made progress in our health and safety performance in FY2019, reaching 2.6 million manhours with only one Loss Time Incident ("LTI"). Management is appreciative that aside from the comprehensive HSE framework put in place, it is the commitment and mindset of our people that have been at the forefront of driving continued health and safety excellence.

Despite having to do more with less during the downturn, our people have continued to regard health and safety as paramount in their work and our efforts in FY2019 have been acknowledged by clients on multiple occasions via awards and commendation letters.

Another key aspect of our approach to sustainability is our relationship with local communities. Safety, Education and Environment Protection are the three-pronged approach in our engagement with the communities.

The Group has continued proactively engage with villages and schools, which are situated close to our operations. Safety programmes were conducted to increase the awareness level of the village children from young, while firefighting equipment and training were provided to villagers and fishermen.

Given that education is one of the means to achieve social and economic mobility and to escape the poverty trap, we conducted "train-the-teachers" and UPSR tuition programmes for underprivileged students from rural and suburban areas. Beach cleaning activities and environmental awareness were also conducted at public areas and fishing villages to cultivate a culture of environmental protection among the community at large.

As we reach out to the communities we serve, we instil a sense of responsibility and respect. Sustainability is an important element as we are committed to reaching out to communities in areas where we operate.

We have also strengthened corporate governance practices across the Group in line with the government's efforts against graft, fraud and unethical business practices. On 1 January 2020, VELESTO formed its Integrity and Governance Unit ("IGU") in accordance to the Prime Minister's directive. The IGU reports independently and directly to the Board Whistle Blowing Committee and Malaysian Anti-Corruption Commission ("MACC").

Further details of our sustainability related highlights and achievements are provided in the SR2019.

## AWARDS AND ACCOLADES

We are proud that our rigs continue to demonstrate operational excellence as reflected in the various awards and accolades received from the Group's clients. In FY2019, VELESTO received the following awards:

- PETRONAS Carigali: Best Rig Performance Malaysia Operations**
  - Quarter 1, 2019: NAGA 6 (1st), NAGA 5 (2nd) and NAGA 3 (3rd)
  - Quarter 2, 2019: NAGA 2 (2nd) and NAGA 3 (3rd)
- PTTEP HK Offshore: Appreciation for Lang Lebah – 1RDR2**
  - NAGA 6
- Destini Oil Services: HSE Outstanding Performance Award**
  - GAIT 1

VELESTO also remains ISO9001:2015, ISO14001:2015, OHSAS18001:2007 and ISO/TS29001:2010 certified. This ensures all operations of our business are in compliance with industry and internationally recognised standards.

## RISKS

Risks to business strategies and operations have been identified at the global level where any major developments leading to a prolonged and sustained downward impact on crude oil prices may impact momentum for E&P activities and consequently, demand for rigs.

# MANAGEMENT DISCUSSION & ANALYSIS



Such factors could be either on the demand or supply side of the equilibrium, where any long-term impact may lead to either an excess of crude oil supply flooding the market, or an acute decline in demand, or both.

The COVID-19 pandemic illustrates how the decrease in energy demand and increasing supply results in a sharp decline in oil price. The length of time it takes for energy demand to recover will determine the longer-term impacts on the oil and gas industry, and specifically drilling activities.

Given our more resilient business model, lower operating cost base, improved productivity and operational efficiency as well as stronger financial position, with rigs working hard and a sizeable order book, Management is of the view that we should be able to minimise downside impact going forward.

For further information on our risks and mitigation measures, kindly refer to our Risks section within this Annual Report.

## OUTLOOK AND PROSPECTS

Moving forward, we foresee the oil and gas industry will experience renewed challenges. With the forecasted significantly slower economic growth due to COVID-19 and the insufficient production cuts by OPEC+, global surplus production in 2020 is expected to be even greater than in 2016.

In the first quarter of 2020, the benchmark Brent oil prices fell significantly to below USD20 per barrel, after a stable period of above USD50 per barrel for the past two years. The resulting decline in oil prices will impact the cash flow of oil and gas E&P companies and their ability to maintain investments. A slowdown in drilling activities by E&P companies would put downward pressure on global jack-up drilling rig utilisation and day charter rates, which had been steadily recovering prior to this.

While there are several potential external factors that might reduce the impact of these events, Management believes it is prudent to adjust our plans based on the new normal. Our focus this year will be on minimising the impact of the





industry downturn on our revenue via maintaining order book, utilisation and day charter rates. Indeed, this is expected to be very challenging, given the current industry outlook. Nevertheless, we believe our operational excellence and track record coupled with strong client relationships will enable us to seek win-win solutions going forward.

In addition, we have further intensified cost-cutting measures. These include reducing discretionary expenses, deferring non-critical hiring and reviewing CAPEX. This is a continuation of our efforts to maintain a low cost and lean structure, which we believe will enable VELESTO Group to remain sustainable and derive competitive advantage in managing industry cycles.

We believe that the painful steps we have taken and lessons learnt from the last downturn combined with the improved company fundamentals will enable VELESTO Group to persevere given the challenging outlook.

## **DIVIDEND**

As the Group has just returned to profitability after incurring four consecutive years of losses due to the previous industry downturn, the Board has not declared shareholder dividends for FY2019. However, the Company has proposed a Share Capital Reduction plan, which will enhance the company's ability to pay dividends out of its retained earnings in the future.

**ROHAIZAD DARUS**  
PRESIDENT

# 5-YEAR GROUP SUMMARY RESULTS

Financial Year Ended 31 December		2015	2016	2017	2018	2019
Revenue	RM mil	840	321	587	574	671
Profit/(Loss) Before Taxation	RM mil	(348)	(1,181)	(1,131)	(18)	42
Profit/(Loss) Attributable to Equity Holders of the Company	RM mil	(369)	(1,177)	(1,127)	(20)	33
Shareholders' Funds	RM mil	3,333	2,258	2,763	2,797	2,802
Return on Shareholders' Funds	%	(11)	(42)	(45)	(1)	1
Return on Total Assets	%	(4.6)	(18.0)	(23.6)	(0.4)	0.8
Basic Earnings/(Loss) Per Share	Sen	(17.1)	(54.5)	(36.8)	(0.2)	0.4
Share Price At Year End	RM	1.07	0.88	0.31	0.18	0.38
Market Capitalisation At Year End	RM mil	2,313	1,892	2,135	1,479	3,122

# SUMMARY OF GROUP RESULTS

<b>Financial Year Ended 31 December</b>		<b>2018</b>	<b>2019</b>
Revenue	RM mil	574	671
Profit/(Loss) Before Taxation	RM mil	(18)	42
Profit/(Loss) After Taxation	RM mil	(20)	33
Share Capital	RM mil	4,055	4,055
Reserves	RM mil	(1,258)	(1,253)
Basic Profit/(Loss) Per Share	Sen	(0.2)	0.4
Net Assets Per Share	Sen	34.0	34.1

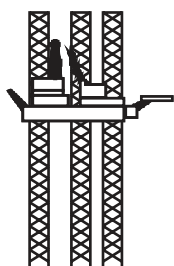
## FINANCIAL CALENDAR

<b>Notice on 10th Annual General Meeting &amp; Issuance of Annual Report 2019</b>	<b>19 May 2020</b>
<b>10th Annual General Meeting</b>	<b>29 June 2020</b>
<b>Financial Year Ended</b>	<b>31 December 2019</b>

<b>Approval of Quarterly Unaudited Financial Results:</b>	
Quarter 1, 2019	21 May 2019
Quarter 2, 2019	30 August 2019
Quarter 3, 2019	28 November 2019
Quarter 4, 2019	25 February 2020

# FINANCIAL PERFORMANCE HIGHLIGHTS

## BUSINESS PERFORMANCE



**80%**  
utilisation rate  
highest in five years.



**>RM1.3 bil** contracts secured  
(RM0.4 bil in FY2018)



**RM2.1 bil** outstanding order book  
(RM0.4 bil in FY2018)

## FINANCIAL PERFORMANCE

### Revenue (RM)



**FY2019 : RM671 mil**

FY2018 : RM574 mil

+ 17%

### EBITDA (RM)



**FY2019 : RM333 mil**

FY2018 : RM279 mil

+ 19%

### Operating Profit (RM)



**FY2019 : RM126 mil**

FY2018 : RM64 mil

+ 97%

## RETURN TO PROFITABILITY

### Profit Before Tax (RM)

2019	42 mil
2018	(18 mil)

**FY2019 : RM42 mil**  
FY2018 : (RM18 mil)

### Profit After Tax (RM)

2019	33mil
2018	(20 mil)

**FY2019 : RM33 mil**  
FY2018 : (RM20 mil)

### Total Assets (RM)

2019	4.3 bil
2018	4.4bil

**FY2019 : RM4.3 bil**  
FY2018 : RM4.4 bil

### Shareholders' Fund (RM)

2019	2.8 bil
2018	2.8 bil

**FY2019 : RM2.8 bil**  
FY2018 : RM2.8 bil

### Earnings Per Share (sen)

2019	0.40
2018	(0.24)

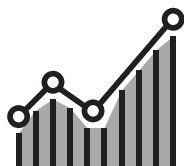
**FY2019 : 0.40 sen**  
FY2018 : (0.24 sen)

### Net Assets Per Share (sen)

2019	0.34
2018	0.34

**FY2019 : 0.34 sen**  
FY2018 : 0.34 sen

# VELESTO SUSTAINABILITY HIGHLIGHTS & ACHIEVEMENTS

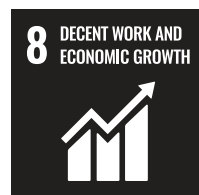


**Tier 1 (Setting the Pace)** for our Sustainability disclosures by BURSA



FTSE4Good

Included in the **FTSE4Good Bursa Malaysia Index**



**6 United Nations** Sustainability Development Goals (“UN SDGs”) adopted by VELESTO; UN SDG 3, UN SDG 4, UN SDG 5, UN SDG 7, UN SDG 8, and UN SDG 14

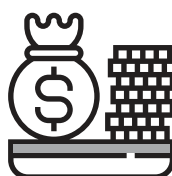


Purchases from Local Suppliers:

**RM186.0 mil**

(FY2018: RM119.8 mil)

+ 55%



Employees in Salaries and Benefits:

**RM138.9 mil**

(FY2018: RM127.8 mil)

+ 9%

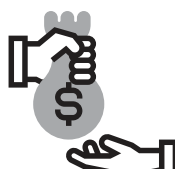


Taxes Paid to the Government:

**RM8.8 mil**

(FY2018: RM0.6 mil)

+ 15 times



Net Debt Repayments to Financiers:

**RM138.8 mil**

(FY2018: RM441.2 mil)

- 7%



Total workforce  
**715 employees**  
(FY2018: 658)  
**72% Malaysians**



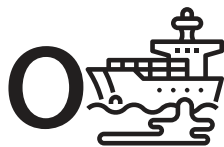
**50% of women**  
at Senior Management



**- 8%**  
year-on-year total Greenhouse Gas ("GHG")



**- 8%**  
reduction in rig energy consumption



**Zero fatalities** and  
**Zero major spills**



**40% of women**  
Directors



VELESTO DRILLING ACADEMY

**338 participants trained**  
23% increase for VDA



**2.6 mil manhours**  
(FY2018: 1.4 mil manhours)  
without LTI

# SUSTAINABILITY REPORT



## PURSUING SUSTAINABLE VALUE CREATION

### **MESSAGE FROM THE PRESIDENT**

TO OUR ESTEEMED STAKEHOLDERS,

VELESTO GROUP HAS CONTINUED TO PURSUE SUSTAINABILITY AS A  
FUNDAMENTAL ASPECT OF ITS VALUE CREATION APPROACH.



Given the nature of our industry, the upstream value chain of exploration and production, and our business model, operations and activities, VELESTO's approach to sustainability remains driven by a strong focus on three key aspects – the protection of health and safety of everybody, enhancement of people's lives and the preservation of the environment.

We aim to uphold our strong health and safety performance by further developing a strong, safety-first mind-set and culture across VELESTO Group. We also need to ensure that all our work locations are designed and managed in such a manner that everybody who is involved in our business remains healthy and safe.

With regard to people, our priorities remain on local talent development and recruitment, career development and organisation culture. We also aim to improve the welfare and livelihood of people around us by assisting in education, and safety and environmental awareness. In addition, our environmental priorities are GHG emissions and pollution, specifically oil or waste, while improving the condition for healthy growth of flora and fauna.

These focus areas, together with our iLEAP corporate Core Values and continued strong emphasis on corporate governance, provide a firm base for the development of a robust organisation that is well suited to sustain itself, protect against possible future risks and generate enduring stakeholder value over the long-term amidst a competitive operating environment.

I am happy to share that in each of these focus areas, VELESTO has made notable progress with various highlights and achievements realised. It has been a challenging but rewarding sustainability journey as we have successfully pursued our agenda of supporting local procurement and local talent, improved the educational achievements of people around us, reduced our GHG emissions despite seeing higher rig utilisation rates and continued to achieve safe and secured operations.

VELESTO Group has also strengthened its practice of corporate governance and its commitment to anti-corruption and bribery with the establishment of Integrity Governance Unit ("IGU") on 1 January 2020. An independent function to assist the Board in driving integrity strategy and compliance for the Group.

In addition to being included in FTSE4Good Bursa Malaysia Index, VELESTO has also been upgraded to Tier 1 (Setting the Pace) for our Sustainability disclosures by BURSA.

We will continue to pursue further change and improvement. It must always be remembered that financial performance and sustainability go together. We will continue to uphold sustainability as key to VELESTO and as such, will look to further integrate sustainability into our business model and operations.

This will entail further aligning sustainability policies, initiatives and action plans with business strategy, and to develop a stronger long-term perspective to enable a strategic response to emerging risks and opportunities, external trends and developments and other macro-factors. Guided by our sustainability conscience, we shall continue to operate in accordance with global best practices towards delivering long-term stakeholder value while securing VELESTO Group's future.

We thank all stakeholders for being part of our sustainability journey and we welcome your thoughts on how we can further drive performance going forward.

**ROHAIZAD DARUS**  
PRESIDENT

# SUSTAINABILITY REPORT

## ABOUT OUR REPORT

### INTRODUCTION

Our Sustainability Report 2019 (“SR2019”) is our fourth sustainability report and is published towards providing a comprehensive narrative of the performance achieved on VELESTO Group’s materiality topics.

This report is to be read together with VELESTO Group’s Annual Report towards obtaining a more comprehensive perspective of the linkage between business and financial performance achieved in FY2019 and sustainability performance.

SR2019 has been prepared in accordance with the Global Reporting Initiative (“GRI”) Standards 2016 Core Option. The full GRI content index is provided at the end of the SR2019. The SR2019 has also been prepared in accordance with disclosures pertaining to the Bursa Malaysia Sustainability Reporting Guide Second Edition and the FTSE4Good Bursa Malaysia Index.

### REPORTING SCOPE & BOUNDARY

As in previous years, VELESTO’s reporting scope is focused on our drilling services operations located in Malaysia. We have not included our foreign subsidiary.

The scope is further streamlined to focus on the most pertinent projects, initiatives and activities of VELESTO Group rather than every aspect of operations. We exercise a “local-where-we-operate” practice. Our boundaries are determined based on the prioritisation of our materiality aspects and topics and the GRI’s Reporting Principles for defining report content and report quality.

Our scope does not include the oil and gas resources discovered or produced by our assets for our clients and the impact from our supply chain, which comprise of third party contractors and suppliers.

### REPORT CONTENT AND QUALITY

The content in SR2019 has been determined based on stakeholder views, internal assessment of material topics and risk factors, as well as emerging trends and opportunities within the VELESTO Group operating environment.

The GRI principles for defining report quality have been applied in the disclosure of material topics and data. These are the principles of accuracy, balance, clarity, comparability, reliability and timeliness as well as sustainability context, materiality and completeness.

International metric or industry accepted measurement standards have been applied to relevant sections in the report.





## REPORT DATA AND INFORMATION

All data in SR2019 have been collated from primary official documents and records. Data has been collected and results measured and calculated using industry standards as well as widely accepted calculation methodologies such as the Greenhouse Gas (“GHG”) Protocol.

Other standards we have used or comply to are as follows:

- Annex 1 of the International Convention for the Prevention of Pollution from Ships
- Annex VI of MARPOL 73/78
- Fleet Certification by regulatory bodies such as the American Bureau of Shipping and Det Norske Veritas
- International Carbon Bank & Exchange

Data is for FY2019 which is from 1 January 2019 to 31 December 2019.

Where possible, data has been presented for three consecutive years to show meaningful comparisons against past performances and to provide the possibility of trend lines.

## ASSURANCE

VELESTO Group has undertaken independent auditing and assurance for some of the financial data presented in this report where the figures can be cross-referenced to the Financial Statement. However, VELESTO Group has not undertaken third party assurance for non-financial, sustainability-related data.

## LIMITATIONS

We are cognisant that data-gathering challenges still exist for certain indicators. We are in the process of implementing more robust data tracking and gathering mechanisms for improved reporting going forward.

We will be considering the feasibility of including value chain related data in future reports. This includes data related to impacts that occur outside of the organisation, but which VELESTO Group may directly or indirectly be contributing towards in a significant manner.


## DISTRIBUTION & FEEDBACK


We welcome questions, feedback and suggestions that will spur further improvements in our reporting process. Please send any comments, insights and queries to:

## INVESTOR RELATIONS

### VELESTO ENERGY BERHAD

Level 18, Block 3A, Plaza Sentral  
Jalan Stesen Sentral 5  
50470 Kuala Lumpur, Malaysia

 +603-2096 8788

 [investor.relations@velesto.com](mailto:investor.relations@velesto.com)

# SUSTAINABILITY REPORT

## SUSTAINABILITY GOVERNANCE

In FY2019, VELESTO has continued to strengthen its governance structure with a view to provide greater Board and Senior Management oversight on sustainability matters. These material topics as mentioned earlier encompass talent development, environmental performance, health and safety, business, financial, operational and strategic risks as well as corporate governance.

Having previously established a robust governance structure in previous years, as illustrated in the diagram VELESTO in FY2019 has looked to leverage on the said structure to drive more effective two-way communication, sharing of information and sustainability reporting across the organisation.

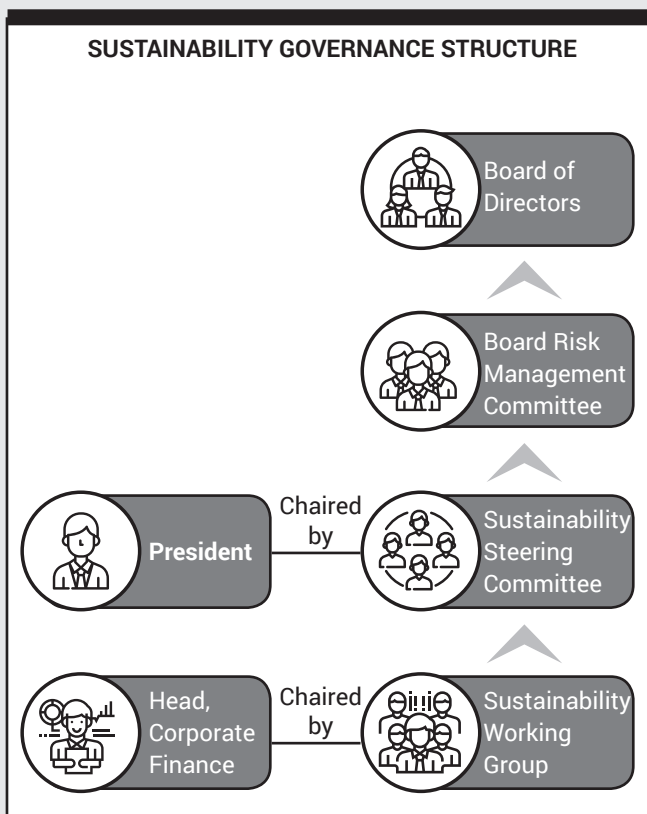
In essence, the sustainability governance structure has not been a mere static formal hierarchy, but is a dynamic and thriving construct that enables constant engagement across all levels of the Group towards supporting the realisation of a desired sustainability oriented mind-set and culture as well as the implementation of policies, programmes and action plans.

Giving further credence and impetus to the sustainability agenda, in FY2019, sustainability was Board approved as a strategic aspect similar to risk or audit and has been given official Board oversight under VELESTO Group's BRMC.

The BRMC is the Board Committee that is tasked to drive the sustainability agenda within VELESTO Group. The BRMC is supported by VELESTO Group's Sustainability Steering Committee and the Sustainability Working Group.

In FY2019, key focus areas have been the adoption of Integrated Reporting towards providing further alignment between financial performance, value creation and sustainability matters, improving on reporting disclosures, including data gathering, collation and analysis and developing a Sustainability Blueprint for VELESTO.

The SR2019 was reviewed and approved by the Board of Directors on 12 May 2020.



## SUSTAINABILITY STEERING COMMITTEE & SUSTAINABILITY WORKING GROUP

### COMPOSITION AND PRINCIPAL RESPONSIBILITIES

SUSTAINABILITY STEERING COMMITTEE (“SSC”)	
<p><b>COMPOSITION</b></p> <ul style="list-style-type: none"> <li>The Committee members consist of Senior Management of VELESTO:                             <ul style="list-style-type: none"> <li>President - Chairman</li> <li>Chief Financial Officer - Deputy Chairman</li> <li>Chief Operating Officer</li> <li>Chief Commercial Officer</li> <li>Head, Human Resources</li> <li>Head, Legal and Secretarial</li> <li>Head, Health Safety and Environment</li> <li>Head, Corporate Communications</li> </ul> </li> </ul>	<p><b>RESPONSIBILITIES</b></p> <ul style="list-style-type: none"> <li>Ensures the sustainability strategy is aligned with the Company’s vision and mission</li> <li>Reviews and recommends Sustainability statement to the BRMC and the Board</li> <li>Reviews and recommends sustainability strategies, policies and other matters relating to it such as management systems, performance monitoring, policies, commitments and regulations</li> <li>To continuously monitor stakeholders’ expectations on Company’s sustainability activities through proper communication strategies</li> </ul>
SUSTAINABILITY WORKING GROUP (“SWG”)	
<p><b>COMPOSITION</b></p> <ul style="list-style-type: none"> <li>The Working Group members consist of representatives from corporate and operations that are responsible for sustainability strategies and projects</li> </ul>	<p><b>RESPONSIBILITIES</b></p> <ul style="list-style-type: none"> <li>Tracks the data to ensure that all outlined activities achieved defined targets.</li> </ul>

In line with Bursa Malaysia’s Sustainability Reporting Guide, VELESTO’s governance of sustainability is at an intermediate phase. Essentially, sustainability issues are included in the Board’s agenda and is deliberated upon with the Board’s views and findings conveyed to Senior Management for incorporation into corporate and business strategies.

VELESTO Group has also established various metrics and key performance indicators across Economic, Environmental and Social (“EES”) topics, aspects and disclosures to chart, measure and assess its sustainability performance in key focus areas.

### SUSTAINABILITY GOVERNANCE THROUGH OPERATIONAL SITE CERTIFICATION

Beyond strategic levels, sustainability governance has been prioritised at the operational or working level.

All VELESTO’s jack-up drilling rigs and hydraulic workover units as well as VELESTO’s KL Office and its operating bases in Kemaman and Labuan have been certified by DNV-GL to the globally recognised management system standards. These are the ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 standards. VELESTO Group is also preparing for migration from OHSAS 18001:2007 Occupational Health and Safety Management System to ISO 45001:2018 in 2020.

ASSETS/LOCATION	CERTIFICATION
NAGA 2, NAGA 3, NAGA 4, NAGA 5, NAGA 6, NAGA 7, NAGA 8	ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007
GAIT 1, GAIT 2, GAIT 5, GAIT 6	ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007
Kemaman Warehouse, Labuan Warehouse and KL Office	ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007

# SUSTAINABILITY REPORT

## SUSTAINABILITY GOVERNANCE

### GOVERNANCE THROUGH ANTI-CORRUPTION AND BRIBERY STANCE

VELESTO Group has continued to practice a zero tolerance policy on corruption and unethical behaviour across the organisation. VELESTO's commitment to upholding anti-corruption is reflected in its CoBE.

In addition, VELESTO is developing a specific anti-corruption policy and integrity governance framework. The development of the said policy is being monitored closely by the Board.

Velesto Group has also strengthened its practice of corporate governance and its commitment to anti-corruption and bribery with the establishment of IGU on 1 January 2020. An independent function to assist the Board in driving integrity strategy and compliance for the Group.

The IGU is an independent body that reports directly to the Board Whistle-Blowing Committee and the MACC on any potential or actual incidences of corruption or other forms of corporate wrongdoing. Administratively, the IGU is linked to the President's Office.

### ORGANISATIONAL ASSESSMENT ON CORRUPTION

In FY2019, beyond policies and systems, VELESTO Group has looked to assess the organisation, beginning with the departments/units that are potentially the most vulnerable to corrupt practices. These have been identified as Supply Chain, Business Development, Operations, Finance and Accounts.

Prior to the formation of IGU, additional monitoring and safeguards had been established at these departments. These include an increase in anti-corruption staff briefings, stricter monitoring and assessment of vendors and the supply chain process. In 2019, the new Financial Limit Authority Governance ("FLAG") was introduced and Supply Chain procedures were reviewed and revised.

While the assessment indicated that the aforementioned have the highest exposure to potential corrupt practices, the year under review saw no reported cases of corruption in VELESTO Group including the said departments/units.

Anti-corruption awareness was further embedded across the organisation with the focus being on motivating staff to not just eschew corrupt or unethical behaviour, but to also report such incidents. This is in line with adopting a harder stance against corrupt practices be in the workplace or across the value chain.

90% of office-based employees have received information on corruption prevention and VELESTO Group's strong, anti-corruption stance. 100% of Board members have received related anti-corruption information.

New board members and incoming employees will receive information during their induction process.

Throughout FY2019, prior to the establishment of the IGU, VELESTO Group initiated various campaigns as follows:

- CoBE employee and Board member induction
- Integrity Month organised by Corporate Communications in July 2019
- VELESTO's town hall on 5 December 2019 to highlight Section 17A of MACC Act 2009
- A sharing session by the President on Anti-Corruption in 10 December 2019 at the Management Committee Meeting

### PROMOTING ETHICAL BEHAVIOUR WITHIN THE VALUE CHAIN

VELESTO continues to make all efforts to prevent corruption within its value chain and to encourage good corporate governance. We view our supply chain as an extension of our business operations and activities, given that their efficiency and expertise impacts our overall ability to create value.

Our terms and conditions to suppliers mandate compliance with all laws, including legislation on anti-corruption laws, conflicts of interest and non-disclosure.

VELESTO, through its Procurement, HSE and Quality teams, undertake periodic site audits of vendors, where effective and relevant. VELESTO Group will blacklist vendors who have been found to engage in corrupt behaviour or unethical practices and have their services terminated. Similarly, vendors who do not meet the expected service standards will be suspended and blacklisted if non-conformance persists.

Our approach to procurement is guided by our CoBE as well as stringent requirements for vendors involved in critical scope of work. This includes possessing an excellent HSE track record and financial stability. In addition to these, all vendors are assessed during the registration process to ensure that they have the capability and capacity to fulfil VELESTO Group's business needs.

Vendors who do not meet our selection criteria are assessed based on merit and are entitled to submit tenders for projects. VELESTO Group subscribes to an open tender system for awarding contracts.

VELESTO Group in FY2019 did not have any reported incidences of corruption across its value chain. VELESTO Group continues to assess its operations for corrupt practices, via stringent financial and non-financial auditing.

## **CODE OF BUSINESS CONDUCT AND ETHICS**

VELESTO's CoBE guides VELESTO Group in fulfilling its business obligations with integrity and transparency. It serves as a reference for expected conduct and ethics for VELESTO's Board of Directors, Management and staff, and also extends to suppliers, vendors and all stakeholders within the value chain. The CoBE is driven by our Core Values, keeping in mind the highest standard of business ethics.

The CoBE is rolled out to employees through training as well as communication programmes. Each employee undergoes training and is required to read and understand the CoBE. All employees will be required to agree and declare their understanding of the Company's policy and procedures, and submit their individual "Disclosure of Conflict of Interest".

Beyond the induction stage, periodic refresher programmes are organised for staff to ensure that the CoBE is reinforced to staff and a clear message is sent that VELESTO Group views good corporate governance and corporate behaviour with importance.

## **WHISTLE-BLOWING POLICY AND PROCEDURES**

VELESTO's Whistle-Blowing Policy ("WBP") which was previously managed by Group Human Resources is managed by the IGU since 1 January 2020.

The WBP complements the CoBE and essentially provides a confidential channel for staff or any stakeholder to make a report on any incident or potential incident of unethical behaviour without fear of recrimination or reprisals and his/her identity divulged. Full anonymity is accorded to whistle-blowers at all times.

Unethical behaviour is categorised as unlawful or improper conduct relating to mismanagement, malpractices, corrupt practices, fraud, conflict of interest, abuse of authority, money laundering or breach of any laws and regulations by any Board member, employee, supplier and vendor.

All whistle-blowing reports will be channelled to the Head of the IGU. The reports will be presented to Board Whistle-Blowing Committee which will then act and dispose the reports pursuant to Whistle-Blowing Policy and Procedure.

If the reports are substantiated, appropriate action will be taken on the offending party. This includes warnings, dismissals, and contract termination, or even report to enforcement authorities such as MACC or the police for further action.

In FY2019, no whistle-blowing reports related to corruption were received.

# SUSTAINABILITY REPORT

## STAKEHOLDER ENGAGEMENT

VELESTO Group continues to actively engage stakeholders in ensuring its sustainability journey and approach to value creation remains effective and relevant. The views, concerns and opinions of stakeholder groups remain essential in guiding our approach going forward.

Such input, if and where relevant, is frequently deliberated upon and incorporated into VELESTO Group's business plan and strategies. Stakeholders are defined as individuals or groups that are impacted or may be potentially impacted by VELESTO Group's business presence and activities, or have the potential to impact or influence VELESTO Group's operational and/or financial performance as well as overall corporate reputation and perception.

In FY2019, VELESTO has engaged stakeholders across a wide range of platforms and channels. These include client and vendor engagement sessions, analyst briefings, industry exhibitions and conferences, Corporate Social Responsibility ("CSR") activities in local communities, rig visits for investors and financial institutions, the Annual and Extraordinary General Meeting, quarterly town hall sessions with employees and others.

VELESTO Group has also improved its website to ensure timely dissemination of information, including corporate announcements, financial results, contract awards, and changes in directorships and other pertinent information.

In FY2019, VELESTO Group's Customer Satisfaction Survey ("CSS") indicated a satisfaction rating of 73% (2018: 80%).

Given that the nature of VELESTO's business operations as a drilling services and oilfield services provider is unchanged, our stakeholder engagement table remains largely unchanged from the previous financial year.

STAKEHOLDER GROUPS	METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES / OUTCOMES
Shareholders and Investors	<ul style="list-style-type: none"> <li>Analyst Briefing</li> <li>Annual General Meeting</li> <li>Annual Report</li> <li>Investor Briefing</li> <li>Announcements of corporate developments to BURSA</li> <li>Quarterly announcements of financial results to BURSA</li> <li>One-on-one meeting</li> <li>Updates on Investor Relations page on VELESTO's website</li> <li>Press Release</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly updates by the President on the position and status of VELESTO Group to analysts from various financial/research houses</li> <li>A yearly update to shareholders on the strength and position of VELESTO Group, while also sharing the current health of their investment</li> <li>Regulatory matters</li> <li>Ad-hoc (as and when required) briefings to investors on the strength and position of VELESTO Group</li> <li>Quarterly announcements/discussions on the financial results</li> <li>Ad-hoc (as and when required) updates to analysts and fund managers</li> <li>Ad-hoc (as and when required) updates via Press Release distributed to the media</li> </ul>	<ul style="list-style-type: none"> <li>More positive coverage by analysts</li> <li>Maintained share price performance</li> <li>Compliance with MMLR</li> </ul>



STAKEHOLDER GROUPS	METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES / OUTCOMES
PETRONAS and other customers	<ul style="list-style-type: none"> <li>• Management engagement</li> <li>• Customer feedback exercises</li> <li>• Frequent rig/office visits</li> <li>• Formal meetings</li> <li>• Email queries</li> <li>• Trade shows and exhibitions</li> </ul>	<ul style="list-style-type: none"> <li>• Discussions and clarifications on technical, operational and commercial matters</li> <li>• Operational and safety issues</li> <li>• Rig operating schedules</li> <li>• Rig/office visits by existing and potential clients</li> <li>• Quarterly management engagement and frequent operational meetings to discuss technical, operational and commercial matters</li> <li>• Continuous effort in promoting VELESTO Group</li> <li>• Various emails with regards to commercial and technical clarifications from clients</li> <li>• Various marketing emails to existing and potential clients</li> <li>• Abu Dhabi International Petroleum Exhibition and Conference ("ADIPEC"), Malaysian Oil &amp; Gas Services Council ("MOGSC"), Malaysia External Trade Development Corporation ("MATRADE") and etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure all clarifications were responded to and appropriate actions are undertaken</li> <li>• Managing issues with various teams</li> <li>• Visits jointly organised by Business Development and Operations team</li> <li>• Frequent engagements with clients and authorities on respective matters</li> <li>• Frequent marketing meetings held between VELESTO and new/existing clients to promote and/or introduce VELESTO Group's capability and rig schedules</li> <li>• Participated in various tradeshow and exhibitions when deemed necessary, local and overseas for marketing and branding purposes</li> </ul>
Government/Regulators/Agencies	<ul style="list-style-type: none"> <li>• Annual/periodical compliance as per relevant laws and regulations</li> <li>• Management engagement</li> <li>• Formal and informal meetings</li> <li>• Written and email communications</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance to regulatory requirements</li> <li>• Feedback on impact of policies</li> <li>• Explore areas of mutual support from government initiatives</li> </ul>	<ul style="list-style-type: none"> <li>• Mutual understanding on compliance requirements and adherence</li> <li>• Participation in initiatives/programmes</li> <li>• Clarification on regulations</li> <li>• Appeal or concession, if required</li> </ul>

# SUSTAINABILITY REPORT

## STAKEHOLDER ENGAGEMENT

STAKEHOLDER GROUPS	METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES / OUTCOMES
Employees	<ul style="list-style-type: none"> <li>• Town hall sessions</li> <li>• Festive celebrations</li> <li>• Internal communications mailers</li> <li>• Employee excursions/ events</li> <li>• Management HSE walkabouts</li> <li>• Lunch with President session</li> <li>• Lunch Talk session</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly updates by the President on the position and status of VELESTO Group to VELESTO staff in town hall sessions</li> <li>• Providing updates on VELESTO Group's SharePoint on the latest happenings, events, etc. Some mailers also discuss topics related to work life balance</li> <li>• HSE Observation Card ("HOC") winner</li> </ul>	<ul style="list-style-type: none"> <li>• Updated awareness on VELESTO Group</li> <li>• Internal communications help ensure that all members of the organisation are kept up to-date on the on-goings at VELESTO Group and also serve as a needed break from work</li> <li>• Promote safety awareness at the workplace</li> </ul>
Financial Institutions	<ul style="list-style-type: none"> <li>• Annual Report</li> <li>• Analyst Briefing</li> <li>• Annual General Meeting</li> <li>• Regular engagement, conference call and periodic update</li> <li>• Site/rig visit</li> </ul>	<ul style="list-style-type: none"> <li>• Liquidity and investment management</li> <li>• Financial risk management</li> <li>• Regulatory and debt covenants compliances</li> </ul>	<ul style="list-style-type: none"> <li>• Effective communications on business and operational updates</li> <li>• Updated release of Group's financial results and operational performances</li> <li>• Compliance and continuous engagements to improve the debt covenants</li> </ul>
Communities	<ul style="list-style-type: none"> <li>• Corporate Social Responsibility ("CSR")</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of VELESTO's three main CSR pillars (safety, education and environment) at selected partner schools/communities</li> </ul>	<ul style="list-style-type: none"> <li>• Improvement/betterment of the participating stakeholders understanding on safety, improved education experience and results, and improved/better understanding of the environment</li> </ul>

STAKEHOLDER GROUPS	METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES / OUTCOMES
Vendors	<ul style="list-style-type: none"> <li>• Management engagement</li> <li>• Vendor feedback exercise</li> <li>• Office/site visits</li> <li>• Site audits</li> <li>• Document audits</li> <li>• Formal meetings</li> <li>• Email queries</li> <li>• Trade shows and exhibitions</li> <li>• Appointment of VDPx vendors</li> </ul>	<ul style="list-style-type: none"> <li>• Introduction meetings</li> <li>• Discussions and clarifications on technical and operational requirements</li> <li>• Commercial negotiations</li> <li>• Solicitation/clarification of quotations</li> <li>• Operational and safety issues</li> <li>• Rig operating schedules</li> <li>• Continuous effort in promoting VELESTO's core value (iLEAP)</li> <li>• Various marketing emails from vendors</li> <li>• Robustness of HSE management systems</li> <li>• Financial capability</li> <li>• Technical capability</li> <li>• Outstanding issues (payment, delivery, quality, etc.)</li> <li>• MOGSC, MATRADE and etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Familiarising with vendor's capabilities</li> <li>• Ensure VELESTO's requirements are understood and delivered as required</li> <li>• Negotiate for competitive rates for materials/services procured</li> <li>• Ensure materials/services are procured at the right quality and delivered to the right location at the right time</li> <li>• Ensure safety standards are upheld to prevent incidents at work site</li> <li>• Ensure business dealings are dealt with according to VELESTO's core value, i.e. 360 degrees compliance</li> <li>• Ensure vendors are technically sound and have robust HSE management systems and financial stability to carry out work seamlessly</li> <li>• Ensure issues are resolved at the shortest possible time</li> <li>• Continuous networking to promote local participation in VELESTO's procurement activities</li> <li>• Actively promote local vendors to upskill and be more competitive in the international arena via VDPx initiative</li> </ul>

# SUSTAINABILITY REPORT

## MATERIALITY & MATERIALITY MATRIX

VELESTO continues to assess its materiality topics guided by the focus areas of people or talent, environmental footprint, health and safety and corporate governance. Material topics are identified by the SWG and the SSC which are then assessed and approved by the BRMC.

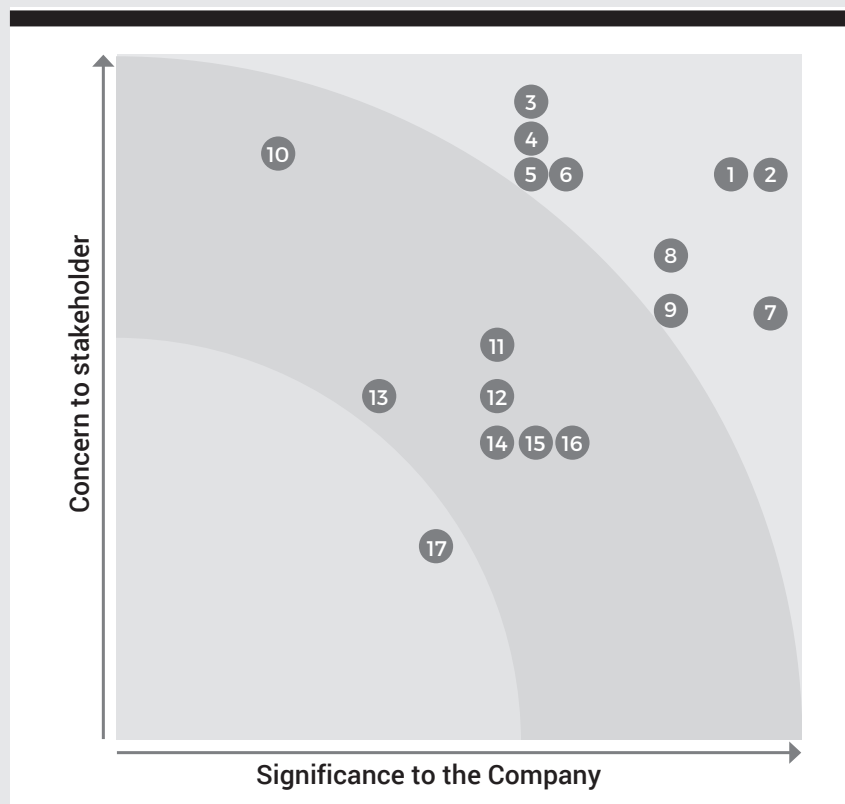
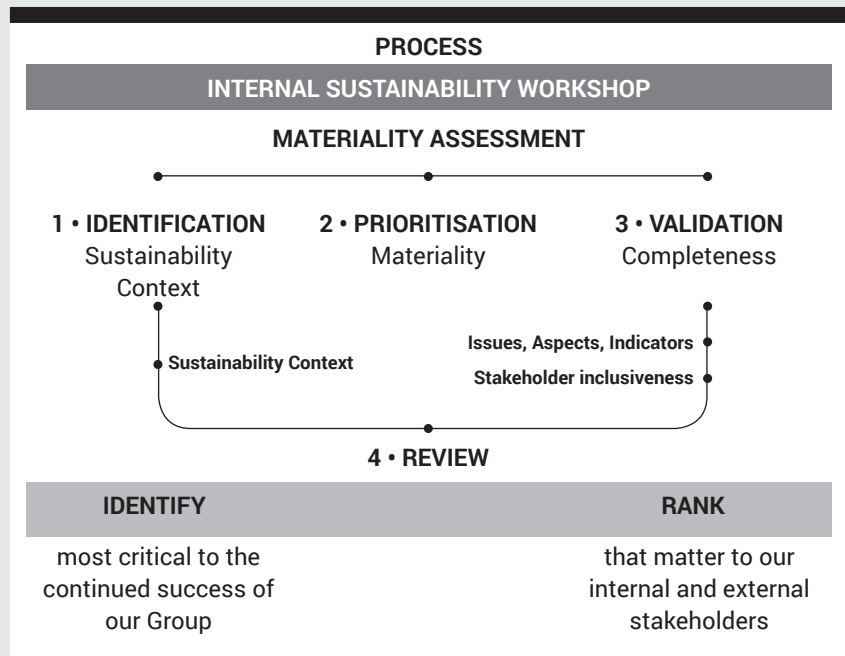
The materiality assessment process comprises the development of questionnaires (based on the GRI Standards 2016 content index) and the holding of internal workshops among middle and Senior Management.

The findings from these data gathering activities are then analysed and a preliminary list of topics developed for further assessment, including external stakeholder validation.

Supported by external views, the list of material topics is then further refined and weightage is given to each, based on their potential EES impact and its severity and significance to VELESTO Group and its stakeholders.

Our key criterion for materiality prioritisation is based on the impact, potential impact or significance of a particular materiality matter to VELESTO Group and its stakeholders. Based on the prioritisation, VELESTO Group develops its materiality matrix for the financial year. The developed materiality matrix is shared with Senior Management and the Board of Directors for further deliberation and subsequently validation.

We are cognisant that given the differing aspirations, concerns and views, there may be variances in significance of a particular materiality matters between stakeholders. Hence, we have sought to exercise our own discretion if there were any potential conflicts of interest between stakeholders to determine the outcome of VELESTO's materiality matrix.



## KEY MATERIAL ASPECTS



### ECONOMIC

- 2 Economic Performance
- 8 Procurement Practices
- 9 Market Presence including Local Content
- 16 Indirect Economic Impact



### ENVIRONMENT

- 3 Effluent and Waste
- 14 Energy
- 15 Water
- 17 Emission



### SOCIAL

- 1 HSE
- 4 Emergency Preparedness
- 5 Compliance
- 6 Asset Integrity and Process Safety
- 7 Employment
- 10 Anti-Corruption
- 11 Local Communities
- 12 Training and Education
- 13 Diversity and Equal Opportunity

## ALIGNMENT OF MATERIALITY TO THE UNITED NATIONS SUSTAINABILITY DEVELOPMENT GOALS

In the previous year, VELESTO had adopted several United Nations Sustainability Development Goals ("UN SDGs"). These are UN SDG 3 (Good Health & Well-being), UN SDG 4 (Quality Education), UN SDG 5 (Gender Equality), UN SDG 7 (Affordable and Clean Energy), UN SDG 8 (Decent Work and Economic Growth) and UN SDG 14 (Life Below Water).



In FY2019, we have looked to align our community investment initiatives towards supporting our adopted UN SDGs. We will set sustainability goals for our operations and material topics in the future.

VELESTO Group will continue to refine and improve its materiality assessment process taking into account new trends, developments and technologies within the external macro-economic environment and within the oil and gas sector.



## ECONOMIC

### DIRECT ECONOMIC IMPACT

VELESTO's direct economic value remains on the uptrend with FY2019 seeing VELESTO Group posting its first profit performance after four years, underpinned by improving cost efficiencies, increasing competitiveness, more drilling contracts and consequently a growing revenue base.

By remaining steadfast to its agenda of business transformation and by diligently pursuing set strategies, VELESTO Group has operated effectively in the present oil and gas landscape.

#### Revenue

**RM671 mil**

#### EBITDA

**RM333 mil**

#### Profit After Tax

**RM33 mil**

#### Earnings Per Share

**0.40 sen**

Importantly, our return to profitability is not merely due to the recovery in the oil and gas sector but is fuelled by VELESTO Group's ability to achieve higher rig utilisation rates and strict cost discipline, without compromising on safety.

Operating conditions remained challenging in FY2019 but the market continued to see stability, which helped support an upward momentum in exploration and production activities. Crude oil price had stabilised between the range of USD55 - 70 per barrel, a prime price range for oil and gas majors and national oil companies to maintain or up their investments into exploration and drilling activities.

For a more comprehensive review of the operating environment, the industry landscape and VELESTO Group's financial and business performance, kindly refer to the Management Discussion & Analysis section of this Annual Report.

VELESTO Group has also generated improved economic value for stakeholders:

#### Purchases from Local Suppliers

**RM186.0 mil**  
2018: RM119.8 mil

#### Employees in salaries and benefits

**RM138.9 mil**  
2018: RM127.8 mil

#### Taxes paid to the Government

**RM8.8 mil**  
2018: RM0.6 mil

#### Net Debt Repayments to Financiers

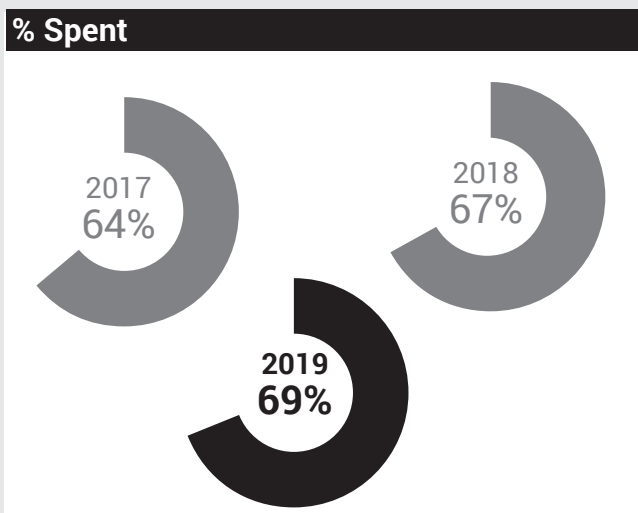
**RM138.8 mil**  
2018: RM432.3 mil

## INDIRECT ECONOMIC VALUE

### INDIRECT VALUE GENERATED THROUGH LOCAL PROCUREMENT

As in previous years, VELESTO has continued to generate a diverse range of indirect economic value and contributions to society. This includes job creation, hiring of local talents, increased purchases from local procurement, development of the local value chain and talent pipeline and community infrastructure.

In particular, in FY2019, local procurement was on the increase with the proportion of spend on local suppliers on the rise.



Local procurement is always preferred provided the value proposition is competitive. This includes making purchases for goods and services that are not sourced from an Original Equipment Manufacturer ("OEM").

VELESTO is also one of the local anchors for VDPx, a programme under PETRONAS in support of the Ministry of International Trade and Industry ("MITI").

Under VDPx, VELESTO has identified Topside Medic Support Services and Offshore Catering Services as scopes based on our business requirement to accelerate the development of successful local entrepreneurs. We have been working closely with two companies in these segments to improve their performance, with the objective of making them our strategic partners as we grow into new markets.

Our knowledge transfer to these vendors have enabled them to not just attain useful skills, but to also improve their earning capabilities and to serve the domestic oil and gas sector.

# SUSTAINABILITY REPORT

## ECONOMIC



### INDIRECT VALUE GENERATED FOR COMMUNITIES

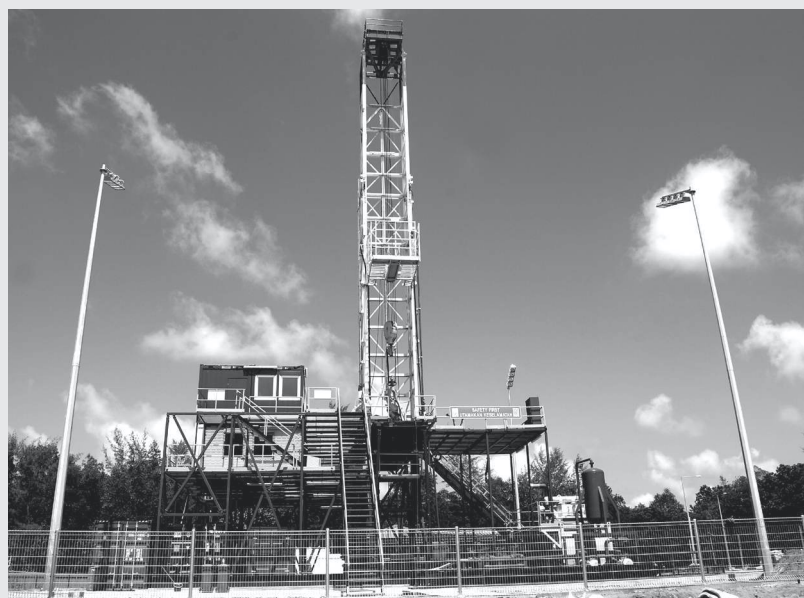
In terms of indirect value to the community, VELESTO has continued to support the installation of Public Safety Announcement (“PSA”) type signages.

The signages were contributed by VELESTO as part of VELESTO Group’s larger CSR initiatives, which are centred on promoting general health and safety awareness among various communities such as schools and villages located within the area of our operations and satellite bases.

As before, the presence of our rigs parked for operations in East and West Malaysia has created strong multiplier effects for the local communities, generating increasing economic activity that leads to job creation, an inflow of investments and other positive benefits. This includes the development of local community vendors (transportation, accommodation, logistics, food and beverage) and more.

VELESTO Group has yet to develop a mechanism to calculate the actual economic impact of its business presence and we aim to do so going forward.

With regard to local hiring, a large number of our drilling rig crews comprise of Sabahans and Sarawakians, at about 24%. Effectively, VELESTO has provided high-paying, highly skilled jobs in less developed regions of the country. Skills and knowledge have been transferred to enhance the employability of these individuals while supporting the development of the local oil and gas talent pipeline.



### VELESTO DRILLING ACADEMY

Another means by which VELESTO generates significant community benefit and indirect economic value is via the VELESTO Drilling Academy (“VDA”).

VDA is focused on developing academic and training competency towards producing qualified, drilling professionals. VDA delivers cutting edge learning and training for working professionals. In addition, VDA plays a key role in supporting our in-house Trainee Electronic Technician (“TET”) and Trainee Drilling Engineer (“TDE”) programmes.

Participation in courses and programmes are open to all levels from higher learning institutions right up to oil and gas companies, both locally and internationally. VDA is accredited by the International Association of Drilling Contractors (“IADC”) and International Well Control Forum (“IWCF”). It is a joint collaboration with Institut Teknologi Petroleum PETRONAS (“INSTEP”).

In FY2019, VDA has seen its intake increase by 23% to 338. This includes talents from PETRONAS and other notable oil and gas industry players.

### INDUSTRY ADVISORY

VELESTO is proud to contribute to industry development through our continuous participation in various advisory panels with such as MPRC and Heriot-Watt University Malaysia.





# ENVIRONMENT

*As a leading drilling operator in the oil and gas industry, we strive to ensure that we take precautionary actions to minimise the impact on the environment where we operate.*

## CLIMATE CHANGE

VELESTO Group continues to monitor the impact of climate change on VELESTO Group's operations. In previous years, climate change may have potentially contributed to adverse weather conditions that resulted in short disruptions to drilling operations aboard two of VELESTO's drilling rig platforms operating in the South China Sea.

The disruptions were only short-term, lasting for a spate of several days, before operations resumed at full capacity.

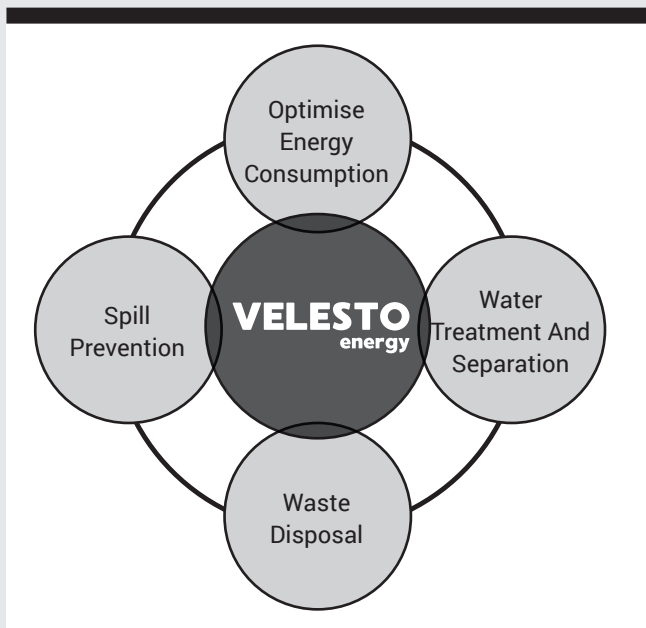
Although climate change currently has a limited impact to VELESTO Group's operations and financial performance, we believe it will increase in importance going forward. As such, we will look at the possibility of establishing specific climate-related risk management as business impact of climate change becomes more severe in the future.

VELESTO however, continues to monitor its own environmental footprint towards assessing its contribution to climate change impacts. VELESTO is cognisant that its energy consumption, particularly diesel and GHG emissions could be contributory factors and continues to adopt measures to improve both energy and emissions intensity.

# SUSTAINABILITY REPORT

## ENVIRONMENT

Our goal is to minimise the impact of activities in the production of hydrocarbons via the following strategies:



As a service provider in the oil and gas industry, we are taking practical measures to ensure the types of fuel used in our diesel engines produce lower amounts of CO<sub>2</sub>, corresponding to both the Paris Agreement and The Kyoto Protocol as formed by the United Nations Framework on Climate Change (“UNFCC”).

The UNFCC encourages reduction in CO<sub>2</sub> emission where Malaysia is one of the Non-Annex 1 parties for both commitment periods (2008-2012 and 2013-2020).

On a long-term perspective, with the rise of the two-degree movement and the general global consensus to reduce fossil fuel consumption, the oil and gas sector may have weaker prospects over a 20-30 year horizon. Overall, Renewable Energy (“RE”) remains on the rise and there may be declining fossil fuel contribution to the overall global energy mix, especially among developed nations and economies.

VELESTO continues to closely monitor developments in the global energy mix and will adjust its business plans and business model as required going forward. VELESTO Group continues to explore new business opportunities in other segments independent of drilling rig operations.

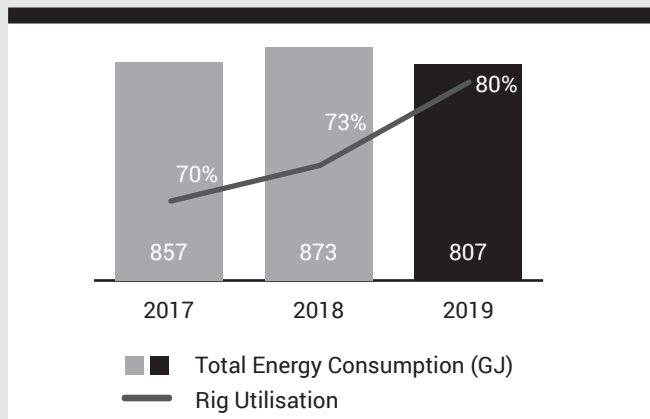
### ENERGY CONSUMPTION

The scope for VELESTO’s energy consumption disclosures is primarily centred on its drilling rig operations, which consume the most amount of energy. Our management approach to energy management is governed by the Rig Power Management System (“RPMS”).

Essentially, the RPMS provides each rig with five diesel powered generators with the biggest power consumer being the mud pumps followed by the Top Drive System (“TDS”) and the draw works. Fuel source consumed is diesel fuel.

The RPMS is able to detect when the Rig Equipment requires a lower power load and with that, automatically shuts/revs the engines down. This enables more efficient use of energy for drilling activities.

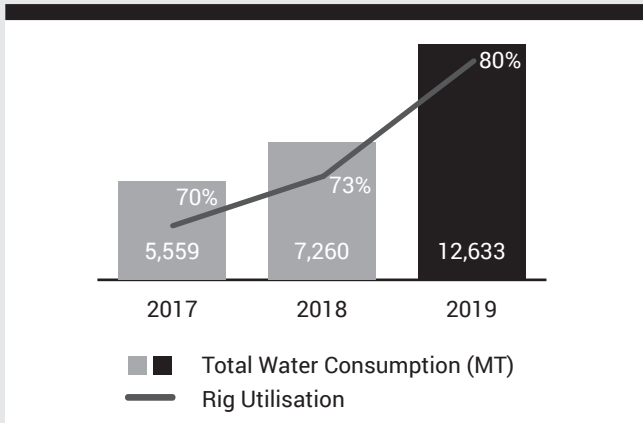
In FY2019, the RPMS was highly effective in reducing rig energy consumption by 8% despite a higher rig utilisation rate of 80%. Total rig energy consumption had decreased to 807 GJ during the financial year.



### WATER WITHDRAWAL

Water consumption is scoped to water used for drilling rig operations. Water consumed is mainly seawater, which is filtered and distilled via reverse osmosis for potable consumption.

Seawater is also extracted and used for drilling operations. In fact, 60-70% of seawater extracted is for drilling operations, with the rest for potable consumption. On some of our rigs, rainwater and recycled water sourced onshore is also used for non-potable purposes.



VELESTO Group does not have any operations in proximity with fresh-water bodies or water catchment areas and hence has no material impact on water security. In FY2019, with increased rig activity, water consumption has increased significantly to 12,633 metric tonnes (“MT”) per rig.

VELESTO Group via its sustainability governance structure and the BRMC are working towards establishing policies on managing its water use, which may include specific time-based targets to improve overall efficiency.

## WASTEWATER

In line with Annex 1 of MARPOL 73/78, all VELESTO rigs are equipped with internationally approved oily water separators facility to treat water with oil content and bring the oil content to permissible level of less than 15 parts per million (“ppm”) prior to dumping overboard.

Also in line with Annex IV of MARPOL 73/78, all VELESTO rigs have sufficient storage capacity for manure and a dedicated, self-contained Sewage Treatment System. Hence, waste is treated on-board and the final treated effluent, which is safe, is stored to allow full decomposition prior to discharge into the sea.

## WASTE MANAGEMENT

Waste management disclosures are scoped to our primary sources, which is rig operations. In accordance with the International Convention for the Prevention of Pollution for Ships (MARPOL 73/78), our offshore drilling rigs adhere to a dedicated waste management plan to ensure all types of waste are disposed of in an environmentally friendly manner.

Licensed third party contractors are used for waste disposal. All contractors are approved by the Department of Environment (“DOE”). Waste produced from oilfield services, is disposed of accordingly to the standards set by the DOE’s Environmental Quality (Scheduled Wastes) Regulations 2005.

In FY2019, total chemical waste (oil sludge, waste oil and oily water) was 235.0 MT (FY2018: 205.2 MT). In addition, 69 MT (FY2018: 306 MT) of solid and chemical were transported via licensed local contractors without any incidents of spillage.

Solid waste is segregated based on usable and disposable materials, particularly solid wastes at warehouses in Kemaman and Labuan. Further upgraded waste management action will be implemented and continuously improved as we go forward.

## ENVIRONMENTAL SPILLS

We are proud to report that there was no major spill for the third consecutive year. We attribute that to the implementation of the lessons learnt over the years especially in the regimented way the valves were lined up prior to operations involving drilling fluid or fuel transfer. The management directive prohibiting multitasking during critical activities including bulk chemical bunkering also put a stop to the spillage related to this kind of works.

In FY2019, total environmental spills recorded by our drilling operations were 5.1 barrels (FY2018: 0.25 barrels). The above spillage did not have a material impact on the environment.

VELESTO Group’s rigs comply with Annex 1 of the International Convention for the Prevention of Pollution from Ships (“MARPOL”). In addition, our fleet is certified by regulatory bodies such as the American Bureau of Shipping and Det Norske Veritas.

# SUSTAINABILITY REPORT

## ENVIRONMENT

### GREENHOUSE GAS EMISSIONS

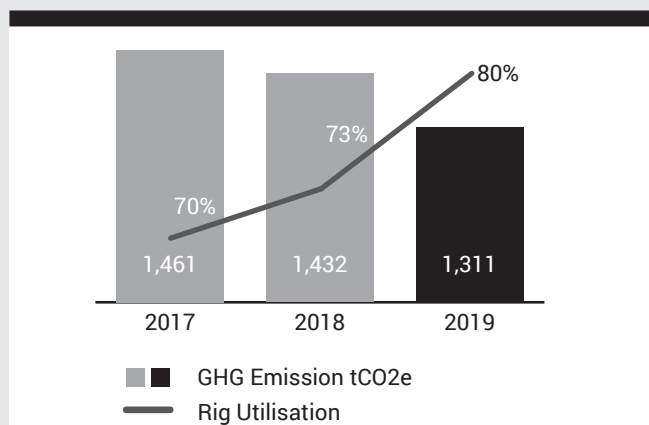
VELESTO’s management approach to GHG emissions is guided by the internationally recognised Greenhouse Gas Protocol as well as compliance to Annex VI of MARPOL 73/78. This entails air pollution prevention, including control on greenhouse gas emissions and the quality of fuel oil used by diesel engines.

Our calculation is based on diesel density of 0.85 kg/l and in accordance with the International Carbon Bank & Exchange. Despite increased rig utilisation, we are happy to report a continued decline in GHG emissions, for the second consecutive year in FY2019.

Our continued progress in improving emissions efficiency is attributed to lower diesel consumption and more efficient energy consumption.

Total GHG emitted in FY2019 was 1,311 tCO<sub>2</sub>/TJ, an 8% decrease year-on-year (FY2018: 1,432 tCO<sub>2</sub>/TJ).

Direct emissions constituted 1,311 tCO<sub>2</sub>/TJ (FY2018: 59,738 tCO<sub>2</sub>e or 1,432 tCO<sub>2</sub>/TJ) while indirect emissions were 291 tCO<sub>2</sub>e (FY2018: 312 tCO<sub>2</sub>e).



Though VELESTO Group has yet to establish a written policy on GHG emissions reduction, it continues to exemplify a firm and proven commitment towards managing its overall emissions as evidenced by its performance over the last two years.

VELESTO Group may consider establishing targets going forward once it has established a robust Standard Operating Procedure (“SOP”), which can be applied consistently across all drilling rigs.

### BIO-DIVERSITY

In FY2019, we have continued to consider any potential impacts on biodiversity on local flora and fauna in the areas where our drilling rigs operate. This includes consulting with our clients and other regulatory authorities.

To the best of our knowledge and efforts, all VELESTO rigs in FY2019 operated and continue to operate in marine locations deemed not high in bio-diversity or considered sensitive to ecological changes. It has yet to be reported that the location in which our drilling rigs operate have any flora or fauna species listed on the IUCN Red List of Threatened Species.

It is also a common practice for us to receive seabed survey reports prior to rig positioning, to ensure that we place our rigs free of coral.

Given the various measures taken to recycle wastewater and waste products to ensure safe disposal, we are of the view that VELESTO Group’s drilling rig operations have no material impact on biodiversity.



# SOCIAL

*Our people is the greatest asset and the pillar of our success*

## OUR PEOPLE

VELESTO continues to focus on talent management in ensuring the sustainability of VELESTO Group. The acquisition, retention and development of VELESTO Group's workforce are vital to the successful implementation of business strategies and operations and to ensure long-term competitive ability.

With an improving operating environment and increased business activity, VELESTO in FY2019 saw its total workforce strength increase to 715 (FY2018: 658). Of this, 517 or 72% are Malaysians.

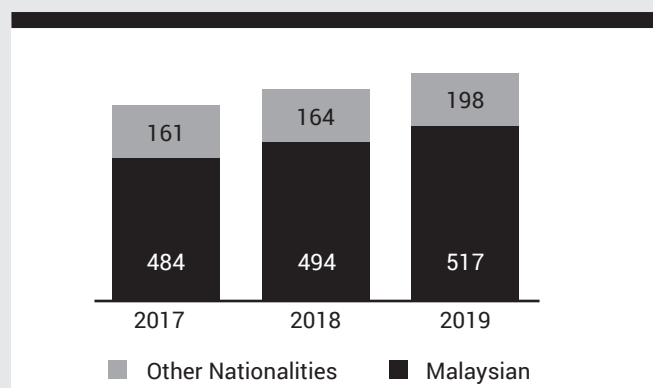
Most of the new hires have been for offshore-based jobs, given the increased rig utilisation rate in FY2019. Total hires in FY2019 were 236, significantly higher in recent years with 68% being Malaysians.

Beyond this, VELESTO Group has also reduced attrition rate to 17% (FY2018: 18%).

# SUSTAINABILITY REPORT

## SOCIAL

All ten members of our Senior Management are presently Malaysians.



### WORKFORCE DIVERSITY

The diversity of our people in terms of ethnicity, culture, work experiences, skills and gender is one of VELESTO Group's greatest strengths. Our diversity provides a rich mix of ideas, perspectives and insights that have enabled VELESTO Group to develop a strong high-performance organisational culture centred on operational excellence, teamwork, respect and equality.

We are proud to have a diverse workforce comprising professionals from over 23 countries.

With diversity being a competitive advantage and organisational asset, Management has looked to cultivate workforce diversity by providing an equal opportunity work environment that enables VELESTO Group staff to deliver their optimum professional contribution and to remain motivated and comfortable to work in an environment among exemplary industry professionals.

### GENDER EQUALITY AND DIVERSITY

VELESTO Group continues to practice an equal opportunity work environment, in particular emphasising gender and ethnic equality. There is no discrimination based on gender or race in the hiring, rewarding and promotion of employees. Women are encouraged and provided a wide range of career development opportunities.

Given the nature of our industry and business operations, our workforce for technical, offshore and field positions comprises mainly men. However, at our headquarters in Kuala Lumpur and other onshore sites, women comprise 38% of the workforce. VELESTO Group remains committed to the development of female talent for the oil and gas industry in Malaysia.

At Management and Senior Management level, women comprise 50% of the make up.

In addition, VELESTO Group has four sitting women directors at Board level, exceeding the BURSA target of 30% women directorship on public listed companies by 2020.

OUR WORKFORCE	2017	2018	2019
<b>BREAKDOWN OF EMPLOYEES (%)</b>			
Malaysian	74%	75%	<b>72%</b>
• Bumiputera	85%	90%	<b>91%</b>
• Non-Bumiputera	15%	10%	<b>9%</b>
Other Nationalities	26%	25%	<b>28%</b>
<b>CONTRACT TYPE (%)</b>			
Permanent	50%	40%	<b>41%</b>
Contract	50%	60%	<b>59%</b>
<b>GENDER DISTRIBUTION (%)</b>			
Male	82%	85%	<b>84%</b>
Female	18%	15%	<b>16%</b>
<b>EMPLOYEES AGE OF (%)</b>			
Below 30	23%	16%	<b>18%</b>
30-50	60%	66%	<b>62%</b>
Above 50	17%	18%	<b>20%</b>
<b>% OF NEW HIRES</b>			
Malaysian	72%	77%	<b>68%</b>
Other Nationalities	28%	23%	<b>32%</b>

### STAFF BENEFITS

#### Employee Remuneration & Benefits

In support of our High Performance Culture pillar, VELESTO Group continues to provide competitive remuneration packages and benefits as part of its overall talent recruitment and retention approach. Remuneration is based on merit where employees' compensation commensurate with their experience, professional qualifications, job performance and seniority.

Full time employees are entitled to the following health benefits:

- Statutory sick pay leave without hospitalisation ranging from 14 days to 28 days depending on the employee's job grade and period of service
- A period of up to 60 days is granted if hospitalisation is necessary
- Company supported/subsidised health/medical insurance plan for offshore crew
- Annual medical check-up for all employees age 40 years and above
- Group Term Life insurance and Group Personal Accident insurance for all employees
- Overtime payments (where applicable)
- Employee's New Born Benefits
- Employee's Bereavement/Wreath
- Employee Education Assistance Programme

#### ***Leave Benefits***

Employees are entitled to various types of paid and unpaid leave, which include:

- Marriage leave (3 days)
- Pilgrimage leave (20 days)
- Examination leave (10 days)
- Compassionate and congratulatory leave (7 days)

#### ***Parental Leave***

Female employees are entitled to paid maternity leave of 60 consecutive days for each confinement period. Male employees are granted paternity leave of four days.

#### ***Minimum Wage***

VELESTO subscribes to the Malaysian government's minimum wage policy with all employees earning monthly wages equal to or exceeding the set minimum wage of RM1,200 per month.

#### ***Employee Appraisals***

VELESTO Group supports the professional development of its staff with 100% of our workforce receiving an annual appraisal. Appraisals are usually conducted at the end or the start of the financial year and the results are presented by the employee's superior through a one-to-one discussion.

The employee has all the rights to share their views on any points of contention arising from the evaluation process or results. Serious grievances can be brought up via VELESTO Group's employee grievance mechanism.

#### **STATUTORY CONTRIBUTIONS TO EMPLOYEES RETIREMENT/PENSION SAVINGS**

As accorded by law, VELESTO Group continues to make statutory contributions for all employees to the Employees Provident Fund ("EPF") and the Social Security Organisation ("SOCSO").

In FY2019, VELESTO incurred a total of RM6.91 million and RM0.54 million (FY2018: RM6.43 million and RM0.52 million) in EPF and SOCSO contributions respectively.

#### **TALENT DEVELOPMENT**

VELESTO Group continues to focus on employee training and development towards developing staff competencies and ensuring our people have the necessary skills to excel at their jobs and deliver value. The attainment of a high performance culture necessitates that we continue to develop our workforce to a high level of competence and capability.

Our drilling company, Velesto Drilling, received **Certificate of Excellence Award in Human Resources Development ("HRD") Award 2019**. The HRD Awards aims to showcase exemplary HRDF registered employers who have put in place strategic and concerted efforts to drive a world-class training culture within their organisation and circle of influence.

It also aims to promote a culture of learning and development with Malaysian employers and employees through enhancing existing competencies of the Malaysian talent.

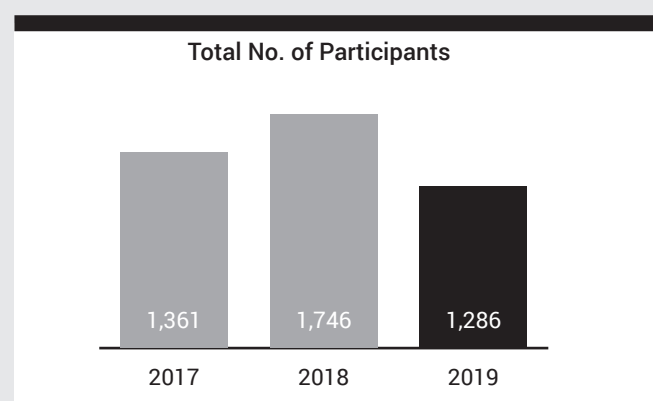
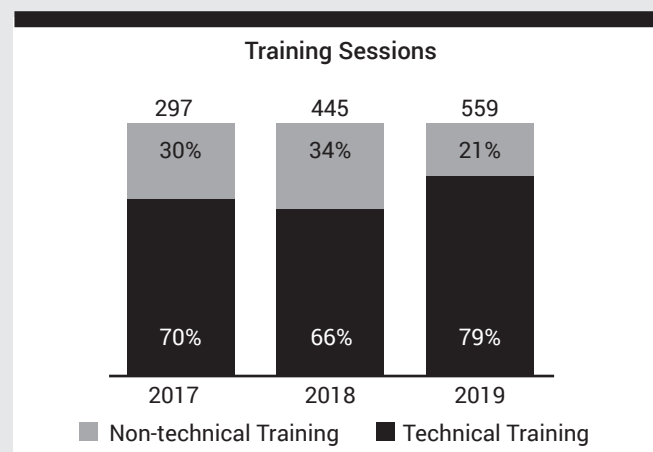
Training is also crucial in retaining or rewarding talent and developing them for future challenges or opportunities within the Group. In VELESTO, training is a regular occurrence that is initiated across the financial year.

# SUSTAINABILITY REPORT

## SOCIAL

Training for employees is based on several factors. These are business requirements as well as the individual talent's specific requirements. In FY2019, VELESTO Group has increased both training expenditure and time allocated for training as follows:

TRAINING KPI	2017	2018	2019
Total Training Expenditure (RM mil)	5.1	5.3	6.4
Total Number of Training Attended by Employees	1,361	1,746	1,286
Average Training Expenditure Per Employee (RM)	3,739	3,060	4,959
Total Number of Training Days	2,858	8,555	5,401
Average Number of Training Days Per Employee	2.1	4.9	4.2
Total Number of Training Sessions	297	445	559



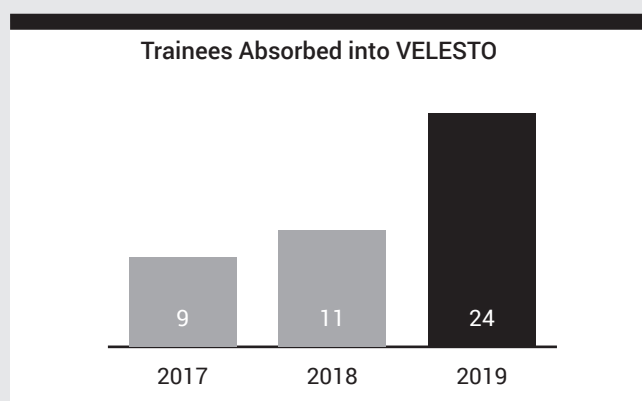
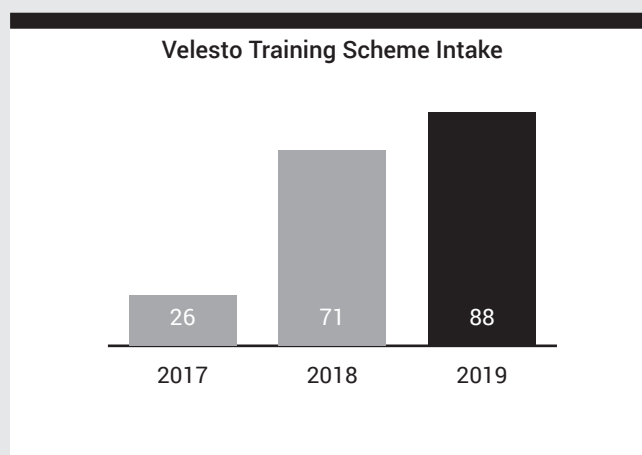
### VELESTO TRAINING SCHEME

Our contribution to talent development also includes skilling and reskilling of unemployed graduates under the VELESTO Training Scheme. Under the programme, VELESTO provides internship and learning-on-the-job opportunities for selected graduates.

The programme aims to provide these talents with useful, industry skills and practical knowledge, which will enhance their employability prospects going forward. Interns who show high potential are absorbed into VELESTO Group as full time or contract staff at the end of their programme tenure.

In FY2019, we increased our intake to 88 candidates (FY2018: 71 candidates). Of this, 24 high-performing candidates (FY2018: 11 candidates) were given full employment by VELESTO Group.

### VELESTO TRAINING SCHEME





## **FREEDOM OF ASSOCIATION**

Freedom of association and the right to collective bargaining are part of the four core labour standards recognised by the International Labour Organisation (“ILO”) and the Universal Declaration of Human Rights. VELESTO recognises employees’ rights to both.

Where possible, we provide a minimum notice period for major operational changes towards reducing the impact of changes to employees’ work conditions and to reduce any potential inconvenience or difficulties arising.

Though employees work in a non-unionised environment, they are always kept informed of their rights via official communication channels. We also foster open, two-way dialogue with employees who are encouraged to seek the assistance of the Human Resource Division (“HR”) on any matter that may arise.

There have been no reported infringements on the rights of any persons, adult or child, nor any incidence of forced or compulsory labour. Neither has there been any violation of human rights involving the rights of indigenous people at any time in the Company’s history.

## **GRIEVANCE PROCEDURES**

While employees are encouraged to resolve all work related issues informally if possible, employees do have formal means of recourse via established company grievance procedures.

Their access to the formal process is not in any way prohibited or censured as this is deemed as a fundamental right of the employee. The process is managed by HR and involves an escalation of the issue across the respective management hierarchy.

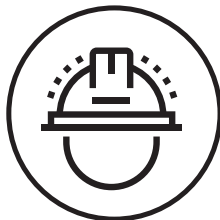
## **HUMAN RIGHTS**

VELESTO recognises its responsibility to protect its employees’ human rights and that of the communities in which it has a business presence. Our adherence to Human Rights is based on the ‘Guiding Principles on Business and Human Rights’, endorsed by the UN Human Rights Council in 2011; as well as International Bill of Rights and the principles set out in the International Labour Organisation (“ILO”) ‘Declaration on Fundamental Principles and Rights at Work’. We also abide by the Malaysian Employment Act 1955, which prohibits exploitative labour practices.

Employees are constantly updated on their rights and Group Management continues to communicate actively with employees, including employee interest groups. VELESTO Group continues to ensure that employees work in fair labour conditions. There is no exploitation of workers in terms of excessive working hours with fair overtime pay provided to eligible staff.

# SUSTAINABILITY REPORT

## COMMUNITY INVESTMENT



**SAFETY**



**EDUCATION**



**ENVIRONMENT**

VELESTO has identified three pillars for its Corporate Social Responsibility activities: SAFETY, EDUCATION and ENVIRONMENT. While guided by the three, where and when needed, the Company contributes to society through its fourth supporting pillar – COMMUNITY.

Keeping up with the latest trends and change on social issues, the Company endeavours to measure its initiatives against the United Nations' Sustainable Development Goals previously adopted by the UN in September 2015. The SDGs are a set of goals for 2030 that apply to the entire global community in connection with global level issues like poverty, education and climate change.

While continuing to drive cultivation of a safety culture, capacity building through education and protecting and preserving the environment, through various comprehensive initiatives, VELESTO focused its CSR activities on fulfilling its social responsibilities as a global oil and gas player.

The following are some of the key societal events and other engagements undertaken during the financial year.



**SAFETY**



As an entity operating in the oil and gas industry, safety is paramount. In 2019, the Company continued its initiative to cultivate a culture of safety via its CSR programmes, where VELESTO sought to promote these initiatives to nurture and create a safety-centric society. The first quarter of 2019 saw VELESTO giving back to the community in Miri, Sarawak.

Entitled "Safety @ Work & Home", the event saw VELESTO donate 70 mini fire extinguishers, and more than 150 high visibility safety vests to the fishermen community of Kampung Kuala Sibuti, Miri.



Towards the middle of the year, in conjunction with the Hari Raya Aidilfitri holidays and in anticipation of the *balik kampung* exodus, VELESTO distributed close to 600 pieces of high visibility safety vests to motorcyclists based at Plaza Sentral, Kuala Lumpur, where the headquarters of VELESTO is located. The initiative's main goal was to instill and build awareness on road safety and also instill camaraderie with fellow Plaza Sentral tenants.



## EDUCATION



Collaborating yet again with the Ministry of Education through the Selangor State Education Department, VELESTO organised the second edition of its SMART's COOL programme. More than 100 top performing students of ten bottom-performing schools from the Hulu Selangor district were selected for the programme.

As a continuation of 2018's effort in providing UPSR candidates that 'final push' before the exams, a one-day UPSR Mathematics Workshop was held in June. This time, the workshop featured two renowned mathematics specialists, Tuan Haji Zulkifli Mahfudz and Encik Ismail Mokhtar from Selangor State Education Department.

The third activity saw VELESTO bringing the fun element to science. Selected participants experienced a hands-on session learning about the human brain (biology), and force (physics) while building a safety helmet from scratch.

November 2019 saw the closure of the SMART's COOL 2.0 programme where a two-day 'Train the Teachers' workshop was conducted by Encik Zulkifli Ibrahim, a psychological specialist attached to the Selangor State Education Department, for 20 teachers from the same selected schools of the previous activities.



## ENVIRONMENT



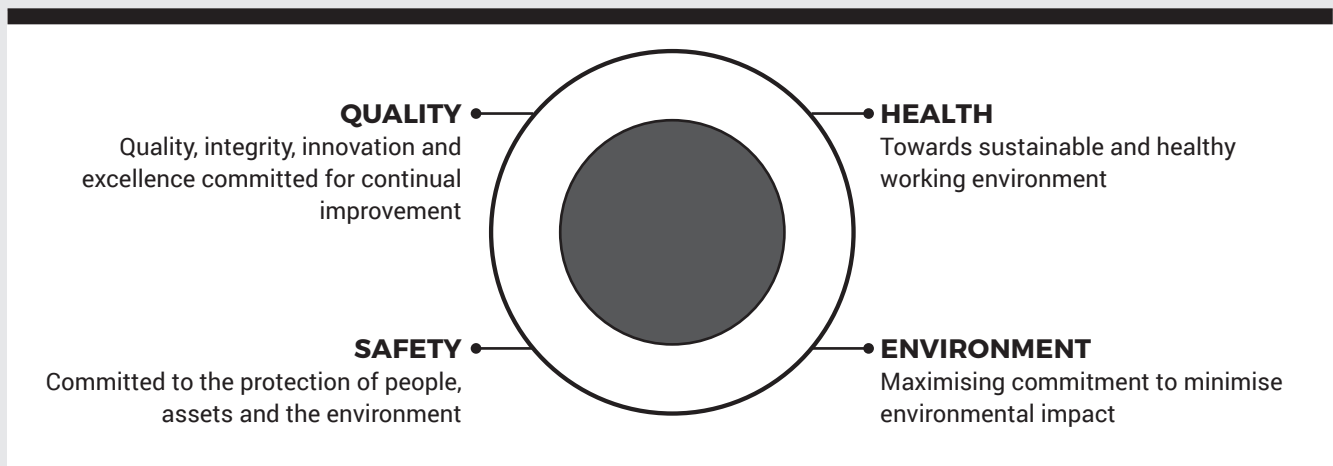
VELESTO organised a Beach Clean-Up & Coastal Pollution Awareness activity in collaboration with Heriot-Watt University Malaysia. Participants had the opportunity to take part in upcycling the plastic which they collected during the beach clean-up and created plastic turtle pendants.

Towards the end of the year, teaming up with Kloth Cares, a Malaysian based fabric recycling movement, VELESTO installed a fabric recycling bin to encourage recycling. The recycling programme aims to help reusable fabrics from ending up in landfills.

# SUSTAINABILITY REPORT

## QUALITY, HEALTH, SAFETY AND ENVIRONMENT

Quality, Health, Safety and Environment (“QHSE”) remain a priority for VELESTO with the Board of Directors and Senior Management having regular oversight on Quality and HSE. Oversight is achieved via full Board meetings where Quality and HSE are usually discussed as part of the discussion agenda. Quality and HSE matters are also deliberated during the bi-monthly BRMC meetings.



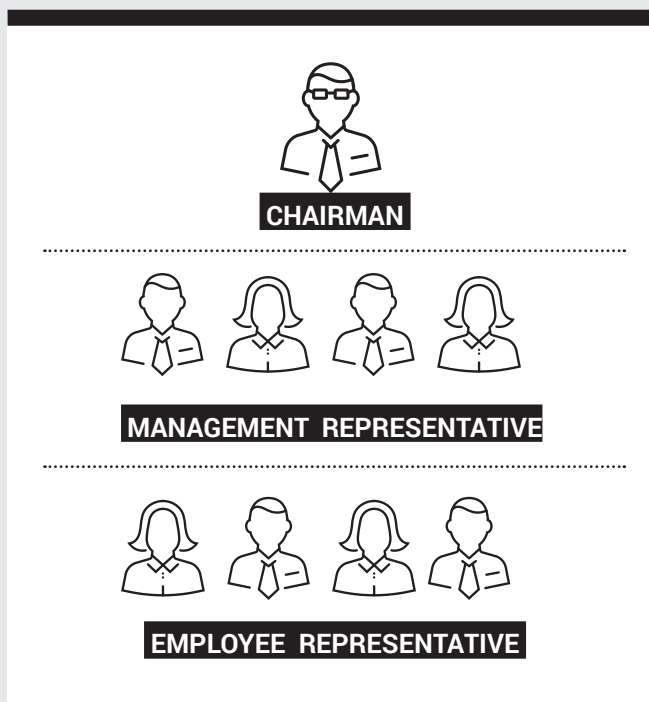
VELESTO Group has also designated the Chairman of the Board is the most senior individual responsible for HSE. The Chairman is supported by the President who in turn is supported by the relevant QHSE supporting structure.

### MANAGEMENT APPROACH TO QUALITY AND HSE

VELESTO Group’s management approach to Quality and HSE is guided by globally recognised best practices. These include adherence to world-class standards such as OHSAS 18001, ISO9001 and ISO14001.

As mentioned earlier, all VELESTO rigs and hydraulic workover units, as well as VELESTO Group’s headquarters and its operating bases in Kemaman and Labuan have been certified to these globally recognised, best practice standards.

VELESTO Group also holds the ISO/TS 29001:2010 Quality Management System for Petroleum, Petrochemical and Natural Gas Industries.



Quality and HSE are driven by VELESTO's Integrated Management System. The System embodies how the Company safely manages its operations – emphasising occupational health, safety, risk management, emergency preparedness, environmental performance and also process safety. Supporting the Management System are various policies and procedures.

Providing comprehensive oversight of the Quality and HSE strategy is the Quality department, HSE Division and HSE Committee. The HSE Committee, which meets on a

quarterly basis, monitors and enhances the overall HSE performance for all business operations – offshore and onshore while Quality performance is managed by the Quality department. Quality and HSE issues are deliberated carefully and corrective actions are implemented to prevent recurrences of any unnecessary incidences.

The HSE Committee is chaired by the President of VELESTO and comprises representatives from Management and the employees, both from the operating and corporate divisions.



## PROCESS SAFETY & ASSET INTEGRITY

VELESTO continues to focus on process safety and asset integrity as part of its comprehensive approach to QHSE. The system is specifically designed towards ensuring all operations are conducted in accordance with SOPs as well as the client's procedures and legal requirements.

Asset integrity assurance is achieved via regularly scheduled maintenance. The asset management references are API, OEM and industry recommended practices. The system is regularly reviewed by an independent consultant and clients for ensuring major accident event ("MAE") is properly managed.

VELESTO continues to focus on improving its asset management guidelines, asset-tagging systems, its Special Periodical Survey Project Planning ("Project Execution Plan") as well as exposing its people to the importance of asset management towards preventing a MAE.

## IMS INTERNAL AUDIT & INTERNAL AUDITOR TRAINING

As part of VELESTO's Integrated Management System ("IMS") requirements, an internal audit is conducted annually across VELESTO Group's facilities. Audits were conducted on 27 to 28 April 2019 at NAGA 2, 16 to 18 April 2019 at NAGA 3, 29 April to 2 May 2019 at NAGA 5, 5 to 9 August 2019 at NAGA 6, 18 to 21 October 2019 at NAGA 8, while for Kemaman and Labuan bases, audits were conducted on 20 to 22 August 2019 and 28 to 29 March 2019. VELESTO KL Office has been audited on 24 May to 25 July 2019.

In ensuring quality internal IMS audits, VELESTO continues to send staff for training. In FY2019, 20 staff were sent, bringing the total number of staff trained in the past three years to 62. The training sessions were focused on understanding the fundamentals of the IMS standards and how to apply them during an audit process.

# SUSTAINABILITY REPORT

## QUALITY, HEALTH AND SAFETY

### IDENTIFICATION OF RISKS & RELATED ACTION PLANS

VELESTO continues to monitor all work-sites and its value chain to identify Quality and HSE risks. This includes occupational activities that may have a high incidence or Quality and HSE incidents. Beyond impact to productivity and work operations, the assessments also took into account the health and safety of workers. Hence, assessments conducted included exposure to chemical health risks, noise pollution and near miss incidents, potential hazards and more.

In FY2019, the following key HSE issues were discussed and addressed by the Committee:

- HSE performance and HSE programme of the year
- Legal compliance across VELESTO Group
- HSE contractual requirement
- HSE training and refresher HSE training
- New HSE communication medium via intranet nest
- Translation of HSE newsletter and poster into local ethnic language – Iban
- Oil spillage and scheduled waste management across operations on the rig and at the supply base
- Job enlargement of HSE Executive into offshore HSE task
- Implementation of RED ZONE area to avoid personnel accident due to dropped object cases
- KSB and ASB Improvement Plan
- Monsoon season preparation for onshore and offshore operations
- HSE Observation Card (“HOC”) and incident analysis
- Key objective and action plan for the year 2020

### FORMATION OF WORKER HSE COMMITTEES

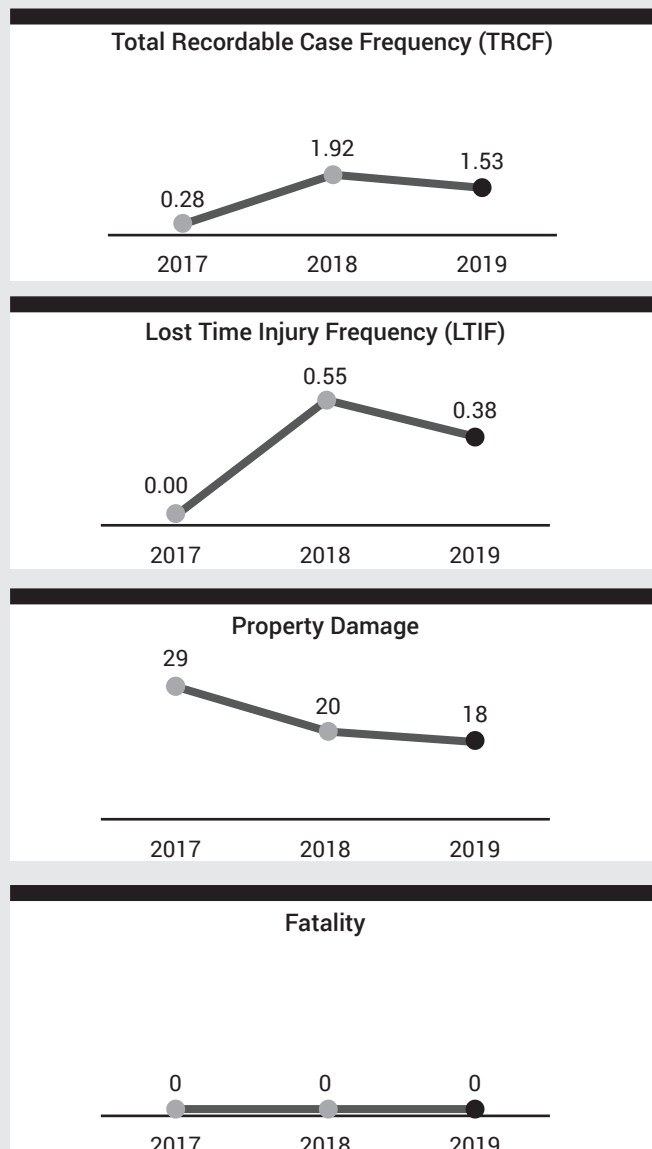
Other HSE initiatives conducted throughout the year include the formation of site-specific Safety & Health Committees to provide more proactive management of issues and potential issues as well as site-specific Morning Toolbox sessions. These enable staff or those who are on site and therefore more exposed to HSE risks to directly take control and assume responsibility for their own environment.

Guided by the systems, processes and procedures set, the teams can then implement QHSE measures as required to safeguard their working environment. Through this approach, VELESTO Group has achieved 100% worker representation on formal joint management-worker health and safety committees.

### HSE PERFORMANCE FOR YEAR 2019

VELESTO Group’s robust systems have enabled it register another year of industry leading performance with zero fatalities and zero environmental pollution incidents. The Group has also improved with regard to many other HSE indicators.

HSE data has been verified through an IMS audit conducted by an independent and internationally acknowledged certification body, DNV-GL. Our HOC score for FY2019 was 296,092.



HSE PERFORMANCE	2017	2018	2019
Total Recordable Case Frequency (TRCF)	0.28	1.92	1.53
Lost Time Injury Frequency (LTIF)	0.00	0.55	0.38
Property Damage	29	20	18
Fatality	0	0	0
Lost Time Injury	0	2	1
Restricted Work Case	1	1	1
Medical Treatment Case	0	3	2
Fist Aid Case	8	2	7
Environmental Pollution	1	0	0
Near Miss	21	20	20

The leading and lagging indicators are continuously monitored and corrective actions implemented towards ensuring the prevention of unexpected incidents. Lagging indicators are assessed on a monthly basis to identify weak signals and to develop appropriate control measures.

## INCIDENT INVESTIGATION

Based on our HSE performance, all incidents, even if deemed not serious are investigated thoroughly towards determining the root cause of the occurrence and to develop solutions or remedial actions to rectify the situation and to prevent reoccurrence.

Investigation is conducted using the VELESTO Incident notification, reporting and investigation Management System Procedure and incident investigation software Tripod Beta which enables users to track down causation path and BowTie which enables users to analyse weak points in current safety measures, create barrier-based improvement plans and brings immediate visibility to incidents, and enables a timely and rigorous assessment to determine root causes. All root causes of incidents are logged into the VELESTO's Incident Management database for review and action tracking.

## REINFORCING A HSE FIRST ORGANISATIONAL CULTURE AND MINDSET

Our robust frameworks, policies and procedures are only part of our Management approach to cultivating HSE excellence within the organisation and our value chain. We continue to emphasise the nurturing of an HSE oriented organisational culture through constant dissemination of information, employee training and the reinforcement of desired HSE values and behaviours, as well as a specially tailored behavioural safety program known as Heart and Minds and Plan Based Execution for VELESTO Group. This programme provides the process and tools to get everyone involved and to facilitate behavioural change towards the desired proactive and generative HSE culture.

The focus remains on educating and reinforcing among employees at all levels of the organisation that HSE is in effect, our license to operate and that it is the paramount aspect that governs our operations. Excellent HSE provides the basis for VELESTO Group to strengthen its reputation, trust and credibility among clients and other stakeholders. It is the key prerequisite for bidding and securing contracts, and our business growth and value creation capabilities are closely tied to HSE.

We focus on making HSE the responsibility of all of us in the organisation. Every staff has a role to play in ensuring safe, secured and environmentally friendly operations. Essentially, this refers to staff being personally responsible and espousing vigilance, accountability, transparency and ownership as well as being equipped with the mind-set and skills to respond professionally and proactively towards preventing and managing HSE incidents.

## HSE TRAINING

In FY2019, VELESTO Group continued to increase its training budget for HSE related programmes. This includes HSE related training, which are centred on the following:

- Rigorous and Regular HSE Awareness Training sessions;
- Skills development in IMS Auditing, Incident Investigation Analysis; and
- Focusing on road safety awareness and workplace hazard identification skills.

# SUSTAINABILITY REPORT

## QUALITY, HEALTH AND SAFETY

Among the courses held in FY2019 were as follows:

Crew Technical requirement	HSE Awareness
	Well Control <ul style="list-style-type: none"> <li>• Level 4: Supervisor</li> <li>• Level 3: Driller &amp; Assistant Driller</li> </ul>
	Helicopter Landing Officer Helicopter Landing Assistant
	Working at height (Rescuer)
	Rigging & Slings
	Forklift Operator Certification
	Stuck Pipe Prevention
HSE Regulatory Competencies	Authorised Entrant and Stand-By person for Confined Space
	Authorised Gas Tester and Entry Supervisor for Confined Space
	Basic Occupational First Aid
	Chemical Health Risk Assessment (CHRA)
	Safety & Health Officer (SHO)
	Certified Environmental Professional In Scheduled Waste Management (CEPSWAM) Assistant Medical Review Officer (AMRO)
HSE PETRONAS Carigali Competency	Client Permit to Work System Level 2 Client Permit to Work System Level 1
	Basic Offshore Safety Induction & Emergency Training (BOSIET)
Contractor Internal Competency As Per HSE Procedure	Crane Operator Certification
	Radio Operator GMDSS
	Offshore Lifeboat Coxswain
	Confined Space Rescue
	Management of Major Emergency
HSE Incident Investigation	Tripod Beta
	BowTie Analysis
Behavioural Safety	Hearts & Minds
	Plan Based Execution
HSE Assurance	Audit XP

A total of 45 HSE Awareness sessions were held at various locations, which saw over 225 crew participating. These were targeted at new crew members operating on rigs and at the supply base. Refresher HSE Awareness sessions were held for existing staff at headquarter and crew on rigs and supply bases. The training sessions were held to introduce the new crew to VELESTO's high performance culture, expected HSE culture and behaviour from staff and to remind the existing staff on the QHSE principles and desired HSE culture.



## MANAGEMENT VISIT

The President and the Senior Management, continued to make visits to both offshore and onshore sites in FY2019.

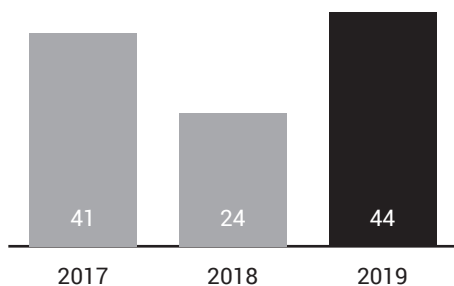
Management visits are also incorporated as part of our Management's Key Performance Indicators and HSE Performing Leading Indicators.

A total of 44 management visits were conducted of which seven were attended by the President.

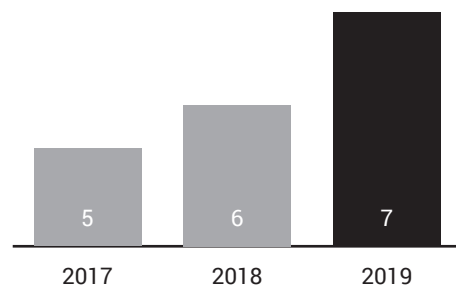
The management site visit is continuously conducted towards promoting HSE Leadership and Commitment given its importance in the overall HSE Management System.



Management Visit



President Visit



# SUSTAINABILITY REPORT

## QUALITY, HEALTH AND SAFETY

### HSE COMMUNICATION AND ENGAGEMENT ACTIVITIES

There is no let-up with regard to HSE and with that, constant reinforcement is conducted across the year through a wide range of communication channels and staff engagement initiatives.

HSE is constantly discussed at length during Company townhalls with the President leading the discussion, which includes a presentation of HSE performance, findings from incidents and other pertinent information.

A wide range of HSE materials are developed and cascaded to employees. These include the bi-monthly HSE Infographic, distributed via email or poster and displayed on intranet. These provide various HSE-related information in graphical form for easier comprehension by employees.



### SAFETY AND HEALTH CAMPAIGN

VELESTO Group has continued to hold its highly-anticipated health and safety campaign for staff as well as the community. As in previous years, these events see strong employee and community participation. In FY2019, the campaign included activities such as talks about mental health, occupational accidents and SOCSO compensation, road safety awareness, Occupational Safety & Health Regulations in the oil and gas sector and oil spillage awareness in Malaysian waters. The topics were carefully selected to cover the health, safety and environmental aspects of VELESTO Group’s operations both onshore and offshore.

Annual HSE Conference took place to discuss the HSE initiatives done by the operations and the challenges they faced to comply with HSE rules and regulations.





Other activities including Body Mass Index (“BMI”) screening and consultation, ergonomic exercise and blood donation drive were conducted. For the blood donation drive, VELESTO has successfully assist Pusat Darah Negara to acquire 106 bags of blood from VELESTO staff and the community of Plaza Sentral.

#i-LEAP
Health, Safety & Environment Division
**VELESTO**  
energy

# CONGRATULATIONS! & THANK YOU!

For your support and commitment towards our Health Day 2019. We are proud to announce that we have achieved:

# 106

bags of blood

*Special thanks to:*  
 Velestos. Corporate Communication Division.  
 Institute of Medical Research. Pusat Darah Negara.  
 NIOSH. SOCSO. PM Care. JMB Plaza Sentral.  
 MRCB Auxiliary Police. Patrons of Plaza Sentral.

# SUSTAINABILITY REPORT

## QUALITY, HEALTH AND SAFETY

Aside from internal event, VELESTO has been participating in events organized by clients such as the PETRONAS Monsoon Safety Campaign and PETRONAS Wells HSE Campaign to showcase VELESTO initiatives in the exhibit topic.



### EMERGENCY RESPONSE & CRISIS PREPAREDNESS

VELESTO has developed a comprehensive Business Continuity Plan (“BCP”) towards ensuring that business operations may continue to run in the event of any emergencies or serious disruption to usual activities.



The BCP also takes into account the safety of employees, contractors, clients and the environment. As part of the BCP, VELESTO has Emergency Control Centre (“ECC”), for activation in case of emergencies.

In FY2019, several mock ECC simulations or scenarios were conducted to test VELESTO Group’s preparedness to manage and counter any major disruptions to business operations.

Other emergency measures include:

- Development of Emergency Preparedness & Response Plan (“EPRP”) for every VELESTO physical facility, which includes fire drills, staff evacuation, rig abandon drill, etc.
- Establishment of Emergency Response Team (“ERT”). The ERT is capable of containing an incipient threat by swiftly mitigating emergencies according to the established plans stated in the Company’s EPRP.
- Weekly drills on the rigs
- Annual fire drills on other facilities



## HSE ALERT

The HSE Alert is an ongoing initiative to communicate HSE Incidents and lessons learnt. The VELESTO Safety and Maintenance Action Tracking (SMAT) System is used to track the communication of the HSE Alert and the implementation of the lesson learnt actions.

Through SMAT system, in FY2019 14 HSE Alerts were registered in SMAT. Upon receiving HSE Alert through SMAT, the Offshore Installation Manager ("OIM")/Rig Superintendent/Project Manager or his representative will ensure that a copy of the HSE Alert is distributed to all line supervisors for discussion and deliberation during toolbox or HSE meetings.

A copy of the HSE Alert is also posted on the HSE bulletin board for reading and reference at the respective sites. HSE Alert shall be retained on the HSE bulletin board for a minimum of two months and will be compiled at the worksite by the HSE Advisor or HSE executive.

## AWARDS AND ACCOLADES

**BEST RIG PERFORMANCE 2019**  
Malaysia Operations  
PETRONAS Carigali

**Quarter 1**

1st NAGA 6

2nd NAGA 5

3rd NAGA 3

**Quarter 2**

2nd NAGA 2

3rd NAGA 3

Appreciation for  
Lang Lebah - 1RDR2  
PTTEP

NAGA  
6

9-Years Loss Time Injury Free  
Milestone Achieved  
on 7 September 2019

NAGA  
3

5-Years Loss Time Injury Free  
Milestone Achieved  
on 28 April 2019

NAGA  
5

HSE Outstanding  
Performance Award -  
Destini Oil Service

GAIT  
1

# GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Section/Notes
<b>GRI 101: Foundation 2016</b>			
<b>General Disclosures</b>			
GRI 102: General Disclosures 2016	<b>Organisational profile</b>		
	102-1 Name of the organisation	Cover Page	Cover page
	102-2 Activities, brands, products, and services	4	Overview of Velesto Energy Berhad
	102-3 Location of headquarters	12	Corporate Information
	102-4 Location of operations	12	Corporate Information
	102-5 Ownership and legal form	13	Group Corporate Structure
	102-6 Markets served	4	Overview of Velesto Energy Berhad
	102-7 Scale of the organisation	13	Group Corporate Structure
	102-8 Information on employees and other workers	99	Sustainability Report (Social – Our People)
	102-9 Supply chain	38	Our Industry Value Chain (The oil and gas value chain)
	102-10 Significant changes to the organisation and its supply chain	50, 62	Our Value Creation Model , Management Discussion & Analysis
	102-11 Precautionary Principle or approach	48, 95	Group Risk, Sustainability Report (Environment – Climate Change)
	102-12 External initiatives	80	Sustainability Report (About Our Report)
	102-13 Membership of associations	80	Sustainability Report (About Our Report)
	<b>Strategy</b>		
	102-14 Statement from senior decision-maker	56, 62	Chairman's Statement, Management Discussion & Analysis
	102-15 Key impacts, risks, and opportunities	44, 62	Our Business Model (Our Operating Environment, Management Discussion & Analysis)
<b>Ethics and integrity</b>			
102-16 Values, principles, standards, and norms of behavior	4	Overview of Velesto Energy Berhad	
102-17 Mechanisms for advice and concerns about ethics	82	Sustainability Report (Sustainability Governance)	

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Section/Notes
GRI 102: General Disclosures 2016	<b>Governance</b>		
	102-18 Governance structure	82, 124	Sustainability Report (Sustainability Governance Structure), Corporate Governance Overview Statement (Principle A: Board Leadership and Effectiveness – Board Responsibilities)
	102-19 Delegating authority	82, 124	Sustainability Report (Sustainability Governance Structure), Corporate Governance Overview Statement (Principle A: Board Leadership and Effectiveness – Board Responsibilities)
	102-20 Executive-level responsibility for economic, environmental, and social topics	82, 124	Sustainability Report (Sustainability Governance Structure), Corporate Governance Overview Statement (Principle A: Board Leadership and Effectiveness – Board Responsibilities)
	102-21 Consulting stakeholders on economic, environmental, and social topics	86	Sustainability Report (Stakeholder Engagement)
	102-22 Composition of the highest governance body and its committees	12	Corporate Information
	102-23 Chair of the highest governance body	128	Corporate Governance Overview Statement (Chairman of the Board)
	102-24 Nominating and selecting the highest governance body	132	Corporate Governance Overview Statement (Board Composition – Appointment of a Director)
	102-25 Conflicts of interest	131	Corporate Governance Overview Statement (Whistle-blowing Policy)
	102-26 Role of highest governance body in setting purpose, values, and strategy	82, 124	Sustainability Report (Sustainability Governance Structure), Corporate Governance Overview Statement (Principle A: Board Leadership and Effectiveness – Board Responsibilities)
	102-27 Collective knowledge of highest governance body	20, 32, 137	Directors' Profiles, Our Leaders, Corporate Governance Overview Statement (Continuing Education and Training of Directors)
	102-28 Evaluating the highest governance body's performance	145	Corporate Governance Overview Statement (Annual Evaluation On Effectiveness of Board and Individual Directors)
	102-29 Identifying and managing economic, environmental, and social impacts	90	Sustainability Report (Materiality & Materiality Matrix)
	102-30 Effectiveness of risk management processes	49, 152	Our Business Model (Risk Mitigation), Statement of Risk Management & Internal Control
	102-31 Review of economic, environmental, and social topics	90	Sustainability Report (Materiality & Materiality Matrix)
	102-32 Highest governance body's role in sustainability reporting	82	Sustainability Report (Sustainability Governance Structure)
	102-33 Communicating critical concerns	90	Sustainability Report (Assessing Materiality & Materiality Matrix) and Our Business Model (Group Risks)
	102-34 Nature and total number of critical concerns	90	Sustainability Report (Assessing Materiality & Materiality Matrix) and Our Business Model (Group Risks)
	102-35 Remuneration policies	146	Corporate Governance Overview Statement (Remuneration)
	102-36 Process for determining remuneration	146	Corporate Governance Overview Statement (Remuneration)
102-37 Stakeholders involvement in remuneration	146	Corporate Governance Overview Statement (Remuneration)	
102-38 Annual total compensation ratio	146	Corporate Governance Overview Statement (Remuneration)	

# GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Section/Notes		
			Part Omitted	Reason	Explanation
GRI 102: General Disclosures 2016	<b>Stakeholder engagement</b>				
	102-40 List of stakeholder groups	86			Sustainability Report (Stakeholder Engagement)
	102-41 Collective bargaining agreements	103			Sustainability Report (Social – Our People: Freedom of Association)
	102-42 Identifying and selecting stakeholders	86			Sustainability Report (Stakeholder Engagement)
	102-43 Approach to stakeholder engagement	86			Sustainability Report (Stakeholder Engagement)
	102-44 Key topics and concerns raised	86			Sustainability Report (Stakeholder Engagement)
	<b>Reporting practice</b>				
	102-45 Entities included in the consolidated financial statements	164			Financial Report
	102-46 Defining report content and topic Boundaries	Inside Cover Page, 80			About This Report and Sustainability Report (About Our Report)
	102-47 List of material topics	90			Sustainability Report (Materiality & Materiality Matrix)
	102-48 Restatements of information	86, 90			Sustainability Report (Stakeholder Engagement and Materiality & Materiality Matrix)
	102-49 Changes in reporting	Inside Cover Page, 80			About This Report and Sustainability Report (About Our Report)
	102-50 Reporting period	80			Sustainability Report (About Our Report)
	102-51 Date of most recent report	80			Sustainability Report (About Our Report)
	102-52 Reporting cycle	80			Sustainability Report (About Our Report)
	102-53 Contact point for questions regarding the report	Inside Cover Page, 80			About This Report and Sustainability Report (About Our Report)
	102-54 Claims of reporting in accordance with the GRI Standards	80			Sustainability Report (About Our Report)
102-55 GRI content index	116			Sustainability Report (Global Reporting Initiative (GRI) Content Index)	
102-56 External assurance	80			Sustainability Report (About Our Report)	
GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
<b>Material Topics</b>					
<b>GRI 200 Economic Standard Series</b>					
<b>Economic Performance</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	50, 62, 92-93			Our Business Model (Our Value Creation Model), Management Discussion and Analysis, Sustainability Report (Economic – Direct Economic Impact, Indirect Economic Value)
	103-2 The management approach and its components	50, 62, 92-93			Our Business Model (Our Value Creation Model), Management Discussion and Analysis, Sustainability Report (Economic – Direct Economic Impact, Indirect Economic Value)
	103-3 Evaluation of the management approach	50, 62, 92-93			Our Business Model (Our Value Creation Model), Management Discussion and Analysis, Sustainability Report (Economic – Direct Economic Impact, Indirect Economic Value)



GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	50, 62, 92-93	Statement of Value Added Distribution and Simplified Financial Statement, Chairman's Statement, Management Discussion & Analysis, 5-Year Group Summary Results, Summary of Group Results, Financial Performance Highlights, Sustainability Report (Economic – Direct Economic Impact and Indirect Economic Value)		
	201-2 Financial implications and other risks and opportunities due to climate change	50, 62, 92-93	Our Business Model (Industry Overview), Sustainability Report (Environment – Climate Change)		
	201-3 Defined benefit plan obligations and other retirement plans	50, 62, 92-93	Sustainability Report (Social – Our People: Staff Benefits)		
<b>Market Presence</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	38-47	Our Business Model (Our Industry Value Chain, Industry Overview, Our Operating Environment, Our Business Model, Our Strategy)		
	103-2 The management approach and its components	62	Management Discussion & Analysis		
	103-3 Evaluation of the management approach	62	Management Discussion & Analysis		
GRI 202: Market Presence 2016	202-2 Proportion of senior management hired from the local community	100, 132	Sustainability Report (Social – Our People – Workforce Diversity), Corporate Governance Overview Statement (Board Composition)		
<b>Indirect Economic Impacts</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	50, 93	Our Business Model (Value Creation Model), Sustainability Report (Economic – Indirect Economic Value)		
	103-2 The management approach and its components	50, 93	Our Business Model (Value Creation Model), Sustainability Report (Economic – Indirect Economic Value)		
	103-3 Evaluation of the management approach	50, 93	Our Business Model (Value Creation Model), Sustainability Report (Economic – Indirect Economic Value)		
GRI 203: Indirect Economic Impacts 2016	203-2 Significant indirect economic impacts	50, 93	Our Business Model (Value Creation Model), Sustainability Report (Economic – Indirect Economic Value)		
<b>Procurement Practices</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	84, 93	Sustainability Report (Governance – Promoting Ethical Behavior Within The Value Chain) and (Indirect Economic Value – Indirect Value Generated Through Local Procurement)		
	103-2 The management approach and its components	84, 93	Sustainability Report (Governance – Promoting Ethical Behavior Within The Value Chain) and (Indirect Economic Value – Indirect Value Generated Through Local Procurement)		
	103-3 Evaluation of the management approach	84, 93	Sustainability Report (Governance – Promoting Ethical Behavior Within The Value Chain) and (Indirect Economic Value – Indirect Value Generated Through Local Procurement)		
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	84, 93	Sustainability Report (Governance – Promoting Ethical Behavior Within The Value Chain) and (Indirect Economic Value – Indirect Value Generated Through Local Procurement)		

# GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
<b>Anti-corruption</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	78, 84	Sustainability Report (Message from the President, Sustainability Governance – Governance Through Anti-Corruption and Bribery Stance and Organisational Assessment on Corruption)		
	103-2 The management approach and its components	78, 84	Sustainability Report (Sustainability Governance – Governance Through Anti-Corruption and Bribery Stance and Organisational Assessment on Corruption)		
	103-3 Evaluation of the management approach	78, 84	Sustainability Report (Sustainability Governance – Governance Through Anti-Corruption and Bribery Stance and Organisational Assessment on Corruption)		
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	84	Sustainability Report (Sustainability Governance – Organisational Assessment on Corruption)		
GRI 205: Anti-corruption 2016	205-2 Communication and training about anti-corruption policies and procedures	84	Sustainability Report (Sustainability Governance – Governance Through Anti-Corruption and Bribery Stance )		
GRI 205: Anti-corruption 2016	205-3 Confirmed incidents of corruption and actions taken	84	Sustainability Report (Sustainability Governance – Organisational Assessment on Corruption)		
GRI 300 Environmental Standards Series					
<b>Energy</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	96	Sustainability Report (Environment – Energy Consumption)		
	103-2 The management approach and its components	96	Sustainability Report (Environment – Energy Consumption)		
	103-3 Evaluation of the management approach	96	Sustainability Report (Environment – Energy Consumption)		
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	96	Sustainability Report (Environment – Energy Consumption)		
GRI 302: Energy 2016	302-5 Reductions in energy requirements of products and services	96	Sustainability Report (Environment – Energy Consumption)		
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	96	Sustainability Report (Environment – Water Withdrawal)		
	103-2 The management approach and its components	96	Sustainability Report (Environment – Water Withdrawal)		
	103-3 Evaluation of the management approach	96	Sustainability Report (Environment – Water Withdrawal)		
GRI 303: Water 2016	303-1 Water withdrawal by source	96	Sustainability Report (Environment – Water Withdrawal)		
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	103-3 Evaluation of the management approach	98	Sustainability Report (Environment – Biodiversity)		
<b>Emissions</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	98	Sustainability Report (Environment – Greenhouse Gas Emissions)		
	103-2 The management approach and its components	98	Sustainability Report (Environment – Greenhouse Gas Emissions)		
	103-3 Evaluation of the management approach	98	Sustainability Report (Environment – Greenhouse Gas Emissions)		

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	98	Sustainability Report (Environment – Greenhouse Gas Emissions)		
	305-2 Energy indirect (Scope 2) GHG emissions	98	Sustainability Report (Environment – Greenhouse Gas Emissions)		
	305-3 Other indirect (Scope 3) GHG emissions	98	Sustainability Report (Environment – Greenhouse Gas Emissions)		
	305-5 Reduction of GHG emissions	98	Sustainability Report (Environment – Greenhouse Gas Emissions)		
<b>Effluents and Waste</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	97	Sustainability Report (Environment – Wastewater and Waste Management)		
	103-2 The management approach and its components	97	Sustainability Report (Environment – Wastewater and Waste Management)		
	103-3 Evaluation of the management approach	97	Sustainability Report (Environment – Wastewater and Waste Management)		
GRI 306: Effluents and Waste 2016	306-1 Water discharge by quality and destination	97	Sustainability Report (Environment – Wastewater and Waste Management)		
	306-2 Waste by type and disposal method	97	Sustainability Report (Environment – Wastewater and Waste Management)		
	306-3 Significant spills	97	Sustainability Report (Environment – Environmental Spills)		
<b>Supplier Environmental Assessment</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	84	Sustainability Report (Economic – Promoting Ethical Behaviour Within the Value Chain)		
	103-2 The management approach and its components	84	Sustainability Report (Economic – Promoting Ethical Behaviour Within the Value Chain)		
	103-3 Evaluation of the management approach	84	Sustainability Report (Economic – Promoting Ethical Behaviour Within the Value Chain)		
<b>GRI 400 Social Standards Series</b>					
<b>Employment</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	99	Sustainability Report (Social – Our People)		
	103-2 The management approach and its components	99	Sustainability Report (Social – Our People)		
	103-3 Evaluation of the management approach	99	Sustainability Report (Social – Our People)		
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	99	Sustainability Report (Social – Our People)		
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	100	Sustainability Report (Social – Our People – Staff Benefits)		
	401-3 Parental leave	100	Sustainability Report (Social – Our People – Staff Benefits)		
<b>Labor/Management Relations</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	103	Sustainability Report (Social – Our People – Freedom of Association, Grievance Procedures and Human Rights)		
GRI 402: Labor/Management Relations 2016	402-1 Minimum notice periods regarding operational changes	103	Sustainability Report (Social – Our People – Freedom of Association, Grievance Procedures and Human Rights)		

# GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
<b>Occupational Health and Safety</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	106	Sustainability Report (Quality, Health, Safety and Environment)		
	103-2 The management approach and its components	106	Sustainability Report (Quality, Health, Safety and Environment)		
	103-3 Evaluation of the management approach	106	Sustainability Report (Quality, Health, Safety and Environment)		
GRI 403: Occupational Health and Safety 2016	403-1 Workers representation in formal joint management – worker	108	Sustainability Report (Quality, Health and Safety – Formation of Worker HSE Committees)		
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	108	Sustainability Report (Quality, Health and Safety – QHSE Performance for Year 2019)		
<b>Training and Education</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	101	Sustainability Report (Social – Our People – Talent Development)		
	103-2 The management approach and its components	101	Sustainability Report (Social – Our People – Talent Development)		
	103-3 Evaluation of the management approach	101	Sustainability Report (Social – Our People – Talent Development)		
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	101	Sustainability Report (Social – Our People – Talent Development)		
	404-2 Programs for upgrading employee skills and transition assistance programs	94	Sustainability Report (Social – Our People – VELESTO Drilling Academy)		
	404-3 Percentage of employees receiving regular performance and career development reviews	101	Sustainability Report (Social – Our People: Staff Benefits-Employee Appraisals)		
<b>Diversity and Equal Opportunity</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	100	Sustainability Report (Social – Our People – Workforce Diversity, Gender Equality and Diversity)		
	103-2 The management approach and its components	100	Sustainability Report (Social – Our People – Workforce Diversity, Gender Equality and Diversity)		
	103-3 Evaluation of the management approach	100	Sustainability Report (Social – Our People – Workforce Diversity, Gender Equality and Diversity)		
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	100	Sustainability Report (Social – Our People – Workforce Diversity, Gender Equality and Diversity)		
<b>Non-discrimination</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	100	Sustainability Report (Social – Our People – Workforce Diversity, Gender Equality and Diversity)		
	103-2 The management approach and its components	100	Sustainability Report (Social – Our People – Workforce Diversity, Gender Equality and Diversity)		
	103-3 Evaluation of the management approach	100	Sustainability Report (Social – Our People – Workforce Diversity, Gender Equality and Diversity)		

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
<b>Freedom of Association and Collective Bargaining</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	103	Sustainability Report (Social – Our People – Freedom of Association)		
	103-2 The management approach and its components	103	Sustainability Report (Social – Our People – Freedom of Association)		
	103-3 Evaluation of the management approach	103	Sustainability Report (Social – Our People – Freedom of Association)		
<b>Local Communities</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	104	Sustainability Report (Social – Community Investment)		
	103-2 The management approach and its components	104	Sustainability Report (Social – Community Investment)		
	103-3 Evaluation of the management approach	104	Sustainability Report (Social – Community Investment)		
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	104	Sustainability Report (Social – Community Investment)		
<b>Supplier Social Assessment</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	84	Sustainability Report (Economic – Promoting Ethical Behaviour Within the Value Chain)		
	103-2 The management approach and its components	84	Sustainability Report (Economic – Promoting Ethical Behaviour Within the Value Chain)		
	103-3 Evaluation of the management approach	84	Sustainability Report (Economic – Promoting Ethical Behaviour Within the Value Chain)		
<b>Customer Health and Safety</b>					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	156	Sustainability Report (Quality, Health, Safety and Environment)		
	103-2 The management approach and its components	156	Sustainability Report (Quality, Health, Safety and Environment)		
	103-3 Evaluation of the management approach	156	Sustainability Report (Quality, Health, Safety and Environment)		

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors of VELESTO presents this statement to provide shareholders, investors and stakeholders with an overview of the corporate governance (“CG”) practices of the Company under the leadership of the Board of Directors during the FY2019. This statement is to be read together with the CG Report 2019 of the Company (“CG Report”) which is available on the Company’s website, [www.velesto.com](http://www.velesto.com) and is in compliance with BURSA MMLR.

## CG CULTURE IS VELESTO’S iLEAP WAY

As a specialist in the provision of offshore drilling services in the upstream oil and gas sector, VELESTO and its Group is committed in maintaining and promoting high standards of corporate governance at all times and at level of operations, to enhance business sustainability and corporate accountability, with primary objective of realising long-term shareholders value, whilst taking into account interests of other stakeholders.

As a testament to the commitment of the VELESTO Group, in June 2019, the Company was included into FTSE4Good Index Series with certification of recognition as a company that demonstrates strong environmental, social and governance practices by FTSE Russell.

This overview takes guidance from the key CG principles as set out in the MCCG 2017 and provides insights of the CG practices of VELESTO Group under the leadership of the Board, as described below under each CG principle.

## PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

### 1. BOARD RESPONSIBILITIES

#### 1.1 ESTABLISHING CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD

The VELESTO Group applies the following Company’s CG Framework, which provides an overview of the CG processes and responsibilities within the VELESTO Group:-

STAKEHOLDERS				
BOARD OF DIRECTORS				
* BOARD EXECUTIVE COMMITTEE	BOARD AUDIT COMMITTEE	BOARD RISK MANAGEMENT COMMITTEE	BOARD NOMINATION & REMUNERATION COMMITTEE	BOARD WHISTLE-BLOWING COMMITTEE
PRESIDENT				
MANAGEMENT COMMITTEE				
<b>OTHER MANAGEMENT SUB-COMMITTEES</b> <ul style="list-style-type: none"> <li>• Management Tender Committee</li> <li>• Management Risk Management Committee**</li> <li>• Management Audit Committee</li> <li>• Management HSE Committee</li> <li>• Management Banking Committee</li> <li>• Management Whistle-Blowing Committee (Dissolved on 21 January 2020)</li> <li>• Sustainability Steering Committee</li> <li>• Group Steering Committee</li> </ul>				
CORE BUSINESSES OF THE GROUP				
DRILLING SERVICES			OILFIELD SERVICES	

\* Ceased effective 19 September 2019.

\*\* includes Business Continuity Management.

VELESTO Group CG Framework, supported by the Financial Limit Authority Governance (“FLAG”), sets out the respective authority limits, including those reserved for the Board and those which the Board has delegated to

the Board Committees and to the Management. The Board continues to review, deliberate and enhance Company's CG Framework and FLAG to ensure its relevance and ability to meet future challenges.

Amongst the key responsibilities of the Board, include but not limited to:-

- Setting the corporate vision and mission, objectives and strategic direction of the VELESTO Group;
- Overseeing and evaluating the conduct of businesses of companies within the VELESTO Group;
- Identifying principal risks and ensuring the risks are properly managed;
- Reviewing the adequacy and integrity of the VELESTO Group's internal control; and
- Human resource planning, in particular succession planning for critical positions.

Each of the subsidiaries within the VELESTO Group has its functional board, chaired by the President, which provides direct oversight over subsidiaries' business practices and activities, in line with resolutions set by the Board of Directors of the Company, each of these subsidiary companies has also adopted VELESTO Group CG Framework and FLAG.

The monthly Management Committee chaired by the President, deliberates on overall management of the VELESTO Group with direct line of sight of operations and activities, with reports from the following divisions:-

- Operations (both Drilling and Workover services);
- Finance and Accounts (including Corporate Transformation Office);
- Commercial (including Contracts and Supply Chain);
- Human Resource (including the Velesto Drilling Academy);
- Health, Safety and Environment;
- Legal & Secretarial (including Risk Management);

- Business System (including Management Information System, Business Process and Quality); and
- Corporate Communications.

At the same time, other management sub-committees met regularly, to effectively discharge their functions, in tandem with requirement of VELESTO Group's activities and business practices.

The following describes how the Board discharged its key fiduciary and leadership functions during the FY2019.

#### **DUTIES AND RESPONSIBILITIES OF THE BOARD**

The Board is in charge of leading and managing the Company, with an indirect oversight of other subsidiary companies within the VELESTO Group and discharged its duties in an effective and responsible manner.

The Board plays an important role in determining the overall value and standards, as well as the long term and strategic directions of the VELESTO Group, primarily enhancing shareholders' value and at the same time, ensuring long term sustainability of the VELESTO Group.

Certain responsibilities of the Board were delegated to the following Board Committees, which operate within clearly defined TOR:-

- BAC
- BRMC
- BNRC
- BWBC
- BEC (Ceased effective from 19 September 2019)

Although specific authorities have been delegated to various Board Committees, the Board keeps itself abreast of key issues and/or decisions made by the respective Board Committees, through reports made by the Chairman or representative of each Board Committee and also through the tabling of minutes of the Board Committees at the Board level.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

It is the general policy of the Company that all major decisions be considered by the Board as a whole.

To ensure the effective discharge of its functions and duties, the primary duties of the Board include, but are not limited to the following:-

**(i) Establishing the corporate vision and mission, as well as the philosophy of the Company.**

The Board affirms and drives the VELESTO Group's commitment to its vision and mission, as follows:-

**Vision** – To be a leading player in the oil and gas industry operating both domestically and globally supported by proven track records, true spirit, quality services and healthy growth potential.

**Mission** – Developing a Malaysian-owned company that provides quality services to the oil and gas industry and maintaining standards by matching – if not surpassing – other international companies providing similar global services.

**(ii) Setting key targets for Management and monitoring the performance thereof.**

The Board monitors the performance of the Company and the VELESTO Group, both financial as well as non-financial, on regular basis. Depending on the meetings schedule, the Management provides updates and reports to the Board and/or Board Committees, through the Management Report as well as the Unaudited Financial Results Statements.

The Management analyses the financial results and highlights various operational issues or factors that affect and/or could affect the business of the VELESTO Group. Instructions given by the Board will be followed by action plans. Enquiries or concerns raised by the Board members in relation to the agenda items will be clarified by the Management.

**(iii) Reviewing and setting VELESTO Group's strategic direction, business plans and budget:-**

**(a) Business Plan.**

With the objective of pursuing profitability, improving resilience and competitiveness, and further improving operational and cost efficiency, the focus of the VELESTO Group in 2019 was set with a Business Plan that drove activities in the following key areas:-

1. Maximising utilisation of key assets via direct negotiations with key clients/stakeholders;
2. Improving revenue streams through increased day charter rates and additional related income through improved commercial terms;
3. Development and retention of high performers;
4. Continuous improvement in business efficiency and cost optimisation;
5. Improving processes and enhancing automation; and
6. Other key initiatives, including developing new corporate culture, further enhancing staff engagement, enhancing industry cooperation as well as exploring new viable business.



(b) Strategic Direction.

The Board coordinated a review on VELESTO Group's business direction and new business opportunities, in enhancing the development of VELESTO Group's future strategies.

(c) Annual Budget

For the FY2019, the Board has reviewed and approved budget and expenditure for the mandatory five yearly Special Periodic Surveys for several of its drilling rigs.

(d) Development and assimilation of iLEAP Core Values and the respective descriptors for VELESTO Group.

On 20 March 2019 the Board, the Management and the employees of the VELESTO Group have adopted and affirmed its commitment to assimilate its Core Values - iLEAP culture that represents the values of the VELESTO Group as below:-

1. Integrity
2. Leadership
3. Excellence
4. Agility
5. People-Focused

Various iLEAP campaigns were held throughout the year, with employees of the VELESTO Group inculcating, assimilating, sharing and experiencing iLEAP values in their day to day operations and work place environment. Led by the President, and supported by various Divisions, the iLEAP ambassadors nominated from each Divisions of the VELESTO Group worked as a team, respecting and supporting each other.

(e) Long Term Incentive Plan – Employees' Share Option Scheme ("ESOS")

During the FY2019, the Board led the long term incentive plan for VELESTO Group by guiding and shaping the ESOS with the following objectives:-

1. Promote entrepreneurial leadership to drive returns and shareholders' values;
2. Strengthen the alignment of employees to the long-term objectives and business plan of VELESTO Group and shareholders;
3. Instill a greater sense of ownership amongst Management and employees, so they will have an opportunity to participate directly in future growth of the VELESTO Group; and
4. Create a more competitive compensation package for the Executive Director and employees to strengthen retention efforts.

With the approval of the ESOS on 31 October 2019 at its Extraordinary General Meeting, the ESOS was launched on 1 November 2019.

(f) Setting of corporate key performance indicators ("KPIs") and targets.

During the beginning of the year 2019, KPIs for the VELESTO Group was set and approved by the Board.

(g) Evaluate the Performance of the President and Direct Reports, Succession Planning for the President and his Direct Reports.

During the FY2019, the Board through the BNRC has evaluated the performance and deliverables of the President. The Board has also reviewed the Succession Plan Framework for all key leadership positions including the President and all his Direct Reports.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

- (h) Set VELESTO risk parameters and risk appetites, understand major risk exposure and ensure appropriate risk mitigation approaches are in place.

During the FY2019, the following have been reviewed and approved by the Board:-

- VELESTO Group's Top Risks and status of Risk Action Plans; and
- VELESTO Group's Business Continuity Management Programme.

In addition to the above, the Board has, among others:-

- (a) together with Senior Management, promote good CG culture within the VELESTO Group, which reinforced ethical, prudent and professional behavior;
- (b) ensured that the strategic plans for VELESTO support long-term value creation and included the strategies on economic, environmental and other social considerations underpinning sustainability;
- (c) ensured there was a sound framework for internal controls and risk management;
- (d) understood the principal risks of VELESTO Group's business and recognised that business decisions would involve taking appropriate but calculated risks;
- (e) set the risk appetite within which the Board expected Management to operate and ensure that there was appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks;
- (f) ensured that Senior Management has the necessary skills and experiences; and there are measures in place to provide for the orderly succession of the Board and Senior Management;
- (g) ensured that the Company has in place procedures to enable effective communication with stakeholders; and
- (h) ensured the integrity of the Company's financial and non-financial reporting.

The Board has put in place a clear and formal schedule of matters that are specifically reserved to the Board for decision-making, which include, but not limited to the following:-

- i. Material acquisitions and disposal of assets;
- ii. Investments in major projects;
- iii. Authority levels;
- iv. Treasury policies;
- v. Risk Management policies;
- vi. Key human resource issues; and
- vii. Conflict of interest issues relating to a substantial shareholder or Director.

## CHAIRMAN OF THE BOARD

The Chairman of the Board is Dato' Abdul Rahman Ahmad, a Non-Independent Non-Executive Director, whilst the President is Rohaizad Darus, who is also an Executive Director.

The Board recognises the importance of having a clearly accepted division of power and responsibilities at the head of the Company to ensure a balance of power and authority.

Separation of the positions of the Chairman and President promotes accountability and facilitate division of responsibilities between them. In this regard, no one individual can influence Board's discussions and decision-making. The role of Chairman as well as the role of President have been clearly outlined in the Board Charter.

The key responsibilities as a Chairman of the Board, among others, include but are not limited to the following:-

- a. providing leadership for the Board, so that the Board can perform its responsibilities effectively;
- b. setting the Board agenda and ensuring that Board members receive complete and accurate information in a timely manner;
- c. leading Board meetings and discussions;
- d. encouraging active participation and allowing dissenting views to be freely expressed;

- e. managing the interface between the Board and Management;
- f. ensuring appropriate steps are taken to provide effective communication with stakeholders and that their views are communicated to the Board as a whole; and
- g. leading the Board in establishing and monitoring good CG practices in the Company.

The President has the executive responsibility for the day-to-day operations of the Group's business and he is responsible for implementing policies of the Board, overseeing the VELESTO Group's operations and developing the VELESTO Group's business strategies, which include performance targets and long-term goals established by the Board.

The Board is supported by two suitably qualified and competent Company Secretaries, namely:-

- (a) Lee Mi Ryoung  
Lee Mi Ryoung's profile is available for viewing at page 33 of this Annual Report. She was appointed as Company Secretary for VELESTO with effect from 15 July 2019; and
- (b) Rafiza Ghazali  
Rafiza Ghazali's profile is available for viewing at page 30 of this Annual Report. She was appointed as Company Secretary for VELESTO with effect from 30 March 2018.

All Directors have unrestricted access to the advice and support of the Company Secretaries, which include:-

- a. disclosure of interest in securities;
- b. disclosure of any conflict of interest in a transaction involving the Company;
- c. prohibition on dealing in securities; and
- d. restrictions on disclosure of price-sensitive information.

The main roles and responsibilities of the Company Secretaries, include but are not limited to the following:-

- (a) Manage all Board's and Board Committees' meetings logistics, attend and record minutes of all Board and Board Committees' meetings and facilitate Board communication;
- (b) Advise the Board on its roles and responsibilities;
- (c) Facilitate the orientation of a new Director and assist in Director training and development;
- (d) Advise the Board on corporate disclosures and compliance with company and securities regulations and listing requirements;
- (e) Manage processes pertaining to the annual or extraordinary general shareholders' meeting;
- (f) Monitor corporate governance development and assist the Board in applying governance practices to meet the Board's needs and stakeholders' expectations; and
- (g) Serve as a focal point for stakeholders' communication and engagement on CG issues.

The Board was satisfied with the performance and support rendered by the Company Secretaries to the Board in discharging its functions.

#### **ACCESS TO INFORMATION AND ADVICE**

In ensuring the effective functioning of the Board, all Directors have full access to the advice and support services of the Company Secretaries, Internal Auditors and External Auditors. In addition, all Directors may seek input and clarification from any members of the Management on issues under their respective purview.

For the FY2019, the notice of the scheduled board meetings and the board papers were circulated electronically via secured cloud sharing application, at least five days prior to the Board Meeting. The Directors have ample time to review and consider the relevant information. Unless there is exceptional case for convening of special meeting of the Board to address emergency issue, shorter notice is allowed with the consent of all Directors.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

All proceedings of the Board meetings are duly minuted and circulated to all Directors for their perusal prior to the confirmation of the minutes. The Company Secretaries recorded the proceedings of all meetings, including pertinent issues, the substance of inquiries, if any, and responses thereto, members' suggestion and the decision made, as well as the rationale for those decisions. By doing so, the Company Secretaries kept the Board updated on the follow-up actions arising from the Board's decisions and/or requests at subsequent meetings. The Board was, therefore able to perform its fiduciary duties and fulfil its oversight role towards instituting a culture of transparency and accountability in the Company.

## Protocol For Seeking Of Professional Advisory Services

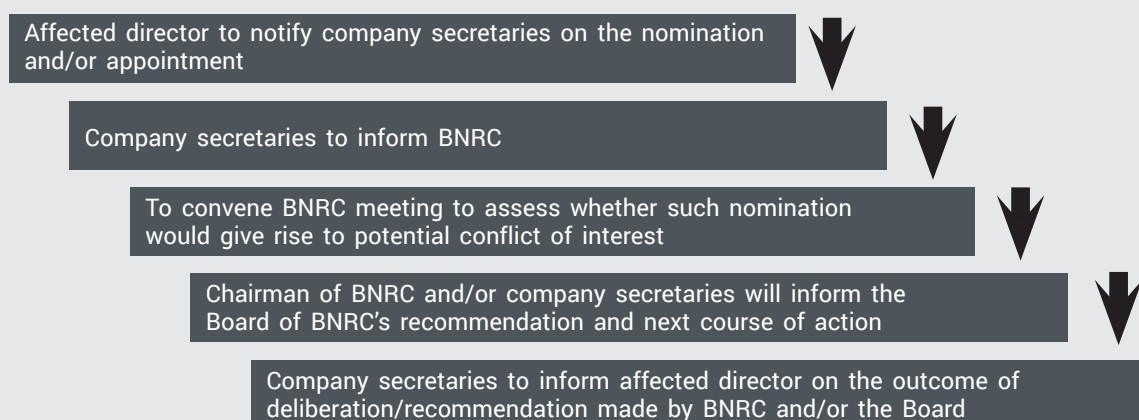
Where applicable, the Directors whether as a full board or in their individual capacity, are encouraged to seek independent professional advice:-

- For corporate and/or governance matters from reputable legal firms, external company secretaries or regulatory bodies;
- For audit and or non-audit related matters, any representatives of the audit engagement team of the External Auditors;
- For any other specific issues, where professional advice is required to enable the Board to discharge its duties in connection with specific matters, the Board may proceed to do so, upon the approval of the Board, in relation to the quantum of fees to be incurred.

For the FY2019, the Board engaged external consultant i.e. Messrs. Ernst & Young PLT ("EY"), PricewaterhouseCoopers ("PWC"), Korn Ferry Malaysia, Messrs Christopher Lee Ong and Affin Hwang Investment Bank Berhad, to name a few, to assist the Board on specific exercises.

## Protocol for notification of other directorship by Board members

The mechanism applicable for situation where any Board member is nominated and/or appointed as Director outside the VELESTO Group:-



Where there is any possible conflict of interest, the affected director to declare upfront prior to the meeting/ agenda and abstain himself/herself from deliberation and voting.

## 1.2 DEMARCATION OF RESPONSIBILITY IN BOARD CHARTER

The Board Charter serves as a guide to the Board members of their roles and responsibilities in discharging their duties as Directors. The principles of good corporate governance are set out in the MCCG 2017 and MMLR were taken into consideration during the process of formalising the Board Charter.

The Board Charter is also designed to provide guidance and clarity for the Directors and Senior Management with regard to the role of the Board and its Board Committees, the requirements of Directors in carrying out their role and in discharging their fiduciary duties towards the Company as well as the Board's operating practices.

The Board Charter is subject to review by the Board as and when necessary to ensure it complies with all applicable laws, rules and regulations of the regulators and remain consistent with the policies and procedures of the Board. The Board Charter was reviewed and approved by the Board on 19 September 2019.

A full copy of the Board Charter is available for viewing at the VELESTO's corporate website at [www.velesto.com/board-charter](http://www.velesto.com/board-charter)

## 1.3 GOOD BUSINESS CONDUCT AND CORPORATE CULTURE

### Code of Business Conduct and Ethics ("CoBE")

All employees should endeavor to uphold the Company brand, which in essence, is the identity and image. The Company brand should be reflected in the way employees conduct themselves at work and permeate at every point of interaction, regardless between each other and the public. The Directors and the employees of the VELESTO Group are expected to behave ethically and professionally for or on behalf of the Company and comply with the CoBE of the Company.

The CoBE describes the measures put in place to:-

- Handle actual or potential conflict of interests
- Prevent corrupt practices which include the offering and acceptance of gifts and other form of benefits
- Encourage the reporting of unlawful or unethical behaviour
- Protect and ensure the proper usage of the Company's assets
- Ensure compliance with laws, rules and regulations

The CoBE is available for viewing at the VELESTO's corporate website at [www.velesto.com](http://www.velesto.com)

### WHISTLE-BLOWING POLICY

In promoting the highest level of professionalism and ethics in the conduct of the VELESTO Group's businesses, the Whistle-Blowing Policy welcome disclosures of suspected wrongdoings that include mismanagement, malpractices, corrupt practices, fraud, conflict of interest, money laundering, abuse of authority or breach of any laws and regulations by any staff and management. The Policy serves to provide a formal channel of communication for the employees and any other persons to raise concerns in a responsible and timely manner.

During the FY2019, the Company has established Integrity & Governance Unit ("IGU"), headed by Mohammad Hafiz Saparani as Head of IGU to ensure the upholding of Integrity and dissemination of highest standards of compliance within VELESTO Group. IGU reports to the BWBC and is the governed by its TOR and framework approved by the Board. The TOR of the

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

BWBC is available for viewing at the VELESTO's corporate website at [www.velesto.com](http://www.velesto.com)

## Disclosure Channel

Should a person wishes to lodge a report on any suspected wrongdoings, they may elect to make disclosures to the Head of IGU via:-

Attention: Mohammad Hafiz Saparani, Head of IGU  
Telephone number: +603-2096 8788  
Email: [hafiz.saparani@velesto.com](mailto:hafiz.saparani@velesto.com)

The Whistle-Blowing Policy is available for viewing at the VELESTO's corporate website at [www.velesto.com](http://www.velesto.com)

## II. BOARD COMPOSITION

### SIZE AND COMPOSITION OF THE BOARD

The Board recognises the benefits of having a diverse Board to ensure that the mix and profiles of the Board members in terms of age, ethnicity and gender, provide the necessary range of perspectives, experiences and expertise required to achieve effective stewardship. The Board believes that a truly diverse and inclusive Board will leverage the differences in thought, perspectives, knowledge, skills, regional and industry experiences, cultural and geographical background, age, ethnicity and gender which will ensure that the Company retains its competitive advantage.

For the FY2019, the Board comprises ten members, six Independent Non-Executive Directors ("INEDs"), two Non-Independent Non-Executive Directors, one Executive Director, who is the President of the Company and one Non-Independent Non- Executive Director, who is the Chairman of the Board and is compliant with the Paragraph 15.02(1) of the MMLR with the requirement for one-third Independent Directors in the Board.

The roles of the Independent Directors are particularly important in ensuring that the strategies proposed by the Executive Director and Management are deliberated on and have taken into account the interest, not only of the Company, but also that of the shareholders, employees, customers, suppliers and the community.

The Board took note of the requirement of Practice 4.1 of the MCCG 2017 which requires at least half of the

Board comprises Independent Directors, hence, six out of ten or 60% of the Board's composition comprises of Independent Directors.

The composition of the Board provides an effective blend of entrepreneurship, business and professional expertise in general management, finance, corporate affairs, legal and technical areas of the industry in which the VELESTO Group operates. The individuality and vast experiences of the Directors in arriving at collective decisions at board level will ensure impartiality.

### TENURE OF INDEPENDENT DIRECTORS

The Board takes cognisance of Practice 4.3 of MCCG 2017, and has instituted a policy by way of inclusion in the Board Charter, which limits the tenure of its INEDs up to nine years.

According to the annual review conducted by BNRC for the FY2019, none of the INEDs has served the Board more than nine years.

### PROCEDURES FOR APPOINTMENT OF DIRECTOR AND SENIOR MANAGEMENT

The BNRC is entrusted to develop the policies and procedures in formalising the approach in the recruitment process and annual assessment of Directors, which serve as guides for the BNRC in discharging its duties in the aspects of nomination, evaluation, selection and appointment process of new Director.

#### Appointment of a Director

The appointment of a new Director is a matter for consideration and decision by the full Board upon appropriate recommendation from the BNRC. In making these recommendations, the BNRC will consider the required mix of skills, experiences, core competencies, other qualities and diversity in terms of gender, ethnicity and age, which the Directors bring to the Board.

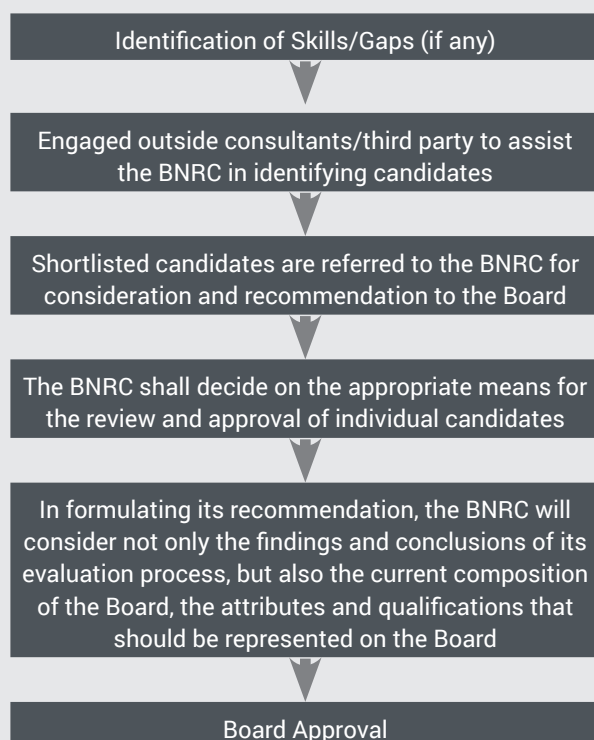
The Board is cognisance of the requirement of Practice 4.5 of the MCCG 2017, and has instituted a policy on gender diversity by way of inclusion in the Board Charter, to have at least 30% women Directors on the Board. With four women Directors on Board, the

VELESTO's Board comprises 40% women Directors.

The Board Charter stipulates that the selection of candidates may come on recommendations by any existing Board members, Management or major shareholders. BNRC may also consider appointing an independent party or source out to third party in identifying suitably qualified candidates. If the selection of candidate was made solely based on recommendations made by existing Board members, Management or major shareholders, BNRC shall explain why other sources were not used.

For the FY2019, the Board through its BNRC conducted an annual evaluation of its size and composition, to determine if the Board has the right size and sufficient diversity with independence elements that fit the Company's objectives and strategic goals. The result of the evaluation showed that the Board has sufficient size with the right balance of skills, experience and expertise as well as diversity on the facets of age, gender and ethnicity to meet the requirements of the Company.

The BNRC has applied the following selection process:-



Having conducted the reviews and assessments, for the FY2019, the BNRC recommended Datuk Tong Poh Keow be appointed as the Company's Independent Non-Executive Director.

For the appointment of INED, Datuk Tong Poh Keow has fulfilled the independency test prior to her appointment, and has confirmed that:-

- is independent of the Management, free from any businesses or other relationship which could interfere with the exercise of independent judgement or ability to act in the best interest of the Company;
- within the last two years, is not an officer of the Company or its related corporation;
- is not a major shareholder;
- is not a family member of the Executive Director, officer or major shareholders of the Company;
- is not a nominee of any Director or major shareholder;
- has not been engaged as advisor by the Company and is not a Partner, Director or major shareholder of a firm/corporation which provides professional advisory services to the Company.

With the appointment of Datuk Tong Poh Keow as INED in the FY2019, the Board has four women directors namely Rowina Ghazali Seth, Haida Shenny Hazri, Dato' Dayang Fatimah Johari, and Datuk Tong Poh Keow which has exceeded 30% of the women Director requirement for the Board.

On 31 January 2019, Mohd Rashid Mohd Yusof was appointed as the new Senior Independent Non-Executive Director of the Company. Independent Directors met bi-annually without the presence of the Management and Executive Director in FY2019. Senior Independent Director chaired the meetings and is a forum where Independent Directors deliberate on various matters of VELESTO Group, as determined by the chair and members of the meeting.

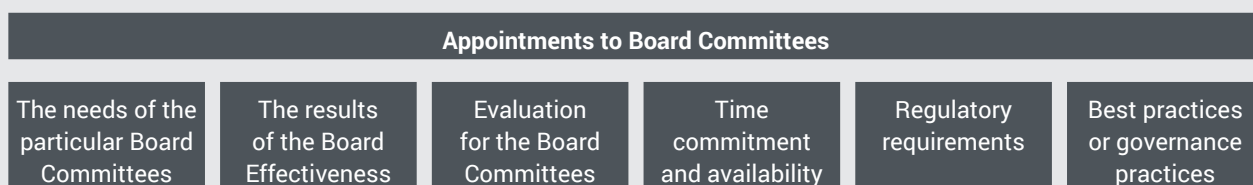
# CORPORATE GOVERNANCE OVERVIEW STATEMENT

## Re-election of Directors

- i) In accordance with Article 96 of the Company's Constitution, at the forthcoming 10<sup>th</sup> AGM, Mohd Rashid Mohd Yusof, Rowina Ghazali Seth, and Haida Shenny Hazri, are due for retirement and being eligible have offered themselves for re-election.
- ii) In accordance with the Article 103 of the Company's Constitution, at the forthcoming 10<sup>th</sup> AGM, Datuk Tong Poh Keow is due to retire and being eligible has offered herself for re-election.
- iii) In determining the Directors' eligibility for re-election, the BNRC conducted a formal and objective annual evaluation to determine the effectiveness of the retiring Directors, taking into account the following:-
  - a) respective Director's will and ability to critically challenge and ask the right questions;
  - b) character and integrity in dealing with matters involving the VELESTO Group;
  - c) potential conflict of interest situations;
  - d) respective Director's commitment to serve the Company, due diligence and integrity; and
  - e) each confidence to stand up for a point of view.

Based on the results of the Directors' evaluation and BNRC's recommendation, the Board has in turn recommended the proposed re-election of Mohd Rashid Mohd Yusof, Rowina Ghazali Seth, Haida Shenny Hazri, and Datuk Tong Poh Keow as Directors of the Company for the consideration of the shareholders at the forthcoming 10<sup>th</sup> AGM of the Company.

The evaluation of the performance of the Directors is conducted on an annual basis, and as and when the need arises, such as when a new Director is appointed. In determining the candidates for appointment to the Board Committees, various factors are considered by the BNRC and the Board, including (but are not limited to) the following factors:-



## Appointment to Senior Management

The Human Resources Division is responsible for selection and appointment of candidates for senior management position based on selection criteria which best matches the requirements of the open position. The selection criteria include, but are not limited to diversity in skills, experience, age, cultural background and gender.

## BOARDROOM DIVERSITY

The BNRC recognises and embraces the importance of having a diverse Board that will benefit from a diverse mix of knowledge and experience, background, expertise, age, gender, ethnicity and other qualities in its composition. It is an essential element in maintaining competitive advantage by having diverse Board members to leverage different perspectives to various issues raised and help in decision making, which will contribute to the sustainable development of the Company. The BNRC will take into consideration the benefits of diversity in sourcing and selecting new Board members, as well as in conducting annual evaluation of Board and Board Committee members.

## Gender Diversity

The Board, through its diversity policy, has identified and based on merit, appointed suitable women directors. The Board's commitment to gender diversity is clearly demonstrated by the representation of four women directors on the Board of Directors of the Company, which is in compliance with Paragraph 4.5 of the Principle A of the MCCG 2017.



### **Ethnicity Diversity**

Although the Board does not set any target on ethnicity diversity, it continues to endeavor to include any professional member who fulfills the qualifications and fit the requirements set by the Board.

### **Age Diversity**

The Board is of the view that directors with diverse age profiles will be able to provide a different perspective and bring vibrancy to the VELESTO's strategy making process.

The age profiles of the Directors ranges from forty to seventy years of age, which underlies the Board's commitment to age diversity at the Board.

#### **(a) Time Commitment by Directors**

The Board members have devoted sufficient time and effort in attending Board meetings for the FY2019.

Details of attendance of each Director in respect of the Board meetings held during the FY2019 as follows:-

#### **BOARD**

<b>Name of Directors</b>	<b>No. of Meetings Attended</b>	<b>% of Attendance</b>
Dato' Abdul Rahman Ahmad	10/10	100
Rohaizad Darus	10/10	100
Razalee Amin	9/10	90
Dato' Ibrahim Marsidi	10/10	100
Mohd Rashid Mohd Yusof	9/10	90
Rowina Ghazali Seth	10/10	100
Haida Shenny Hazri	10/10	100
Rizal Rickman Ramli	9/10	90
Dato' Dayang Fatimah Johari	10/10	100
Datuk Tong Poh Keow (appointed effective 29 August 2019)	3/3	100
Cheah Tek Kuang (retired effective 29 May 2019)	5/5	100

#### **BOARD COMMITTEES**

In September 2019, the composition of each Board Committee was evaluated and streamlined to have four members for each committee. Based on due consideration of the effectiveness evaluation of the Director, the requirements of the Board Committee, the attributes and qualifications of each Director, the new composition of the Board Committees was announced on 19 September 2019.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

## BAC

A summary of activities of the BAC to discharge their duties during FY2019 can be found on pages 160 to 162 of this Annual Report.

The composition and attendance of BAC Meetings held during the FY2019 as follows:-

Committee Members	Designation	Directorship	No. of Meetings Attended	% of Attendance
Razalee Amin	Chairman	Independent Non-Executive Director	6/6	100
Dato' Ibrahim Marsidi	Member	Independent Non-Executive Director	5/6	83
Dato' Dayang Fatimah Johari	Member	Independent Non-Executive Director	6/6	100
Datuk Tong Poh Keow (appointed effective 19 September 2019)	Member	Independent Non-Executive Director	1/1	100
Cheah Tek Kuang (retired effective 29 May 2019)	Member	Independent Non-Executive Director	3/3	100

The revised TOR of the BAC approved by the Board on 19 September 2019 is available for viewing at the Group's corporate website at [www.velesto.com](http://www.velesto.com)

## BNRC

The composition and attendance of the members of the BNRC during the FY2019 as follows:-

Committee Members	Designation	Directorship	No. of Meetings Attended	% of Attendance
Dato' Ibrahim Marsidi	Chairman	Independent Non-Executive Director	10/10	100
Rowina Ghazali Seth	Member	Independent Non-Executive Director	10/10	100
Dato' Dayang Fatimah Johari	Member	Independent Non-Executive Director	10/10	100
Rizal Rickman Ramli (appointed effective 19 September 2019)	Member	Non- Independent Non-Executive Director	2/2	100
Cheah Tek Kuang (retired effective 29 May 2019)	Member	Independent Non-Executive Director	5/5	100

The BNRC is governed by its TOR, which outlines its duties and responsibilities. The TOR of BNRC approved by the Board on 31 October 2019 is available for viewing at the VELESTO's corporate website at [www.velesto.com](http://www.velesto.com)

**(b) Summary of BNRC's activities**

The summary of activities of the BNRC during the FY2019 as follows:-

i. Reviewed and recommended the following for the Board's approval:-

- Extension of contract of service for senior-most executive positions;
- Directors retiring by rotation and re-election to the Board;
- Appointment of Director to Board and Board Committees;
- Appointment of Directors on the boards of companies outside the VELESTO Group;
- Appointment of Directors on the boards of companies within the VELESTO Group;
- Annual assessment and review of effectiveness of Board, Board Committees, individual Director and the President;
- Setting KPIs for the President;
- Assessment of the performance of the President;
- Proposal on Revised Questionnaires on Board Evaluation for Board and Board Committees, Board (self and peer assessment) and President; and
- The proposals on the ESOS for VELESTO Group.

With the implementation of ESOS, the BNRC has the duty and responsibility of administering ESOS in accordance with the By-laws of the scheme.

ii. Conducted an evaluation of the effectiveness of the Board as a whole, Board Committees and the contributions of individual Directors including the President and recommended improvement plan, where applicable.

**(c) Continuing Education and Training of Directors**

The Board acknowledges the importance of continuous education and trainings to equip themselves for the effective discharge of its duties.

The Board has cultivated the following best practices:-

- a) All newly appointed Director is required to attend the Mandatory Accreditation Training Programme ("MAP") as prescribed by BURSA within the stipulated timeframe;
- b) All Directors are encouraged to attend talks, training programmes and seminars to update their knowledge on the latest regulatory and business environment; and
- c) The Directors may be requested to attend additional training courses according to their individual needs as a Director/Board Committee's member on which they serve.

All Directors have attended the MAP prescribed by BURSA.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

Upon assessing the training needs of the Directors, the Board recognised that continuing education would be the way forward in ensuring its members are continually equipped with the necessary skills and knowledge to meet the challenges ahead. During the FY2019, the Board has participated in the following continuing education programmes:-

DIRECTOR	TRAINING PROGRAMME ATTENDED	ORGANISER
Dato' Abdul Rahman Ahmad	PNB Senior Management Retreat 2019	Perbadanan Nasional Berhad ("PNB")
	IT Blueprint : Post – Visioning Workshop	Ernst & Young Tax Consultant Sdn. Bhd.
	Freeside Chat with Anthony Tan Group CEO and Co Founder of Grab	GRAB
	PNB Leadership Forum 2019 – From Governance to Performance	PNB Research Institute ("PNBRI")
	PNB Leadership Forum 2019 – Positive Autocracy Leadership Model for Industry 4.0	PNB
	Leadership in Digital World – Managing Integration of Digital Strategies, Technology Execution and Measurement for Leaders	Marcus Evans (Malaysia) Sdn. Bhd.
	Hari Sihat PNB 2019	PNB
	Contingency Funding Plan (CFP) Simulation Exercise – Business Continuity Management Committee	PNB
	PNB Corporate Summit 2019 – Rebooting Corporate Malaysia	PNBRI
	Rohaizad Darus	Go to Gemba 2019 – Hess Contractor Leadership Forum
IADC Drilling HSE&T Asia Pacific 2019 Conference & Exhibition		International Association of Drilling Contractors
The Future of Work Forum		PWC
PNB Leadership Forum 2019 : From Governance to Performance		PNB
2019 Wells HSE & Risk Forum (HSE Coffee Table Talk)		Petronas
Invest Malaysia 2019		BURSA & Maybank Kim Eng
Discover Better Value Together Seminar		BoardRoom Ltd
Perdana Leadership Foundation CEO Forum 2019		Perdana Leadership Foundation
Further Offshore Emergency Training with EBS & Travel Safety by Boat (FOET)		MSTS Asia Sdn. Bhd.
Launch of the Corporate Governance Monitor 2019		Securities Commission Malaysia
PNB Leadership Forum 2019 : Positive Autocracy: A Leadership Model for Industry 4.0		PNB
Shell Malaysia CEO HSSE Forum		Shell Malaysia
Khazanah Mega Trends Forum 2019		Khazanah Nasional Berhad

DIRECTOR	TRAINING PROGRAMME ATTENDED	ORGANISER
	Rystad Energy Annual Summit	Rystad Energy Berhad
	Budget 2020 Forum by YB Lim Guan Eng	Ministry of Finance
	MGA Talk - Outlook on the Malaysian Economy and its oil and gas industry.	Malaysian Gas Association
	VELESTO HSE & Operational Excellence Conference	VELESTO HSE Division
	PNB Corporate Summit 2019 : Rebooting Corporate Malaysia	PNB
	YTI MEMORIAL LECTURE "The Diverse Facets of Leadership	PNB
	Petronas FutureTech Accelerator Demo Day	Petronas
Razalee Amin	Halal Pharmaceuticals "Malaysia Halal Certification – Current Landscape and Moving Forward Initiatives"	Duopharma Biotech Berhad
	Overall Objective of an ISA Audit	Association of Malay Chartered Accountants Firms Malaysia ("AMCAF")
	Introduction to MPSAS	AMCAF
	The Role of the Board in Strategy & Risk Management Oversight	Institute of Corporate Directors Malaysia ("ICDM")
	PNB Leadership Forum 2019 : From Governance to Performance	PNB
	Sustainability Awareness	Duopharma Biotech Berhad
	PNB Leadership Forum 2019 : Positive Autocracy Leadership Model for Industry 4.0	PNB
	Demystifying the Conundrum: The Road to Business Excellence	BURSA
	Knowledge Sharing Session on Biosimilar & Vaccines	Duopharma Biotech Berhad
	Board of Directors Visit to PanGen Biotech Inc. and SCM Lifescience Co. Ltd.	Duopharma Biotech Berhad
	To Social or Not to Social – A Social Media Primer & Practice Playbook for Duopharma	Duopharma Biotech Berhad
	Addressing Corruption Risk to Safeguard Directors and Management Against Corporate Liability	Duopharma Biotech Berhad
	Case Study Workshop for Independent Directors	Securities Industry Development Corporation
	PNB Corporate Summit 2019 : Rebooting Corporate Malaysia	PNB
	PNB – YTI Memorial Lecture 2019	PNB
Securities Commission Malaysia – Audit Oversight Board Conversation with AC	Securities Commission Malaysia	

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

DIRECTOR	TRAINING PROGRAMME ATTENDED	ORGANISER
Dato' Ibrahim Marsidi	Global telecoms trends with a specific focus on 5G and its implication on industry structure	Telekom Malaysia ("TM")/PWC
	Briefing on the Corporate Liability Provision under MACC Act (Amendment) 2018	TM/Malaysian Anti-Corruption Commission
	International Directors Summit 2019	ICDM
	Vendor presentation on 5G Technologies	TM
	Visit to TM ONE Klang Valley Data Centre	TM
	Business Trend & Outlook	TM Board Retreat/AT Kearney
Mohd Rashid Mohd Yusof	Risk Management in Technology Policy	Financial Institutions Directors Education ("FIDE")
	Audit Committee Conference 2019	Malaysian Institute of Accountants ("MIA")
	PNB Leadership Forum	PNB
	MIA Conference 2019	MIA
	Board Workshop 2019	Media Prima Berhad
	Embracing Disruption	Malaysia Digital Economy Corporation
	Current Challenges in the Corporate Governance Landscape	Minority Shareholders Watch Group
	PNB Corporate Summit 2019 : Rebooting Corporate Malaysia	PNB
Raising Defences Section 17A, MACC Act	Icliff Leadership and Governance Centre	
Rowina Ghazali Seth	Islamic Finance for Board of Directors Programme	ISRA Consultancy
	PNB Leadership Forum : From Governance to Performance	PNB
	PowerTalk: Revisiting the Misconception of Board Remuneration	ICDM
	Directors' Duties & Power – Recent Developments in the Law & How it Affects you	Raja, Darryl & Loh
	Case Study Workshop for Independent Directors: Towards Boardroom Excellence	BURSA
	Understanding the Evolving Cybersecurity Landscape	ICLIF Leadership and Governance Centre
	Demystifying Board Diversity	ICDM
	My Fintech Week 2019	Bank Negara Malaysia
	PNB Leadership Forum : Positive Autocracy – A Leadership Model for Industry 4.0	PNB
	When Disruption Meets Tradition	ICDM

DIRECTOR	TRAINING PROGRAMME ATTENDED	ORGANISER
	Our Planet Our Business: Climate Change and Impact to Business	PWC
	Khazanah Megatrends Forum 2019	Khazanah Nasional Berhad
	International Directors Summit 2019	ICDM
	Raising Defenses: Section 17A, MACC Act	ICLIF Leadership and Governance Centre
	PNB Corporate Summit 2019 : Rebooting Corporate Malaysia	PNB
Haida Shenny Hazri	8 <sup>th</sup> Annual National Procurement Conference 2019	Malaysia Institute of Corporate Governance
	APAC Energy Assembly	Energy Council
	Cyber Security in the Boardroom: Accelerating from Acceptance to Action	BURSA
	Leadership Greatness in Turbulent Times: Building Corporate Longevity	BURSA
	PNB Leadership Forum 2019	PNB
	PNB Corporate Summit 2019 : Rebooting Corporate Malaysia	PNB
	PETRONAS launching ceremony for 2020 Malaysia Bidding Round	Petronas
	Talk with Chief Justice DIFC Courts, Tun Zaki Tun Azmi	Malaysian Business Council Dubai
	Abu Dhabi International Petroleum Exhibition and Conference (ADIPEC 2019)	DMG World Media Abu Dhabi Ltd.
	Faculty Masterclass London Business School - Organisational Behaviour	London Business School Dubai Campus
Rizal Rickman Ramli	Management Retreat 2019	PNB
	IT Blueprint: Post – Visioning Workshop	Ernst & Young Tax Consultants Sdn. Bhd.
	Freeside Chat with Anthony Tan, Group Chief Executive Officer and Co-Founder of Grab	GRAB
	PNB Leadership Forum 2019	PNB
	MISD Business Planning Workshop 2020	PNB
	Leadership in Digital World – Managing Integration of Digital Strategies, Technology Execution and Measurement for Leaders	Marcus Evans (Malaysia) Sdn. Bhd.
	PNB Innovation Challenge (Final)	PNB
	Sime Darby Property Bridging Series – Shaping the Future through Integrated Policy Formulation	Sime Darby Property Berhad/ Minister of Finance, YB Lim Guan Eng

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

DIRECTOR	TRAINING PROGRAMME ATTENDED	ORGANISER
	Board Retreat Speakers' Series i) An In-depth Industry Analysis and Outlook Moving Forward for South East Asia ii) The Future of Investment into Asia Pacific's Industrial and Logistics Markets iii) The Catalyst for Development; Immediate Priorities and Growth Areas	Sime Darby Property Berhad
	PNB House View – Wrap-up session with MERCER	PNB
	PNB Corporate Summit 2019 – Rebooting Corporate Malaysia	PNB
	Integrity Awareness Training Programme For Property/Real Estate	PNB
	PNB Compliance Engagement Session	PWC
	Training for Directors i) Malaysian Anti-Corruption Commission Act ii) Update on Accounting Standards	Sime Darby Property Berhad
Dato' Dayang Fatimah Johari	PNB Leadership Forum 2019 : From Governance to Performance	PNB
	Sarawak Oil & Gas Seminar & Exhibition	Sarawak Oil & Gas
	MIA's Engagement Session with the Audit Committee Members on Integrated Reporting	MIA
	PNB Leadership Forum 2019 : Positive Autocracy Leadership Model for Industry 4.0	PNB
	Sambutan Hari Wanita 2019 peringkat Negeri Sarawak	Ministry of Welfare, Community Wellbeing, Women, Family and Childhood Development
	Launching of the book "Sarawak Women in Safety and Security, in Good Hands"	Ministry of Welfare, Community Wellbeing, Women, Family and Childhood Development
	YTI Memorial Lecture, "The Diverse Facets of Leadership"	PNB
Datuk Tong Poh Keow	PNB Leadership Forum 2019	PNB
	Director Induction Session	VELESTO

In addition, the Company Secretaries and External Auditors update the Board on a regular basis on the respective changes and amendments to regulatory requirements, laws and accounting standards to assist the Directors to keep abreast of such developments.



## BEC

The BEC was set up on 25 April 2016. Since the industry recovery, the BEC has been dissolved on 19 September 2019 and its functions absorbed by the Board.

During the year under review, BEC continued to perform its roles and responsibilities up to the date of its dissolution, and abided by its TOR, which outlines its limit, duties and responsibilities.

The composition of BEC and details of the meetings of BEC convened during the year under review are set out below:-

Committee Members	Designation	Directorship	No. of Meetings Attended	% of Attendance
Dato' Abdul Rahman Ahmad	Chairman	Chairman, Non-Independent Non-Executive Director	1/1	100
Rohaizad Darus	Member	Executive Director	1/1	100
Razalee Amin	Member	Independent Non-Executive Director	1/1	100
Haida Shenny Hazri	Member	Non-Independent Non-Executive Director	1/1	100
Mohd Rashid Mohd Yusof	Member	Senior Independent Non-Executive Director	1/1	100

The prime objective for the establishment of BEC was to provide the Management with timely guidance and decisions to manage the VELESTO effectively during the downturn in the oil and gas industry.

## BRMC

The BRMC was set up on 6 December 2013.

The BRMC is governed by its TOR, which outlines its duties and responsibilities.

With oversight of risks at the enterprise wide level and with responsibility to review, monitor and guide on the effectiveness of VELESTO Group's Enterprise Risk Management and Business Continuity Plan, BRMC has during the year under review have ensured that the Group drove measures to embed risk management and business continuity practices in all VELESTO Group's key processes and activities. Summaries of the activities of BRMC in FY2019 is available in page 155 under SORMIC of this Annual Report.

The TOR of the BRMC approved by the Board on 19 September 2019, is available for viewing at the VELESTO's corporate website at [www.velesto.com](http://www.velesto.com)

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Composition of BRMC are as follows:-

Committee Members	Designation	Directorship	No. of Meetings Attended	% of Attendance
Mohd Rashid Mohd Yusof	Chairman (redesignated effective 21 June 2019)	Senior Independent Non-Executive Director	5/5	100
Razalee Amin (appointed effective 19 September 2019)	Member	Independent Non-Executive Director	2/2	100
Rowina Ghazali Seth	Member	Independent Non-Executive Director	5/5	100
Haida Shenny Hazri	Member	Non-Independent Non-Executive Director	5/5	100
Rizal Rickman Ramli (ceased effective 19 September 2019)	Member	Non-Independent Non-Executive Director	3/3	100
Cheah Tek Kuang (retired effective 29 May 2019)	Former Chairman	Independent Non-Executive Director	2/2	100

During the FY2019, five BRMC meetings were held. The activities carried out by the BRMC were as follows:-

- i. Endorsed the Business Continuity Management Policy Statement and framework for the VELESTO Group as affirmation of the Group's commitment to the policy in safeguarding VELESTO Group's staff, ensuring continuity of businesses and protecting the interest of VELESTO's stakeholders, brand value and reputation;
- ii. Endorsed the Enterprise Risk Management Policy, framework and practices, as affirmation of the Group's commitment in promoting Enterprise Risk Management to identify and manage risks within VELESTO Group;
- iii. Assessed and reviewed the VELESTO Group's Top Risks and Risk Action plans for each quarter in FY2019;
- iv. Received the quarterly progress report on Health, Safety and Environment;
- v. Reviewed the Emergency and Crisis Management of the Group;
- vi. Reviewed Stress-Test on Foreign Exchange and Financial Capability to withstand changes on local and international ratings;
- vii. Reviewed and recommended to the Board on the revised TOR for BRMC;
- viii. Updated the Business Continuity Management and its related activities;
- ix. Endorsed the simulation scenarios for Business Continuity Management exercises for the year 2019;
- x. Endorsed the revision to the Risk Rating Matrix;
- xi. Approved the establishment of Business Continuity Management Alternate Site;
- xii. Guided on the communication and awareness/refresher sessions on Enterprise Risk Management conducted by Risk Management Department for employees of VELESTO Group; and
- xiii. Reviewed the Sustainability Report and Statement of Risk Management and Internal Control for inclusion into VELESTO Annual Report 2019.

#### BWBC

The BWBC was set up on 21 July 2014. The BWBC is governed by its TOR which was revised on 19 September 2019, which outlines its duties and responsibilities.

A copy of the TOR of the BWBC is available for viewing at the VELESTO's corporate website at [www.velesto.com](http://www.velesto.com)

### **ANNUAL EVALUATION ON EFFECTIVENESS OF BOARD AND INDIVIDUAL DIRECTORS**

The BNRC was tasked to carry out the annual process for evaluating the effectiveness of the Board as a whole, the performance and contribution of the Chairman and individual Directors, including INEDs, as well as the President of the Company, and to identify areas for improvement.

The evaluation process takes into account on the following:-

- Whether adequate time has been allocated by Non-Executive Directors on matters pertaining to the VELESTO Group's operations;
- Whether full consideration to succession planning has been given, taking into account challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- review of the structure, size and composition (including skills, knowledge and experiences) of the Board has been undertaken and changes recommended, where necessary; and
- review of the leadership needs of the VELESTO Group, Executive and Non-Executive Directors.

The evaluation was internally evaluated in 2019. The evaluation process conducted were as follows:-

1. Circulated the enhanced questionnaires according to respective designation and committee membership;
2. Welcomed candid feedbacks on the questionnaires;
3. Reviewed pertinent documents such as Board and Board Committee meeting minutes; and
4. Consolidated and assessed the responses from the questionnaires and collated the insights.

All the Directors had completed and submitted the written questionnaires:-

1. **Board of Directors Evaluation**  
In conducting the evaluation, the following main criteria were adopted:-
  - Board mix and composition;
  - Quality of information and decision-making;

- Boardroom activities; and
- Chairman of the Board's role.

2. **Directors' Skill Sets Evaluation**  
In conducting the evaluation, the following main criteria were adopted:-
    - Leadership and strategy;
    - Legal and regulatory requirements;
    - Corporate governance, risk management and internal controls;
    - Accounting and financial reporting;
    - Industry experience;
    - Operations and quality management; and
    - Information Technology.
  3. **Directors' Self and Peer Evaluation**  
In conducting the evaluation, the following main criteria were adopted:-
    - Contribution and performance; and
    - Calibre and personality.
  4. **Independent Directors' Self Assessment**  
Based on the responses received, INEDs have declared compliance for all assessment criteria relating to background, economic relationship, family relationship and tenure.
- The Board is satisfied with the level of independence demonstrated by the INEDs and their ability to act in the best interest of the Company.
5. **Consolidated Board Committee Assessment**  
The evaluation covered the following areas of assessment for BAC, BNRC, BRMC, BEC and BWBC:-

- Composition and Governance;
- Meeting administration and conduct
- Skills, competencies and professional development;
- Oversight of financial reporting process, including internal controls and audit function; and
- Duties and responsibilities in relation to nomination and remuneration matters, risk management matters, providing guidance to Management, supporting the Board in reviewing VELESTO strategies and whistleblowing matters.

Based on the evaluation conducted for the FY2019, the BNRC was satisfied with the performance of the individual Directors and the Board effectiveness with an average score of 92%.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

## III. REMUNERATION

### DIRECTORS' REMUNERATION POLICY AND PROCEDURES

The Board is mindful that fair remuneration for Directors is important in attracting, retaining and motivating knowledgeable and experienced individuals of the calibre needed to manage the business of the Company. The BNRC should benchmark the remuneration of the Directors against the remuneration levels for similar positions in other public listed companies in order to ensure that the Board's remuneration packages are competitive.

The BNRC is responsible for recommending to the Board for approval the remuneration packages of the Executive Director and Non-Executive Director, taking into consideration individual Director's performance, time commitment, experience, level of responsibilities, as well as the performance of the VELESTO Group and market conditions.

In 2019, VELESTO has adopted the Remuneration Policy and Procedures for Non-Executive Directors, of which:-

- i) is a guiding document for the Board of VELESTO to administer the remuneration of its Non-Executive Directors, taking into account the demands, complexities and performance of the Company as well as skills, experience, time commitment required and responsibilities reposed on the Non-Executive Directors; and
- ii) to set out an over-arching framework for the development of a fair and transparent framework for the remuneration of Non-Executive Directors of VELESTO.

The Board had on 25 February 2020, reviewed and approved the revised Remuneration Policy and Procedures for Non-Executive Directors. A copy of which is available on the Company's website at [www.velesto.com](http://www.velesto.com)

The remuneration practices of VELESTO's Non-Executive Directors are anchored on the following overarching objectives:-

- (a) Drive behaviour that is consistent with VELESTO's iLEAP values;
- (b) Promote symmetric outcomes with the risk appetite of VELESTO by encouraging prudent risk taking in decision-making;

- (c) Deliver a total reward proposition that is affordable yet fair, so as to incentivise actions towards the value accretion of VELESTO;
- (d) Attract and retain high-quality individuals with the optimum mixture of competencies, ability, experience and skill to deliver on strategy; and
- (e) Encourage a culture of collective and individual performance that is in line with the strategic goals of VELESTO.

In this regard, the responsibility of the BNRC as defined in the TOR, as follows:-

- review and recommend to the Board, the remuneration of all direct reports to the President/ Executive Director for position holding Job Grade 20 and above and the Company Secretary, including the extension of service and compensation and benefits package of such executives who have attained the retirement age of 60 years;
- ensure that a strong link is maintained between the level of remuneration and individual performance against the performance of the Group and the achievement of the organisation targets as the performance-related elements of remuneration setting forms a significant proportion of the total remuneration package of the Executive Director;
- ensure that the remuneration and incentives for Independent Directors do not conflict with their obligation to bring objectivity and independent judgement on matters discussed at Board meetings; and
- to recommend to the Board after reviewing the proposals on:-
  - framework of remuneration for Directors, covering fees, allowances and benefits- in-kind in their work as Directors of all Board and Board Committees;
  - overall annual salary increment guidelines/ limits for all staff, if any;
  - annual bonus limits/guidelines;
  - ex-gratia for staff, if any; and
  - remuneration benefits and other terms and conditions of employment, which have to be introduced as part of the VELESTO's overall human resource development plan. This would include matters such as pegging the VELESTO's salaries in line with the industry standards and major changes in benefits package.

All individual Directors shall abstain from making decisions in respect of their own remuneration.

### 3.1 REMUNERATION OF DIRECTORS

For the FY2019, the aggregate remuneration received/receivable by the Directors of the Company from the Company and the Group categorised into appropriate components are as follows:-

Received/receivable from the Company for FY2019:-

Directors' Remuneration	Fees* (RM'000)	Salaries and Other emoluments (RM'000)	Benefits- in-kind (RM'000)	Total (RM'000)
<b>Executive Director</b>				
Rohaizad Darus <sup>(1)</sup>	Nil	1,456	224	1,680
<b>Non-Executive Directors<sup>(2)</sup></b>				
Dato' Abdul Rahman Ahmad <sup>(3)</sup>	77	14	Nil	91
Razalee Amin	110	25	46	181
Dato' Ibrahim Marsidi	110	35	46	191
Rowina Ghazali Seth	102	29	15	146
Haida Shenny Hazri	101	19	15	135
Mohd Rashid Mohd Yusof	104	21	15	140
Rizal Rickman Ramli <sup>(4)</sup>	91	18	4	113
Dato' Dayang Fatimah Johari	102	31	8	141
Datuk Tong Poh Keow <sup>(5)</sup>	30	5	Nil	35
Cheah Tek Kuang <sup>(6)</sup>	58	21	43	122
<b>TOTAL</b>	<b>885</b>	<b>1,674</b>	<b>416</b>	<b>2,975</b>

<sup>(1)</sup> Included in the salaries and other emoluments are salary, bonus, employer's statutory contribution, driver, car and petrol allowances, leave passage, telephone expenses and club subscriptions.

<sup>(2)</sup> Included in the other emoluments are meeting fees allowances, per diem allowance, car, petrol, telephone expenses and leave passage.

<sup>(3)</sup> Fees as nominee Director paid to Permodalan Nasional Berhad up to 30 September 2019.

<sup>(4)</sup> Fees as nominee Director paid to Permodalan Nasional Berhad.

<sup>(5)</sup> Appointed as INED of VELESTO on 29 August 2019.

<sup>(6)</sup> Retired as INED of VELESTO on 29 May 2019.

### 3.2 REMUNERATION OF TOP FIVE SENIOR MANAGEMENT

While the Board is cognisant on the importance of transparency, the Board is of the view that the disclosure of the Senior Management's remuneration would be unfavourable to the VELESTO Group due to intense competition and scarcity for talent and the VELESTO Group would like to ensure its senior employee retention efforts be safeguarded to ensure the success of the VELESTO Group. The Board will continuously undertake a robust internal process to ensure that the remuneration of Senior Management is competitive and fair.

The Board further believes that the interest of the shareholders will not be prejudiced as a result of such non-disclosure of the remuneration of the Company's top five Senior Management.

### PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

#### 1. BAC

##### SEPARATION OF THE POSITIONS OF THE CHAIR OF THE BAC AND THE BOARD

The BAC is chaired by Razalee Amin, which is a separate person from the chair of the Board, Dato' Abdul Rahman Ahmad.

The composition of the BAC is set out in the BAC Report of this Annual Report.

##### NO APPOINTMENT OF FORMER KEY AUDIT PARTNERS AS MEMBER OF THE BAC

The BAC has instituted a policy by way of inclusion in the TOR of the BAC that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the BAC. This requirement is also affirmed in the VELESTO's External Auditors Assessment Policy Statement.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

## ASSESSMENT ON EXTERNAL AUDITORS

BAC is tasked to assess and monitor the performance, suitability, objectivity and independence of the External Auditors annually. The assessment is to be based on established External Auditors Assessment Policy Statement, that consider among others:-

- the competence, audit quality and resource capacity of the external auditor in relation to the audit;
- the nature and extent of the non-audit services rendered and the appropriateness of the level of fees; and
- obtaining written assurance from the external auditors 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.

During the year 2019, the BAC has carried out the annual assessment and in its assessment, the BAC considered, inter alia, the following factors:-

### A. Independence

The External Auditors must be independent from the Group and shall not provide any services that may materially impair their independence or conflict with their role as External Auditors.

### B. Non-Audit service

The External Auditors may be permitted to provide non-audit services that are not perceived to be materially in conflict with the role of the External Auditors.

External Auditors shall observe and comply with the By-Laws of the Malaysian Institute of Accountants in relation to the provision of non-audit services.

The Management shall obtain confirmation from the External Auditors that the independence of the External Auditors will not be impaired by the provision of non-audit services. All engagements of the External Auditors to provide non-audit services are subject to the approval of the BAC.

### C. Rotation of Audit Partner

The audit partner responsible for the external audit of the VELESTO Group is subject to rotation at least every five years.

The BAC has assessed the quality process/ performance, audit team, independence and objectivity, audit scope and planning, audit fees and audit communications of External Auditors vide the findings and insights on 2019 External Auditors' Performance and Independence Evaluation on the External Auditors, namely EY for the FY2019.

The External Auditors provided a written statement that they will continuously comply with the relevant ethical requirements regarding independence throughout the audit of the Group, in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants and the Malaysian Institute of Accountants' By-Laws (On Professional Ethics, Conduct and Practice). They are not aware of any relationship between EY and the VELESTO Group that, in their professional judgment, may reasonably be thought to impair their independence.

They have reviewed the non-audit services provided to the Company during the FY2019 and are not aware of any non-audit services that have compromised their independence as External Auditors of the Company.

Upon completion of its assessment, the BAC was satisfied with EY's technical competency and audit independence and recommended to the Board the re-appointment of EY as External Auditors for the FY2019. The Board has in turn, has recommended the same for shareholders' approval at the 9<sup>th</sup> AGM of the Company held on 29 May 2019.

## SKILLSETS OF BAC

The members of our BAC possess the necessary qualifications/experience in financial and auditing matters. Their profiles are disclosed on pages 24 to 31 of this Annual Report and on the Company's website.

In addition, the Chairman of the BAC, Razalee Amin, is a member of the Malaysian Institute of Accountants, a member of the Malaysian Institute of Certified Public Accountants and a member of the Financial Planning Association of Malaysia. The BAC therefore, meets the requirements of Paragraph 15.09(1)(c) of the MMLR.

The members of the BAC have attended various continuous trainings and development programmes as detailed in this Statement.

To keep abreast of relevant developments in accounting and auditing standards, our BAC members are regularly briefed by the External Auditors on key changes in accounting standards, practices and rules.

Based on the results of the annual evaluation for the FY2019, the BAC members are financially literate and understand the Group's business. The BAC as a whole, has necessary skills and knowledge to discharge their duties.

## **II. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK**

The Board fulfils its responsibilities in the risk governance and oversight functions through its BRMC in order to manage the overall risk exposures of VELESTO Group.

The BRMC assessed and monitored the efficacy of the risk management the controls and measures taken, whilst the adequacy and effectiveness of the internal controls were reviewed by the BAC for VELESTO Group.

The Board is of the view that the system of internal control and risk management in place for FY2019, is sound and sufficient to safeguard against adverse impacts and negative outcomes.

The salient features of our risk management and internal control framework are disclosed in the SORMIC on pages 152 to 159 of this Annual Report.

## **INTERNAL AUDIT FUNCTION**

The Company has an in-house Internal Audit Department ("IAD") and is headed by Norzalizah Alias, details of the profile can be referred to page 37 of this Annual Report. Norzalizah Alias reports directly to the BAC, to ensure impartiality and independence in executing its role. The IAD undertakes a systematic and disciplined approach in evaluating and improving the effectiveness of governance, risk management and control processes within the VELESTO Group and its key function is to assist the VELESTO Group in accomplishing its goals.

The IAD adopts the International Standards for the Professional Practices of Internal Auditing set by the Institute of Internal Auditors ("IIA") in carrying out the Internal Audit Function.

In maintaining independence and objectivity, IAD will not be assigned any scopes that would lead to a conflict of interest and impair their judgement.

## **PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS**

### **I. COMMUNICATION WITH STAKEHOLDERS**

The Board recognises the importance of an effective communication channel between the Board, Shareholders and the general public and shall inform in a timely manner to its Shareholders of its latest business and corporate developments in enhancing value to its Shareholders.

The Group has the Corporate Disclosure Policy in place to provide consolidated guide, procedure and structure in disseminating corporate information, and in dealings with the shareholders, the stakeholders, media representatives, analysts and the investing public.

A copy of the Corporate Disclosure Policy is available on the VELESTO's website: [www.velesto.com](http://www.velesto.com)

During the FY2019, the Company has implemented the following to communicate with its Shareholders:-

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

## i. General meeting

The 9<sup>th</sup> AGM was held on 29 May 2019. The Chairman of the AGM allowed reasonable time for questions and answers session in the AGM to ensure that all subject matters tabled are thoroughly considered and debated. The minutes of the AGM together with the response to Minority Shareholder Watch Group (“MSWG”) were uploaded onto the Company’s website after the AGM.

## ii. Announcements made to Bursa Malaysia

Annual Report, Quarterly Financial Results and various announcements were made to BURSA in accordance with the MMLR.

## iii. Annual Report and Circular to Shareholders

The Abridged Annual Report for year 2018 together with the notice of AGM were distributed to Shareholders on 26 April 2019.

## iv. Company’s website

All announcements released to BURSA, also appear in the VELESTO’s website at [www.ir.chartnexus.com/velesto-energy/index.php](http://www.ir.chartnexus.com/velesto-energy/index.php)

Shareholders and the general public may also access to the said website for information such as financial reports, bursa announcements, stock information, investor updates, investor relations contact, email alerts and reports.

## v. Media release

In FY2019, two media releases were uploaded onto the Company’s website at [www.velesto.com/media-centre](http://www.velesto.com/media-centre).

## vi. Analyst briefing and/or Press conference

Analyst briefings were held four times in FY2019 after the release of each Quarter’s Financial Results. A press conference was held after the 9<sup>th</sup> AGM on 29 May 2019, followed by a press release on the AGM. Chaired by the President, these briefings provided venues to keep the investors informed of the various activities and initiatives undertaken by VELESTO and to provide clearer understanding of the Company’s financial and operational performance.

## vii. One-on-one Meeting

VELESTO aims to communicate fully with fund managers, investors and analysts upon request. One-on-one meetings with analysts and fund managers are held to provide updates on the VELESTO’s strategy and financial performance.

## viii. Investor Relations matters

A dedicated “Investor Relations Contact” section is available in the Company website, for ease of communication to VELESTO’S Investors.

For any queries on investor related matters on VELESTO Group, please contact the following:

Name: Eric Chua, Manager, Investor Relations  
Telephone: +603 2096 8788  
Email: [investor.relations@velesto.com](mailto:investor.relations@velesto.com)

Further information on communication, to VELESTO’s stakeholders, refer to the Stakeholder Engagement section as set out in this Annual Report.



## II. CONDUCT OF GENERAL MEETINGS

### NOTICE OF AGM

The notice of the 9<sup>th</sup> AGM together with the Annual Report is dispatched to shareholders at least twenty-eight (28) days prior to the meeting date, well in advance of the twenty-one (21) days requirement under the CA 2016 and MMLR of BURSA. The additional time given to shareholders is to allow them to make the necessary arrangements to attend and participate in person or through corporate representatives, proxies or attorneys.

More importantly, it enables the shareholders to consider the resolutions and make an informed decision in exercising their voting rights at the general meeting. Full explanation of the effects of a proposed resolution of any special business will accompany the notice of AGM.

All the Directors including the Chairman of the respective committees, were present at the 9<sup>th</sup> AGM of the Company held in year 2019 to engage with the shareholders personally and proactively.

The Board Chairman presided over the 9<sup>th</sup> AGM, and together with the President, Chairman of the Board Committees and Senior Management were readily available to address various questions from the shareholders and their proxies.

The proceedings of the 9<sup>th</sup> AGM included the presentation of financial statements to the shareholders, and a question and answer session in which the Chairman of the AGM invited shareholders to raise questions on the Company's financial statements and other items for adoption at the AGM, before putting a resolution to vote.

The Board ensured that sufficient opportunities were given to shareholders to raise issues relating to the affairs of the Company and that adequate responses were given.

### POLL VOTING

In line with the MMLR on the requirement for poll voting for all resolution set out in the notice of general meeting, during the 9<sup>th</sup> AGM held in year 2019, the resolutions tabled at the 9<sup>th</sup> AGM were all voted by poll.

### ELECTRONIC POLL VOTING

Taking into consideration of the shareholders' profiles of the Company, the Board has adopted electronic voting at the 9<sup>th</sup> AGM of the Company held on 29 May 2019 to facilitate and ease shareholders' participation at the AGM. The Board believes that the electronic voting will ensure accurate and efficient outcomes of the poll voting process.

### VOTING IN ABSENTIA AND REMOTE SHAREHOLDERS' PARTICIPATION AT GENERAL MEETING

With priority to the well-being and safety of shareholders, employees and the Board, and in support of Government initiative to curb Covid-19, the 10<sup>th</sup> AGM of the Company will be conducted entirely through live streaming from the broadcast venue, for remote shareholders' participation at the 10<sup>th</sup> AGM of the Company.

### CONCLUSION

The Board is satisfied that for FY2019, the Company complies substantially with the principles and guidance of the MCCG 2017.

This Corporate Governance Overview Statement is made in accordance with a resolution of the Board of Directors passed on 12 May 2020.

# STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

For The Financial Year Ended 31 December 2019

## 1. INTRODUCTION

Pursuant to the MMLR of BURSA and the requirements of the MCGG 2017, the Board is committed to maintaining sound systems of risk management and internal control of VELESTO Group to manage risks and to report on internal controls and regulatory compliance so as to safeguard shareholders' investment and VELESTO Group's assets.

The Board's Statement on Risk Management and Internal Control for the FY2019 is prepared in accordance with the Statement on Risk Management & Internal Control - Guidelines for Directors of Listed Issuers ("Guidelines") issued by BURSA pursuant to Paragraph 15.26(b) of the MMLR. This Statement outlines the nature and scope of risk management and internal control of VELESTO Group and covers all of the Group's operations, except for associated company.

## 2. RESPONSIBILITY AND ACCOUNTABILITY

The Board recognises the importance of establishing and maintaining sound systems of risk management and internal control framework and systems in VELESTO Group. As such, the Board affirmed its commitment and responsibility towards VELESTO Group's risk management and internal control systems, covering not only financial controls but also formulations of strategies and performance objectives on operational, organisational, compliance and governance controls, by challenging and reviewing the adequacy, effectiveness and integrity of these systems, from time to time.

In fulfilling its overall responsibilities, the Board delegated the responsibility of overseeing and reviewing the effectiveness of VELESTO Group's Enterprise Risk Management ("ERM") as well as Business Continuity Management ("BCM") to the BRMC, while matters relating to internal control falls within the purview of the BAC. The BRMC and BAC, in turn will provide updates and reports to the Board after their meetings, and escalate significant and/or issues of concerns, for further deliberation and decision/direction by the Board. The approved minutes of meetings of BRMC and BAC are also forwarded to the Board, for notation.

The Board recognises its continuous overall responsibility on VELESTO Group's risk management and internal control systems, and the implementation of these systems have been delegated to the MAC and the Risk Management Committee ("RMC"). The MAC and the RMC comprising of Senior Management staff, report to the BAC and the BRMC respectively, on quarterly basis, on risks identified and actions or steps taken to mitigate and/or minimise the risks. In addition to scheduled meetings, MAC and RMC also update BAC and BRMC members respectively on certain issues, on ad hoc basis.

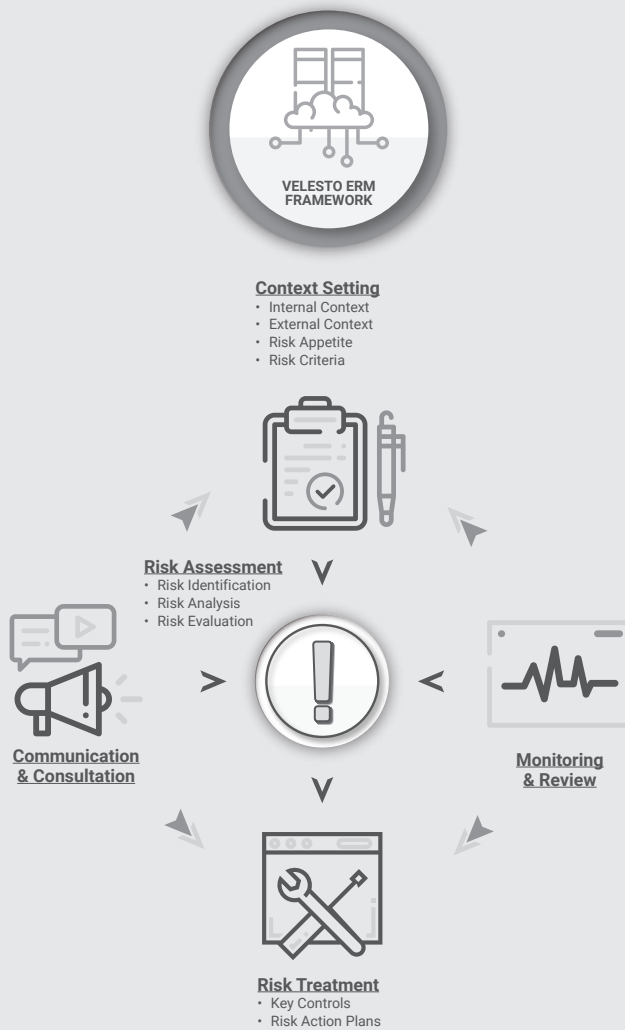
VELESTO Group's risk management and internal control systems are designed to meet particular needs, to efficiently and effectively manage risks that may hinder the achievement of VELESTO Group's business objectives, provide information for accurate reporting and ensure compliance with regulatory and statutory requirements. The processes for identification, evaluation, monitoring and managing of significant risks that may materially affect VELESTO Group's business objectives had been in place throughout the financial year under review and were regularly appraised by the Board.

However, in view of the limitations inherent in any system, it should be appreciated that these systems are designed to manage and reduce, rather than eliminate, the risks identified to acceptable levels. These systems can therefore only provide reasonable and not absolute assurance against material misstatement, fraud or loss. Furthermore the Company also recognises the importance to balance the cost of control procedures against the expected benefits/outcomes.

### 3. RISK MANAGEMENT

VELESTO has established an ERM Framework to proactively identify, evaluate and manage key risks to an optimal level, and to track and monitor the effectiveness of the corrective actions in mitigating the identified risks. In line with VELESTO Group's commitment to deliver sustainable value, this framework aims to provide an integrated, systematic and consistent approach entity-wide. ERM Framework promotes and develops the governance within VELESTO Group through variety of awareness and refresher activities conducted throughout the year under review.

It outlines the ERM methodology which is in line with the Principles and Guidelines of ISO31000: Risk Management - Principles and Guidelines, mainly promoting risks ownership and continuous monitoring of identified key risks. The VELESTO Group's ERM Framework is summarised in the diagram below:-



#### A. Risk Management Oversight

BRMC assists the Board in the oversight of the overall risk management of VELESTO Group. Mandate and commitment from the Board and BRMC are key contributors to the success factors in the implementation of the ERM programmes. The Board and BRMC set the strategic direction for roles, responsibilities and reporting structures. The periodic reporting to the Board and BRMC on risk management activities by Management, via the RMC keeps the Board and BRMC apprised and advised of all aspects of ERM and significant individual risks and risk trends.

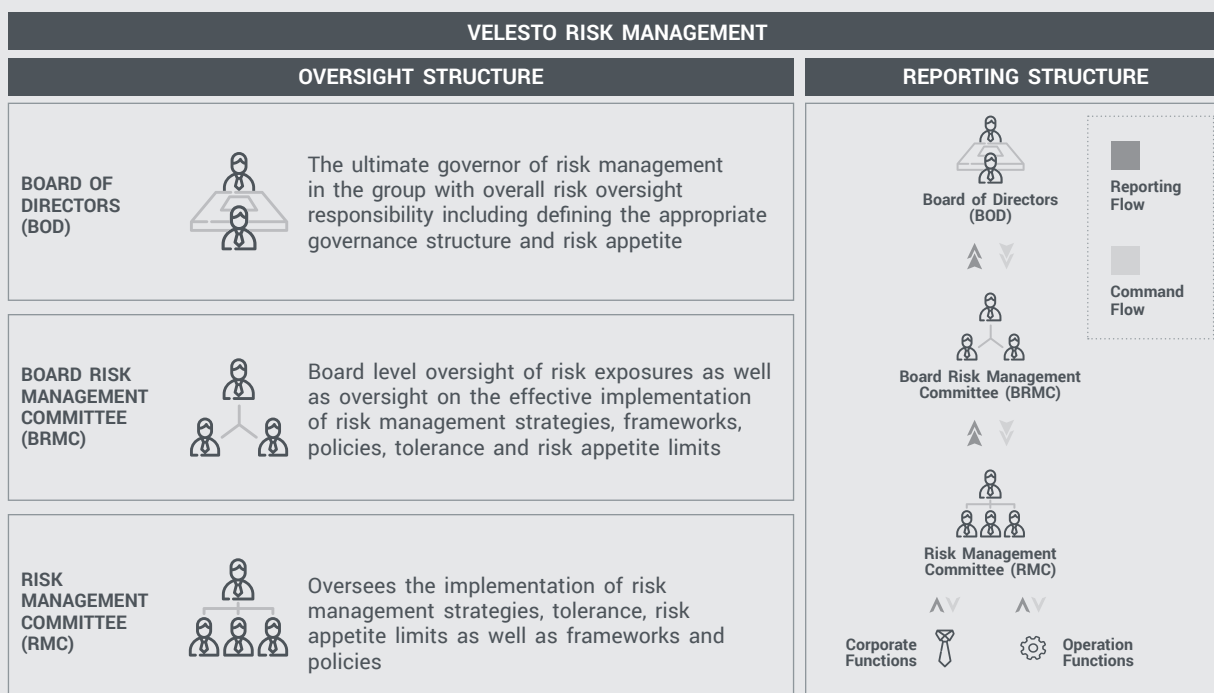
In addition to the periodic reporting requirements to the Board and BRMC, the RMC has specific responsibilities that include, but are not limited to the following:-

- implement the policies and frameworks established by the Board;
- ensure the risk management and internal control systems, ERM programmes and processes are carried out accordingly;
- develop relevant procedures, controls to manage those identified risks and exposures in accordance with VELESTO's overall visions;
- monitor the effectiveness and progress of the actions taken to address the risks and exposures.

# STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

For The Financial Year Ended 31 December 2019

The levels of Board, BRMC and RMC's participation and the reporting structure are shown in the diagram below:-



The RMC is assisted by the Risk Management and Compliance Department (“RMD”), whose primary roles include, but not limited to, ensuring effective implementation of risks management and business continuity management framework, programmes and education across the VELESTO Group by providing independent and objective assessment on risks as well as timely reporting to the RMC, BRMC and the Board.

To enhance effectiveness and efficiency, VELESTO's risk management oversight is being supported by the Three Line of Defence Model, which distinguishes the three different groups that are involved in the risk management process:-

LINES OF DEFENCE		
1 <sup>st</sup> Line: Risk-Taking Units	2 <sup>nd</sup> Line: Risk-Control Units	3 <sup>rd</sup> Line: Internal Audit
<ul style="list-style-type: none"> <li>Manage risks that exist in day-to-day operations and projects diligently.</li> <li>Ensure the business operates within the established risk strategies, frameworks, policies and procedures.</li> </ul>	<ul style="list-style-type: none"> <li>Provide risk oversight and guidance over effective operation of the risk management framework, policies and procedures.</li> </ul>	<ul style="list-style-type: none"> <li>Provides assurance via independent assessment and validation that:-               <ul style="list-style-type: none"> <li>Risk management frameworks policies and tools are sufficiently robust and consistent with regulatory standards.</li> <li>Controls to mitigate risks are adequate.</li> <li>Adequate oversight by RMD as well as by the Internal Audit Department</li> </ul> </li> </ul>

## B. Risk Management Process

VELESTO's ERM Framework has a structured process for both Operations and Corporate Divisions to identify, analyse, evaluate, treat, communicate and monitor their risks. The risks are identified based on VELESTO's goals and objectives and assessed against the Impact and Likelihood Determination Parameters, which then will derive the Risk Rating. Each risk identified will be reassessed and monitored on an ongoing basis to ensure its relevance and appropriate risk action plans are taken to manage the risks.

## C. VELESTO Group's Top Risks

For the FY2019, the following table exhibits the VELESTO Group's Top Risks and the mitigation actions undertaken by the Group:-

Risk Event	Response
Adverse changes in Government policies affecting the local oil and gas industry.	Keep abreast of developments affecting government policies at national and state level, maintain good rapport and ensure adherence to existing policies.
Volatility of global crude oil prices, affecting the offshore drilling services industry.	Exploring business diversification opportunities. Continue to institute cost efficiency and target for high rig utilisation at prevailing charter rates.
Critical system disruptions.	Enhancing internal IT systems and establish sound data security and recovery system and processes.
Exposure to HSE event.	Continuous emphasis on compliance to good HSE practices and culture, with regular HSE programmes and inspections.
Termination/Temporary suspension of contracts in certain circumstances e.g. weather conditions.	Continue to negotiate improved terms and conditions. Continue to deliver high level of services and high level of engagement with the clients.

### Moving into 2020

On the back of global uncertainties surrounding the COVID-19 pandemic outbreak in early 2020 and volatile downside risk in oil prices affecting the oil and gas industry, the Group expects some shifts in risks and exposures. Nevertheless, Group remains focused to continuously monitor and mitigate its risk exposures to minimise their impact on our performances despite the challenges.

## D. Risk Reporting

The VELESTO Group's ERM Framework provides for regular review and reporting. The ERM reports include information on risk profiles, risk action plans ("RAPs") and status updates. Directions and guidance from the Board and BRMC members are cascaded to respective Risk Owners by RMD following each meeting for their immediate action.

## E. Risk Management Activities

As part of VELESTO's effort to instill a proactive risk management culture and ownership, variety of activities had been undertaken during the year under review, as summarised below:-

- Reviewed and enhanced VELESTO's Enterprise Risk Management Policy and Framework.
- Conducted ERM awareness sessions, training and coaching for strategic business units and corporate divisions. This is part of VELESTO's effort to communicate and ensure continuous application of ERM in day-to-day business operations.
- Conducted risk review sessions with key personnel and respective Heads of Divisions to obtain endorsement of their key risks and their mitigation actions.
- Provided risk advisory and independent assessment during the review sessions throughout the year in review.
- Developed Country Risk Assessment mechanism.

# STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

For The Financial Year Ended 31 December 2019

## 4. BUSINESS CONTINUITY MANAGEMENT

To ensure its resilience against potential threat and to continuously deliver its service at acceptable predefined levels following any prolonged disruptions, VELESTO has incorporated BCM initiatives as part of its management process.

The following diagram manifests the BCM Framework of VELESTO:-



## 5. INTERNAL CONTROL SYSTEMS

The Board acknowledges that the internal control systems are designed to identify, evaluate, monitor and manage the risks that may hinder VELESTO Group from achieving its goals and objectives throughout the year.

Key elements of the internal control systems established by the Board include the following:-

### A. Internal Control Oversight Structure

The following committees and functions are established to assist the Board in monitoring the internal control system:-

<b>Board Committees</b>	<p>Assists the Board in discharging its statutory and fiduciary responsibilities. The Committees are BAC, BRMC, BNRC and BWBC.</p> <p>The respective board committees operate within clearly defined TOR, procedures and authority delegated and approved by the Board.</p>
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<p><b>Internal Audit Division (“IAD”)</b></p>	<p>Undertakes the internal audit function of the Group and provides independent assurance on the adequacy and effectiveness of the internal control systems implemented by the Group. The head of IAD reports functionally to the BAC and administratively to the President. The IAD functions are independent from activities and operations of other corporate and operating units in the Group.</p> <p>IAD operates independently in formulating the scope and extent of its audits, undertaking the audit work and presenting the results and findings to the BAC. IAD undertakes reviews of the Group’s system of internal controls, its operations and selected key activities based on risk assessment and in accordance with the annual internal audit plan which is presented and approved by the BAC.</p> <p>Ultimately, IAD aims to add value and improve the operational effectiveness and efficiency of the Group by ensuring proper adherence to the established procedures, internal controls and risk management framework. IAD adopts the standards and principles outlined in the International Professional Practices Framework (“IPPF”) of the Institute of Internal Auditors (“IIA”).</p>
<p><b>Management Audit Committee (MAC)</b></p>	<p>Assists BAC in fulfilling its responsibilities in reviewing the internal audit reports with the respective management team within the Group. MAC is chaired by the Chief Financial Officer.</p> <p>MAC functions also include:-</p> <ul style="list-style-type: none"> <li>(i) assess the adequacy and effectiveness of internal controls on the operations and the compliance with the established company policies, procedures and legal requirements.</li> <li>(ii) agree upon the corrective actions to be taken and its implementation.</li> <li>(iii) follow-up on status of the implementation of the agreed action plans.</li> <li>(iv) report to BAC on the outcome of the meeting and the actions agreed upon.</li> </ul>

**B. Organisation Structure**

The Board has established an organisation structure with clearly defined lines of responsibility, authority limits and accountability which aligned to corporate and operation requirements.

The Management Committee is established to facilitate the decision making process, effective supervision of day-to-day business conducts and accountabilities. The Management Committee comprises of Senior Management and is chaired by the President.

The organisation structure and delegation of responsibilities are communicated throughout the Group which set out, amongst others, authorisation levels, segregation of duties and other risk and control procedures.

# STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

For The Financial Year Ended 31 December 2019

## C. Annual Business Plan and Budget

An annual business planning and budgetary exercise is conducted, which included industry and market studies, formulation of business strategies and establishment of key performance indicators (“KPIs”), which are then reported for Board’s deliberation and approval prior to implementation.

Budgets prepared by operating units and corporate divisions are regularly compared with the actual results and explanations on variances are incorporated in management reports which are prepared and reported on a quarterly basis to the Board.

## D. Core Value

The Group’s Core Values, i-LEAP of Integrity, Leadership, Excellence, Agility, People-Focused are the essential guiding principles to drive behavioral ethics. i-LEAP campaigns have been conducted throughout the year amongst the employees to cultivate the Core Values embraced by the Group.

## E. Policies and Procedures

Internal policies and procedures are developed to achieve efficiency, quality of services/output and standardisation of processes through the relevant charters, terms of reference, organisational structures and appropriate authority limits. The policies and procedures are communicated throughout the Group via VELESTO intranet for implementation and compliance. The policies are approved by the Board and regularly updated to reflect changing business requirements.

The key supporting policies and procedures in place are:-

- i) Financial Limit Authority Governance Procedures (“FLAG”) and Limit Authority Matrix  
FLAG and Limit Authority Matrix serve as tool of reference to identify the appropriate approving authority at various levels of management including matters that require the Board’s approval.

The FLAG and Limit Authority Matrix were revised during the year and approved by the Board on 1 August 2019.

- ii) Whistle-Blowing Policy  
This policy addresses the Group’s commitment towards achieving the highest ethical standards in all of its practices as well as to ensure transparency, integrity and accountability. This policy also covers situations where an individual as the whistle-blower, raises a concern on risk, malpractice or wrongdoing that affects others such as clients, suppliers, staff, company and the public interest. It also addresses the protections accorded to whistle-blowers.
- iii) Health, Safety and Environment Policy  
The policy sets out the Group’s commitment to safeguard the interest and protection of people, asset and the environment, affirms the Group’s adoption of industry’s accepted best practices and dedication to continually improve the Group’s Health, Safety and Environment performances. This policy further ensures that employees of the Group in performing daily business activities will implement effective risk control measures.
- iv) Human Resource Procedures and Guidelines  
The procedures and guidelines on Human Resource govern all aspects of human resource management from talent acquisition and development, performance and consequence management to cessation of employment. Disciplinary Procedures are established to ensure that structured disciplinary actions are taken fairly, consistently and in line with the prevailing labour laws and employment regulations.



v) Procurement Procedures

Procurement procedures state the principles and procedures required in the procurement of goods and services within the Group. Authority to approve any requisition against budgeted or unbudgeted expenditures shall be in accordance with relevant approving authority policies i.e. FLAG.

## 6. ASSURANCE TO THE BOARD

In line with the Guidelines, the Board has received assurance from the President and Chief Financial Officer of VELESTO stating that the VELESTO Group's risk management and internal control systems have operated adequately and effectively, in all material aspects, for the FY2019 up to the date of this Statement, save for some control weaknesses identified and addressed during the year.

The Board is of the view that there is a continuous process in identifying, evaluating, monitoring and managing the significant risks faced by the VELESTO Group and that during the financial year under review there were no significant weaknesses in the risk management and internal control systems of the VELESTO Group which had resulted in material losses, contingencies or uncertainties requiring disclosure in the Annual Report. The Board is satisfied that the systems of risk management and internal control in the VELESTO Group are sound and sufficient to safeguard shareholders' investment and the VELESTO Group's assets for the financial year under review and up to the date of the Annual Report save for some control weaknesses identified and addressed during the year.

The Board remains committed to ensure that appropriate initiatives and active measures are taken to improve and enhance the VELESTO Group's risk management and internal control systems so that shareholders' investment and the VELESTO Group's assets are consistently safeguarded.

## 7. REVIEW OF THIS STATEMENT

The External Auditors, Messrs. Ernst & Young PLT, have performed limited assurance procedures on the Statement in accordance with Malaysian Approved Standard on Assurance Engagements, ISAE 3000 (Revised), 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information' and Audit and Assurance Practice Guide 3, 'Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report'.

Messrs. Ernst & Young PLT have reported to the Board that nothing has come to their attention that causes them to believe that the Statement included in the Annual Report is not prepared, in all material aspects, in accordance with the disclosures required by Paragraphs 41 and 42 of Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers, nor is the Statement factually inaccurate.

This Statement is made in accordance with the resolution of the Board dated 12 May 2020.

# BOARD AUDIT COMMITTEE REPORT

THE BAC REPORT PROVIDES INSIGHTS INTO THE MANNER IN WHICH BAC DISCHARGED ITS FUNCTIONS FOR THE GROUP IN 2019

## COMPOSITION

The BAC comprises 4 members, all Independent Non-Executive Directors, thus, fully complying with the requirements of paragraph 15.09(1)(a) and (b) of MMLR and Practice 8.4 under Principle B of the MCGG 2017. The members are:-

1. Razalee Amin – Chairman  
Independent Non-Executive Director
2. Dato' Ibrahim Marsidi  
Independent Non-Executive Director
3. Dato' Dayang Fatimah Johari  
Independent Non-Executive Director
4. Datuk Tong Poh Keow  
Independent Non-Executive Director

All the Independent Non-Executive Directors satisfy the test of independence under BURSA's MMLR. The Chairman of the BAC, Razalee Amin, is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants, and is also a member of the Financial Planning Association of Malaysia. Accordingly, the BAC complies with the requirement of paragraph 15.09(1)(c)(i) of MMLR. During the year, Cheah Tek Kuang ceased to be a member of the BAC on 29 May 2019 and Datuk Tong Poh Keow was appointed as a member of the BAC on 19 September 2019.

The BNRC had conducted the annual performance evaluation of the BAC and its members for the FY2019 and the report of which was reviewed by the Board. The Board is satisfied that during the FY2019, the BAC and its members have discharged their functions, duties and responsibilities in accordance with the BAC's Terms of Reference.

## TERMS OF REFERENCE ("TOR")

The TOR of the BAC sets out the authority, duties and responsibilities of the BAC which are consistent with the requirements of the MMLR and the MCGG 2017.

The TOR of the BAC is published on the VELESTO's website at [www.velesto.com](http://www.velesto.com)

## MEETINGS AND ATTENDANCE

The BAC held 6 meetings in FY2019 and the members' attendance records are outlined in page 136 of this Annual Report.

The President, Chief Financial Officer ("CFO"), Head of Legal & Secretarial, Head of Internal Audit, as well as the External Auditors were invited to attend BAC meetings to present, facilitate and furnish information and clarifications to relevant items on the agenda.

The Company Secretary, who is the Head of Legal & Secretarial, acts as secretary to the BAC and minutes of each meeting are kept by the Company Secretary as evidence that the BAC has discharged its functions. After each meeting, the Chairman of BAC reports to the Board. The approved minutes of BAC meetings were tabled to Board for information and significant issues were discussed at the Board meetings.

During FY2019, BAC held 2 private meetings with the external auditors without the presence of the Management team.

## SUMMARY OF BAC'S WORK

During the year under review, the BAC in the discharge of its duties and functions, had carried out the following activities:-

### A) Financial Reporting

- 1) Reviewed the unaudited quarterly financial results for the fourth quarter of the financial year ended 2018 at its meeting on 26 February 2019. The unaudited financial results for the first, second and third quarters of the financial year ended 2019, which were prepared in compliance with the Malaysian Financial Reporting Standards ("MFRS") including MMLR, were reviewed at the BAC meetings held on 17 May 2019, 21 August 2019, and 26 November 2019 respectively. On 24 February 2020, the BAC reviewed the quarterly financial results for the fourth quarter 2019. The BAC's recommendations were presented for approval at the following Board meetings.

2) Reviewed the annual financial statements prior to the approval by the Board. In reviewing the above, the BAC also focused on the following:-

- Impairment assessment of property, plant and equipment and land use rights;
- Assessment of loan covenants;
- Variances between physical inventories balances and general ledger;
- Offer and grant of options under the Employees' Share Option Scheme; and
- Tax audit conducted by the Inland Revenue Board.

3) Reviewed and deliberated on related party transactions for FY2019.

#### B) Annual Report

On 4 April 2019, the BAC attended to the following:-

- Reviewed and endorsed the SORMIC for Board's approval and inclusion in FY2018 Annual Report.
- Reviewed and endorsed the Corporate Governance Overview Statement and Board Audit Committee Report for Board's approval and inclusion in FY2018 Annual Report.

#### C) External Audit

1) The BAC deliberated on the External Auditors' report at its meeting on 8 May 2020 on the financial statements for the year ended 2019. At the same meeting, the lead audit engagement partner from Messrs Ernst & Young PLT ("EY") confirmed that EY was and had been independent throughout the conduct of audit engagement in accordance with the terms of all relevant professional and regulatory requirements, including the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants. Key audit matters as set out in the report were then presented to the BAC.

2) On 8 May 2020 at its meeting, the BAC assessed and recommended to the Board for approval of the audit fees payable to external auditors.

3) In line with the External Auditors Independence Policy, on 26 February 2019, the BAC carried out an annual review of the performance of the External Auditors including the assessment of their suitability, objectivity and independence. The BAC was satisfied with EY's overall performance for the Group.

4) At its meeting held on 26 November 2019, the BAC reviewed and approved the external auditors' Audit Plan Memorandum which outlined their scope of work and audit strategy and plans for FY2019, including the names of the engagement team, areas of audit emphasis, timeline of audit and their focus on key audit matters.

5) The BAC had two private meetings with the External Auditors on 4 April 2019 and 26 November 2019, without the presence of Management to discuss the co-operation of the Management and staff during the audit process and areas for continuous improvement, assess efficiency in audits and compliance with applicable laws. During the private sessions, the External Auditors presented for BAC considerations on major findings, key significant external audit matters and recommendations raised by the external auditors and Management's response and follow up actions thereto.

#### D) Internal Audit

1) The BAC approved the 2019 Annual Internal Audit Plan on 21 November 2018 and BAC ensured that the principal risks, key entities and functions were adequately identified and covered in the plan.

BAC also reviewed on IAD's manpower plan and budget for FY2019 to ensure the adequacy of resources, competencies and coverage of areas to be audited.

# BOARD AUDIT COMMITTEE REPORT

- 2) The Head of IAD, presented the IAD reports at each of the BAC meetings during the year. The Annual Audit Plan was reviewed on a quarterly basis and Head of IAD reported on the following:-
  - (i) The progress of the annual internal audit plan, special review and its key initiatives;
  - (ii) Adequacy of the Management's responses to the audit findings and recommendations; and
  - (iii) Adequacy of IAD resources, training and development.
- 3) The BAC at its quarterly meetings considered the major findings, recommendations and Management's responses and implementation of internal audit issues. All findings from the internal audit reviews were reported to the BAC, Senior Management and the relevant Management of the audited entities. The respective Management of the audited entities is accountable to ensure proper handling of the audit issues and implementation of their action plans within the time-frame specified. Actions taken by the audited operating units were followed-up by IAD together with the MAC and the status updated in the subsequent audits.

## INTERNAL AUDIT FUNCTION

IAD is an integral part of the assurance structure of the Group. The Division's primary responsibility is to provide an independent and reasonable assurance on the adequacy and effectiveness of the Group's overall system of internal control, risk management and governance processes.

The Head of IAD, namely Norzalizah Alias, reports directly to the BAC on a functional basis and to the President on administrative matters. The Head of IAD periodically reports to the BAC on the activities performed as well as the key control issues noted by the internal auditors.

The purpose, authority and responsibility of IAD are reflected in the Internal Audit Charter, which was approved by the BAC. In order to maintain its independence and objectivity, IAD has no operational responsibility and authority over the activities of the auditees.

The total staff strength in IAD as at 31 December 2019 stood at 6 staff and a total of RM1.0 million (2018:RM0.9 million) was incurred as part of resource allocation for an internal audit function, covering mainly manpower and incidental costs such as travelling and training.

IAD adopts a risk-based approach as part of its audit planning and execution focusing on significant identified risks and effectiveness of the controls in mitigating the risks. In performing the audit engagements, IAD is guided by the Institute of Internal Auditors' International Professional Practices Framework ("IPPF") which includes the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.

Internal Control Oversight Structure of which Internal Audit Division is included, is further described on pages 156 and 157 of this Annual Report under SORMIC.

This Report is made in accordance with the resolution passed at a joint meeting of the BAC and BRMC held on 11 March 2020.

# ADDITIONAL COMPLIANCE INFORMATION

## 1. UTILISATION OF PROCEEDS FROM CORPORATE PROPOSALS

The Company has fully utilised the proceeds raised from its rights issue exercise in 2017 and there was no proceeds raised from corporate proposal during the financial year.

## 2. AUDIT AND NON-AUDIT FEES

The amount of audit and non-audit fees incurred by the Company and the Group for the financial year ended 31 December 2019 is set out on page 235 of this Annual Report.

## 3. MATERIAL CONTRACTS

There were no material contracts entered into by the Group involving the interest of Directors or Major Shareholders, either still subsisting at the end of the FY2019 or entered into since the end of the previous financial year.

## 4. RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

The Company did not seek any mandate from its shareholders on any recurrent related party transactions of a revenue or trading nature during the FY2019.

## 5. EMPLOYEES SHARES OPTION SCHEME ("ESOS")

The Employees' Shares Option Scheme ("ESOS") for the eligible employees (including Executive Director) of the Company and its subsidiaries (excluding subsidiaries which are dormant) was approved by the shareholders at the Extraordinary General Meeting held on 31 October 2019 and launched on 1 November 2019. The ESOS is governed by the By-Laws and administered by the Board Nomination & Remuneration Committee ("ESOS Committee").


The details of the first ESOS granted on 1 November 2019 are summarised below:-

ESOS Grant	Year	Option Price per share	No. of ESOS Granted	No. of ESOS Accepted	No. of ESOS Vested	No. of ESOS Exercised
ESOS Granted to eligible employees of the Group						
1st ESOS Grant	2019	RM 0.33	130,330,000	109,660,000	0*	0
ESOS Granted to Executive Director of the Company						
1st ESOS Grant	2019	RM 0.33	11,400,000 (maximum number of ESOS)	11,400,000	0*	0
ESOS Granted to Senior Management (including Executive Director of the Company)						
1st ESOS Grant	2019	RM 0.33	35,450,000	35,450,000	0*	0

\* Subject to vesting condition at the discretion of the ESOS Committee.

*Note: The Non-Executive Directors are not eligible to participate in the ESOS.*

The ESOS has a 3-year vesting period (subject to earlier vesting date at the discretion of the ESOS Committee), whereby eligible employees can exercise their ESOS after the vesting period. The Company may recommend, upon obtaining approval from the Board of Directors, to extend the ESOS period for another 5 years of up to a maximum of 5 years in aggregate. The maximum number of shares of the Company which may be made available under the ESOS, shall not in aggregate exceed 7.5% of the total number of issued shares of VELESTO (excluding treasury shares, if any) at any point in time over the duration of the ESOS.



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# FINANCIAL STATEMENT

# DIRECTORS' REPORT

## DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2019.

## PRINCIPAL ACTIVITIES

The principal activities of the Group and of the Company are referred to in Note 1 to the financial statements.

There have been no significant changes in the nature of the principal activities during the financial year.

## RESULTS

The results of the Group and of the Company for the financial year ended 31 December 2019 are as follows:

	Group RM'000	Company RM'000
Profit for the year	33,070	34,061
Attributable to:		
Equity holders of the Company	33,218	34,061
Non-controlling interests	(148)	–
	33,070	34,061

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than as disclosed in the financial statements.

# DIRECTORS' REPORT (CONT'D.)

## DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year.

## DIRECTORS OF THE COMPANY

The names of the Directors of the Company in office since the beginning of the financial year to the date of this report are:

Dato' Abdul Rahman Ahmad  
Rohaizad Darus #  
Razalee Amin  
Dato' Ibrahim Marsidi  
Mohd Rashid Mohd Yusof  
Haida Shenny Hazri  
Rowina Ghazali Seth  
Rizal Rickman Ramli  
Dato' Dayang Fatimah Johari  
Datuk Tong Poh Keow (appointed on 29 August 2019)  
Cheah Tek Kuang (retired on 29 May 2019)

# Director of the Company and certain of its subsidiaries.

## DIRECTORS OF THE COMPANY'S SUBSIDIARIES

The names of the Directors of the Company's subsidiaries since the beginning of the financial year to the date of this report, excluding those who are already the Directors of the Company, are:

Abdul Hadi Abdul Bari  
Abdul Mutalib Idris  
Thum Sook Fun  
Syed Rozhan Syed Hassan  
Kenzo Yamada  
Yoichi Onoe  
Satoru Umezu  
Kok Chong Mun  
Yeo Kiong Pung, George  
Antony Alexander Elliott  
Rafiza Ghazali  
Mohd Hagitar Awang Teh  
Adrin Shafil Ahmad Nasir (appointed on 29 August 2019)  
Izwan Radzi Megat Mohd Radzi (resigned on 29 August 2019)  
Wai Thuy Fong (resigned on 31 December 2019)



## DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than those arising from the share options granted under the Employees' Share Option Scheme ("ESOS").

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company or a related corporation as shown below) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

The directors' benefits are as follows:

	Group RM'000	Company RM'000
Salaries and other emoluments	1,391	1,391
Fees	885	885
Bonus	74	74
Pension costs - defined contribution plan	209	209
Share options granted under ESOS	116	116
Benefits-in-kind	415	415
Insurance effected to indemnify directors	55	55
	3,145	3,145

## DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the interests of Directors in office at the end of the financial year in shares and options over shares in the Company and its related corporations during the financial year were as follows:

	Number of Ordinary Shares			
	1 January 2019	Bought	Sold	31 December 2019
<b>The Company</b>				
<b>Direct interest</b>				
Razalee Amin	203,000	-	-	203,000
Dato' Ibrahim Marsidi	30,000	-	-	30,000
Rohaizad Darus	3,800,000	-	-	3,800,000

# DIRECTORS' REPORT (CONT'D.)

## DIRECTORS' INTERESTS (CONT'D.)

	1 January 2019	Number of Warrants		31 December 2019
		Bought	Sold	
<b>The Company</b>				
<b>Direct interest</b>				
Rohaizad Darus	100,000	–	–	100,000

## Employees' Share Option Scheme

	1 January 2019	Number of Options		31 December 2019
		Granted	Exercised	
<b>The Company</b>				
<b>Direct interest</b>				
Rohaizad Darus	–	11,400,000	–	11,400,000

None of the other Directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

## EMPLOYEES' SHARE OPTION SCHEME

At an Extraordinary General Meeting held on 31 October 2019, shareholders approved the ESOS for the granting of non-transferable options to eligible senior executives and employees respectively.

The Board Nomination and Remuneration Committee administering the ESOS comprises four Directors, namely Dato' Ibrahim Marsidi, Rowina Ghazali Seth, Dato' Dayang Fatimah Johari and Rizal Rickman Ramli.

The salient features and other terms of the ESOS are disclosed in Note 19(b) to the financial statements.

During the financial year, the Company granted 130,330,000 share options under the ESOS. These options are exercisable subject to the vesting conditions determined at the discretion of the Board Nomination and Remuneration Committee.

## EMPLOYEES' SHARE OPTION SCHEME (CONT'D.)

Details of all the options to subscribe for the ordinary shares of the Company pursuant to the ESOS as at 31 December 2019 are as follows:

<b>Expiry date</b>	<b>Exercise price (RM)</b>	<b>Number of options</b>
31 October 2024	0.33	130,330,000

Details of options granted to Directors are disclosed in the section on Directors' Interests in this report.

## DIRECTORS' AND OFFICERS' INDEMNITY

The Company maintained a Directors' and Officers' Liability Insurance for the purpose of Section 289 of the Companies Act 2016 in Malaysia, throughout the year, which provide appropriate insurance cover for Directors and officers of the Company. The amount of insurance premium effected for the Directors and officers of the Company during the financial year was RM110,250, and the portion related to the Directors only was RM55,125. The Directors and officers shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them.

## OTHER STATUTORY INFORMATION

- (a) Before the statements of financial position and statements of comprehensive income of the Group and of the Company were made out, the Directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for impairment on receivables and satisfied themselves that all known bad debts had been written off and that adequate allowance for impairment on receivables had been made; and
  - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the allowance for impairment on receivables in the financial statements of the Group and of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

# DIRECTORS' REPORT (CONT'D.)

## OTHER STATUTORY INFORMATION (CONT'D.)

(e) At the date of this report, there does not exist:

- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

(f) In the opinion of the Directors:

- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

## SUBSEQUENT EVENTS

Details of subsequent events are disclosed in Note 36 to the financial statements.

## AUDITORS

The auditors, Ernst & Young PLT, have expressed their willingness to continue in office.

Auditors' remuneration is as follows:

	Group RM'000	Company RM'000
Statutory audit		
- Ernst & Young PLT	650	185
- Other auditors	55	-
Other services		
- Ernst & Young PLT	94	94

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young PLT, as part of the terms of its audit engagement against claims by third parties arising from the audit for an unspecified amount. No payment has been made to indemnify Ernst & Young PLT during or since the end of the financial year.

Signed on behalf of the Board in accordance with a resolution of the directors dated 19 May 2020.

DATO' ABDUL RAHMAN AHMAD

ROHAIZAD DARUS

# STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, DATO' ABDUL RAHMAN AHMAD and ROHAIZAD DARUS, being two of the directors of VELESTO ENERGY BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 177 to 263 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 19 May 2020.

DATO' ABDUL RAHMAN AHMAD

ROHAIZAD DARUS

# STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(b) OF THE COMPANIES ACT 2016

I, RAFIZA GHAZALI, being the officer primarily responsible for the financial management of VELESTO ENERGY BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 177 to 263 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by  
the abovenamed RAFIZA GHAZALI  
at Kuala Lumpur in the Federal Territory  
on 19 May 2020.

RAFIZA GHAZALI

Before me,

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VELESTO ENERGY BERHAD

## Report on the audit of the financial statements

### *Opinion*

We have audited the financial statements of Velesto Energy Berhad, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Company, and statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 177 to 263.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

### *Basis for opinion*

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence and other ethical responsibilities*

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

*Key audit matters (cont'd.)*

Impairment of property, plant and equipment and short-term leasehold land

As at 31 December 2019, the carrying amount of the property, plant and equipment and short-term leasehold land of the Group are RM3,410.6 million and RM1.3 million respectively, as disclosed in Notes 4 and 9 to the financial statements. The slow recovery in the oil and gas industry and the idle status of certain hydraulic workover units during the financial year are indications that the assets may be impaired.

(i) Rigs, hydraulic workover units, drilling equipment, and plant and machinery

Management estimated the recoverable amount of the rigs, hydraulic workover units, drilling equipments, and plant and machinery based on their value-in-use using discounted future cash flows. Accordingly, an impairment assessment was performed for the aforementioned assets and no impairment loss was recognised for the current year. The details of the impairment assessment for the financial year ended 31 December 2019 are as disclosed in Note 4 to the financial statements.

(ii) Building and short-term leasehold land

Management estimated the recoverable amount of the building and short-term leasehold land based on its fair value less costs to sell ("FVLCS"). The fair value of the building and short-term leasehold land was obtained from the valuation report performed by an independent valuer. An impairment assessment was performed and no impairment loss was recognised in the current year. The details of the impairment loss for the financial year ended 31 December 2019 are as disclosed in Notes 4 and 9 to the financial statements.

Given the significance of property, plant and equipment and short-term leasehold land to the Group and the significant judgements and estimates involved in the assessment of the recoverable amount, we have identified the above impairment assessments as important to our audit.

Our procedures in reviewing the significant judgements and estimates applied in arriving at the recoverable amount for the impairment assessment or fair value less costs to sell as at 31 December 2019, include inter alia the following:

- Reviewed the methodology of impairment assessment;
- Assessed the underlying key assumptions on which the cash flow projections are based, such as the assets' utilisation, operating day rates and efficiency rates, by comparing them against historical and market information;
- Corroborated the key assumptions with industry analysts' views, management's plans and existing contracts, where applicable;
- Evaluated the probability of securing significant future contracts by making inquiries of project teams to obtain an understanding of the status of negotiations and the likelihood of securing the contracts;
- Assessed the discount factor used to determine the present value of the cash flows and whether the rate used reflects the current market assessment of time value of money and the risk specific to the asset;
- Performed sensitivity analysis of the changes in key assumptions;

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VELESTO ENERGY BERHAD (CONT'D.)

*Key audit matters (cont'd.)*

## Impairment of property, plant and equipment and short-term leasehold land (cont'd.)

- Considered the independence, competence, capabilities and objectivity of the independent professional valuers;
- Assessed the key assumptions and methodology used by the independent professional valuers whether such methodology is consistent with those used in the industry; and
- Assessed the adequacy of the disclosures on the assumptions and the outcome of the impairment assessment.

## Inventory-related controls and stock takes

As at 31 December 2019, the inventories of the Group mainly consist of raw materials, spare parts, and consumables used in the subsidiaries' operations which entail the charter of drilling rigs and hydraulic workover units. As such, the inventories are situated at multiple locations, both onshore and offshore. We have identified this as a key audit area due to the multiple locations of the inventories, and material misstatement arising from the risk of potential delays in the recording of the receipt and utilisation of inventories. Accordingly, the cost of inventories utilised during the financial year have been expensed to the profit or loss as disclosed in Note 10 to the financial statements.

Our procedures in reviewing the inventory-related controls and stock takes are as follows:

- Obtained an understanding of the controls over the inventories, including the procedures for goods transferred between locations, guidelines for urgent purchases, the physical security of the inventories, and stock takes;
- Attended and observed physical stock takes conducted by management for selected locations to assess adherence to stock take processes;
- Evaluated the roll forward and roll backward of inventories from the point of stock take to the year end to assess for potential misstatement; and
- Tested management's reconciliation between the book inventory balance and the physical count results.

## *Information other than the financial statements and auditors' report thereon*

The directors of the Company are responsible for the other information. The other information comprises the information included in the Group's Annual Report for the financial year ended 31 December 2019, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



### *Responsibilities of the directors for the financial statements*

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VELESTO ENERGY BERHAD (CONT'D.)

*Auditors' responsibilities for the audit of the financial statements (cont'd.)*

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on other legal and regulatory requirements**

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 31 to the financial statements.

## **Other matters**

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**Ernst & Young PLT**  
202006000003 (LLP0022760-LCA) & AF 0039  
Chartered Accountants

Kuala Lumpur, Malaysia  
19 May 2020

**Ng Yee Yee**  
No. 03176/05/2021 J  
Chartered Accountant

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	2019 RM'000	2018 RM'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	3,410,616	3,530,440
Land use rights	5	–	1,427
Investment in an associate	7	1,984	2,245
Deferred tax assets	8	–	666
Right-of-use assets	9	13,240	–
		<b>3,425,840</b>	<b>3,534,778</b>
<b>Current assets</b>			
Inventories	10	187,439	179,504
Receivables	11	284,244	245,758
Tax recoverable		7,896	2,767
Other investments	13	119,988	165,606
Deposits, cash and bank balances	14	239,983	235,029
		<b>839,550</b>	<b>828,664</b>
<b>TOTAL ASSETS</b>		<b>4,265,390</b>	<b>4,363,442</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long term borrowings	15	990,592	1,348,379
Lease liabilities	9	8,082	–
		<b>998,674</b>	<b>1,348,379</b>
<b>Current liabilities</b>			
Short term borrowings	16	302,660	88,828
Lease liabilities	9	3,905	–
Payables	17	151,240	127,397
Tax payable		5,435	336
		<b>463,240</b>	<b>216,561</b>
<b>Total liabilities</b>		<b>1,461,914</b>	<b>1,564,940</b>
<b>Equity</b>			
<b>Equity attributable to equity holders of the Company</b>			
Ordinary share capital	18	4,054,817	4,054,817
Other reserves	19	893,837	921,811
Accumulated losses		(2,146,438)	(2,179,656)
		<b>2,802,216</b>	<b>2,796,972</b>
Non-controlling interests		1,260	1,530
<b>Total equity</b>		<b>2,803,476</b>	<b>2,798,502</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,265,390</b>	<b>4,363,442</b>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	2019 RM'000	2018 RM'000
Revenue	20	670,756	573,804
Other operating income	21	2,974	21,042
Changes in inventories		-	553
Finished goods purchased		(121)	(287)
Raw materials and consumables used		(72,882)	(59,732)
Employee benefits	22	(138,870)	(127,831)
Depreciation and amortisation		(198,374)	(191,465)
Impairment provisions	23	-	(11,325)
Other operating expenses	24	(137,417)	(140,962)
Profit from operations		126,066	63,797
Finance costs	25	(91,804)	(94,051)
Investment income	26	7,998	12,442
Share of results of associate		233	249
Profit/(loss) before tax		42,493	(17,563)
Income tax expense	27	(9,423)	(2,873)
<b>Profit/(loss) net of tax for the year</b>		<b>33,070</b>	<b>(20,436)</b>
<b>Profit/(loss) net of tax for the year</b>		<b>33,070</b>	<b>(20,436)</b>
<b>Other comprehensive (loss)/income:</b>			
Foreign currency translation		(28,814)	53,262
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods, net of tax:		(28,814)	53,262
<b>Total comprehensive income for the year</b>		<b>4,256</b>	<b>32,826</b>
<b>Profit/(loss) attributable to:</b>			
Equity holders of the Company		33,218	(19,528)
Non-controlling interests		(148)	(908)
		<b>33,070</b>	<b>(20,436)</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		4,526	33,665
Non-controlling interests		(270)	(839)
		<b>4,256</b>	<b>32,826</b>
Earnings/(loss) per share attributable to equity holders of the Company (sen per share)			
- Basic	28	0.40	(0.24)
- Diluted	28	0.40	(0.24)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Non-distributable				Distributable				Total equity RM'000		
	Ordinary share capital RM'000 (Note 18)	RCPS-i RM'000 (Note 18)	Warrant reserve RM'000 (Note 19)	Share options reserve RM'000 (Note 19)	Capital reserve RM'000 (Note 19)	Gain on derecognition of financial liabilities RM'000 (Note 19)	Foreign currency translation reserve RM'000 (Note 19)	Accumulated losses RM'000		Total RM'000	Non-controlling interests RM'000
<b>At 1 January 2019</b>	4,054,817	-	211,876	3,187	698	78,145	627,905	(2,179,656)	2,796,972	1,530	2,798,502
<b>Transactions with owners</b>											
Share options granted under ESOS (Note 19)	-	-	-	718	-	-	-	-	718	-	718
<b>Total transactions with owners</b>	-	-	-	718	-	-	-	-	718	-	718
Profit/(loss) for the year	-	-	-	-	-	-	-	33,218	33,218	(148)	33,070
Other comprehensive (loss)/income for the year	-	-	-	-	-	-	(28,692)	-	(28,692)	(122)	(28,814)
<b>Total comprehensive (loss)/income for the year</b>	-	-	-	-	-	-	(28,692)	33,218	4,526	(270)	4,256
<b>At 31 December 2019</b>	4,054,817	-	211,876	3,905	698	78,145	599,213	(2,146,438)	2,802,216	1,260	2,803,476

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONT'D)

	Non-distributable				Distributable				Total equity RM'000		
	Ordinary share capital RM'000 (Note 18)	RCPS-i RM'000 (Note 18)	Warrant reserve RM'000 (Note 19)	Share options reserve RM'000 (Note 19)	Capital reserve RM'000 (Note 19)	Gain on derecognition of financial liabilities RM'000 (Note 19)	Foreign currency translation reserve RM'000 (Note 19)	Accumulated losses RM'000		Total RM'000	Non-controlling interests RM'000
<b>At 1 January 2018</b>	3,732,346	322,471	211,876	3,243	698	78,145	574,712	(2,160,128)	2,763,363	830	2,764,193
<b>Transactions with owners</b>											
Conversion of RCPS-i to ordinary shares (Note 18)	322,471	(322,471)	-	-	-	-	-	-	-	-	-
Disposal of a subsidiary	-	-	-	(56)	-	-	-	-	(56)	1,539	1,483
<b>Total transactions with owners</b>	322,471	(322,471)	-	(56)	-	-	-	-	(56)	1,539	1,483
Loss for the year	-	-	-	-	-	-	-	(19,528)	(19,528)	(908)	(20,436)
Other comprehensive income for the year	-	-	-	-	-	-	53,193	-	53,193	69	53,262
<b>Total comprehensive income/ (loss) for the year</b>	-	-	-	-	-	-	53,193	(19,528)	33,665	(839)	32,826
<b>At 31 December 2018</b>	4,054,817	-	211,876	3,187	698	78,145	627,905	(2,179,656)	2,796,972	1,530	2,798,502

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	2019 RM'000	2018 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit/(loss) before tax	42,493	(17,563)
Adjustments for:		
Depreciation and amortisation	198,374	191,465
Impairment loss on property, plant and equipment	–	10,522
Impairment loss on land use rights	–	803
Interest expense	91,804	94,051
Investment income	(7,998)	(12,442)
Net loss on disposal of property, plant and equipment	739	1,970
Property, plant and equipment written off	211	62
Reversal of impairment losses on receivables	–	(1,474)
Provision for/(reversal of) unutilised leave	62	(71)
Share of results of associate	(233)	(249)
Share options granted under ESOS	718	–
Net fair value gain on investments in money market fund	(416)	(85)
Net unrealised foreign exchange gain	(1,720)	(1,131)
Operating profit before working capital changes	324,034	265,858
(Increase)/decrease in receivables	(35,344)	22,241
(Increase)/decrease in inventories	(9,726)	18,964
Increase/(decrease) in payables	17,888	(54,844)
Net cash generated from operations	296,852	252,219
Interest paid	(76,862)	(85,126)
Taxes paid	(8,788)	(558)
Net cash generated from operating activities	211,202	166,535
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	7,875	13,783
Purchase of property, plant and equipment	(112,303)	(27,574)
Proceeds from disposal of property, plant and equipment	226	4,761
Dividend received from an associate	343	307
Net cash inflow from disposal of a subsidiary	–	1,810
Withdrawal/(placement) of investments in money market fund	46,034	(165,521)
Net cash used in investing activities	(57,825)	(172,434)

# CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONT'D)

	2019 RM'000	2018 RM'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of long term borrowings	(258,117)	–
Net movement in short term borrowings	119,327	(441,255)
Placement of restricted cash deposits in licensed banks	(24,112)	(36,698)
Payment of lease liabilities	(4,509)	–
Net cash used in financing activities	(167,411)	(477,953)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(14,034)	(483,852)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	187,437	669,853
<b>EFFECTS OF EXCHANGE RATE CHANGES</b>	(5,124)	1,436
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	168,279	187,437
Cash and cash equivalents comprise:		
Deposits with licensed banks (Note 14)	120,924	39,082
Cash and bank balances (Note 14)	119,059	195,947
	239,983	235,029
Less: Restricted cash (Note 14)	(71,704)	(47,592)
	168,279	187,437

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.



# STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	2019 RM'000	2018 RM'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	2,026	1,907
Investments in subsidiaries	6	1,311,231	1,124,651
Due from related companies	12	874,814	818,387
Right-of-use assets	9	4,564	–
		<b>2,192,635</b>	<b>1,944,945</b>
<b>Current assets</b>			
Receivables	11	931	683
Tax recoverable		1,617	–
Due from related companies	12	244,303	399,823
Other investments	13	119,988	165,606
Deposits, cash and bank balances	14	11,913	19,729
		<b>378,752</b>	<b>585,841</b>
<b>TOTAL ASSETS</b>		<b>2,571,387</b>	<b>2,530,786</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Non-current liability</b>			
Due to related company	12	388,273	388,273
Lease liabilities	9	2,044	–
		<b>390,317</b>	<b>388,273</b>
<b>Current liabilities</b>			
Payables	17	5,447	3,704
Due to related companies	12	2,106	2,141
Lease liabilities	9	2,443	–
Tax payable		–	373
		<b>9,996</b>	<b>6,218</b>
<b>Total liabilities</b>		<b>400,313</b>	<b>394,491</b>
<b>Equity</b>			
<b>Equity attributable to equity holders of the Company</b>			
Ordinary share capital	18	4,054,817	4,054,817
Other reserves	19	290,739	290,021
Accumulated losses		(2,174,482)	(2,208,543)
<b>Total equity</b>		<b>2,171,074</b>	<b>2,136,295</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,571,387</b>	<b>2,530,786</b>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	2019 RM'000	2018 RM'000
Revenue	20	10,354	8,500
Other operating income	21	1,698	21,446
Employee benefits	22	(22,115)	(16,157)
Depreciation		(2,985)	(645)
Impairment provisions	23	(3,156)	(575,314)
Other operating expenses	24	(20,838)	(15,614)
Loss from operations		(37,042)	(577,784)
Finance costs	25	(289)	(1,585)
Investment income	26	73,869	64,029
Profit/(loss) before tax		36,538	(515,340)
Income tax expense	27	(2,477)	(1,945)
<b>Profit/(loss) for the year, representing total comprehensive income/(loss) for the year</b>		<b>34,061</b>	<b>(517,285)</b>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	← Non-distributable →				Distributable		Total equity RM'000
	Ordinary share capital RM'000 (Note 18)	RCPS-i RM'000 (Note 18)	Warrant reserve RM'000 (Note 19)	Share options reserve RM'000 (Note 19)	Gain on derecognition of financial liabilities RM'000 (Note 19)	Accumulated losses RM'000	
<b>At 1 January 2019</b>	4,054,817	–	211,876	–	78,145	(2,208,543)	2,136,295
<b>Transactions with owners</b>							
Share options granted under ESOS (Note 19)	–	–	–	718	–	–	718
<b>Total transactions with owners</b>	–	–	–	718	–	–	718
<b>Total comprehensive income for the year</b>	–	–	–	–	–	34,061	34,061
<b>At 31 December 2019</b>	4,054,817	–	211,876	718	78,145	(2,174,482)	2,171,074
<b>At 1 January 2018</b>	3,732,346	322,471	211,876	–	78,145	(1,691,258)	2,653,580
<b>Transactions with owners</b>							
Conversion of RCPS-i to ordinary shares (Note 18)	322,471	(322,471)	–	–	–	–	–
<b>Total transaction with owners</b>	322,471	(322,471)	–	–	–	–	–
<b>Total comprehensive loss for the year</b>	–	–	–	–	–	(517,285)	(517,285)
<b>At 31 December 2018</b>	4,054,817	–	211,876	–	78,145	(2,208,543)	2,136,295

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	2019 RM'000	2018 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit/(loss) before tax	36,538	(515,340)
Adjustments for:		
Depreciation of plant and equipment	2,985	645
Interest expense	289	1,585
Investment income	(73,869)	(64,029)
Net unrealised foreign exchange loss/(gain)	11,568	(15,018)
Share options granted under ESOS	718	–
Amount due from a subsidiary written off	–	2,795
Loss on disposal of plant and equipment	47	18
Net fair value gain on investments in money market fund	(416)	(85)
Reversal of provision for unutilised leave	(95)	–
Provision for impairment in investments in subsidiaries	1,180	565,275
Provision for impairment in amount due from subsidiaries	1,976	10,039
Operating loss before working capital changes	(19,079)	(14,115)
(Increase)/decrease in other receivables	(232)	849
Increase/(decrease) in other payables	1,792	(2,929)
Net changes in related companies' balances	(52,247)	(28,443)
Net cash used in operations	(69,766)	(44,638)
Tax (paid)/refunded	(4,467)	265
Net cash used in operating activities	(74,233)	(44,373)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received from subsidiaries	69,319	65,342
Interest received from deposits with licensed banks	476	–
Advances to subsidiaries	(50,000)	(397,838)
Purchase of plant and equipment	(799)	(577)
Proceeds from disposal of plant and equipment	–	32
Withdrawal/(placement) of investments in money market fund	46,034	(165,521)
Dividends received from other investments	4,058	–
Net cash generated from/(used in) investing activities	69,088	(498,562)

	2019 RM'000	2018 RM'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of principal portion of finance lease liabilities	–	(1,569)
Payment of lease liabilities	<b>(2,671)</b>	–
Net cash used in financing activities	<b>(2,671)</b>	(1,569)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(7,816)</b>	(544,504)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>19,729</b>	564,233
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>11,913</b>	19,729
Cash and cash equivalents comprise:		
Deposits with licensed banks (Note 14)	<b>8,600</b>	15,500
Cash and bank balances (Note 14)	<b>3,313</b>	4,229
	<b>11,913</b>	19,729

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

## 1. CORPORATE INFORMATION

Velesto Energy Berhad ("VEB") is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia"). The registered office of VEB is located at Level 18, Block 3A, Plaza Sentral, Jalan Stesen Sentral 5, 50470 Kuala Lumpur.

The principal activity of the Company is to carry on the business of an investment holding company and to provide full corporate management, administrative and professional services as well as financial support to its subsidiary companies. The principal activities of the subsidiaries and associate are described in Notes 31 and 7, respectively.

The Group is principally engaged in:

- (a) the provision of drilling services for exploration, development and production wells and workover services to the upstream sector of the oil and gas industry; and
- (b) the provision of threading, inspection and repair services for Oil Country Tubular Goods ("OCTG") in overseas, with a focus on premium connections used in high-end and complex wells.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 19 May 2020.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements of the Group and of the Company comply with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia.

On 1 January 2019, the Group and the Company adopted the new and amended MFRSs and IC Interpretation (collectively referred to as "pronouncements") issued by the Malaysian Accounting Standards Board ("MASB") that are mandatory for the financial periods beginning on or after 1 January 2019 as described fully in Note 2.3.

MASB has also issued new and revised MFRSs which are not yet effective for the Group and the Company and therefore, have not been implemented by the Group and the Company in these financial statements as set out in Note 2.4.

The financial statements of the Group and of the Company have been prepared on a historical cost basis unless otherwise indicated in the accounting policies below.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

The preparation of financial statements in conformity with the provisions of the Companies Act 2016 and MFRSs in Malaysia, requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported year. Actual results could differ from those estimates. There are no areas involving a higher degree of judgement or complexity, or areas where estimates and assumptions are significant to the financial statements other than as disclosed in Note 3.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies

#### (a) Basis of consolidation, subsidiaries and associate

##### (i) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the Company and its subsidiaries used in the preparation of the consolidated financial statements are prepared as of the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The Company controls an investee if and only if the Company has all the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its investment with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting rights of an investee, the Company considers the following in assessing whether or not the Company's voting rights in an investee are sufficient to give it power over the investee:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Subsidiaries are consolidated from the effective date of acquisition, being a date on which the Group obtains control, and continue to be consolidated until the date that such control ceases, being the effective date of disposal.

Intragroup transactions, balances and resulting unrealised gains are eliminated in full on consolidation. The consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless the cost cannot be recovered.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Company.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (a) Basis of consolidation, subsidiaries and associate (cont'd.)

##### (i) Basis of consolidation (cont'd.)

###### Loss of control

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets and liabilities of the subsidiary and any goodwill outstanding (net of any non-controlling interest) at the date the Group loses control, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of an investment in an associate.

###### Business combinations

Business combinations, other than business combinations under common control, are accounted for using the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. For business combinations after 1 January 2011, acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 9 Financial Instruments is measured at fair value with the changes in fair value recognised in profit or loss in accordance with MFRS 9. Other contingent consideration that is not within the scope of MFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. The accounting policy for goodwill is set out in Note 2.2(h).



## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (a) Basis of consolidation, subsidiaries and associate (cont'd.)

##### (i) Basis of consolidation (cont'd.)

###### **Business combinations under common control**

Business combinations under common control are accounted for in the consolidated financial statements retrospectively from the date the Group obtains the ownership interest. Assets and liabilities are recognised upon consolidation at their carrying amounts in the consolidated financial statements. Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are recorded is recognised directly in equity.

###### **Non-controlling interests**

Non-controlling interests in the consolidated statement of comprehensive income and consolidated statement of financial position represent the portion of profit or loss and net assets in subsidiaries not held by the Group. Non-controlling interests in the consolidated statement of financial position consist of the non-controlling interests' share of the fair value of the identifiable assets and liabilities of the acquiree as at acquisition date and the non-controlling interests' share of movement in the acquiree's equity since then.

Acquisitions of non-controlling interests are accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised directly in equity.

Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest, even if doing so causes the non-controlling interest to have a deficit balance.

##### (ii) Subsidiaries

A subsidiary is an entity over which the Group has all the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its investment with the investee; and
- The ability to use its power over the investee to affect its returns.

##### (iii) Associate

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those decisions. Investment in associate is accounted for in the consolidated financial statements using the equity method of accounting as described in Note 2.2(a)(iv).

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (a) Basis of consolidation, subsidiaries and associate (cont'd.)

##### (iv) Equity method of accounting

Under the equity method, the investments in associate are carried in the consolidated statement of financial position at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in profit or loss. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes.

In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss. An associate is equity accounted for from the date on which the investee becomes an associate.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the year in which the investment is acquired.

When the Group's share of losses in the associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available audited financial statements of the associate are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting year of the Group. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

##### (v) Separate financial statements

In the separate financial statements of the Company, investments in subsidiaries and associate are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (b) Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment (including spare parts and standby-equipment) is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to initial recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively.

Periodic survey and drydocking costs are incurred in connection with obtaining regulatory certification to operate the rigs on an ongoing basis. Costs associated with the certification are deferred and amortised on a straight-line basis over the period between surveys and drydocking. All other repair and maintenance costs are recognised in profit or loss as incurred.

Assets-in-progress included in property, plant and equipment are not depreciated as these assets are not yet available for use. Depreciation of other property, plant and equipment is provided for on a straight-line basis over the estimated useful lives of the assets as follows:

Rigs and hydraulic workover units ("HWUs")	10 - 30 years
Drilling equipment	2 - 30 years
Buildings	10 - 20 years
Plant and machinery	2 - 30 years
Office equipment, furniture and fittings	3 - 12 years
Motor vehicles	5 years
Renovation and improvements	5 years

The residual value, useful life and depreciation method are reviewed at each financial year end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the period the asset is derecognised.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(r).

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (c) Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised over their lease terms.

Upon the disposal of land use rights, the difference between the net disposal proceeds and the net carrying amount is recognised in profit or loss.

When an indication of impairment exists, the carrying amount of the land use rights is written down immediately to its recoverable value. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(r).

#### (d) Financial assets

The Group and the Company applied MFRS 9 Financial Instruments as disclosed below:

##### Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at either amortised cost, fair value through other comprehensive income or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under MFRS 15 Revenue from Contracts with Customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income ("OCI"), it needs to give rise to cash flows that are 'solely payments of principal and interest ("SPPI")' on the principal amount outstanding. The assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (d) Financial assets (cont'd.)

##### Subsequent measurement

For the purpose of subsequent measurement, financial assets of the Group are classified in two categories:

##### (i) Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's and the Company's financial assets at amortised cost include trade receivables, other receivables (other than prepayments), amounts due from subsidiaries and deposits, cash and bank balances.

##### (ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statements of financial position at fair value with the net changes in fair value recognised in the statements of profit or loss.

The Group's and the Company's financial assets at fair value through profit or loss include investment in money market fund.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (d) Financial assets (cont'd.)

##### **Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### (e) Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (f) Cash and cash equivalents

Cash and cash equivalents include cash and bank balances and deposits at call with licensed banks with a tenure of three months or less that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

#### (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. In arriving at net realisable value, due allowance has been made for obsolete and slow-moving items.

Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

Finished goods, raw materials, spares and consumables - Weighted average

Cost of finished goods, raw materials, spares and consumables represents cost of purchase.

#### (h) Intangible assets

##### Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. On disposal of an entity, the carrying amount of goodwill is taken into account in determining the gain or loss.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's Cash-Generating Units ("CGU") that are expected to benefit from the synergies of the combination.

The CGU to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the CGU may be impaired, by comparing the carrying amount of the CGU, including the allocated goodwill, with the recoverable amount of the CGU. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a CGU and part of the operation within that CGU is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair value of the operation disposed of and the portion of the CGU retained.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (i) Foreign currencies

##### (i) Functional and presentation currency

The financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RM, which is also the Company's functional currency.

##### (ii) Foreign currency transactions

Transactions in currencies other than the Company's and its subsidiaries' functional currency ("foreign currencies") are initially converted into functional currency at rates of exchange ruling at the transaction dates.

##### Non-monetary items

At each reporting date, foreign currency non-monetary items which are carried at historical cost are translated using the historical rate as of the date of the initial transaction and non-monetary items which are carried at fair value are translated using the exchange rate as of the date when the fair values were determined.

##### Monetary items

At each reporting date, monetary items denominated in foreign currencies are translated into functional currency at exchange rates ruling at that date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period.

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation are taken directly to the foreign currency translation reserve within other comprehensive income until the disposal of the foreign operation, at which time they are recognised in profit or loss.

##### (iii) Foreign operations

The financial statements of foreign operations which are consolidated are translated at year-end exchange rates with respect to the assets and liabilities, and at average exchange rates for the year, which approximate the exchange rates at the dates of the transactions with respect to profit or loss. All resulting translation differences are included in the foreign currency translation reserve within other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2006 are treated as assets and liabilities of the foreign operation and are recorded in the functional currency of the foreign operation and translated at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign operation before 1 January 2006 are deemed to be assets and liabilities of the parent company and are recorded in RM at the exchange rate ruling at the date of the transaction.



## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (j) Financial liabilities

##### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or amortised cost as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities at amortised cost, net of directly attributable transaction costs.

The Group's and the Company's financial liabilities include trade and other payables (other than provisions), loans and borrowings, and amounts due to subsidiaries.

##### Subsequent measurement

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statements of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

##### Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statements of profit or loss.

#### (k) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (l) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### (m) Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

#### (n) Income taxes

Income tax in the profit or loss for the period comprises current tax and deferred tax. Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries and associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (n) Income taxes (cont'd.)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except in respect of deductible temporary differences associated with investments in subsidiaries and associate, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### (o) Revenue and other income recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when or as it transfers control over a good or service to the customer. An asset is transferred when (or as) the customer obtains control of the asset.

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (o) Revenue and other income recognition (cont'd.)

If a performance obligation is not satisfied over time in accordance with the above criteria, an entity satisfies the performance obligation and recognises revenue at a point in time.

#### (i) Revenue from provision of drilling and workover services and related expenses

Revenue from provision of drilling and workover services includes minimum lease payments from customers under day-rate based contracts and other services. Revenue generated from day-rate based contracts, which are classified as operating lease by the Group, are recognised over time over the contract period.

Day-rate based contracts may include lump-sum fees for mobilisation and demobilisation which are recognised based on the policies stated in Note 2.2(o)(ii) and (iii). Fees received from customers under contract for upgrade to the rig are deferred and recognised over the contract term.

Additional payments for meeting or exceeding certain performance targets are recognised at the point in time at which the service is performed.

#### (ii) Lump sum mobilisation fees received

Lump sum mobilisation fees received on drilling and workover services contracts are deferred and recognised on a straight-line basis over the period that the related drilling and workover services are performed.

Mobilisation costs incurred as part of a contract are deferred and recognised as an expense over the contract period. The costs of relocating drilling rigs that are not under a contract are expensed as incurred.

#### (iii) Demobilisation fees received

Demobilisation costs are costs related to the transfer of a drilling rig to a safe harbour or different geographical area and are expensed as incurred.

Demobilisation fees on drilling and workover services contracts are recognised at the point in time when it becomes known and certain that demobilisation fee can be charged to the customer.

#### (iv) Sale of goods

Revenue from sale of goods is recognised at the point in time when the control of the asset is transferred to the customer.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (o) Revenue and other income recognition (cont'd.)

##### (v) Rendering of services

Revenue from services rendered is recognised net of service tax over time because the customer simultaneously receives and consumes the benefits provided to them.

##### (vi) Rental income

Rental income from operating leases are accounted for on a straight-line basis over the lease terms.

##### (vii) Interest income

Interest income is recognised using the effective interest method.

##### (viii) Management fees

Management fees are recognised when services are rendered.

##### (ix) Dividend income

Dividend income is recognised when the shareholders' rights to receive payment is established.

#### (p) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

##### Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

##### (i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Short-term leasehold land	50 years
Office premises	2 - 3 years
Motor vehicles	2 - 3 years
Warehouses	2 - 9 years

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (p) Leases (cont'd.)

##### Group as a lessee (cont'd.)

#### (i) Right-of-use assets (cont'd.)

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment, and the policy for the recognition and measurement of impairment losses is in accordance with Note 2.2 (r).

#### (ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

#### (iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low-value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (p) Leases (cont'd.)

##### Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in other operating income in the statements of profit or loss due to its nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as income in the period in which they are earned.

#### (q) Employee benefits

##### (i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

##### (ii) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years.

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund. Some of the Group's foreign subsidiaries also make contributions to their respective countries' statutory pension schemes. The contributions are recognised as an expense in profit or loss as incurred.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (r) Impairment of non-financial assets

The carrying amounts of assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss, if any.

For the purpose of impairment assessment of these assets, the recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs to sell and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss.

#### (s) Segment reporting

For management purposes, the Group is organised into operating segments based on nature of services which are managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the Executive Director who regularly reviews the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 30, including the factors used to identify the reportable segments and the measurement basis of segment information.



## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (t) Fair value measurement

MFRS 13 Fair Value Measurement prescribed that fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

#### Financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

#### (u) Share capital

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

#### (v) Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

#### Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 19(b).

That cost is recognised in employee benefits expense (Note 22), together with a corresponding increase in equity (share options reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statements of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (v) Share-based payments (cont'd.)

##### Equity-settled transactions (cont'd.)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 28).

### 2.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2019, the Group and the Company adopted the following new and amended MFRSs and IC Interpretations (collectively referred to as "pronouncements") mandatory for annual financial periods beginning on or after 1 January 2019.

#### Description

Amendments to MFRS 3 Annual Improvements to MFRS Standards 2015-2017 Cycle  
Amendments to MFRS 9 Prepayment Features with Negative Compensation  
Amendments to MFRS 11 Annual Improvements to MFRS Standards 2015-2017 Cycle  
MFRS 16 Leases  
Amendments to MFRS 112 Annual Improvements to MFRS Standards 2015-2017 Cycle  
Amendments to MFRS 119 Plan Amendment, Curtailment or Settlement  
Amendments to MFRS 123 Annual Improvements to MFRS Standards 2015-2017 Cycle  
Amendments to MFRS 128 Long-term Interests in Associates and Joint Ventures  
IC Interpretation 23 Uncertainty over Income Tax Treatments

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.3 Changes in accounting policies (cont'd.)

Adoption of the above pronouncements did not have any significant effect on the financial performance or position of the Group and the Company except for those discussed below.

#### **MFRS 16 Leases**

MFRS 16 supersedes MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Leases - Incentives and IC Interpretation 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statements of financial position.

Lessor accounting under MFRS 16 is substantially unchanged from MFRS 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in MFRS 117. Therefore, MFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying MFRS 117 and IC Interpretation 4 at the date of initial application.

The Group has lease contracts for office and warehouse premises, and motor vehicles. Before the adoption of MFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Upon adoption of MFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

#### (i) Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under MFRS 117). The requirements of MFRS 16 were applied to these leases from 1 January 2019.

#### (ii) Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.3 Changes in accounting policies (cont'd.)

#### MFRS 16 Leases (cont'd.)

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Base on the above, as at 1 January 2019:

- Right-of-use assets of RM17,221,000 and RM6,869,000 were recognised and presented separately in the statement of financial position of the Group and of the Company respectively. This includes the Group's lease assets recognised previously under short-term leasehold land of RM1,427,000 that were reclassified from land use rights.
- Lease liabilities of RM15,793,000 and RM6,869,000 were recognised on leases previously accounted for as operating leases.

The lease liabilities of the Group as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	Group RM'000
Operating lease commitments as at 31 December 2018	6,827
Weighted average incremental borrowing rate as at 1 January 2019	5.00%
Discounted operating lease commitments as at 1 January 2019	6,502
Less:	
Commitments relating to short-term leases	(105)
Commitments relating to leases of low-value assets	(75)
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	9,471
<b>Lease liabilities as at 1 January 2019</b>	<b>15,793</b>

The lease liabilities of the Company as at 1 January 2019, amounting to RM6,869,000, can be attributed to lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018.

### 2.4 Standards issued but not yet effective

The pronouncements that are issued but not yet effective up to the date of issuance of the Group's and of the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.4 Standards issued but not yet effective (cont'd.)

Description	Effective for annual periods beginning on or after
Amendments to MFRS 3 Business Combinations (Definition of a Business)	1 January 2020
Amendments to MFRS 9 Financial Instruments (Interest Rate Benchmark Reform)	1 January 2020
Amendments to MFRS 139 Financial Instruments (Interest Rate Benchmark Reform)	1 January 2020
Amendments to MFRS 7 Financial Instruments (Interest Rate Benchmark Reform)	1 January 2020
Amendments to MFRS 101 Presentation of Financial Statements (Definition of Material)	1 January 2020
Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)	1 January 2020
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 101 Presentation of Financial Statements (Classification of Liabilities as Current or Non-current)	1 January 2022
Amendments to MFRS 10 Consolidated Financial Statements (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)	Deferred
Amendments to MFRS 128 Investments in Associates and Joint Ventures (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)	Deferred

The directors expect that the adoption of the pronouncements above will have no material impact on the financial statements in the period of initial application.

## 3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

### Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### (i) Deferred tax assets

Deferred tax assets are recognised for all unutilised tax losses, unabsorbed capital allowances and unabsorbed reinvestment allowances to the extent that it is probable that taxable profit will be available against which the losses, capital allowances and reinvestment allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies. The amount of recognised and unrecognised tax losses, capital allowances and reinvestment allowances of the Group are as disclosed in Note 8.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONT'D.)

### Key sources of estimation uncertainty (cont'd.)

#### (ii) Impairment of property, plant and equipment, right-of-use assets and investment in subsidiaries

In previous financial years, the Group and the Company have recognised impairment losses in respect of property, plant and equipment, right-of-use assets, and investment in subsidiaries.

The Group carried out the impairment assessment based on value-in-use and fair value less costs to sell of the CGU to which the assets are allocated.

Estimating the value-in-use requires the management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Fair value is obtained from valuation reports performed by independent professional valuers based on best information available. Significant estimate is involved in deriving the fair value as there are possible variations in the basis and assumptions used by the valuers. Further details of the impairment losses recognised are as disclosed in Notes 4, 5 and 6.

## 4. PROPERTY, PLANT AND EQUIPMENT

	Buildings RM'000	Rigs, HWUs and drilling equipment RM'000	Plant and machinery RM'000	Assets-in- progress RM'000	**Other assets RM'000	Total RM'000
<b>Group</b>						
<b>Cost</b>						
At 1 January 2018	33,496	6,408,495	72,527	23,009	33,984	6,571,511
Exchange differences	(700)	129,618	(104)	470	258	129,542
Additions	571	25,902	–	9	1,092	27,574
Write-offs	–	(398)	–	–	–	(398)
Disposals	(11,123)	(2,993)	(36,432)	–	(2,916)	(53,464)
Disposal of a subsidiary	–	–	(12,061)	(41)	(329)	(12,431)
Reclassification	(1,678)	24,655	–	(23,104)	127	–
At 31 December 2018/1 January 2019	20,566	6,585,279	23,930	343	32,216	6,662,334
Exchange differences	(524)	(69,964)	(192)	(2)	(225)	(70,907)
Additions	–	107,117	16	11,441	1,336	119,910
Write-offs	–	–	–	(211)	–	(211)
Disposals	–	(8,389)	(114)	–	(172)	(8,675)
<b>At 31 December 2019</b>	<b>20,042</b>	<b>6,614,043</b>	<b>23,640</b>	<b>11,571</b>	<b>33,155</b>	<b>6,702,451</b>

#### 4. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Buildings RM'000	Rigs, HWUs and drilling equipment RM'000	Plant and machinery RM'000	Assets-in- progress RM'000	**Other assets RM'000	Total RM'000
<b>Group (cont'd.)</b>						
<b>Accumulated depreciation</b>						
At 1 January 2018	9,040	1,069,018	41,378	–	27,583	1,147,019
Exchange differences	(35)	25,257	(3)	–	298	25,517
Depreciation charge for the year	531	187,530	1,516	–	1,835	191,412
Write-offs	–	(268)	–	–	–	(268)
Disposals	(6,065)	(2,592)	(26,821)	–	(2,412)	(37,890)
Disposal of a subsidiary	–	–	(5,580)	–	(328)	(5,908)
Reclassification	(1,575)	1,589	–	–	(14)	–
At 31 December 2018/1 January 2019	1,896	1,280,534	10,490	–	26,962	1,319,882
Exchange differences	(52)	(14,927)	(633)	–	(297)	(15,909)
Depreciation charge for the year	394	192,481	233	–	1,335	194,443
Disposals	–	–	(103)	–	–	(103)
<b>At 31 December 2019</b>	<b>2,238</b>	<b>1,458,088</b>	<b>9,987</b>	<b>–</b>	<b>28,000</b>	<b>1,498,313</b>
<b>Accumulated impairment losses</b>						
At 1 January 2018	3,081	1,754,747	21,666	–	1,767	1,781,261
Exchange differences	–	35,441	–	–	1	35,442
Impairment losses (Note 23)	6,637	2,618	1,238	–	29	10,522
Write-offs	–	(68)	–	–	–	(68)
Disposals	(3,081)	(23)	(5,739)	–	–	(8,843)
Disposal of a subsidiary	–	–	(6,302)	–	–	(6,302)
At 31 December 2018/1 January 2019	6,637	1,792,715	10,863	–	1,797	1,812,012
Exchange differences	–	(18,490)	–	–	–	(18,490)
Disposals	–	–	–	–	–	–
<b>At 31 December 2019</b>	<b>6,637</b>	<b>1,774,225</b>	<b>10,863</b>	<b>–</b>	<b>1,797</b>	<b>1,793,522</b>
<b>Net carrying amount</b>						
<b>At 31 December 2019</b>	<b>11,167</b>	<b>3,381,730</b>	<b>2,790</b>	<b>11,571</b>	<b>3,358</b>	<b>3,410,616</b>
At 31 December 2018	12,033	3,512,030	2,577	343	3,457	3,530,440

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 4. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	**Other assets RM'000	Assets-in- progress RM'000	Total RM'000
<b>Company</b>			
<b>Cost</b>			
At 1 January 2018	6,185	157	6,342
Additions	577	–	577
Disposals	(50)	–	(50)
Reclassification	127	(127)	–
At 31 December 2018/1 January 2019	6,839	30	6,869
Additions	353	446	799
Reclassification	305	(305)	–
<b>At 31 December 2019</b>	<b>7,497</b>	<b>171</b>	<b>7,668</b>
<b>Accumulated depreciation</b>			
At 1 January 2018	4,317	–	4,317
Depreciation charge for the year	645	–	645
At 31 December 2018/1 January 2019	4,962	–	4,962
Depreciation charge for the year	680	–	680
<b>At 31 December 2019</b>	<b>5,642</b>	<b>–</b>	<b>5,642</b>
<b>Net carrying amount</b>			
<b>At 31 December 2019</b>	<b>1,855</b>	<b>171</b>	<b>2,026</b>
At 31 December 2018	1,877	30	1,907

\*\* Included in the other assets are office equipment, furniture and fittings, renovation, improvements and motor vehicles.



#### 4. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Whilst crude oil price has improved compared to the end of the previous financial year, the oil companies continue to be prudent with capital expenditure. During the financial year, certain subsidiaries of the Group within the drilling services segment and oilfield services segment carried out a review of the recoverable amounts of their property, plant and equipment.

##### Recoverable amount determined based on value-in-use

For the financial year ended 31 December 2018, the Group's recoverable amount for the impaired rigs, HWUs, drilling equipment and plant and machinery of RM15,775,000 was determined based on the value-in-use of each asset, based on their respective cash flow projections discounted at pre-tax discount rates up to 17.6%. Impairment losses of RM3,885,000 was recognised using this basis. For the financial year ended 31 December 2019, no impairment loss was recognised.

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. Adjustments to the discount rates are made to factor in the specific amount and timing of the future cash flows in order to reflect a pre-tax discount rate.

The calculation of value-in-use is most sensitive to the utilisation rates, time charter rates and discount rate assumptions. Any adverse change in the key assumptions used in value-in-use calculations would result in further impairment.

##### Recoverable amount determined based on fair value less costs to sell

The fair value of certain building was determined based on the valuation performed by an independent valuer using the comparable approach. The fair value measurement is derived from inputs based on level 3 of the fair value hierarchy. Further details of the fair value hierarchy are disclosed in Note 33. In the previous financial year, an impairment loss of RM6,637,000 was recognised using this basis.

##### Sensitivity to changes in assumptions

The only CGU where a reasonably possible change to certain key assumptions would cause the recoverable amount to be equal to its carrying amount are the drilling rigs and HWUs CGU. At 31 December 2019, the recoverable amount of the drilling rigs and HWUs CGU exceeded the carrying amount by RM873.4 million and RM14.5 million respectively.

The following changes in the key assumptions, in isolation, would lead to the recoverable amount of the drilling rigs and HWUs to be equal to its carrying amount.

##### **Drilling rigs**

Forecasted revenue	Decrease between 10.7% to 29.6% for respective rigs
Discount rate	Increase between 2.9% to 10.1% for respective rigs

##### **HWUs**

Forecasted revenue	Decrease between 1.7% to 10.5% for respective HWUs
Discount rate	Increase between 5.8% to 55.2% for respective HWUs

Subsequent to end of the financial year, the COVID-19 outbreak was declared a pandemic by the World Health Organisation in March 2020. The outbreak and the response of the Government in dealing with the pandemic has interrupted general activity levels within the community, the economy and the operations of our business. Within the same month, arising from a significant drop in global demand, oil price plunged to a historic low causing many oil majors to cut or defer capital expenditure. The Directors concluded that the COVID-19 outbreak and the current uncertainty of the oil and gas sector did not provide evidence of conditions that existed on or before 31 December 2019 and have accordingly assessed it to be a non-adjusting event.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 5. LAND USE RIGHTS

<b>Group</b>	<b>Short term leasehold land RM'000</b>
<b>Cost</b>	
At 1 January 2018	2,731
Exchange differences	(97)
At 31 December 2018/1 January 2019	2,634
Reclassified to rights-of-use assets upon adoption of MFRS 16	(2,634)
<b>At 1 January 2019 (adjusted)/31 December 2019</b>	<b>–</b>
<b>Accumulated amortisation</b>	
At 1 January 2018	364
Exchange differences	(13)
Amortisation for the year	53
At 31 December 2018/1 January 2019	404
Reclassified to rights-of-use assets upon adoption of MFRS 16	(404)
<b>At 1 January 2019 (adjusted)/31 December 2019</b>	<b>–</b>
<b>Accumulated impairment losses</b>	
At 1 January 2018	–
Impairment losses (Note 23)	803
At 31 December 2018/1 January 2019	803
Reclassified to rights-of-use assets upon adoption of MFRS 16	(803)
<b>At 1 January 2019 (adjusted)/31 December 2019</b>	<b>–</b>
<b>Net carrying amount</b>	
<b>At 31 December 2019</b>	<b>–</b>
At 31 December 2018	1,427

The recoverable amounts of the land use rights were determined based on fair value less costs to sell. The valuation was performed by an independent valuer. The fair value measurement is derived from inputs based on level 3 of the fair value hierarchy. Further details of the fair value hierarchy are disclosed in Note 33.

Included in the total impairment was an impairment loss of RM803,000 on land use rights with recoverable amount of RM1,460,000.

## 6. INVESTMENT IN SUBSIDIARIES

	Company	
	2019 RM'000	2018 RM'000
Unquoted shares, at cost		
In Malaysia	3,470,738	3,282,978
Outside Malaysia	22,902	22,902
	<b>3,493,640</b>	3,305,880
Less: Impairment losses (Note 23)	(2,182,409)	(2,181,229)
	<b>1,311,231</b>	1,124,651

As at 31 December 2019, a subsidiary of the Company has ceased operation and there are indications that the investments in these subsidiaries may not be fully recoverable. The Company performed an impairment review of its investments in certain subsidiaries, where the carrying amount of investments exceeded its recoverable amount in the respective subsidiaries at the reporting date. The review gave rise to the recognition of an impairment loss of investment in subsidiaries of RM1,180,000 (2018: RM565,275,000) as disclosed in Note 23.

Details of the subsidiaries are set out in Note 31.

## 7. INVESTMENT IN AN ASSOCIATE

	Group	
	2019 RM'000	2018 RM'000
Unquoted shares, at cost	1,090	1,090
Share of post-acquisition reserves	894	1,155
	<b>1,984</b>	2,245

Details of the associate are as follows:

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2019 %	2018 %
Oil-Tex (Thailand) Company Limited*	Thailand	Provision of logistic services for the oil and gas industry.	20	20

\* Audited by a firm other than Ernst & Young PLT.

Financial year end of Oil-Tex (Thailand) Company Limited is 31 March.

The financial statements of the associate are not coterminous with that of the Group as its financial year end is 31 March. For the purpose of applying the equity method of accounting, the management accounts for the 12-month period ended 31 December 2019 and 2018 of the associate have been used.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 7. INVESTMENT IN AN ASSOCIATE (CONT'D.)

The summarised financial information of the associate, not adjusted for the proportion of ownership interest held by the Group, is as follows:

	2019 RM'000	2018 RM'000
<b>Assets and liabilities:</b>		
Current assets	11,034	11,864
Non-current assets	23	494
<b>Total assets</b>	<b>11,057</b>	<b>12,358</b>
Current liabilities, representing total liabilities	1,370	1,367
<b>Results</b>		
Revenue	11,599	10,103
Profit for the year	1,189	207
<b>Total comprehensive income</b>	<b>1,195</b>	<b>659</b>

Reconciliation of the summarised financial information presented above to the carrying amount of the Group's interest in associate is as follows:

	2019 RM'000	2018 RM'000
Net assets at 1 January	10,991	12,036
Profit for the year	1,189	207
Dividend paid	(2,499)	(1,704)
Other comprehensive income	6	452
<b>Net assets at 31 December</b>	<b>9,687</b>	<b>10,991</b>
Share of net assets	1,937	2,198
Goodwill	47	47
<b>Carrying value of the Group's interest in associate</b>	<b>1,984</b>	<b>2,245</b>

## 8. DEFERRED TAXATION

	Group	
	2019 RM'000	2018 RM'000
At 1 January	(666)	(100)
Recognised in profit or loss (Note 27)	665	(549)
Exchange differences	1	(17)
At 31 December	-	(666)
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	-	1,582
Deferred tax assets	-	(2,248)
	-	(666)

The components and movements of deferred tax liabilities and assets during the financial year, prior to offsetting are as follows:

### Deferred tax liabilities:

	Accelerated capital allowances RM'000
<b>Group</b>	
At 1 January 2018/31 December 2018/1 January 2019	1,582
Recognised in profit or loss	(1,582)
<b>At 31 December 2019</b>	-

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 8. DEFERRED TAXATION (CONT'D.)

### Deferred tax assets:

	Unabsorbed capital allowances RM'000	Unabsorbed reinvestment allowances RM'000	Unutilised tax losses RM'000	Others RM'000	Total RM'000
<b>Group (cont'd.)</b>					
At 1 January 2019	(1,582)	(1)	(491)	(174)	(2,248)
Recognised in profit or loss	1,582	1	491	173	2,247
Exchange differences	-	-	-	1	1
<b>At 31 December 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
At 1 January 2018	(1,582)	(1)	-	(99)	(1,682)
Recognised in profit or loss	-	-	(478)	(71)	(549)
Exchange differences	-	-	(13)	(4)	(17)
<b>At 31 December 2018</b>	<b>(1,582)</b>	<b>(1)</b>	<b>(491)</b>	<b>(174)</b>	<b>(2,248)</b>

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Unutilised tax losses	235,288	78,540	57,703	57,804
Unabsorbed capital and reinvestment allowances	54,761	53,025	4,384	3,863
Others	6,388	1,352	2,252	822
	<b>296,437</b>	<b>132,917</b>	<b>64,339</b>	<b>62,489</b>

The unutilised tax losses, unabsorbed capital and reinvestment allowances of the Group are available for offsetting against future taxable profits of the respective subsidiaries within the Group, subject to no substantial changes in the shareholding of these subsidiaries under the Income Tax Act, 1967. The Ministry of Finance via the Budget 2019 announced that with effect from year of assessment 2019, the Government will limit the carrying forward of unutilised business losses and unabsorbed investment tax allowances up to a maximum of seven consecutive years of assessment. Deferred tax assets have not been recognised in respect of these items because there is uncertainty as to when the companies that have recent history of losses will be profitable and therefore, it is not probable that future taxable profits of the applicable Group entities will be sufficient to allow the benefits to be realised.

## 9. LEASES

### Right-of-use assets

	Group				Total RM'000
	Short-term leasehold land RM'000	Office premises RM'000	Motor vehicles RM'000	Warehouses RM'000	
<b>Cost</b>					
At 1 January 2019	–	–	–	–	–
Adoption of MFRS 16	2,634	6,878	297	8,619	18,428
At 1 January 2019 (adjusted)	2,634	6,878	297	8,619	18,428
Exchange differences	(61)	–	–	–	(61)
At 31 December 2019	2,573	6,878	297	8,619	18,367
<b>Accumulated depreciation</b>					
At 1 January 2019	–	–	–	–	–
Adoption of MFRS 16	404	–	–	–	404
At 1 January 2019 (adjusted)	404	–	–	–	404
Depreciation	53	2,294	150	1,434	3,931
Exchange differences	(11)	–	–	–	(11)
At 31 December 2019	446	2,294	150	1,434	4,324
<b>Accumulated impairment</b>					
At 1 January 2019	–	–	–	–	–
Adoption of MFRS 16	803	–	–	–	803
At 1 January 2019 (adjusted)/ 31 December 2019	803	–	–	–	803
<b>Net carrying amount</b>					
At 31 December 2019	1,324	4,584	147	7,185	13,240
At 1 January 2019	1,427	6,878	297	8,619	17,221

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 9. LEASES (CONT'D.)

### Right-of-use assets (cont'd.)

	Company		Total RM'000
	Office premises RM'000	Motor vehicles RM'000	
<b>Cost</b>			
At 1 January 2019	–	–	–
Adoption of MFRS 16	6,642	227	6,869
At 1 January 2019 (adjusted)/31 December 2019	6,642	227	6,869
<b>Accumulated depreciation</b>			
At 1 January 2019	–	–	–
Depreciation	2,193	112	2,305
At 31 December 2019	2,193	112	2,305
<b>Net carrying amount</b>			
At 31 December 2019	4,449	115	4,564
At 1 January 2019	6,642	227	6,869
<b>Lease liabilities</b>			
		Group RM'000	Company RM'000
At 1 January 2019		15,793	6,869
Accretion of interest (Note 25)		703	289
Payments		(4,509)	(2,671)
At 31 December 2019		11,987	4,487
Current		3,905	2,443
Non-current		8,082	2,044

The maturity analysis of lease liabilities are disclosed in Note 35(d).



## 9. LEASES (CONT'D.)

The following are the amounts recognised in profit or loss:

	Group RM'000	Company RM'000
Depreciation expense of right-of-use assets	3,931	2,305
Interest expense on lease liabilities (Note 25)	703	289
Rental of leases of low-value assets and short-term leases (Note 24)	4,509	2,671
Total amount recognised in profit or loss	9,143	5,265

## 10. INVENTORIES

	Group	
	2019 RM'000	2018 RM'000
At cost:		
Raw materials, spare parts and consumables	187,439	179,504

The cost of inventories recognised as an expense during the financial year amounted to RM73,003,000 (2018: RM59,466,000).

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 11. RECEIVABLES

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Trade receivables (Note (a))	272,447	234,244	–	–
Other receivables (Note (b))	11,797	11,514	931	683
<b>Total trade and other receivables</b>	<b>284,244</b>	<b>245,758</b>	<b>931</b>	<b>683</b>
Total trade and other receivables	284,244	245,758	931	683
Less:				
Accrued income (Note (a))	(153,021)	(155,020)	–	–
Prepayments (Note (b))	(5,764)	(4,832)	(156)	(146)
	<b>125,459</b>	<b>85,906</b>	<b>775</b>	<b>537</b>
Add:				
Deposits, cash and bank balances (Note 14)	239,983	235,029	11,913	19,729
Due from subsidiaries				
- Non-current (Note 12)	–	–	874,814	818,387
- Current (Note 12)	–	–	244,303	399,823
<b>Total financial assets at amortised cost</b>	<b>365,442</b>	<b>320,935</b>	<b>1,131,805</b>	<b>1,238,476</b>

### (a) Trade receivables

	Group	
	2019 RM'000	2018 RM'000
Third parties	119,435	79,233
Allowance for impairment (Note (i))	(9)	(9)
	<b>119,426</b>	<b>79,224</b>
Accrued income	153,021	155,020
	<b>272,447</b>	<b>234,244</b>

The Group's normal trade credit terms for the financial year ended 31 December 2019 range from 30 days to 60 days (2018: 30 days to 60 days). Other credit terms are assessed and approved on a case-by-case basis. Trade receivables are non-interest bearing and are recognised at their original invoiced amounts which represent their fair values on initial recognition.

## 11 RECEIVABLES (CONT'D.)

### (a) Trade receivables (cont'd.)

The Group has concentration of credit risk in the form of outstanding balances due from 9 (2018: 10) debtors representing 98% (2018: 89%) of the total net trade receivables.

#### (i) Receivables that are impaired

	Group	
	2019 RM'000	2018 RM'000
<b>Individually impaired</b>		
Trade receivables	9	9
Less: Allowance for impairment	(9)	(9)
	-	-
<b>Movement in allowance for impairment</b>		
At 1 January	9	1,492
Exchange differences	-	(9)
Reversal of impairment losses (Note 21)	-	(1,474)
At 31 December	9	9

Trade receivables that are individually determined to be impaired at the reporting date relate to trade disputes. These receivables are not secured by any collateral or bank guarantee. The information about the credit exposures are disclosed in Note 35(c).

### (b) Other receivables

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Deposits	1,795	1,114	613	385
Prepayments (Note (i))	5,764	4,832	156	146
Sundry receivables	4,238	5,568	162	152
	11,797	11,514	931	683

(i) Prepayments mainly comprise insurance premium and advance payments to vendors in respect of certain services.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 12. DUE FROM/(TO) RELATED COMPANIES

	Company	
	2019 RM'000	2018 RM'000
<b>Non-current:</b>		
Due from subsidiaries		
- interest bearing at 4.47% to 5.40% (2018: 2.60% to 5.87%) per annum	1,005,146	948,719
Less: Allowance for impairment losses (Note 23)	(130,332)	(130,332)
	<b>874,814</b>	<b>818,387</b>
<b>Current:</b>		
Due from subsidiaries		
- interest bearing at 4.21% to 6.31% (2018: 2.80% to 6.82%) per annum	326,025	480,705
- non-interest bearing	3,293	2,157
	<b>329,318</b>	<b>482,862</b>
Less: Allowance for impairment losses (Note 23)	(85,015)	(83,039)
	<b>244,303</b>	<b>399,823</b>
<b>Total amount due from related companies</b>	<b>1,119,117</b>	<b>1,218,210</b>
<b>Non-current:</b>		
Due to subsidiary		
- non-interest bearing	(388,273)	(388,273)
<b>Current:</b>		
Due to subsidiary		
- non-interest bearing	(2,106)	(2,141)
<b>Total amount due to related companies</b>	<b>(390,379)</b>	<b>(390,414)</b>

Amounts due from subsidiaries that are not expected to be realised within twelve months after the reporting period are classified as non-current.

For the financial year ended 31 December 2019, the Company has impaired an amount due from a subsidiary of RM1,976,000 as disclosed in Note 23.

### 13. OTHER INVESTMENTS

	Group and Company	
	2019 RM'000	2018 RM'000
Investments in money market fund, at fair value through profit or loss	119,988	165,606

### 14. DEPOSITS, CASH AND BANK BALANCES

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<b>Current:</b>				
Deposits with licensed banks	120,924	39,082	8,600	15,500
Cash and bank balances	119,059	195,947	3,313	4,229
	<b>239,983</b>	235,029	<b>11,913</b>	19,729

Cash and bank balances amounting to RM71,704,000 (2018: RM47,592,000) are not available for general use by the Group due to restrictions by the lender in respect of the term loan of USD270,422,000 (2018: USD354,125,000) obtained by the Group as disclosed in Note 15.

The range of interest rates per annum of deposits as at the reporting date were as follows:

	Group		Company	
	2019 %	2018 %	2019 %	2018 %
Deposits with licensed banks	1.00 - 3.25	1.00 - 3.70	3.10 - 3.20	3.30 - 3.70

The range of maturities of deposits as at the reporting date were as follows:

	Group		Company	
	2019 Days	2018 Days	2019 Days	2018 Days
Deposits with licensed banks	2-101	13-90	10-41	13-84

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 15. LONG TERM BORROWINGS

	Group	
	2019 RM'000	2018 RM'000
<b>Secured (Floating rate)</b>		
Term loan	1,109,001	1,468,202
Less: Unamortised transaction costs	(20,799)	(30,995)
	<b>1,088,202</b>	1,437,207
Less: Amount payable within one year (Note 16)	(97,610)	(88,828)
<b>Total long term borrowings</b>	<b>990,592</b>	1,348,379

On 21 November 2017, the Group raised USD365,000,000 of term loans, classified as Term Loan A (USD145,000,000) and Term Loan B (USD220,000,000). Both Term Loan A and Term Loan B are fully repayable on 21 November 2022 and 21 November 2027 respectively and are secured by a charge over all existing and future assets of the Group.

The maturity of the Group's total long term and short term borrowings excluding transaction costs as at the respective reporting dates are as follows:

	Within 1 year RM'000 (Note 16)	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000	Total RM'000
<b>31 December 2019</b>					
<b>Secured</b>					
- Revolving credit	205,050	-	-	-	205,050
- Term loan	97,610	107,241	172,743	721,776	1,099,370
<b>31 December 2018</b>					
<b>Secured</b>					
- Term loan	88,828	108,418	472,851	798,105	1,468,202

## 15. LONG TERM BORROWINGS (CONT'D.)

### Changes in liabilities arising from financing activities:

	Group		Total RM'000
	Revolving credit RM'000	Secured term loan RM'000	
At 1 January 2018	416,941	1,442,702	1,859,643
Repayment	(397,373)	(43,882)	(441,255)
Amortisation of transaction costs capitalised	–	8,933	8,933
Effect of changes in foreign exchange rate	(19,568)	29,454	9,886
At 31 December 2018/1 January 2019	–	1,437,207	1,437,207
Drawdown	208,125	–	208,125
Repayment	–	(346,915)	(346,915)
Amortisation of transaction costs capitalised	–	10,196	10,196
Effect of changes in foreign exchange rate	(3,075)	(12,286)	(15,361)
<b>At 31 December 2019</b>	<b>205,050</b>	<b>1,088,202</b>	<b>1,293,252</b>

The range of weighted average effective interest rates per annum at the reporting date for secured short term borrowings are disclosed in Note 16.

## 16. SHORT TERM BORROWINGS

	Group	
	2019 RM'000	2018 RM'000
<b>Secured (Floating rate)</b>		
Revolving credits	205,050	–
Term loans payable within one year (Note 15)	107,241	88,828
Less: Unamortised transaction costs	(9,631)	–
	97,610	88,828
<b>Total short term borrowings</b>	<b>302,660</b>	<b>88,828</b>

The range of weighted average effective interest rates per annum at the reporting date for borrowings were as follows:

	Group	
	2019 % per annum	2018 % per annum
Term loan	4.94 - 6.20	4.49 - 5.70
Revolving credits	4.10 - 5.50	–

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 17. PAYABLES

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Trade payables:				
Third parties	16,215	9,360	–	–
Accruals	103,151	79,976	–	–
	<b>119,366</b>	<b>89,336</b>	<b>–</b>	<b>–</b>
Other payables:				
Accruals	24,975	27,842	1,105	850
Provision for unutilised leave	817	755	495	590
Sundry payables	6,082	9,464	3,847	2,264
	<b>31,874</b>	<b>38,061</b>	<b>5,447</b>	<b>3,704</b>
<b>Total trade and other payables</b>	<b>151,240</b>	<b>127,397</b>	<b>5,447</b>	<b>3,704</b>
Total trade and other payables	151,240	127,397	5,447	3,704
Less:				
Provision for unutilised leave	(817)	(755)	(495)	(590)
Add:				
Lease liabilities (Note 9)	11,987	–	4,487	–
Long term borrowings (Note 15)	990,592	1,348,379	–	–
Short term borrowings (Note 16)	302,660	88,828	–	–
Due to subsidiaries (Note 12)	–	–	390,379	390,414
<b>Total financial liabilities carried at amortised cost</b>	<b>1,455,662</b>	<b>1,563,849</b>	<b>399,818</b>	<b>393,528</b>

Trade payables are non-interest bearing and are normally settled within 30 days to 60 days (2018: 30 days to 60 days).

Included in other payables are sundry payables which are non-interest bearing and are normally settled within 30 days to 90 days (2018: 30 days to 90 days).



## 18. ORDINARY SHARE CAPITAL AND ISLAMIC REDEEMABLE CONVERTIBLE PREFERENCE SHARES ("RCPS-i")

### (a) Ordinary share capital

	Group and Company	
	Number of ordinary shares '000	Share capital RM'000
At 1 January 2018	6,998,728	3,732,346
Conversion of RCPS-i to share capital	1,216,872	322,471
At 31 December 2018/1 January 2019/31 December 2019	8,215,600	4,054,817

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction and rank equally with regards to the Company's residual assets.

The Company has an Employees' Share Option Scheme ("ESOS") under which options to subscribe for the Company's ordinary shares have been granted to employees of the Group.

### (b) RCPS-i

The Company issued 1,216,872,312 new Islamic Redeemable Convertible Preference Shares ("RCPS-i") on 25 October 2017.

RCPS-i was classified as equity instrument. Costs directly attributable to equity transactions are accounted for as a deduction, net of tax, from equity.

The main features of the RCPS-i were as follows:

- (i) The RCPS-i shall be convertible into ordinary shares of the Company during the period from 25 October 2017 to the maturity date on 24 October 2022 by surrendering 1 RM0.30 nominal value of RCPS-i for 1 new ordinary share of the Company. Any remaining RCPS-i that are not converted by the maturity date shall be automatically converted into new ordinary shares of the Company at the conversion rate.
- (ii) Upon conversion of the RCPS-i into new ordinary shares, the RCPS-i shall rank equally amongst themselves, and will rank ahead in point of priority to the ordinary shares of the Company, in respect of payment out of the assets of the Company upon any liquidation, dissolution or winding up of the Company.
- (iii) RCPS-i holders agree (in and for compliance with Shariah) to waive their right to receive any distribution of profit with, such waiver to be decided by the Board at the relevant time on behalf of the RCPS-i holders.
- (iv) The Company may at any time before the maturity date, at its discretion, redeem all or part of the outstanding RCPS-i by giving notice in writing to the RCPS-i holder of its intention to do so, in cash at a redemption price which shall be aggregate of:
  - the issue price of the relevant RCPS-i being redeemed; and
  - redemption premium of 8% per annum on a cumulative but non-compounding basis calculated from the issue date, 25 October 2017, up to the redemption date, out of the distributable profits of the Company.

During the financial year ended 31 December 2018, 1,216,872,312 RCPS-i was converted to ordinary shares.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 19. OTHER RESERVES

### (a) Warrant reserve

On 25 October 2017, the Company allotted and issued 1,209,181,678 free warrants on the basis of 1 warrant for every 4 rights shares subscribed and 304,218,076 free warrants on the basis of 1 warrant for every 4 RCPS-i subscribed.

The warrants are valid for exercise for a period of 7 years from its issue date and will expire on 18 October 2024. During this period, each warrant entitled the registered holder to subscribe for 1 new ordinary share/RCPS-i in the Company at any time on or after 25 October 2017 to 18 October 2024, at an exercise price of RM0.395 per warrant. Any warrant not exercised by its expiry date will lapse thereafter and cease to be valid for all purposes. During the financial year, no warrants for rights issue and RCPS-i were exercised. As at the reporting date, 1,209,181,678 warrants for rights issue and 304,218,076 warrants for RCPS-i remained unexercised.

The value allocated to 1 warrant was based on the proportion of the fair value of 1 warrant, being the fair value of the warrant on the first day of its listing, over the combined fair value of 4 rights shares/RCPS-i and 1 warrant to the issue price of the right shares of RM0.30 each.

### (b) Share options reserve

Share options reserve represents the equity-settled share options:

- (i) Granted by the former ultimate holding company to the employees of the Group; and
- (ii) Granted by the Company to eligible senior executives and employees of the Company under the ESOS.

At an Extraordinary General Meeting held on 31 October 2019, shareholders approved the ESOS for the granting of non-transferable options to eligible senior executives and employees respectively. The ESOS has been implemented effective from 1 November 2019. Options are granted to the eligible employees employed on a full time basis at the discretion of the ESOS Committee. The key features of the ESOS are as follows:

- (i) The maximum number of new ordinary shares of the Company which may be allotted and issued pursuant to the options that may be granted under the ESOS shall not in aggregate exceed seven point five percent (7.5%) of the total number of issued ordinary shares of the Company;
- (ii) The maximum number of options that may be granted under the ESOS to any one eligible person shall be at the sole and absolute discretion of the ESOS Committee after taking into consideration the position and performance of the eligible person in the Group, or such other factors which the ESOS Committee may in its absolute discretion deem fit, subject to the following:
  - the eligible senior executives and other eligible employees do not participate in the deliberation or discussion in respect of his/her own allocation; and
  - the total number of Shares of the Company shall be allocated to any eligible person who, either individually or collectively through persons connected with such eligible person, holds twenty percent (20%) or more of the total number issued ordinary shares of the Company (excluding treasury shares, if any), does not exceed more than ten percent (10%) of the total number of Shares of the Company to be issued under the Scheme.

## 19. OTHER RESERVES (CONT'D.)

### (b) Share options reserve (cont'd.)

- (iii) The option exercise price shall be determined by the Board upon recommendation of the ESOS Committee to be the five (5) days weighted average market price of the ordinary shares of the Company, as quoted on Bursa Securities, immediately preceding the date of offer or with a premium or discount. In the event of a discount, the discount shall not be more than ten percent (10%) or such other percentage of discount as may be permitted by Bursa Securities or any other relevant authorities from time to time during the duration of the ESOS;
- (iv) The ESOS shall be in force for a duration of five (5) years from the effective date of implementation of the ESOS on 1 November 2019. The ESOS Committee may terminate the ESOS at any time before the Date of Expiry without obtaining the approvals from the Grantees who have yet to exercise their Options or the Company's shareholders provided that the Company releases an announcement to Bursa Securities on the following:
- the effective date of termination ("Termination Date")
  - the number of Options exercised or shares vested; and
  - the reasons and justification for termination.
- (v) The ESOS is exercisable upon fulfilment of the vesting period of three (3) years, or earlier at the discretion of the ESOS Committee.

### Movement of share options during the financial year

The number and exercise price of, and movements in, share options during the financial year are as follows:

	Group and Company	
	Exercise price RM	Number ('000)
Outstanding at 1 January 2019	–	–
Granted during the year	0.33	109,580
Outstanding at 31 December 2019	0.33	109,580

The remaining contractual life for these options outstanding as at 31 December 2019 was 5 years with an expiry date of 31 October 2024.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 19. OTHER RESERVES (CONT'D.)

### (b) Share options reserve (cont'd.)

#### Fair value of share options granted

The fair value of the share options granted under the ESOS is estimated at the grant date using a Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the instruments were granted.

The following table lists the inputs to the option pricing model used for the financial year ended 31 December 2019:

	<b>Group and Company</b>
Fair value at the measurement date	RM0.18
Expected volatility	50.67%
Risk-free interest rate	3.28% per annum
Expected life of option	5 years
Share price	RM0.33

The expected life of the options is based on the ESOS duration and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

### (c) Capital reserve

Capital reserve relates to statutory reserves of an overseas subsidiary.

### (d) Gain on derecognition of financial liabilities

The gain on derecognition of financial liabilities arose as part of the settlement of liabilities due to the former ultimate holding company pursuant to a past internal reorganisation.

### (e) Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the Group's presentation currency.

## 20. REVENUE

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Revenue from lease contracts:				
Leasing of drilling rigs and hydraulic workover units	400,828	287,171	–	–
Revenue from contracts with customers:				
Drilling and workover services	183,116	213,146	–	–
Sale of goods	28,679	18,670	–	–
Rendering of services	58,133	54,817	–	–
Revenue from other sources:				
Management fees from subsidiaries	–	–	10,354	8,500
	<b>670,756</b>	<b>573,804</b>	<b>10,354</b>	<b>8,500</b>
<b>Timing of recognition</b>				
Goods and services transferred at a point in time	29,645	23,008	–	–
Services transferred over time	641,111	550,796	10,354	8,500
	<b>670,756</b>	<b>573,804</b>	<b>10,354</b>	<b>8,500</b>

## 21. OTHER OPERATING INCOME

Included in other operating income are:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Gain on sale of investment	40	1,151	40	–
Gain on disposal of property, plant and equipment	126	135	–	–
Rental income	231	226	566	573
Reversal of impairment losses on receivables (Note 11(a))	–	1,474	–	–
Insurance claim	–	4,040	–	–
Net fair value gain on investments in money market fund	416	85	416	85
Net foreign exchange gain	1,978	13,880	–	20,352

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 22. EMPLOYEE BENEFITS

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Wages and salaries	100,853	91,083	16,779	12,166
Social security costs	542	522	82	82
Provision for/(reversal of) unutilised leave	62	(71)	(95)	–
Pension costs - defined contribution plan	6,912	6,428	2,397	1,915
Termination benefits	–	3,221	–	–
Share options granted under ESOS	718	–	718	–
Other employee related expenses	29,783	26,648	2,234	1,994
	<b>138,870</b>	<b>127,831</b>	<b>22,115</b>	<b>16,157</b>

Included in employee benefits is executive director's remuneration as follows:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Salaries and other emoluments	1,248	1,380	1,248	1,380
Pension costs - defined contribution plan	209	188	209	188
Share options granted under ESOS	116	–	116	–
Benefits-in-kind	224	164	224	164

## 23. IMPAIRMENT PROVISIONS

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Property, plant and equipment (Note 4)	–	10,522	–	–
Land use rights (Note 5)	–	803	–	–
Investments in subsidiaries (Note 6)	–	–	1,180	565,275
Amount due from subsidiaries (Note 12)	–	–	1,976	10,039
	–	<b>11,325</b>	<b>3,156</b>	<b>575,314</b>

## 24. OTHER OPERATING EXPENSES

Included in other operating expenses are:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Non-executive directors' remuneration:				
- fees	885	626	885	626
- meeting allowances	219	159	219	159
- other emoluments	191	65	191	65
Rental of premises	234	5,078	2,559	2,431
Rental of leases of low-value assets and short-term leases (Note 9)	4,509	–	2,671	–
Rental of equipment, barge and rig	10,733	4,457	78	88
Repair and maintenance of equipment and rigs	22,164	31,668	32	15
Auditors' remuneration:				
Statutory audit				
- auditors of the Company	650	668	185	146
- other auditors	55	109	–	–
Other services				
- auditors of the Company	94	–	94	–
Amount due from a subsidiary written off	–	–	–	2,795
Loss on disposal of property, plant and equipment	865	2,105	47	18
Property, plant and equipment written off	211	62	–	–
Net foreign exchange loss	–	–	11,571	–

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 24. OTHER OPERATING EXPENSES (CONT'D.)

	Directors' fees		*Other emoluments	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<b>Group and Company</b>				
Non-executive directors:				
Dato' Abdul Rahman Ahmad	77	–	14	–
Razalee Amin	110	84	71	25
Dato' Afifuddin Abdul Kadir	–	28	–	49
Cheah Tek Kuang	58	83	64	31
Dato' Ibrahim Marsidi	110	83	81	32
Mohd Rashid Mohd Yusof	104	83	36	20
Haida Shenny Hazri	101	83	34	19
Rowina Ghazali Seth	102	83	44	24
Rizal Rickman Ramli	91	45	22	11
Dato' Dayang Fatimah Johari	102	54	39	13
Datuk Tong Poh Keow	30	–	5	–
	<b>885</b>	<b>626</b>	<b>410</b>	<b>224</b>

	Directors' fees		**Other emoluments	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<b>Group and Company</b>				
Executive director:				
Rohaizad Darus	–	–	1,680	1,732

\* Included in the other emoluments are meeting allowances, per diem allowance, car, petrol, telephone expenses and leave passage.

\*\* Included in the other emoluments are salary, gratuity, employer's statutory contribution, car and petrol, leave passage, allowances, telephone expenses and club subscriptions.



## 25. FINANCE COSTS

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Interest expenses				
- Bank borrowings	<b>90,573</b>	93,598	-	-
- Due to subsidiary	-	-	-	1,585
- Lease liabilities (Note 9)	<b>703</b>	-	<b>289</b>	-
- Others	<b>528</b>	453	-	-
	<b>91,804</b>	94,051	<b>289</b>	1,585

## 26. INVESTMENT INCOME

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Distribution income from:				
- Money market fund	<b>4,058</b>	3,261	<b>4,058</b>	3,261
Interest income from:				
- Deposits with licensed banks	<b>3,940</b>	9,181	<b>492</b>	7,387
- Subsidiaries	-	-	<b>69,319</b>	53,381
	<b>7,998</b>	12,442	<b>73,869</b>	64,029

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 27. INCOME TAX EXPENSE

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Income tax:				
Malaysian income taxes	6,179	3,127	2,134	2,626
Foreign income taxes	1,217	780	1	–
	<b>7,396</b>	<b>3,907</b>	<b>2,135</b>	<b>2,626</b>
Under/(over) provision in prior years:				
Malaysian income taxes	1,307	(561)	342	(681)
Foreign income taxes	55	76	–	–
	<b>1,362</b>	<b>(485)</b>	<b>342</b>	<b>(681)</b>
	<b>8,758</b>	<b>3,422</b>	<b>2,477</b>	<b>1,945</b>
Deferred taxation (Note 8):				
Relating to origination and reversal of temporary differences	665	(549)	–	–
Total income tax expense	<b>9,423</b>	<b>2,873</b>	<b>2,477</b>	<b>1,945</b>

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2018: 24%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## 27. INCOME TAX EXPENSE (CONT'D.)

Reconciliations between tax expense and the accounting profit/(loss) multiplied by the applicable corporate tax rate for the years ended 31 December 2019 and 2018 are as follows:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit/(loss) before tax	<b>42,493</b>	(17,563)	<b>36,538</b>	(515,340)
Taxation at Malaysian statutory rate of 24% (2018: 24%)	<b>10,198</b>	(4,215)	<b>8,769</b>	(123,682)
Effect of different tax rates in other jurisdictions	<b>(43,212)</b>	861	–	–
Income not subject to tax	<b>(23,609)</b>	(14,925)	<b>(12,414)</b>	(13,131)
Expenses not deductible for tax purposes	<b>25,495</b>	36,398	<b>5,272</b>	139,227
Utilisation of previously unrecognised deferred tax assets	–	(16,580)	–	–
Deferred tax assets recognised on previously unrecognised tax losses	–	(1,623)	<b>343</b>	–
Deferred tax assets not recognised	<b>39,245</b>	3,502	<b>101</b>	212
Under/(over) provision of income tax in prior years	<b>1,362</b>	(485)	<b>406</b>	(681)
Share of results of associate	<b>(56)</b>	(60)	–	–
Tax expense for the year	<b>9,423</b>	2,873	<b>2,477</b>	1,945

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 28. EARNINGS/(LOSS) PER SHARE

	Group	
	2019	2018
Net profit/(loss) attributable to equity holders (RM'000)	33,218	(19,528)
Weighted average number of ordinary shares in issue ('000)		
- Basic	8,215,600	8,125,218
Effects of dilution:		
Options under ESOS	2,399	-
- Diluted	8,217,999	8,125,218
Earnings/(loss) per share (sen):		
- Basic	0.40	(0.24)
- Diluted	0.40	(0.24)

Basic/diluted earnings/(loss) per share are calculated by dividing the net profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

1,513,399,754 (2018: 1,513,399,754) warrants have not been included in the calculation of diluted earnings/(loss) per share because they are anti-dilutive.

## 29. COMMITMENTS

	Group	
	2019 RM'000	2018 RM'000
<b>(a) Capital commitments</b>		
Approved and contracted for:		
- land and buildings	148	573
- equipment, plant and machinery	8,905	13,297
- others	150	150
	9,203	14,020
Approved but not contracted for:		
- land and buildings	5,257	7,061
- equipment, plant and machinery	132,214	121,539
- others	3,082	3,475
	140,553	132,075
Total capital commitments	149,756	146,095

## 29. COMMITMENTS (CONT'D.)

	Group	
	2019 RM'000	2018 RM'000
<b>(b) Operating lease commitments - as lessee</b>		
Within 1 year	433	4,451
Later than 1 year but less than 5 years	70	2,376
	<b>503</b>	<b>6,827</b>

## 30. SEGMENT REPORTING

For management purposes, the Group is organised into business segments based on the nature of services and has 3 operating segments as follows:

- (i) The drilling services segment is principally involved in the provision of drilling services and workover rig services to the upstream oil and gas sector. This segment owns and operates several drilling rigs and HWUs, and acts as an agent for two providers of specialised equipment and service. The rigs are chartered out to oil majors for their exploration, development and production activities. The HWUs service offshore wells that involve the use of HWUs and its ancillary equipment to complete the removal and replacement of well equipment to restore the operation of suspended or under-performing wells;
- (ii) The oilfield services segment principally provide premium OCTG threading, repair and inspection services; and
- (iii) The others segment is involved in investment holding, provision of support services, management and corporate services which do not generate significant external revenue.

Transfer prices between operating segments are at terms agreed between the parties.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 30. SEGMENT REPORTING (CONT'D.)

### (a) Business segments

31 December 2019	Drilling services RM'000	Oilfield services RM'000	Others RM'000	Eliminations RM'000	Note	Per consolidated financial statements RM'000
<b>Revenue:</b>						
External customers	660,068	10,153	535	–		670,756
Inter-segment	–	–	4,626	(4,626)	i	–
<b>Total revenue</b>	<b>660,068</b>	<b>10,153</b>	<b>5,161</b>	<b>(4,626)</b>		<b>670,756</b>
<b>Results:</b>						
Depreciation and amortisation	(194,428)	(818)	(3,128)	–		(198,374)
Finance costs	(91,500)	–	(304)	–		(91,804)
Investment income	2,078	118	5,802	–		7,998
Share of results of associate	–	233	–	–		233
Other material non-cash items	1,121	26	(679)	–	ii	468
Segment profit/(loss) before tax	68,346	1,555	(27,408)	–		42,493
Income tax expense	(6,182)	(609)	(2,632)	–		(9,423)
<b>Segment profit/(loss) after tax</b>	<b>62,164</b>	<b>946</b>	<b>(30,040)</b>	<b>–</b>		<b>33,070</b>
<b>Assets:</b>						
Investment in an associate	–	1,984	–	–		1,984
Additions to non-current assets	118,971	88	851	–	iii	119,910
<b>Segment assets</b>	<b>3,018,038</b>	<b>23,414</b>	<b>1,223,938</b>	<b>–</b>		<b>4,265,390</b>
<b>Liabilities:</b>						
<b>Segment liabilities</b>	<b>146,066</b>	<b>2,855</b>	<b>1,312,993</b>	<b>–</b>		<b>1,461,914</b>

### 30. SEGMENT REPORTING (CONT'D.)

#### (a) Business segments (cont'd.)

31 December 2018	Drilling services RM'000	Oilfield services RM'000	Others RM'000	Eliminations RM'000	Note	Per consolidated financial statements RM'000
<b>Revenue:</b>						
External customers	556,638	16,204	962	–		573,804
Inter-segment	–	–	9,219	(9,219)	i	–
<b>Total revenue</b>	<b>556,638</b>	<b>16,204</b>	<b>10,181</b>	<b>(9,219)</b>		<b>573,804</b>
<b>Results:</b>						
Depreciation and amortisation	(188,168)	(2,242)	(1,055)	–		(191,465)
Impairment of property, plant and equipment	(2,618)	(6,637)	(1,267)	–		(10,522)
Impairment of land use rights	–	(803)	–	–		(803)
Finance costs	(94,041)	(8)	(2)	–		(94,051)
Investment income	1,582	69	10,791	–		12,442
Share of results of associate	–	249	–	–		249
Other material non-cash items	(13,200)	(1,638)	15,496	–	ii	658
<b>Segment (loss)/profit before tax</b>	<b>(12,672)</b>	<b>(13,693)</b>	<b>8,802</b>	<b>–</b>		<b>(17,563)</b>
Income tax expense	(166)	(502)	(2,205)	–		(2,873)
<b>Segment (loss)/profit after tax</b>	<b>(12,838)</b>	<b>(14,195)</b>	<b>6,597</b>	<b>–</b>		<b>(20,436)</b>
<b>Assets:</b>						
Investment in an associate	–	2,245	–	–		2,245
Additions to non-current assets	26,236	761	577	–	iii	27,574
<b>Segment assets</b>	<b>4,058,006</b>	<b>49,729</b>	<b>255,707</b>	<b>–</b>		<b>4,363,442</b>
<b>Liabilities:</b>						
<b>Segment liabilities</b>	<b>1,523,742</b>	<b>4,415</b>	<b>36,783</b>	<b>–</b>		<b>1,564,940</b>

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 30. SEGMENT REPORTING (CONT'D.)

### (a) Business segments (cont'd.)

The following are the nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements:

- i. Inter-segment revenue are eliminated on consolidation.
- ii. Other material non-cash income/(expenses) consist of the following items as presented in the respective notes to the consolidated financial statements:

	Note	2019 RM'000	2018 RM'000
Reversal of impairment losses on receivables	21	–	1,474
Net loss on disposal of property, plant and equipment	21, 24	(739)	(1,970)
Net fair value gain on investments in money market fund	21	416	85
Net unrealised foreign exchange gain		1,720	1,131
Property, plant and equipment written off	24	(211)	(62)
Share options granted under ESOS	22	(718)	–
		<b>468</b>	<b>658</b>

- iii. Additions to non-current assets consist:

	Note	2019 RM'000	2018 RM'000
Property, plant and equipment	4	119,910	27,574



### 30. SEGMENT REPORTING (CONT'D.)

#### (b) Geographical segments

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Malaysia RM'000	Others RM'000	Total RM'000
<b>31 December 2019</b>			
Revenue from external customers	660,530	10,226	670,756
Non-current assets	3,408,407	15,211	3,423,618
<b>31 December 2018</b>			
Revenue from external customers	565,219	8,585	573,804
Non-current assets	3,515,329	16,538	3,531,867

Non-current assets information presented above consist of the following items as presented in the consolidated statement of financial position:

	2019 RM'000	2018 RM'000
Property, plant and equipment	3,410,616	3,530,440
Land use rights	–	1,427
Right-of-use assets	13,240	–
	3,423,856	3,531,867

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 31. SUBSIDIARIES

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2019 %	2018 %
<b>Subsidiaries of the Company:</b>				
UMW JDC Drilling Sdn. Bhd. #	Malaysia	Provision of drilling operations for the oil and gas industry	85	85
Velesto Malaysian Ventures Sdn. Bhd.	Malaysia	Investment holding	100	100
Velesto Singapore Ventures Pte. Ltd.	Singapore	Investment holding	100	100
Velesto Rig Asset (L) Ltd.	Malaysia	Investment holding	100	100
Sumber Ribu Sdn. Bhd.	Malaysia	Provision for treasury management services	100	100
Sumber Wang (L) Ltd.	Malaysia	Provision for treasury management services	100	100
<b>Subsidiaries of:</b>				
Velesto Malaysian Ventures Sdn. Bhd.				
Velesto Singapore Ventures Pte. Ltd.				
Velesto Rig Asset (L) Ltd.				
Velesto Workover Sdn. Bhd.	Malaysia	Provision of workover operations for the oil and gas industry	100	100
Velesto Drilling Sdn. Bhd.	Malaysia	Contract offshore drilling business and operations and other engineering services for oil and gas exploration, development and production in Malaysia and overseas	100	100
Velesto Drilling Co. Ltd.	Malaysia	Ownership and leasing of rig	100	100

### 31. SUBSIDIARIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2019 %	2018 %
<b>Subsidiaries of: (cont'd.)</b>				
Velesto Malaysian Ventures Sdn. Bhd.				
Velesto Singapore Ventures Pte. Ltd.				
Velesto Rig Asset (L) Ltd.				
Velesto Drilling 2 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 3 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 4 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 5 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 6 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 7 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 8 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling Academy Sdn. Bhd.	Malaysia	Provision of training and courses in relation to oil and gas drilling activities	100	100
Velesto 1 Pte. Ltd.	Singapore	Ownership and leasing of rig	100	100
Velesto 3 Pte. Ltd.	Singapore	Dormant	100	100
Velesto Drilling Ltd.	Cayman Islands	Contract drilling operations and other engineering services for oil and gas exploration, development and production	100	100

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 31. SUBSIDIARIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2019 %	2018 %
<b>Subsidiaries of: (cont'd.)</b>				
Velesto Malaysian Ventures Sdn. Bhd.				
Velesto Singapore Ventures Pte. Ltd.				
Velesto Rig Asset (L) Ltd.				
Offshore Driller B324 Ltd.	Cayman Islands	Dormant	100	100
Offshore Driller 4 Ltd.	Cayman Islands	Dormant	100	100
Velesto Oilpipe Services Sdn. Bhd.	Malaysia	Provision of threading, inspection, repair and maintenance services for OCTG	100	100
UMW Oilfield Services (Tianjin) Co., Limited*	People's Republic of China	Provision of threading, inspection, repair and maintenance services for OCTG	100	100
UOT (Thailand) Limited^	Thailand	Provision of threading, inspection, repair and maintenance services for OCTG	58.8	58.8
Velesto Rig Asset Sdn. Bhd.**	Malaysia	Investment holding	100	–
Velesto Sumber Sdn. Bhd.**	Malaysia	Investment holding	100	–
Velesto Drilling 2 Sdn. Bhd.**	Malaysia	Ownership and leasing of rig	100	–
Velesto Drilling 3 Sdn. Bhd.**	Malaysia	Ownership and leasing of rig	100	–
Velesto Drilling 4 Sdn. Bhd.**	Malaysia	Ownership and leasing of rig	100	–

### 31. SUBSIDIARIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2019 %	2018 %
<b>Subsidiaries of: (cont'd.)</b>				
Velesto Malaysian Ventures Sdn. Bhd.				
Velesto Singapore Ventures Pte. Ltd.				
Velesto Rig Asset (L) Ltd.				
Velesto Drilling 5 Sdn. Bhd.**	Malaysia	Ownership and leasing of rig	100	–
Velesto Drilling 6 Sdn. Bhd.**	Malaysia	Ownership and leasing of rig	100	–
Velesto Drilling 7 Sdn. Bhd.**	Malaysia	Ownership and leasing of rig	100	–
Velesto Drilling 8 Sdn. Bhd.**	Malaysia	Ownership and leasing of rig	100	–

# In members' voluntary winding up on 26 February 2018.

\* Audited by firms other than Ernst & Young PLT.

^ Commenced dissolution process on 28 June 2019.

\*\* The auditors have not been appointed.

#### (a) Subsidiaries with non-controlling interests

Details and summarised financial information of subsidiaries which have non-controlling interests that are material to the Group are set out below. The summarised financial information presented below is the amount before inter-company elimination.

##### (i) Details of subsidiaries

Name of company	Proportion of ownership interest held by non-controlling interests	
	2019 %	2018 %
UMW JDC Drilling Sdn. Bhd.	15	15
UOT (Thailand) Limited	41.2	41.2

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 31. SUBSIDIARIES (CONT'D.)

### (a) Subsidiaries with non-controlling interests (cont'd.)

#### (ii) Summarised statements of financial position

	2019 RM'000	2018 RM'000
Non-current assets	–	–
Current assets	7,495	6,926
Current liabilities	(484)	(657)

#### (iii) Summarised statements of comprehensive income

	2019 RM'000	2018 RM'000
Revenue	–	40
Loss for the year	(310)	(1,845)
Other comprehensive income/(loss)	–	67
Total comprehensive loss	(310)	(1,778)

#### (iv) Summarised statements of cash flows

	2019 RM'000	2018 RM'000
Net cash used in operating activities	(168)	(2,338)
Net cash generated from investing activities	–	937
Net decrease in cash and cash equivalents	(168)	(1,402)
Cash and cash equivalents at end of year	4,256	4,483

### (b) Disposal of a subsidiary

In the previous financial year, the Group disposed off its 51% equity interest in UMW Oilpipe Services (Turkmenistan) Ltd. for a total cash consideration of RM1,930,000. As a result, UMW Oilpipe Services (Turkmenistan) Ltd. ceased to be a subsidiary of the Group.

### 32. SIGNIFICANT RELATED PARTY DISCLOSURES

- (a) In addition to the related party transaction information disclosed elsewhere, transactions by the Company with its subsidiaries are as follows:

	Company	
	2019 RM'000	2018 RM'000
Management fees income	(10,354)	(8,500)
Interest income	(69,319)	(53,381)
Interest expenses	–	1,585
Rental income	(566)	(573)
Services rendered income	(668)	(505)

- (b) Compensation of key management personnel

The aggregate compensation of key management personnel, including the executive director of the Company is as follows:

	2019 RM'000	2018 RM'000
Salaries and wages	4,366	4,476
Social security cost	9	9
Pension costs - defined contribution plan	729	637
Share options granted under ESOS	360	–
Other staff related costs	644	626
	<b>6,108</b>	<b>5,748</b>

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 33. FAIR VALUE OF FINANCIAL INSTRUMENTS

### Determination of fair values

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value:

	<b>Note</b>
<b>Receivables</b>	
- Trade and other receivables	11
- Due from related companies	12
<b>Deposits, cash and bank balances</b>	14
<b>Lease liabilities</b>	9
<b>Borrowings</b>	
- Floating rate borrowings (non-current)	15
- Floating rate borrowings (current)	16
<b>Payables</b>	
- Trade and other payables	17
- Due to related companies	12



### 33. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

#### Determination of fair values (cont'd.)

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

The carrying amounts of the current portion of loans and borrowings are reasonable approximation of fair value due to the insignificant impact of discounting.

The fair values of non-current loans and borrowings are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the reporting date.

#### Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- (a) Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- (b) Level 2 Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (c) Level 3 Input for the asset or liability that are not based on observable market data (unobservable input).

<b>Assets</b>	<b>Level 1</b>	
	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Investments in money market fund (Note 13)	<b>119,988</b>	165,606

The Group does not have any financial instruments classified as Level 2 and Level 3 as at the reporting date. There were no material transfers between Level 1, Level 2 and Level 3 during the financial year.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 34. CAPITAL MANAGEMENT

Capital management is defined as the process of managing the composition of the Group's debt and equity to achieve and maintain an optimal capital structure and ensuring availability of funds to support its business and maximise its shareholder value.

The Group defines total capital as total equity and net debt of the Group and manages its capital structure using a gearing ratio which is net debt divided by total equity plus net debt. For this purpose, borrowings from former holding company and other investments, which consist of investments in money market fund, are included in deriving net debt of the Group. The Group endeavours to maintain a gearing ratio to that optimises the usage of capital.

	Group	
	2019 RM'000	2018 RM'000
Loans and borrowings	1,293,252	1,437,207
Lease liabilities	11,987	–
Less:		
Deposits, cash and bank balances	(239,983)	(235,029)
Other investments	(119,988)	(165,606)
Net debt	945,268	1,036,572
Total equity	2,803,476	2,798,502
<b>Total capital</b>	<b>3,748,744</b>	<b>3,835,074</b>
<b>Gearing ratio</b>	<b>0.25</b>	<b>0.27</b>

## 35. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks. The financial risk management practices of the Group seek to ensure that adequate financial resources are available for the development of the Group's business while managing credit, liquidity, interest rate and foreign currency risks. The principal aim of the Group's financial risk management practices is to identify, evaluate and manage financial risks with an objective to minimise potential adverse effects on the financial performance of the Group.

The Group's risk governance structure comprise the following:

- (i) a Board Risk Management Committee; and
- (ii) a Risk Management Committee.

### 35. FINANCIAL RISK MANAGEMENT (CONT'D.)

Responsibilities of the Board of Directors include:

- (i) to define appropriate risk governance structure;
- (ii) to conduct overall review and endorsement on the risk parameters, risk appetite, risk profiles, risk treatment options, risk action plans and key risk indicators; and
- (iii) to provide overall guidance and advice on appropriateness of risk treatment option selected and risk action plans development.

Responsibilities of the Board Risk Management Committee include:

- (i) to monitor the consistent enforcement of Enterprise Risk Management ("ERM") policy across the Group;
- (ii) to review and endorse the risk parameters, risk appetite, risk profiles, risk treatment options, risk action plans and key risk indicators;
- (iii) to provide guidance and advice on appropriateness of risk treatment option selected and risk action plans development; and
- (iv) to provide half yearly reports to the Board on ERM.

The Risk Management Committee is made up of members of the Group's senior management. This committee will be responsible to identify and assess risks and make recommendations on risk management to the Board Risk Management Committee and the Board of Directors.

Financial risk management objectives of the Group are as follows:

- (i) to minimise exposure to all financial risks including interest, credit, liquidity and foreign currency exchange risks;
- (ii) to accept certain level of financial risks including price risk and credit risk that commensurate with the expected returns on the underlying operations and activities; and
- (iii) to minimise liquidity risk by proper cash flow planning, management and control.

The Group's financial risk management strategies include using:

- (i) credit controls that include evaluation, acceptance, monitoring and feedback to ensure that only reasonably creditworthy customers are accepted; and
- (ii) money market instruments, short term deposits and bank borrowings to manage liquidity risks.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 35. FINANCIAL RISK MANAGEMENT (CONT'D.)

The Group's strategies and practices in dealing with its major financial risks are set out below:

### (a) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The functional currency of a majority of the companies within the Group is United States Dollar ("USD"). The Group relies primarily on the natural hedge between its USD-denominated revenue and USD-denominated borrowings and other liabilities to minimise its exposures to foreign currency risk.

The Group's exposures to foreign currency risk primarily consist of trade receivables, trade payables, loans and borrowings, and deposits, cash and bank balances, as a result of transactions entered into in currencies other than the functional currencies.

As at 31 December 2019, approximately 0.4% (2018: 2.5%) of the Group's trade receivables and approximately 10.1% (2018: 8.4%) of the Group's trade payables are denominated in currencies other than the functional currency of the relevant companies in the Group.

The Group also holds deposits, cash and bank balances denominated in currencies other than functional currencies for working capital purposes. As at 31 December 2019, the Group has such balances amounting to RM87,172,000 (2018: RM40,390,000).

Material foreign currency exposures are hedged via forward exchange contracts by using foreign exchange facilities maintained with leading banks. The forward exchange contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

The table below demonstrates the sensitivity of the Group's and of the Company's profit/(loss) after taxation as at year end to a reasonable possible change in the US Dollar exchange rates against RM with all other variables held constant:

	Group		Company	
	Effect on profit/(loss) after taxation Increase/(decrease)		Effect on profit/(loss) after taxation (Decrease)/increase	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
US Dollar/RM				
- strengthened 5% (2018: 5%)	6,522	(1,688)	(42,812)	(44,865)
- weakened 5% (2018: 5%)	(6,522)	1,688	42,812	44,865

### 35. FINANCIAL RISK MANAGEMENT (CONT'D.)

#### (b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk in respect of its placements with financial institutions and bank borrowings at floating rates. Its policy is to:

- (i) have an optimal mixture of short term deposits or placements; and
- (ii) manage its interest cost using a combination of fixed and floating rate debts.

The Group monitors interest rates prior to making deposits and bank borrowings to ensure that the applicable rates are established at acceptable levels. Interest rate swaps may be used to hedge against fluctuation in interest rate where appropriate.

#### Sensitivity analysis for interest rate risk

The table below demonstrates the sensitivity of the Group's and the Company's profit/(loss) after taxation, to possible reasonable changes in interest rates with all other variables held constant, through impact on interest income from placement of surplus funds and interest expense on floating rate borrowings.

	Basis points	Group		Company	
		Effect on profit/(loss) after taxation		Effect on profit/(loss) after taxation	
		Increase/(decrease)		Increase/(decrease)	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
London					
Interbank	+ 50	(5,545)	7,341	643	(637)
Offered Rate	- 50	5,545	(7,341)	(643)	637
Cost of funds of	+ 50	(1,025)	-	5,716	(5,639)
lenders	- 50	1,025	-	(5,716)	5,639

#### (c) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligation. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including deposits, cash and bank balances), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

Credit risk of the Group is managed during the tendering stage where the credit worthiness of a potential customer or the payment records of an existing customer is evaluated prior to participating in a tender. The Group's customers are mainly local and overseas national oil companies, subsidiaries of credit-worthy international oil and gas companies or established international companies. For less established companies, credit risk is managed by obtaining advance payment and/or a collateral in the form of a bank guarantee.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 35. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (c) Credit risk (cont'd.)

Set out below is the information about the credit risk exposure on the Company's trade receivables and accrued income:

	Group	
	2019 RM'000	2018 RM'000
Accrued income	153,021	155,020
Trade receivables:		
Neither past due nor impaired	24,855	32,616
1 to 30 days past due not impaired	43,938	32,954
31 to 60 days past due not impaired	21,929	957
61 to 90 days past due not impaired	9,761	1,481
More than 90 days past due not impaired	18,943	11,216
	119,426	79,224
Impaired	9	9
	272,456	234,253

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 11.

### (d) Liquidity risk

Liquidity risk is the risk that the Group and the Company is unable to meet financial obligations when due, as a result of shortage of funds including arising from mismatch of maturities of financial assets and liabilities.

To ensure a healthy liquidity position, it is the Group's and the Company's policy to:

- (i) have the right mixture of liquid assets in its portfolio;
- (ii) maintain a healthy gearing ratio;
- (iii) finance long term assets with long term loans; and
- (iv) maintain a balance between flexible and structured financing options to finance its operations and investments.

### 35. FINANCIAL RISK MANAGEMENT (CONT'D.)

#### (d) Liquidity risk (cont'd.)

The table below summarises the maturity profile of the Group's and the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations.

#### Group

	← 31 December 2019 →				Total RM'000
	On demand or within one year RM'000	More than one year and less than two years RM'000	More than two years and less than five years RM'000	Over five years RM'000	
<b>Financial liabilities:</b>					
Trade and other payables (exclude provisions)	150,423	–	–	–	150,423
Borrowings	392,108	174,714	357,701	851,670	1,776,193
Lease liabilities	4,415	3,144	3,240	2,840	13,639
<b>Total undiscounted financial liabilities</b>	<b>546,946</b>	<b>177,858</b>	<b>360,941</b>	<b>854,510</b>	<b>1,940,255</b>

	← 31 December 2018 →				Total RM'000
	On demand or within one year RM'000	More than one year and less than two years RM'000	More than two years and less than five years RM'000	Over five years RM'000	
<b>Financial liabilities:</b>					
Trade and other payables (exclude provisions)	126,642	–	–	–	126,642
Borrowings	180,582	199,265	702,178	988,713	2,070,738
<b>Total undiscounted financial liabilities</b>	<b>307,224</b>	<b>199,265</b>	<b>702,178</b>	<b>988,713</b>	<b>2,197,380</b>

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2019 (CONT'D.)

## 35. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (d) Liquidity risk (cont'd.)

#### Company

	← 31 December 2019 →				Total RM'000
	On demand or within one year RM'000	More than one year and less than two years RM'000	More than two years and less than five years RM'000	Over five years RM'000	
<b>Financial liabilities:</b>					
Other payables (exclude provisions)	4,952	–	–	–	4,952
Due to subsidiaries	390,379	–	–	–	390,379
Lease liabilities	2,612	2,073	46	–	4,731
<b>Total undiscounted financial liabilities</b>	<b>397,943</b>	<b>2,073</b>	<b>46</b>	<b>–</b>	<b>400,062</b>

	← 31 December 2018 →				Total RM'000
	On demand or within one year RM'000	More than one year and less than two years RM'000	More than two years and less than five years RM'000	Over five years RM'000	
<b>Financial liabilities:</b>					
Other payables (exclude provisions)	3,114	–	–	–	3,114
Due to subsidiaries	390,414	–	–	–	390,414
<b>Total undiscounted financial liabilities</b>	<b>393,528</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>393,528</b>

There have been no material changes to the Group's and the Company's exposure to the above financial risks or the manner in which it manages and measures the risks for the financial years ended 31 December 2019 and 31 December 2018.



### **36. SUBSEQUENT EVENTS**

The COVID-19 pandemic and subsequent drop in oil prices have significantly disrupted many business operations around the world. As the outbreak continues to evolve, it is challenging to predict the full extent and duration of its impact on the business and the economy. The occurrence of the COVID-19 outbreak and the subsequent drop in oil prices are not an adjusting post balance sheet event.

At this juncture, it is not possible for the Group to assess the full impact of the outbreak's short-term and longer-term effects or the Government's varying efforts to combat the outbreak and support businesses. The Group acknowledges that the daily charter rates, rigs and HWU utilisation rates, billing efficiency rates as well as pre-tax discount rates may vary due to the prolongation of the COVID-19 outbreak and expected slow recovery in oil prices.

The Group will continue to monitor the development of these events and the impact to the Group will be reflected within the next financial year.

# LIST OF PROPERTIES

## PROPERTY OWNED BY THE GROUP

As at 31 December 2019

The details of land and buildings owned by the Group are set out below:

Location	Description	Existing Use	Date of issuance of CCC <sup>(1)</sup> or equivalent	Built-up area/ Land area (Sq. Metres)	Restriction in interest	Net Book Value	Revaluation Date
UMW Oilfield Services (Tianjin) Co., Limited ("UOS-TJ")	Industrial land comprising a detached factory (including warehouse, workshop, administration office and restroom), a guard house and a 3-storey research and development building (including canteen, exhibition room, meeting room, research room and office)	Currently used as the operating base for UOS-TJ's business	25 June 2013 Refer to note <sup>(2)</sup>	6,564/13,909	Nil	RMB2,306,426 (RM1,323,602) (Land)  RMB19,080,489 (RM10,950,212) (Building)  Refer to note <sup>(3)</sup>	28 December 2018
Jin Kai (Gua) No. 2010010, West Zone of Tianjin Development Zone, to the north of South Street and Greenbelt, to the south of Zhongnan fourth Street, to the east of Planning Use Land, and to the west of Xiqing Road and Greenbelt, People's Republic of China							
No. 101, Central South Fourth Street, Tianjin Economic-Technological Development Area West Zone, 300462 Tianjin, People's Republic of China							
Leasehold for a period of 50 years, expiring on 2061							

### Notes:

- <sup>(1)</sup> Certificate of completion and compliance or certificate of fitness for occupation issued by the local authorities.  
<sup>(2)</sup> Property Ownership and Land Use Right Certificate ("POLUR Certificate") dated 25 June 2013 issued by the Tianjin Municipal People's Government and the Land Resources and Property Administration Bureau of Tianjin to UOS-TJ.  
<sup>(3)</sup> Based on the rate of RMB1 = RM0.5870 as at 31 December 2019.

# STATISTICS ON SHAREHOLDING

As at 30 April 2020

Issued Shares of the Company : 8,215,600,000  
 Class of Shares : Ordinary Share  
 Voting Right : One vote per one ordinary shares

## ANALYSIS BY SIZE OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders		Total No. of Shareholders		No. of Issued Shares		Total No. of Issued Shares	
	Malaysian	Foreign	No.	%	Malaysian	Foreigner	No.	%
Less than 100	863	35	898	2.61	21,272	1,007	22,279	0
100 – 1,000	3,418	68	3,486	10.12	2,228,792	35,635	2,264,427	0.03
1,001 – 10,000	13,843	185	14,028	40.7	73,170,427	875,847	74,046,274	0.9
10,001 – 100,000	12,946	226	13,172	38.22	492,416,085	7,754,731	500,170,816	6.09
100,001 to less than 5% of issued shares	2,746	131	2,877	8.35	3,256,218,797	557,802,246	3,814,021,043	46.42
5% and above of issued shares	2	0	2	0	3,825,075,161	0	3,825,075,161	46.56
<b>TOTAL</b>	<b>33,818</b>	<b>645</b>	<b>34,463</b>	<b>100</b>	<b>7,649,130,534</b>	<b>566,469,466</b>	<b>8,215,600,000</b>	<b>100</b>

## CATEGORY OF SHAREHOLDERS

Category	No. of Shareholders		No. of Issued Shares		% of Issued Shares	
	Malaysian	Foreigner	Malaysian	Foreigner	Malaysian	Foreigner
Individual	26,274	339	1,052,693,857	30,051,369	12.81	0.37
Body Corporate						
A) Banks/Finance Companies	51	1	4,866,740,577	5,368	59.24	0
B) Investment Trusts/ Foundations/Charities	5	0	1,115,803	0	0.01	0
C) Industrial and Commercial Companies	192	4	51,120,610	37,010	0.62	0
Government Agencies/ Institutions	2	0	113,407	0	0	0
Nominees	7,292	301	1,677,337,301	536,375,719	20.42	6.53
Others	2	0	8,979	0	0	0
<b>TOTAL</b>	<b>33,818</b>	<b>645</b>	<b>7,649,130,534</b>	<b>566,469,466</b>	<b>93.1</b>	<b>6.90</b>

# STATISTICS ON SHAREHOLDING

As at 30 April 2020

## 30 LARGEST SHAREHOLDERS

(Without aggregating securities from different securities accounts belonging to the same person)

No.	Holders	No. of Shares	%
1	AMANAHRAYA TRUSTEES BERHAD AMANAHAH SAHAM BUMIPUTERA	2,810,520,402	34.21
2	PERMODALAN NASIONAL BERHAD	1,014,554,759	12.35
3	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. URUSHARTA JAMAAH SDN. BHD. (1)	410,247,380	4.99
4	AMANAHRAYA TRUSTEES BERHAD AMANAHAH SAHAM MALAYSIA	326,487,600	3.97
5	AMANAHRAYA TRUSTEES BERHAD AMANAHAH SAHAM MALAYSIA 2 - WAWASAN	214,000,000	2.60
6	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. EMPLOYEES PROVIDENT FUND BOARD	189,728,574	2.31
7	CITIGROUP NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 14)	127,217,900	1.55
8	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. EMPLOYEES PROVIDENT FUND BOARD (ABERDEEN)	89,267,300	1.09
9	AMANAHRAYA TRUSTEES BERHAD AMANAHAH SAHAM BUMIPUTERA 2	87,397,568	1.06
10	AMANAHRAYA TRUSTEES BERHAD AMANAHAH SAHAM BUMIPUTERA 3 - DIDIK	84,856,503	1.03
11	AMANAHRAYA TRUSTEES BERHAD PUBLIC SMALLCAP FUND	68,457,400	0.83
12	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (ABERDEEN)	67,536,900	0.82
13	HSBC NOMINEES (ASING) SDN. BHD. JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	61,563,712	0.75
14	HSBC NOMINEES (ASING) SDN. BHD. JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	60,561,627	0.74
15	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC OPPORTUNITIES FUND	44,735,900	0.54
16	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. EMPLOYEES PROVIDENT FUND BOARD (ASIANISLAMIC)	35,341,300	0.43
17	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. EMPLOYEES PROVIDENT FUND BOARD (ABERISLAMIC)	31,817,800	0.39
18	HSBC NOMINEES (TEMPATAN) SDN. BHD. HSBC (M) TRUSTEE BHD FOR AFFIN HWANG AIIAMAN GROWTH FUND (4207)	31,110,700	0.38
19	CITIGROUP NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 1)	31,065,200	0.38
20	AMANAHRAYA TRUSTEES BERHAD AMANAHAH SAHAM NASIONAL	25,246,927	0.31
21	HSBC NOMINEES (TEMPATAN) SDN. BHD. HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT AL-FAUZAN (5170)	24,696,600	0.30

No.	Holders	No. of Shares	%
22	HSBC NOMINEES (TEMPATAN) SDN. BHD. HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT PROGRESS FUND (4082)	24,104,200	0.29
23	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	23,661,200	0.29
24	CARTABAN NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR BARCLAYS CAPITAL SECURITIES LTD. (SBL/PB)	23,646,269	0.29
25	CITIGROUP NOMINEES (ASING) SDN. BHD. CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSION GROUP INC	22,792,392	0.28
26	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. MANULIFE INSURANCE BERHAD (OL PAR)	20,578,700	0.25
27	AMANAHRAYA TRUSTEES BERHAD ASN EQUITY 5	20,000,000	0.24
28	AMANAHRAYA TRUSTEES BERHAD ASN SARA (MIXED ASSET CONSERVATIVE) 2	20,000,000	0.24
29	CITIGROUP NOMINEES (ASING) SDN. BHD. CBNY FOR DIMENSIONAL EMERGING MARKETS VALUE FUND	18,780,227	0.23
30	CARTABAN NOMINEES (TEMPATAN) SDN. BHD. RHB TRUSTEES BERHAD FOR MANULIFE INVESTMENT SHARIAH PROGRESSFUND	18,753,200	0.23

#### SUBSTANTIAL SHAREHOLDERS

As per the register of substantial shareholders

Substantial Shareholder	No. of Shares Held (Direct Interest)	% of Issued Shares	No. of Shares Held (Indirect/Deemed Interest)	% of Issued Shares
AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM BUMIPUTERA	2,810,520,402	34.21	0	0
PERMODALAN NASIONAL BERHAD	1,014,554,759	12.35	0	0
YAYASAN PELABURAN BUMIPUTRA*	0	0	1,014,554,759	12.35
CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. • URUSHARTA JAMAAH SDN. BHD. (1) • URUSHARTA JAMAAH SDN. BHD. (AFFIN 2)	410,247,380 13,877,300	5.16	0	0

\* Yayasan Pelaburan Bumiputra is deemed to have indirect interest through its shareholding of 100% less one share of Permodalan Nasional Berhad by virtue of Section 8(4) of the Companies Act, 2016.

# STATISTICS ON SHAREHOLDING

As at 30 April 2020

## DIRECTORS INTEREST

As at 30 April 2020, the shareholdings of the Directors (both direct and indirect) in the Company are shown below:

No.	Directors	Direct Interest		Deemed Interest	
		No. of Issued Shares	% of Issued Shares	No. of Issued Shares	% of Issued Shares
1	Dato' Abdul Rahman Ahmad	0	0.00	0	0.00
2	Rohaizad Darus	3,800,000	0.05	0	0.00
3	Razalee Amin	203,000	0.00*	0	0.00
4	Dato' Ibrahim Marsidi	30,000	0.00*	0	0.00
5	Mohd Rashid Mohd Yusof	0	0.00	0	0.00
6	Rowina Ghazali Seth	0	0.00	0	0.00
7	Haida Shenny Hazri	0	0.00	0	0.00
8	Rizal Rickman Ramli	0	0.00	0	0.00
9	Dato' Dayang Fatimah Johari	0	0.00	0	0.00
10	Datuk Tong Poh Keow	0	0.00	0	0.00

Note: \*Less than 0.01%

The above information was extracted from Record of Depositories on 30 April 2020.

# STATISTICS ON WARRANT HOLDING

As at 30 April 2020

Issued Warrants of the Company : 1,513,399,754

## ANALYSIS BY SIZE OF HOLDINGS

Size of Shareholdings	No. of Shareholders		Total No. of Shareholders		No. of Issued Shares		Total No. of Issued Shares	
	Malaysian	Foreign	No.	%	Malaysian	Foreigner	No.	%
Less than 100	145	5	150	3.03	7,209	127	7,336	0
100 – 1,000	393	7	400	8.07	225,237	3,844	229,081	0.02
1,001 – 10,000	1,693	24	1,717	34.64	8,302,148	94,382	8,396,530	0.55
10,001 – 100,000	1,873	27	1,900	38.34	83,246,574	1,073,415	84,319,989	5.57
100,001 to less than 5% of issued warrants	769	18	787	15.88	434,917,003	45,432,956	480,349,959	31.74
5% and above of issued warrants	2	0	2	0.04	940,096,859	0	940,096,859	62.12
<b>TOTAL</b>	<b>4,875</b>	<b>81</b>	<b>4,956</b>	<b>100</b>	<b>1,466,795,030</b>	<b>46,604,724</b>	<b>1,513,399,754</b>	<b>100</b>

## CATEGORY OF WARRANT HOLDERS

Category	No. of Shareholders		No. of Issued Shares		% of Issued Shares	
	Malaysian	Foreigner	Malaysian	Foreigner	Malaysian	Foreigner
Individual	3,546	38	325,679,412	2,453,368	21.52	0.16
Body Corporate						
A) Banks/Finance Companies	19	0	989,046,553	0	65.35	0
B) Investment Trusts/ Foundations/Charities	0	0	0	0	0	0
C) Industrial and Commercial Companies	40	0	30,691,330	0	2.03	0
Government Agencies/ Institutions	0	0	0	0	0	0
Nominees	1,270	43	121,377,735	44,151,356	8.02	2.92
Others	0	0	0	0	0	0
<b>TOTAL</b>	<b>4,875</b>	<b>81</b>	<b>1,466,795,030</b>	<b>46,604,724</b>	<b>96.92</b>	<b>3.08</b>

# STATISTICS ON WARRANT HOLDING

As at 30 April 2020

## 30 LARGEST HOLDERS

(Without aggregating securities from different securities accounts belonging to the same person)

No.	Holder Name & Address	No. of Holdings	%
1	AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM BUMIPUTERA	652,687,400	43.13
2	PERMODALAN NASIONAL BERHAD	287,409,459	18.99
3	MONT PRISTINE DEVELOPMENT SDN. BHD.	25,000,000	1.65
4	HSBC NOMINEES (ASING) SDN. BHD. JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	20,487,189	1.35
5	AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM BUMIPUTERA 2	17,470,163	1.15
6	WONG SIIK WEI	15,000,000	0.99
7	AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM MALAYSIA 2 - WAWASAN	14,885,900	0.98
8	AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM MALAYSIA 3	14,362,991	0.95
9	HSBC NOMINEES (ASING) SDN. BHD. JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	12,999,819	0.86
10	LEE YIH LEANG	12,000,000	0.79
11	DATO' NG AIK KEE	7,000,000	0.46
12	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. URUSHARTA JAMAAH SDN. BHD. (FRANKLIN 1)	6,577,773	0.43
13	MD NOR BIN MANSOR	6,100,000	0.40
14	LOH SIEW HOOI	5,000,000	0.33
15	YAP MEI LIAN	4,200,000	0.28
16	KOH MIAU CHU	4,000,000	0.26
17	TAN MAO LING	3,542,800	0.23
18	LIU MENG FAH	3,500,000	0.23
19	KOK HON SENG	3,200,000	0.21
20	KENANGA NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR MARIAPPAN A/L CHANACHAYAI	3,130,800	0.21
21	LIM CHIR CHING	3,000,000	0.20
22	TA NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR ANG JOO MENG	3,000,000	0.20
23	TA NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR ONG ENG TAIK	3,000,000	0.20
24	CIMSEC NOMINEES (TEMPATAN) SDN. BHD. CIMB FOR AHMAD FUAD BIN MD ALI (PB)	2,600,000	0.17
25	DB (MALAYSIA) NOMINEE (ASING) SDN. BHD. THE BANK OF NEW YORK MELLON FOR VANGUARD FTSE ALL-WORLD EX-US SMALL-CAP INDEX FUND	2,470,020	0.16



No.	Holder Name & Address	No. of Holdings	%
26	CGS-CIMB NOMINEES (TEMPATAN) SDN. BHD. PLEGGED SECURITIES ACCOUNT FOR KHOR KIM HOCK (B B KLANG-CL)	2,308,100	0.15
27	PERABUT KUPANG SDN. BHD.	2,300,000	0.15
28	CGS-CIMB NOMINEES (TEMPATAN) SDN. BHD. PLEGGED SECURITIES ACCOUNT FOR LIM CHONG SOO (MY2591)	2,250,000	0.15
29	HSBC NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR BANK JULIUS BAER & CO. LTD. (SINGAPORE BCH)	2,050,000	0.14
30	LIM PAY KAON	2,000,000	0.13

#### SUBSTANTIAL SHAREHOLDERS

As per the register of substantial warrant holders

Holders	No. of Warrants	%
AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	652,687,400	43.13
PERMODALAN NASIONAL BERHAD	287,409,459	18.99

#### DIRECTORS INTEREST

As at 30 April 2020, the warrants of the Directors (both direct and indirect) in the Company are shown below:

No.	Directors	Direct Interest		Deemed Interest	
		No. of Issued Warrants	% of Issued Warrants	No. of Issued Warrants	% of Issued Warrants
1	Dato' Abdul Rahman Ahmad	0	0.00	0	0.00
2	Rohaizad Darus	100,000	0.00*	0	0.00
3	Razalee Amin	0	0.00	0	0.00
4	Dato' Ibrahim Marsidi	0	0.00	0	0.00
5	Mohd Rashid Mohd Yusof	0	0.00	0	0.00
6	Rowina Ghazali Seth	0	0.00	0	0.00
7	Haida Shenny Hazri	0	0.00	0	0.00
8	Rizal Rickman Ramli	0	0.00	0	0.00
9	Dato' Dayang Fatimah Johari	0	0.00	0	0.00
10	Datuk Tong Poh Keow	0	0.00	0	0.00

Note: \*Less than 0.01%

The above information was extracted from Record of Depositories on 30 April 2020.

# NOTICE OF 10<sup>TH</sup> ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 10<sup>th</sup> Annual General Meeting (“AGM”) of Velesto Energy Berhad (the “Company”) will be conducted entirely through live streaming from the broadcast venue at **Tricor Leadership Room, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Monday, 29 June 2020 at 2.00 p.m.** for the following business:

## AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2019 and the Reports of the Directors and Auditors thereon.  
*(Please refer to Explanatory Note A).*
2. To re-elect the following Directors, each of whom retire in accordance with Article 96 of the Company’s Constitution and each of whom being eligible, offer themselves for re-election:-
  - (i) Mohd Rashid Mohd Yusof
  - (ii) Rowina Ghazali Seth
  - (iii) Haida Shenny Hazri*(Please refer to Explanatory Note B).*
3. To re-elect the Director, Datuk Tong Poh Keow, who retires in accordance with Article 103 of the Company’s Constitution and who being eligible, offers herself for re-election.  
*(Please refer to Explanatory Note C).*
4. (i) To approve the Directors Fees in accordance with the Remuneration Policy and Procedures for Non-Executive Directors of the Company, with effect from this 10<sup>th</sup> AGM until the next AGM:-

**ORDINARY RESOLUTION 1**  
**ORDINARY RESOLUTION 2**  
**ORDINARY RESOLUTION 3**

**ORDINARY RESOLUTION 4**

**ORDINARY RESOLUTION 5**

	Non-Executive Chairman	Non-Executive Directors
	Ringgit Malaysia/per annum	
Directors Fees	120,000	80,000
Directors Fees for Board Audit Committee	15,000	10,000
Directors Fees for Board Nomination & Remuneration Committee	15,000	10,000
Directors Fees for Board Risk Management Committee	15,000	10,000
Directors Fees for Board Whistle - Blowing Committee	7,500	5,000

(each of the foregoing payments being exclusive of the other)

- (ii) To approve the Meeting Allowances and other benefits in accordance with the Remuneration Policy and Procedures for Non-Executive Directors of the Company, with effect from this 10<sup>th</sup> AGM until the next AGM:-

**ORDINARY RESOLUTION 6**

	Non-Executive Chairman (Board and Board Committee)	Non-Executive Directors & Members of Board Committee
	Ringgit Malaysia/per meeting attendance	
Meeting Allowances	1,500	1,000
Other benefits including provision of company car and driver (for Chairman of the Board only), provision of mobile phone charges, medical, hospitalisation and dental coverage, Directors & Officers Liability Insurance coverage, per diem and other claimable reimbursable expenses.		

*(Please refer to Explanatory Note D).*

5. To re-appoint Messrs. Ernst & Young PLT as Auditors of the Company for the year ending 31 December 2020 and to authorise the Board of Directors to determine their remuneration. *(Please refer to Explanatory Note E).*
6. To transact any other ordinary business for which due notice has been given in accordance with provisions in the Company's Constitution.

**ORDINARY RESOLUTION 7**

**AS SPECIAL BUSINESS**

7. **SPECIAL RESOLUTION – PROPOSED REDUCTION OF THE ISSUED SHARE CAPITAL OF THE COMPANY PURSUANT TO SECTION 116 OF THE COMPANIES ACT, 2016 (“ACT”) (“PROPOSED SHARE CAPITAL REDUCTION”)**

**SPECIAL RESOLUTION**

“**THAT** subject to all approvals being obtained from the relevant authorities and/or parties, if applicable, and the confirmation by the High Court of Malaya pursuant to Section 116 of the Act, approval be and is hereby given for the Board to implement the Proposed Share Capital Reduction and reduce the share capital of the Company via the cancellation of RM2,210,000,000 of the issued share capital of the Company and that the credit arising from such share capital reduction shall be used to eliminate the accumulated losses of the Company;

**THAT** the remaining balance after the elimination of the accumulated losses of the Company pursuant to the Proposed Share Capital Reduction, if any, shall be credited to the retained earnings account of the Company, which may be utilised in such manner as the Board deems fit and in the best interest of the Company, as permitted by the relevant and applicable laws as well as the Constitution of the Company;

**AND THAT** the Board be and is hereby authorised to approve, sign and execute all documents, do all things and acts as the Board may consider necessary or expedient to implement, finalise and give full effect to the Proposed Share Capital Reduction in the best interest of the Company with full power to assent to any conditions, variation, modifications and/or amendments in any manner as may be required by any relevant authorities, the relevant and applicable laws or deemed necessary or desirable by the Board.”

*(Please refer to Explanatory Note F)*

# NOTICE OF 10<sup>TH</sup> ANNUAL GENERAL MEETING

**FURTHER NOTICE IS HEREBY GIVEN THAT** for the purpose of determining a Member who shall be entitled to attend through live streaming this 10<sup>th</sup> AGM, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd. in accordance with Article 69 of the Company's Constitution and section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositors as at 22 June 2020. Only a depositor whose name appears in the General Meeting Record of Depositors as at 22 June 2020 shall be entitled to attend or appoint a proxy to attend through live streaming and/or vote in his/her stead.

By Order of the Board,

**LEE MI RYOUNG (MAICSA 7058423)**  
**RAFIZA GHAZALI (MIA43580)**  
Company Secretaries

Kuala Lumpur  
19 May 2020

## NOTES:

### 1. IMPORTANT NOTICE

The Broadcast Venue is **strictly for the purpose of complying with Section 327(2) of the Companies Act 2016** which requires the Chairperson of the meeting to be present at the main venue of the meeting.

For the well being and safety of members, and in support of Government initiative to curb the spread of COVID-19, the Members **WILL NOT BE ALLOWED** to attend the 10<sup>th</sup> AGM in person at the Broadcast Venue on the day of the meeting.

Members are to attend, speak (including posing questions to the Board via real time submission of typed texts) and vote (collectively, "**participate**") remotely at the 10<sup>th</sup> AGM via the Remote Participation and Voting facilities ("**RPV**") provided by Tricor Investor & Issuing House Services Sdn. Bhd. ("**Tricor**") via its **TIIH Online** website at <https://tiih.online>. **Please follow the Procedures for RPV in the Administrative Guide on 10<sup>th</sup> AGM** and take note of **procedure** in order to participate remotely via RPV.

- A member of the Company entitled to attend through live streaming and vote remotely at the Meeting may appoint a proxy or proxies to attend through live streaming and vote remotely in his/her stead. A proxy may but need not be a member of the Company. Where there is more than one proxy, the member shall specify the proportion of his holdings to be represented by each proxy, failing which shall appointment shall be invalid.
- Where a member is an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("**Omnibus Account**"), there is no limit to the number of proxies which the said nominee may appoint in respect of each omnibus account it holds.
- Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("**SICDA**"), he/she may appoint a proxy in respect of each securities account he/she holds with ordinary shares of the Company standing to the credit of the said securities account. Every appointment submitted by an authorised nominee as defined under the SICDA, must specify the CDS Account Number. The instrument appointing a proxy must be in writing under the hands of the appointer or his attorney duly authorised in writing or, if such appointer is a corporation, under its common seal or that of an officer or attorney duly authorised. If the Proxy Form is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the Proxy Form is signed under the attorney duly authorised, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A certified true copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed with the Proxy Form. Failure to comply with the above requirement would result in the Proxy Form to be invalid.

5. The Proxy Form, together with the duly registered Power of Attorney referred to in Note 4 above, if any, must be deposited at the office of the appointed Share Registrar, Tricor Investor & Issuing House Services Sdn. Bhd. (Registration No. 197101000970(11324-H), at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, not later than Saturday, 27 June 2020 at 2.00pm. The proxy form can be electronically lodge via TIIH Online at <https://tiih.online>. Please refer to the Administrative Guide for further information on submission of the proxy form via TIIH Online. All proxy forms submitted must be received by the appointed share registrar, Tricor Investor & Issuing House Services Sdn. Bhd., not later than Saturday, 27 June 2020 at 2:00 p.m. at which the person named in the instrument proposed to vote, and in default of the instrument of proxy shall not be treated as valid.
6. A member who has appointed a proxy or attorney or authorised representative to attend through live streaming and vote remotely at this 10<sup>th</sup> AGM via RPV must request his/her proxy to register himself/herself for RPV at **TIIH Online** website at <https://tiih.online>. Please follow the procedures for RPV in the Administrative Guide.
7. For the purpose of determining a member who shall be entitled to attend this 10<sup>th</sup> AGM, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd., in accordance with Article 69 of the Company's Constitution and section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositors as at 22 June 2020. Only a depositor whose name appears in the General Meeting Record of Depositors as at 22 June 2020 shall be entitled to attend through live streaming or appoint a proxy to attend through live streaming and/or vote remotely in his/her stead.
8. Pursuant to Paragraph 8.29A of Bursa Malaysia Main Market Listing Requirements, all resolutions set out in the Notice of the 10<sup>th</sup> AGM will be put to vote on a poll.

#### **EXPLANATORY NOTES TO THE RESOLUTIONS:**

##### **Explanatory Note A**

This agenda item is intended for discussion only as section 340(1) (a) of the Act does not require a formal approval of the Shareholders for the Audited Financial Statements of the Company. Hence, this agenda is not put forward for voting.

##### **Explanatory Note B**

Article 96 of the Company's Constitution expressly states that one-third of the Directors for the time being or the number nearest to one-third with a minimum of one, shall retire from office at all AGM, PROVIDED ALWAYS all Directors shall retire from office at least once in every three years. A retiring Directors shall be eligible to seek re-election.

At this 10<sup>th</sup> AGM, Mohd Rashid Mohd Yusof, Rowina Ghazali Seth, and Haida Shenny Hazri will be retiring as directors and are standing for re-election as Directors of the Company, and being eligible has individually offered himself/herself for re-election.

##### **Explanatory Note C**

Article 103 of the Company's Constitution provides that any Director appointed during the year, shall hold office only until the next AGM and may seek for re-election. The Director shall not be taken into account in determining the Directors retiring by rotation.

Datuk Tong Poh Keow was appointed on 29 August 2019, and therefore retires at this 10<sup>th</sup> AGM. Datuk Tong Poh Keow being eligible, is standing for re-election as Independent Non-Executive Director, at this 10<sup>th</sup> AGM.

##### **Recommendation for Re-Election of Retiring Directors**

For the financial year under review, the Board undertook a formal and objective annual evaluation to determine the effectiveness of the Board, its Board Committees as well as each of the individual director.

The Board Nomination and Remuneration Committee ("**BNRC**") and the Board were satisfied that all the retiring directors has contributed positively to the overall performance of the Board and that in consideration of the wealth of experience which the retiring directors possess, they will continue to bring sound advice and valuable contributions to the Board deliberations through active participation and decision making by the Board.

All retiring directors, have abstained from deliberations and decisions on their own eligibility to stand for re-election at BNRC and Board (whichever is applicable) and will also abstain from deliberation and decision on re-election at this 10<sup>th</sup> AGM.

# NOTICE OF 10<sup>TH</sup> ANNUAL GENERAL MEETING

Both the BNRC and the Board recommended the re-election of Mohd Rashid Mohd Yusof, Rowina Ghazali Seth, Haida Shenny Hazri, and Datuk Tong Poh Keow as the Directors of the Company, at this 10<sup>th</sup> AGM. In addition, Mohd Rashid Mohd Yusof, Rowina Ghazali Seth and Datuk Tong Poh Keow, being the Independent Non-Executive Director, has each provided his/her annual declaration of independence to the Company.

## **Explanatory Note D**

Article 105 of the Company's Constitution provides that the Directors' remuneration shall be determined by a fixed sum by an ordinary resolution of the Company in general meeting.

Section 230 (1) of the Act provides that the fees of directors and any benefits payable to the directors of a listed company and its subsidiaries shall be approved at a general meeting.

The guidance on estimated amount of meeting allowances paid to the Non-Executive Chairman and other Non-Executive Directors for Board and Board Committee meetings held in the financial year ended 31 December 2019 are disclosed in Corporate Governance Overview Statement of this Annual Report.

Any Non-Executive Directors who are shareholders of the Company will abstain from voting resolutions 5 and 6 concerning remuneration to the Non-Executive Directors at the 10<sup>th</sup> AGM.

NOTE: The Chairman of the Board, Dato' Abdul Rahman Ahmad has not exercised his entitlement for Leave Passage as well as company car and driver.

A copy of the Remuneration Policy and Procedures for Non-Executive Directors is available at the Company's corporate website [www.velesto.com](http://www.velesto.com)

## **Explanatory Note E**

Pursuant to Section 271(4)(a) of the Act, the Shareholders are required to approve the re-appointment of Auditors who shall hold office until the conclusion of the next AGM and to authorise the Board of Directors' to determine their remuneration thereof. The present Auditors, Messrs. Ernst & Young PLT has indicated their willingness to continue its services for another year.

The Board Audit Committee and the Board have considered the re-appointment of Messrs. Ernst & Young PLT as Auditors of the Company, having undertaken an annual assessment of the suitability and independence of the external Auditors, have collectively agreed that Messrs. Ernst & Young PLT has met the relevant criteria prescribed by Paragraph 15.21 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. Messrs. Ernst & Young PLT's re-appointment is subject to the approval of the Shareholders at the forthcoming AGM. If their appointment is approved, they shall hold office until the conclusion of the next AGM of the Company.

## **Explanatory Note F**

Further details on the Proposed Special Resolution is set out in the Circular to Shareholders dated 19 May 2020.

## **Annual Report 2019**

*Following the Malaysia Government's announcement dated 10 May 2020 relating to the further extension of the Movement Control Order ('MCO') until 9 June 2020, there may be some delay in the delivery of the printed copies of the Annual Report 2019, as requested by the shareholders. The printed copies will be delivered once they are made available to the Company. In support of the paperless report, shareholders are strongly encouraged to refer to Annual Report 2019 available on the company website [www.velesto.com](http://www.velesto.com)*

# STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

(Pursuant To Paragraph 8.27(2) Of The MMLR of BURSA)

Details of Directors seeking re-election/re-appointment as referred to in the Notice of AGM are set out in their respective profiles in pages 24 to 29 of this Annual Report. Directors' interests in the securities of the Company are disclosed under statistics on shareholding in pages 268 and 271 of this Annual Report.

Director who is standing for re-election/re-appointment	
Mohd Rashid Mohd Yusof	<ul style="list-style-type: none"><li>No conflict of interest or any family relationship with any Director and/or major shareholder of the Company; and</li><li>Has never been convicted for any offence for the past five years nor any public sanction or penalty by any relevant regulatory bodies during FY2019.</li></ul>
Rowina Ghazali Seth	
Haida Shenny Hazri	
Datuk Tong Poh Keow	

The Annual Report 2019 is available under "Financial Reports" of the "Investor Relations" page on the Company's website at [www.velesto.com](http://www.velesto.com) and also on Bursa Malaysia's website at [www.bursamalaysia.com](http://www.bursamalaysia.com) under "Company Announcements" of the Listed Companies tab.

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# PROXY FORM

I/We \_\_\_\_\_  
(Name as per NRIC/Passport/Certificate of incorporation in capital letters)

with (New NRIC/Old NRIC/Passport/Company No.) \_\_\_\_\_ of \_\_\_\_\_

(full address in capital letters)

being a member of **VELESTO ENERGY BERHAD (Registration No. 200901035667(878786-H))** ("Company"), do hereby appoint

\*  \_\_\_\_\_  
(Name as per NRIC/Passport in capital letters)

with (New NRIC/Old NRIC/Passport/Company No.) \_\_\_\_\_ of \_\_\_\_\_

(full address in capital letters)

or failing him/her, \_\_\_\_\_

\_\_\_\_\_  
(Name as per NRIC/Passport in capital letters)

with (New NRIC/Old NRIC/Passport/Company No.) \_\_\_\_\_ of \_\_\_\_\_

(full address in capital letters)

or failing him/her,

\*  Chairman of the Meeting,

(\* Please tick one (1) box only)

as my/our proxy to vote for me/us and on my/our behalf at the 10<sup>th</sup> Annual General Meeting ("AGM") of the Company which will be conducted entirely through live streaming from broadcast venue at **Tricor Leadership Room Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur on Monday, 29 June 2020 at 2.00 p.m.** or at any adjournment thereof.

My/Our proxy is to vote as indicated below:

(Please indicate with an "X" in the appropriate box against each resolution how you wish your proxy to vote. If no instruction is given, this form will be taken to authorise the proxy to vote at his/her discretion.)

ORDINARY RESOLUTIONS	FOR	AGAINST
To re-elect Mohd Rashid Mohd Yusof in accordance with Article 96 of the Company's Constitution. <b>Ordinary resolution 1</b>		
To re-elect Rowina Ghazali Seth in accordance with Article 96 of the Company's Constitution. <b>Ordinary resolution 2</b>		
To re-elect Haida Shenny Hazri in accordance with Article 96 of the Company's Constitution. <b>Ordinary resolution 3</b>		
To re-elect Datuk Tong Poh Keow in accordance with Article 103 of the Company's Constitution. <b>Ordinary resolution 4</b>		
To approve the payment of the Directors' and Board Committees Members' Fees in accordance with the Remuneration Policy and Procedures for Non-Executive Directors for period from the 10 <sup>th</sup> AGM until the next AGM. <b>Ordinary resolution 5</b>		
To approve the payment of Meeting Allowances and other benefits in accordance with the Remuneration Policy and Procedures for Non-Executive Directors, for the period from the 10 <sup>th</sup> AGM until the next AGM. <b>Ordinary resolution 6</b>		
To re-appoint Messrs. Ernst & Young PLT as the Company's Auditors for the year ending 31 December 2020 and to authorise the Board of Directors to determine their remuneration. <b>Ordinary resolution 7</b>		
<b>SPECIAL RESOLUTION</b>		
To approve the Proposed Share Capital Reduction for the Company to reduce the issued share capital of the Company, via the cancellation of the share capital which is lost or unrepresented by available assets of RM2,210,000,000. <b>Special Resolution</b>		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2020

Name of Member \_\_\_\_\_  
(If the appointor is an attorney or a corporation please see Note 2 below)

Signature of Member(s)/Common Seal \_\_\_\_\_

CDS Account No.

Total number of ordinary shares held		
Number of shares to be represented by each proxy	Proxy 1	Proxy 2

**Notes :**

1. The Broadcast Venue is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 which requires the Chairperson of the meeting to be present at the main venue of the meeting. Members **WILL NOT BE ALLOWED** to attend the 10<sup>th</sup> Annual General Meeting in person at the Broadcast Venue on the day of the meeting. Members are to attend, participate (including posing questions to the Board) and vote remotely at the 10<sup>th</sup> AGM via the Remote Participation and Voting ("RPV") facilities provided by the appointed Share Registrar for the 10<sup>th</sup> AGM, Tricor Investor & Issuing House Services Sdn. Bhd. ("Tricor") via its TIIH Online website at <https://tiih.online>.
2. A member who has appointed a proxy or attorney or authorised representative to attend through live streaming, participate and vote remotely at this 10<sup>th</sup> AGM via RPV must request his/her proxy to register himself/herself for RPV at TIIH Online website at <https://tiih.online>. **Please follow the Procedures for RPV in the Administrative Guide.**
3. A member of the Company entitled to attend and vote at the Meeting may appoint a proxy or proxies to attend through live streaming and vote remotely in his/her stead. A proxy may but need not be a member of the Company. Where there is more than one proxy, the member shall specify the proportion of his holdings to be represented by each proxy, failing which shall appointment shall be invalid.
4. Where a member an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the said nominee may appoint in respect of each omnibus account it holds.
5. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), he/she may appoint a proxy in respect of each securities account he/she holds with ordinary shares of the Company standing to the credit of the said securities account. Every appointment submitted by an authorised nominee as defined under the SICDA, must specify the CDS Account Number. The Proxy Form must be in writing under the hands of the appointer or his attorney duly authorised in writing or, if such appointer is a corporation, under its common seal or that of an officer or attorney duly authorised. If the Proxy Form is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the Proxy Form is signed under the attorney duly authorised, it should be accompanied by a statement reading

"signed under Power of Attorney which is still in force, no notice of revocation having been received". A certified true copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed with the Proxy Form. Failure to comply with the above requirement would result in the Proxy Form to be invalid.

6. The Proxy Form, together with the duly registered Power of Attorney referred to in Note 3 above, if any, must be deposited at the office of the appointed Share Registrar, Tricor Investor & Issuing House Services Sdn. Bhd. (Registration No. 197101000970(11324-H), at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, not later than Saturday, 27 June 2020 at 2:00 p.m. The proxy form can be electronically lodge via TIIH Online at <https://tiih.online>. Please refer to the Administrative Guide for further information on submission via TIIH Online. All proxy forms submitted must be received by Tricor Investor & Issuing House Services Sdn. Bhd., not later than Saturday, 27 June 2020 at 2:00 p.m. at which the person named in the instrument proposed to vote, and in default the Proxy Form shall not be treated as valid.
7. For the purpose of determining a member who shall be entitled to attend this 10<sup>th</sup> AGM, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd., in accordance with Article 69 of the Company's Constitution and section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositors as at 22 June 2020. Only a depositor whose name appears in the General Meeting Record of Depositors as at 22 June 2020 shall be entitled to attend through live streaming the said Meeting or appoint a proxy to attend through live streaming and/or vote remotely in his/her stead.
8. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of the 10<sup>th</sup> AGM of the Company shall be put to vote by way of a poll.
9. By submitting the duly executed proxy form, the members and his/her proxy consent to the Company (and/or its agents/service providers) collecting, using and disclosing the personal data thereon in accordance with the Personal Data Protection Act, 2010 for the purpose of this Annual General Meeting and any adjournment thereof.

1. Fold here

THE REGISTRAR OF  
**VELESTO ENERGY BERHAD**

Company No. : 200901035667 (878786-H)

Affix  
Stamp  
Here

**TRICOR INVESTOR & ISSUING HOUSE SERVICES SDN. BHD.**

Registration No.: 197101000970 (11324-H)

Unit 32-01, Level 32, Tower A,  
Vertical Business Suite Avenue 3, Bangsar South,  
No. 8, Jalan Kerinchi,  
59200 Kuala Lumpur,  
Malaysia.

2. Fold this flap to seal

# ANNEXURE TO PROXY FORM

Dear Shareholders,

We are pleased to inform that as a Shareholder, you can have the option of submitting your proxy form by electronic means through TIIH Online ("e-Proxy").

TIIH Online is an application that provides an online platform for Shareholders to submit proxy form in paperless form ("e-submission"). Once you have successfully submitted your e-proxy form, you do not require to complete and submit the physical proxy form to the appointed Share Registrar, Tricor. Investor Issuing House Services Sdn. Bhd.

To assist you on how to engage with e-Proxy, kindly read and follow the guidance notes which are detailed below:

## 1. Sign up as user of TIIH Online



Using your computer, access our website at <https://tiih.online>



Sign up as a user by completing the registration form, registration is free



Upload a softcopy of your Mykad (front and back) or your passport



Administrator will approve your registration within one working day and notify you via email



Activate your account by re-setting your password

Notes:

- (i) If you are already a user of TIIH Online, you are not required to sign up again
- (ii) An email address is allowed to be used once to register as a new user account, and the same email cannot be used to register another user account
- (iii) At this juncture, only individual security holders are offered to register as user and participate in e-Proxy

## 2. Proceed with submission of e-Proxy



After the release of the Notice of Meeting by the Company, login with your user name (i.e. e-mail address) and password



Select the corporate event: "Submission of Proxy Form"



Read and agree to the Terms & Conditions and confirm the Declaration



Select/insert the CDS account number and indicate the number of shares for your proxy(s) to vote on your behalf



Appoint your proxy(s) or chairperson and insert the required details of your proxy(s)



Indicate your voting instructions – FOR or AGAINST, otherwise your proxy will decide your vote



Review & confirm your proxy(s) appointment



Print e-proxy for your record

Should you need assistance on our e-Submission, please contact us. Thank you.

### Tricor Investor & Issuing House Services Sdn. Bhd.

General : +603-2783 9299 (is.enquiry@my.tricorglobal.com)  
Ms. Lee Siew Li : +603-2783 9234 (Siew.Li.Lee@my.tricorglobal.com)  
Encik Zulhafri Abdul Rahman : +603-2783 9234 (Zulhafri@my.tricorglobal.com)

# GLOSSARY

In this Annual Report and the accompanying appendices, the following words and abbreviations, unless stated otherwise, shall have the meanings ascribed below

“Act” or “CA 2016”	Companies Act, 2016 and shall include any amendments thereto that may be made from time to time. The word “Act” and “CA 2016” may be used interchangeably.
“AGM”	Annual General Meeting of the Company.
“BAC”	Board Audit Committee.
“BEC”	Board Executive Committee.
“BNRC”	Board Nomination & Remuneration Committee.
“Board Committee(s)”	Board Committee established by the Board.
“Board” or “Board of Directors”	Board of Directors of the Company.
“BRMC”	Board Risk Management Committee.
“BURSA”	Bursa Malaysia Securities Berhad.
“BWBC”	Board Whistle-Blowing Committee.
“CoBE”	Code of Business Conduct and Ethics.
“Constitution”	Constitution of the Company which was approved by the shareholders at the previous 8th AGM of the Company held on 15 May 2018.
“CSR”	Corporate Social Responsibility.
“Director”	Refers to individual director who is a member of the Board.
“EBITDA”	Earnings Before Interest, Tax, Depreciation and Amortisation.
“EES”	Economic, Environmental and Social.
“E&P”	Exploration and Production.
“FYE”	Financial Year Ended.
“FY2019”	Financial year ended 31 December 2019.
“GHG”	Greenhouse Gas Emissions.
“GRI”	Global Reporting Initiative.
“Government”	Government of Malaysia.
“HSE”	Health, Safety and Environment.
“IADC”	International Association of Drilling Contractors.
“INED”	Independent Non-Executive Director.
“MAC”	Management Audit Committee.

“Management”	Management of VELESTO Group.
“MBC”	Management Banking Committee.
“MCCG 2017”	Malaysian Code on Corporate Governance, published by Securities Commission on April 2017.
“MHC”	Management HSE Committee.
“MMLR”	Main Market Listing Requirements issued by Bursa Malaysia Securities Berhad, and shall include any amendments thereto that may be made from time to time.
“MRMC”	Management Risk Management Committee.
“MTC”	Management Tender Committee.
“MWB”	Management Whistle-Blowing Committee.
“NED”	Non-Independent Non-Executive Director.
“Notice”	Notice of this AGM.
“OPEC”	Organisation of the Petroleum Exporting Countries.
“SEA”	South East Asia.
“Senior Management”	Senior officers of VELESTO Group who are members of the Management Committee.
“SORMIC”	Statement of Risk Management and Internal Control.
“SR2019”	Sustainability Report 2019.
“SSM”	Suruhanjaya Syarikat Malaysia.
“TOR”	Terms of Reference.
“VELESTO Group” or “Group”	Collectively, VELESTO and its subsidiaries.
“VELESTO” or “Company”	Velesto Energy Berhad, (Registration No. 200901035667) (878786-H) a company incorporated in Malaysia and having its registered office at Level 18, Block 3A, Plaza Sentral, Jalan Stesen Sentral 5, 50470, Kuala Lumpur. The word “VELESTO” and “Company” may be used interchangeably.

In this Annual Report, words incorporating the singular shall, where applicable, include the plural and vice versa and words incorporating the masculine gender shall, where applicable, include the feminine and neuter gender and vice versa. Reference to persons shall include corporation, unless stated otherwise.

# VELESTO energy

## VELESTO ENERGY BERHAD

(Registration No.: 200901035667(878786-H))

(Incorporated in Malaysia under the Companies Act, 1965 and is deemed registered under Companies Act, 2016)

### ADMINISTRATIVE GUIDE

#### 10<sup>TH</sup> ANNUAL GENERAL MEETING (“AGM”) OF VELESTO ENERGY BERHAD (the “Company”)

Date : Monday, 29 June 2020  
Time : 2:00 p.m.  
Broadcast Venue : Tricor Leadership Room  
Unit 32-01, Level 32, Tower A, Vertical Business Suite,  
Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur

#### Fully Virtual Meeting

With priority to the well-being and safety of our Shareholders and in support of the Government’s initiative to curb the spread of COVID-19, the 10<sup>th</sup> AGM of the Company will be conducted entirely through live streaming from the Broadcast Venue.

As the Broadcast Venue is for the purpose of complying with Section 327(2) of the Companies Act, 2016 which requires the Chairperson of the meeting to be present at the main venue of the meeting. Shareholders/proxies **WILL NOT BE ALLOWED** to attend the 10<sup>th</sup> AGM in person at the Broadcast Venue on the day of the meeting.

#### Remote Participation and Voting (“RPV”)

1. As no Shareholders should be physically present at the Broadcast Venue, we request Shareholders to attend and vote at the 10<sup>th</sup> AGM remotely via the RPV facilities, which are available on the Company’s appointed Share Registrar for the 10<sup>th</sup> AGM, Tricor Investor & Issuing House Services Sdn. Bhd.’s (“Tricor” or “Share Registrar”) TIIH Online website at <https://tiih.online>.
2. Shareholders who appoint proxy/proxies to participate in the AGM via RPV must ensure that the duly executed proxy form(s) are deposited in hard copy form or by electronic means to Tricor, no later than **Saturday, 27 June 2020 at 2.00 p.m.**
3. Corporate representatives of corporate members must deposit their original certificate of appointment of corporate representative to Tricor, not later than **Saturday, 27 June 2020 at 2.00 p.m.** to participate in the AGM via RPV.
4. Attorneys appointed by power of attorney are to deposit their power of attorney with Tricor, not later than **Saturday, 27 June 2020 at 2.00 p.m.** to participate via RPV in the AGM.
5. Shareholder(s) who have appointed a proxy or attorney or authorised representative to attend, participate and vote at this AGM via RPV must request his/her proxy to register himself/herself for RPV at TIIH Online website at <https://tiih.online>

#### Procedures for RPV

Shareholders/proxies/corporate representatives/attorney who wish to participate the AGM remotely using the RPV are to follow the requirements and procedures as summarized below:-

	Procedure	Action
<b>BEFORE THE AGM DAY</b>		
(a)	Register as a user with TIIH Online	<ul style="list-style-type: none"><li>• Using your computer, access the website at <a href="https://tiih.online">https://tiih.online</a>. Register as a user under the “e-Services”. Refer to the tutorial guide posted on the homepage for assistance.</li><li>• If you are already a user with TIIH Online, you are not required to register again. You will receive an e-mail to notify you that the remote participation is available for registration at TIIH Online.</li></ul>

	Procedure	Action
(b)	Submit your request	<ul style="list-style-type: none"> <li>• <b>Registration is open from 2:00 p.m. Tuesday, 19 May 2020 up to 2.00 p.m. Saturday, 27 June 2020.</b></li> <li>• Login in with your user ID and password and select the corporate event: <b>“(REGISTRATION) VELESTO 10<sup>TH</sup> AGM REMOTE PARTICIPATION”</b>.</li> <li>• Read and agree to the Terms &amp; Conditions and confirm the Declaration.</li> <li>• Select <b>”Register for Remote Participation and Voting”</b>.</li> <li>• Review your registration and proceed to register.</li> <li>• System will send an e-mail to notify that your registration for remote participation is received and will be verified.</li> <li>• After verification of your registration against the General Meeting ROD as at <b>22 June 2020</b>, the system will send you an email to approve or reject your registration for remote participation.</li> </ul>
<b>ON THE DAY OF THE AGM</b>		
(c)	Login to TIIH Online	<ul style="list-style-type: none"> <li>• Login with your user ID and password for remote participation at the 10<sup>th</sup> AGM at any time from <b>1:40 p.m.</b> i.e. 20 minutes before the commencement of meeting at <b>2:00 p.m. on Monday, 29 June 2020.</b></li> </ul>
(d)	Participate through Live Streaming	<ul style="list-style-type: none"> <li>• Select the corporate event: <b>“(LIVE STREAMING MEETING) VELESTO 10<sup>TH</sup> AGM”</b> to engage in the proceedings of the 10<sup>th</sup> AGM remotely.</li> <li>• If you have any question for the Chairman/Board, you may use the query box to transmit your question.</li> <li>• Take note that the quality of the live streaming is dependent on the bandwidth and stability of the internet connection at the location of the remote participants.</li> </ul>
(e)	Online Remote Voting	<ul style="list-style-type: none"> <li>• Voting session commences from <b>2:00 p.m., Monday, 29 June 2020</b> until a time when the Chairman announces the completion of the voting session at the 10<sup>th</sup> AGM.</li> <li>• Select the corporate event: <b>“(REMOTE VOTING) VELESTO 10<sup>TH</sup> AGM”</b>.</li> <li>• Read and agree to the Terms &amp; Conditions and confirm the Declaration.</li> <li>• Select the CDS account that represents your shareholdings.</li> <li>• Indicate your votes for the resolutions that are tabled for voting.</li> <li>• Confirm and submit your votes.</li> </ul>
(f)	End of remote participation	<ul style="list-style-type: none"> <li>• Upon the commencement by the Chairman on the closure of the 10<sup>th</sup> AGM, the Live Streaming will end.</li> </ul>

**Note to users of the RPV facilities:**

1. Should your application to join the meeting be approved we will make available to you the rights to join the live stream meeting and to vote remotely. Your login to TIIH Online on the day of meeting will indicate your presence at the virtual meeting.
2. The quality of your connection to the live broadcast is dependent on the bandwidth and stability of the internet at your location and the device you use.
3. In the event you encounter any issues with logging-in, connection to the live stream meeting or online voting, kindly call Tricor Help Line at 011-40805616 / 011-40803168 / 011-40803169 / 011-40803170 for assistance or e-mail to [tiih.online@my.tricorglobal.com](mailto:tiih.online@my.tricorglobal.com) for assistance.

## ELECTRONIC LODGEMENT OF PROXY FORM

The procedures to lodge your proxy form electronically via Tricor's **TIIH Online** website are summarised below:

	Procedure	Action
a	Register as a User with TIIH Online	Using your computer, please access the website at <a href="https://tiih.online">https://tiih.online</a> . Register as a user under the "e-Services". Please do refer to the tutorial guide posted on the homepage for assistance. If you are already a user with TIIH Online, you are not required to register again.
b	Proceed with submission of Proxy Form	<ul style="list-style-type: none"><li>• After the release of the Notice of Meeting by the Company, login with your user name (i.e. email address) and password.</li><li>• Select the corporate event: "Submission of Proxy Form".</li><li>• Read and agree to the Terms &amp; Conditions and confirm the Declaration.</li><li>• Insert your CDS account number and indicate the number of shares for your proxy(s) to vote on your behalf.</li><li>• Appoint your proxy(s) and insert the required details of your proxy(s) or appoint Chairman as your proxy.</li><li>• Indicate your voting instructions – FOR or AGAINST, otherwise your proxy will decide your vote.</li><li>• Review and confirm your proxy(s) appointment.</li><li>• Print proxy form for your record.</li></ul>

## PRE-MEETING SUBMISSION OF QUESTION TO THE BOARD OF DIRECTORS

Shareholders may submit questions for the Board in advance of the 10<sup>th</sup> AGM via Tricor's TIIH Online website at <https://tiih.online> by selecting "e-Services" to login, pose questions and submit electronically, no later than **2.00 p.m. Saturday, 27 June 2020**. The Board will endeavour to answer the questions received at the AGM.

## General Meeting Record of Depositors

Only depositors whose **names appear in the General Meeting Record of Depositors as at 22 June 2020 will be entitled to attend the AGM via RPV facilities** or to appoint only **one proxy** to attend through live streaming and/or vote remotely on the depositor's behalf.

## Annual Report 2019

1. The Annual Report 2019 is available under "Financial Reports" of the "Investor Relations" page on the Company's website at <https://velesto.com> and also on Bursa Malaysia's website at [www.bursamalaysia.com](http://www.bursamalaysia.com) under "Company Announcements" of the Listed Companies tab.
2. In support of paperless reports, we encourage Shareholders to access online version of the Annual Report 2019. If you need a printed Annual Report 2019, kindly request at <https://tiih.online> by selecting "Request for Annual Report/ Circular" under the "Investor Services". Following the Malaysia Government's announcement dated 10 May 2020 relating to the further extension of the Movement Control Order until 9 June 2020, there may be some delay in the delivery of the printed copies of the Annual Report 2019, as requested by the shareholders. The printed copies will be delivered once they are made available to the Company.



**No Door gifts**

There will be no door gifts and no vouchers for attending the virtual AGM.

**Enquiry**

If you have any enquiry prior to the meeting, please contact the following persons during office hours:

Share Registrar : Tricor Investor & Issuing House Services Sdn. Bhd. (Registration No. 197101000970 (11324-H))		
Address : Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia		
General Line : +603 2783 9299	Fax Number : +603 2783 9222	Email : <a href="mailto:is.enquiry@my.tricorglobal.com">is.enquiry@my.tricorglobal.com</a>
Share Registrar Representative: Ms. Lee Siew Li	Tel : +603 2783 9234	Email : <a href="mailto:Siew.Li.Lee@my.tricorglobal.com">Siew.Li.Lee@my.tricorglobal.com</a>
Encik Zulhafri Abdul Rahman	Tel : +603 2783 9287	Email : <a href="mailto:Zulhafri@my.tricorglobal.com">Zulhafri@my.tricorglobal.com</a>

VELESTO ENERGY BERHAD

(Registration No. 200901035667 (878786-H))

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