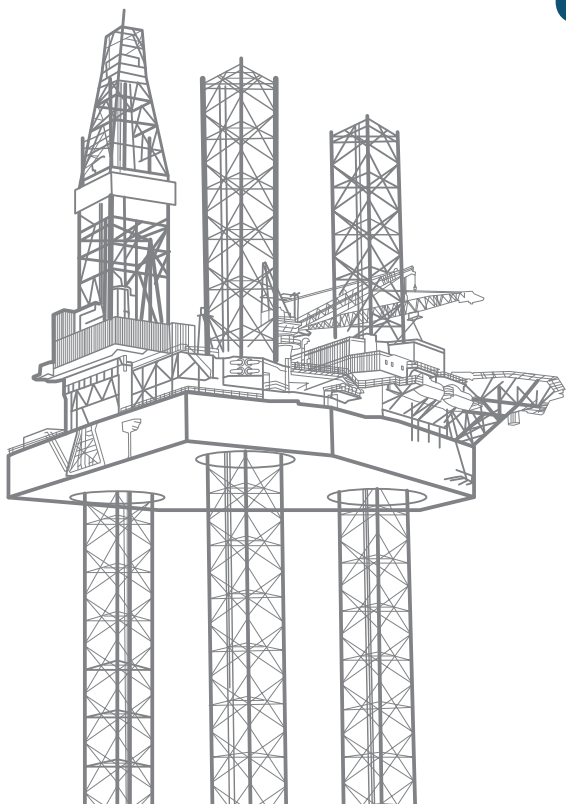


Surging Ahead

VELESTO

energy



Annual Report 2018

Contents

Surging Ahead **VELESTO** energy

The minimalist typography outlook of this cover, expresses a direct revelation of **VELESTO's** name-brand changeover. The typography shows a darker, bolder shade of blue that signifies our independence as a newly reformed company. The construction icon on the cover symbolises our future as we forge towards greater heights.

Operations

Streamlining and reshaping processes and procedures to optimise and reduce operating cost

Improving operational efficiency while maintaining high safety standards

Assets

To grow our business by revitalising mature assets safely and profitably in our regions of geographic focus

People

People-Focused, Enterprising, Trustworthy, Agile, Tenacious Environmentally Conscious and Cost Competitive

1

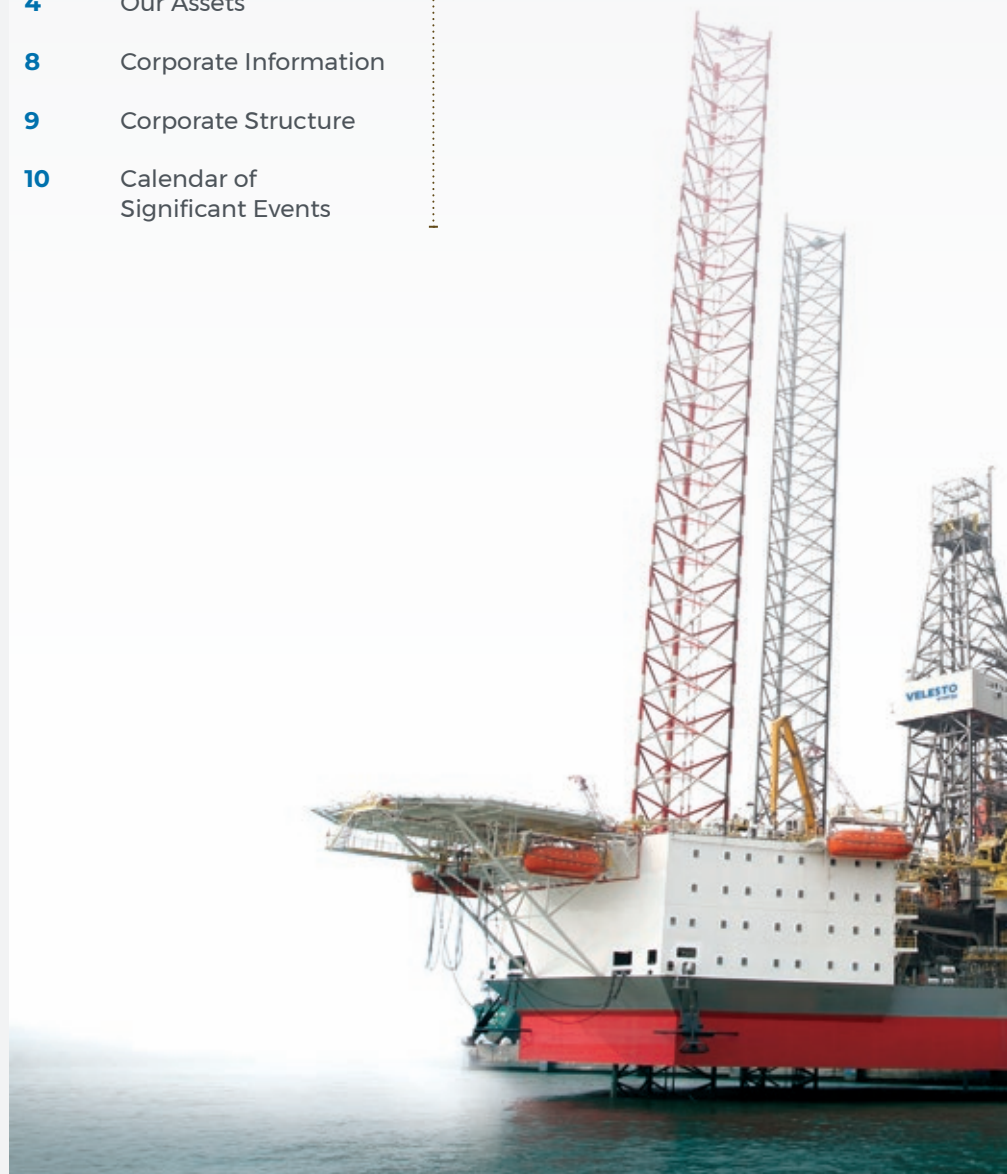
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OUR VISION

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.



Our Assets

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 ft



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 ft



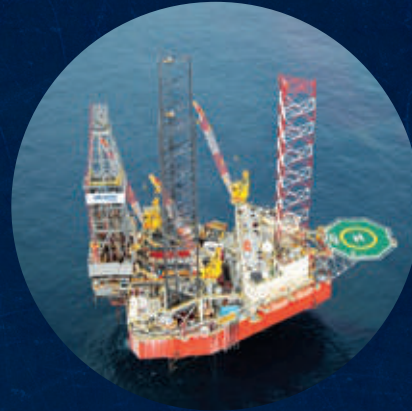
NAGA 6

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 ft



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 ft



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 ft



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 ft



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 ft

Our Assets (Cont'd.)

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 3

Year built	2014
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



CHINA
TIANJIN PLANT

**OILFIELD
SERVICES**

Corporate Information

BOARD OF DIRECTORS

DATO' ABDUL RAHMAN AHMAD

(Chairman / Non-Independent Non-Executive Director)

Date of appointment : 19 January 2017

ROHAIZAD DARUS

(President / Executive Director)

Date of appointment: 31 January 2012

RAZALEE AMIN

(Independent Non-Executive Director)

Date of appointment: 2 May 2013

CHEAH TEK KUANG

(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

DATO' AFIFUDDIN ABDUL KADIR

(Senior Independent Non-Executive Director)

Date of retirement: 15 May 2018

BOARD EXECUTIVE COMMITTEE

- Dato' Abdul Rahman Ahmad (Chairman)
- Rohaizad Darus
- Razalee Amin
- Mohd Rashid Mohd Yusof
- Haida Shenny Hazri

BOARD AUDIT COMMITTEE

- Razalee Amin (Chairman)
- Cheah Tek Kuang
- Dato' Ibrahim Marsidi
- Dato' Dayang Fatimah Johari – appointed w.e.f. 24 May 2018
- Dato' Afifuddin Abdul Kadir – retired w.e.f. 15 May 2018

BOARD NOMINATION & REMUNERATION COMMITTEE

- Dato' Ibrahim Marsidi – redesignated as Chairman w.e.f. 24 May 2018
- Cheah Tek Kuang
- Rowina Ghazali Seth
- Dato' Dayang Fatimah Johari – appointed w.e.f. 24 May 2018
- Dato' Afifuddin Abdul Kadir – retired w.e.f. 15 May 2018

BOARD RISK MANAGEMENT COMMITTEE

- Cheah Tek Kuang (Chairman)
- Mohd Rashid Mohd Yusof
- Rowina Ghazali Seth
- Haida Shenny Hazri
- Rizal Rickman Ramli – appointed w.e.f. 21 March 2018
- Dato' Afifuddin Abdul Kadir – retired w.e.f. 15 May 2018

BOARD WHISTLE-BLOWING COMMITTEE

- Dato' Ibrahim Marsidi (Chairman)
- Razalee Amin
- Rizal Rickman Ramli – appointed w.e.f. 21 March 2018
- Dato' Afifuddin Abdul Kadir – retired w.e.f. 15 May 2018

COMPANY SECRETARIES

- Mohd Nizamuddin Mokhtar (LS0010247)
- Rafiza Ghazali (MIA 43580)

REGISTRAR

Securities Services (Holdings) Sdn. Bhd. (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

AUDITORS

Ernst & Young (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 Malaysia
Securities Berhad
Stock Name : VELESTO
Stock Code : 5243

• WEBSITE

www.velesto.com

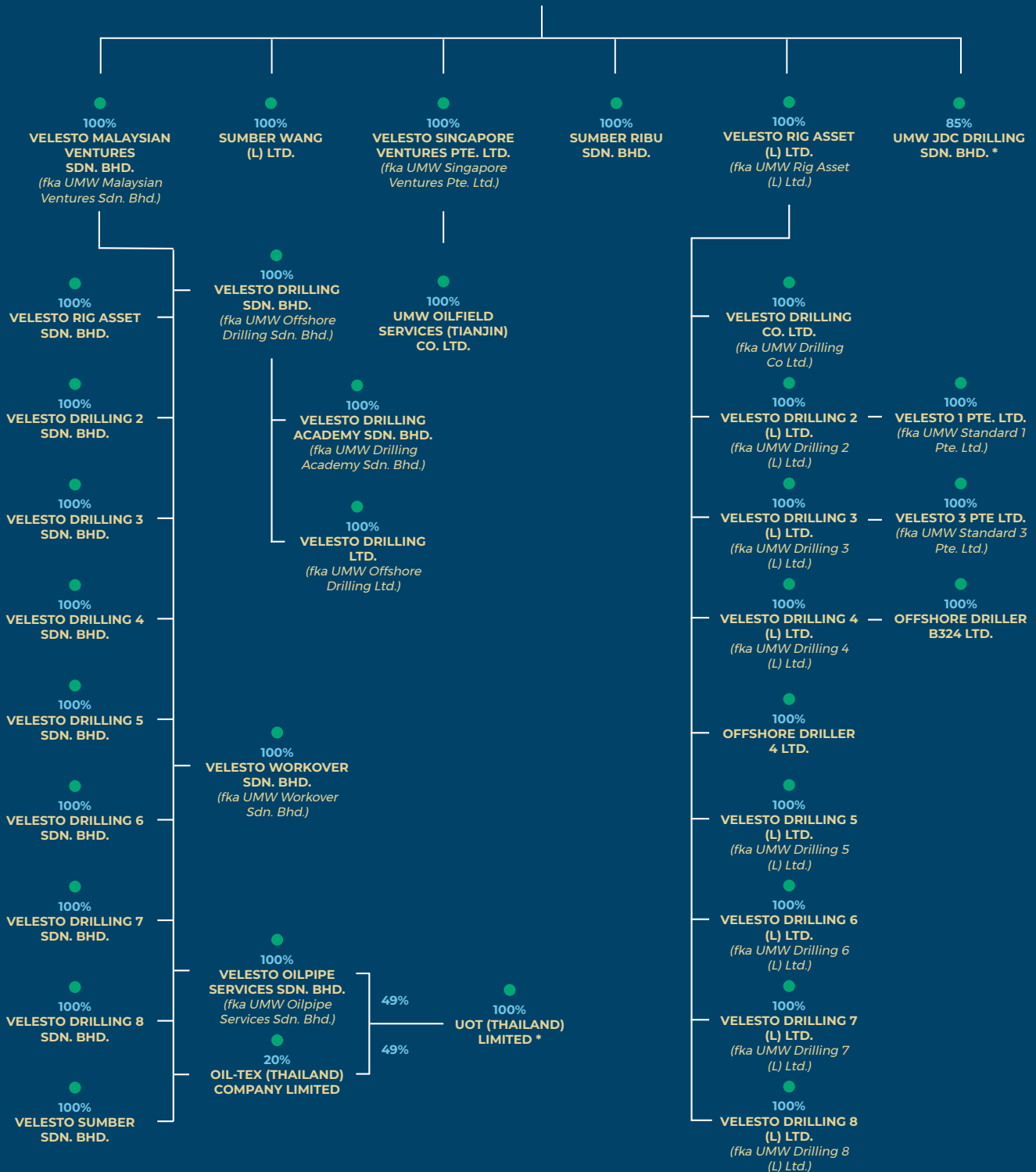
• E-MAIL ADDRESS

info@velesto.com

Group Corporate Structure

VELESTO ENERGY BERHAD

(fka UMW Oil & Gas Corporation Berhad)



NOTE:
* In the process of Members' Voluntary Liquidation.

Calendar of Significant Events 2018

11-13 January
Group Away Day



6 February
HSE Day



22 February
Christmas and Chinese New Year Gathering

24 February - Safety CSR
Collaboration with MMEA and Hess
for PSA initiative



28 February
• Full-A-Mark e-learning platform
distribution to staff



• Analyst Briefing



11 April
Relaunch of *IN PERSON* :
Lunch with the President



19-25 April
Inaugural appearance at MSAM 2018



15 May

8th AGM and Announcement of the Company's new name



1 June

Majlis Berbuka Puasa with clients



6 June

Majlis Berbuka Puasa with staff



28 June

Hari Raya Dinner with Kemaman based clients



5 July - Education CSR

UPSR Mathematics Workshop at SK Dusun Tua



9 July

Hari Raya Gathering



18 July - Education CSR

Hands-on Learning for UPSR Science & Mathematics Workshop in Banting



Calendar of Significant Events 2018 (Cont'd.)

25 July

Board members' familiarisation visit to NAGA 7



22 September

President's Bowling Tournament



28 August

Special Merdeka Townhall 2018



23 September

PETRONITA Orchid Fun Run & Ride 2018



18 September

CPR Workshop



25-27 September

MOGSEC 2018



20 September

Ladies Self Defense Workshop



29 September

Business Plan Conference 2019



13 October

MOGSC Futsal Tournament



14-15 October

PETRONAS PD&T HSE Contractors Conference

25 October

Deepavali Gathering



30 October - Environment CSR

Marine Ecosystem Awareness



13 November

Talk on the Administration of Estate, Wills and Trusts by Amanah Raya Berhad

22 November - Safety CSR

High Visibility Safety Jacket Distribution



28 November

Talk on Tax & You by Inland Revenue Board



18 December

Talk on Bribery by Malaysian Anti Corruption Commission



Profile of Board of Directors



DATO' ABDUL RAHMAN AHMAD

Chairman / Non-Independent Non-Executive Director



Aged 50 | Male
Malaysian

Qualification(s)

Master of Arts in Economics
Cambridge University, United Kingdom

Date of appointment

19 January 2017

Length of Service

(as at 31 March 2019)
2 years and 2 months

Membership of Association(s)

Member of the Institute of the Chartered
Accountants in England and Wales

Number of Board of Directors meetings attended in the financial year

9/9

Membership on the Board Committee(s)

Chairman of Board Executive Committee

Any other board directorships in public companies

Listed entity:
None

Other public companies

- Permodalan Nasional Berhad
- Amanah Saham Nasional Berhad
- Amanah Mutual Berhad
- Pelaburan Hartanah Nasional Berhad

Working Experience

Dato' Abdul Rahman Ahmad 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 the Chief Executive Officer of Ekuiti Nasional Berhad before assuming his current post in Permodalan Nasional Berhad as President and Group Chief Executive Officer.

Declaration

- No conflict of interest or any family relationship with any Director and / or major shareholder of the Company except being a Nominee Director of Permodalan Nasional Berhad.
- Has never been convicted for any offence within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.



ROHAIZAD DARUS

President / Non-Independent Executive Director



Aged 54 | Male
Malaysian

Qualification(s)

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

Date of appointment

31 January 2012

Length of Service (as at 31 March 2019)

7 years 2 months

Membership of Association(s)

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

Number of Board of Directors meetings attended in the financial year

9/9

Membership on the Board Committee(s)

Board Executive Committee

Any other board directorships in public companies

Listed entity:
None

Other public company

None

Working Experience

Rohaizad began his career with PETRONAS Gas Sdn. Bhd. in 1988 and 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 Director of the Offshore Construction Project Division of SapuraCrest. This division performs 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 as Chief Operating Officer of SapuraCrest, a position he held until 2010 before becoming the 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 within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.

Profile of Board of Directors (Cont'd.)



RAZALEE AMIN

Independent Non-Executive Director



Aged 66 | Male
Malaysian

Qualification(s)

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

Date of appointment

2 May 2013

Length of Service (as at 31 March 2019)

5 years 10 months

Membership of Association(s)

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

Number of Board of Directors meetings attended in the financial year

8/9

Membership on the Board Committee(s)

- Chairman of Board Audit Committee
- Member of Board Executive Committee
- Member of Board Whistle-Blowing
Committee

Any other board directorships in public companies

Listed entity:
CCM Duopharma Biotech Berhad

Other public company

None

Working Experience

Upon his graduation, 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 (2) 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 within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.



CHEAH TEK KUANG

Independent Non-Executive Director



Aged 72 | Male
Malaysian

Qualification(s)

Bachelor of Economics
University of Malaya, Malaysia

Date of appointment

2 May 2013

Length of Service (as at 31 March 2019)

5 years 10 months

Membership of Association(s)

None

Number of Board of Directors meetings attended in the financial year

9/9

Membership on the Board Committee(s)

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

Any other board directorships in public companies

Listed entities:

- IOI Corporation Berhad
- Eco World International Berhad

Other public company

Yayasan Bursa Malaysia

Working Experience

Cheah Tek Kuang began his career with Malaysian Industrial Development Authority ("MIDA") as Deputy Director in the Planning and Research Unit from 1970 until 1978. In October 1978, he joined AmInvestment Bank Berhad. Serving in various senior positions in the bank, he was promoted as Chief Executive Officer / Group Managing Director in 1994, a position he held until December 2004.

In 2005, he joined AMMB Holdings Berhad as the Group Managing Director and retired on 1 April 2012. He had been an Independent Non-Executive Director of Bursa Malaysia Securities Berhad for a period of nine (9) years beginning from the demutualisation of the Kuala Lumpur Stock Exchange (currently known as Bursa Malaysia Securities Berhad) up to early 2013. Currently, he is a member of Appeals Committee of Bursa Malaysia Berhad which considers appeal from market participants.

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 within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.

Profile of Board of Directors (Cont'd.)



DATO' IBRAHIM MARSIDI

Independent Non-Executive Director



Aged 67 | Male
Malaysian

Qualification(s)

Bachelor of Economics (Analytical)
University of Malaya, Malaysia

Date of appointment

2 May 2013

Length of Service

(as at 31 March 2019)
5 years 10 months

Membership of Association(s)

None

Number of Board of Directors meetings attended in the financial year

8/9

Membership on the Board Committee(s)

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

Any other board directorships in public companies

Listed entity:
None

Other public company

None

Working Experience

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's 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 Malaysia Securities Berhad, the formation of which he had played a deep role in. 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 except being a Nominee Director of Permodalan Nasional Berhad.
- Has never been convicted for any offence within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.



MOHD RASHID MOHD YUSOF

Senior Independent Non-Executive Director



Aged 63 | Male
Malaysian

Qualification(s)

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

Date of appointment

23 June 2017

Length of Service (as at 31 March 2019)

1 year 10 months

Membership of Association(s)

- Chartered Association of Certified Accountants (UK)
- Malaysian Institute of Accountants

Number of Board of Directors meetings attended in the financial year

9/9

Membership on the Board Committee(s)

- Member of Board Risk Management Committee
- Member of Board Executive Committee

Any other board directorships in public companies

Listed entities:

- Scicom (MSC) Berhad
- Media Prima Berhad

Other public company

Standard Chartered Bank
Malaysia Berhad

Working Experience

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, he has also served as a Director of several companies in the group including Putrajaya Holdings, Enpet Insurance Ltd. (Isle of Man), a Trustee of the PETRONAS Retirement Benefit Fund, a Director and Chairman of PETRONAS-ICT and a 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 within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.

Profile of Board of Directors (Cont'd.)



ROWINA GHAZALI SETH

Independent Non-Executive Director



Aged 58 | Female
Malaysian

Qualification(s)

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

Date of appointment

23 June 2017

Length of Service (as at 31 March 2019)

1 year and 10 months

Membership of Association(s)

None

Number of Board of Directors meetings attended in the financial year

8/9

Membership on the Board Committee(s)

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

Any other board directorships in public companies

Listed entities:

- UEM Edgenta Berhad

Other public company

- Hong Leong Islamic Bank Berhad

Working Experience

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.

She has expertise in frontline roles, managing complex issues with Government, often in situations of material business value, and with reputational risk and geo-political dimensions (e.g. South China Sea / border / NGO disputes), a few issues requiring escalation to the Prime Minister's office. She has strong interpersonal skills and forged mature relationships at 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 within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.



HAIDA SHENNY HAZRI

Non-Independent Non-Executive Director



Aged 45 | Female
Malaysian

Qualification(s)

- LL.M, University of Malaya, Malaysia
- LL.B and BComm (Accounting & Finance) University of Melbourne, Australia

Date of appointment

23 June 2017

Length of Service (as at 31 March 2019)

1 year and 10 months

Membership of Association(s)

None

Number of Board of Directors meetings attended in the financial year

8/9

Membership on the Board Committee(s)

- Member of Board Risk Management Committee
- Member of Board Executive Committee

Any other board directorships in public companies

Listed entity:
Privasia Technology Berhad

Other public company

None

Working Experience

Haida has more than 18 years of experience in the oil and gas industry.

Haida commenced her career with PETRONAS where 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 is currently the Chief Executive Officer 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 except being a Nominee Director of Permodalan Nasional Berhad.
- Has never been convicted for any offence within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.

Profile of Board of Directors (Cont'd.)



RIZAL RICKMAN RAMLI

Non-Independent Non-Executive Director



Aged 41 | Male
Malaysian

Qualification(s)

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

Date of appointment

21 March 2018

Length of Service (as at 31 March 2019)

1 year

Membership of Association(s)

None

Number of Board of Directors meetings attended in the financial year

7/7

Membership on the Board Committee(s)

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

Presently, Rick is the Executive Vice President for Property / Real Estate Division of Permodalan Nasional Berhad ("PNB").

Prior to joining PNB, he was 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.

He 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 except being a Nominee Director of Permodalan Nasional Berhad.
- Has never been convicted for any offence within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.

Working Experience



DATO' DAYANG FATIMAH JOHARI

Independent Non-Executive Director



Aged 63 | Female
Malaysian

Qualification(s)

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

Date of appointment

24 May 2018

Length of Service (as at 31 March 2019)

10 months

Membership of Association(s)

None

Number of Board of Directors meetings attended in the financial year

4/5

Membership on the Board Committee(s)

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

Any other board directorships in public companies

Listed entity:
None

Other public company

None

Working Experience

Upon her graduation in 1979, Dato' Dayang Fatimah was a temporary teacher at Kolej Tun Datuk Patinggi Abdillah, Kuching, Sarawak from 1979 to 1980.

Dato' Dayang Fatimah 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 Fatimah 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 Fatimah was transferred to Sarawak as 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 Socio Economic Malaysia/Indonesia (Sosek Malindo), doing liaison work during state official and sports events. Dato' Dayang Fatimah 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 within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.

Key Management



ROHAIZAD DARUS
President / Non-Independent
Executive Director

Aged 54 | Male | Malaysian

For details of the President's profile, please refer to page 15 (Profile of Board of Director) of this Annual Report.



RAFIZA GHAZALI
Chief Financial Officer

Aged 47 | Female | Malaysian

Qualifications

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

Past Employment

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

Membership of Association

- Institute of Chartered Accountants of Australia
- Financial Services Institute of Australasia
- 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 conflict of interest or any family relationship with any Director and / or major shareholder of the Company.
- Has never been convicted for any offence within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.



**ABDUL HADI
ABDUL BARI**

Chief Commercial Officer

Aged 43 | Male | Malaysian

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

None

Date appointed to the current position

1 December 2018

Declaration

- Not holding any directorship in public companies and listed issuers.
- 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 within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.



AKHLAQ HUSSAIN

Head, Operations

Aged 61 | Male | Pakistani

Qualifications

Bachelor of Arts, The University of the Punjab, Pakistan

Past Employment

- Pakistan Oilfields Ltd.
- Sedco Forex
- National Drilling Company, Abu Dhabi (ADNOC DRILLING)
- EnSCO Plc.
- Nabors Arabia (Nabors Drilling)

Membership of Association

International Association of Drilling Contractors (IADC)

Date appointed to the current position

1 December 2018

Declaration

- Not holding any directorship in public companies and listed issuers.
- 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 within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.



SYED ROZHAN SYED HASSAN

Head, Human Resource

Aged 54 | Male | Malaysian

Qualifications

Bachelor in Business Administration (Finance), Eastern Washington University, USA

Past Employment

- Sony Electronics (M) Sdn. Bhd.
- SDKM Fibres, Wires & Cables Sdn. Bhd.
- PETRONAS Penapisan (Terengganu) Sdn. Bhd.
- Peremba (Malaysia) Sdn. Bhd.
- Wacker NCSE Corp Sdn. Bhd.
- Showa Denko HD Malaysia Sdn. Bhd.
- Johnson Controls Automotive Holdings (M) Sdn. Bhd.
- Freescale Semiconductor Malaysia Sdn. Bhd.

Membership of Association

Society for Human Resource Management

Date appointed to the current position

1 June 2010

Declaration

- Not holding any directorship in public companies and listed issuers.
- 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 within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.



MOHD NIZAMUDDIN MOKHTAR

Head, Legal & Secretarial

Aged 53 | Male | Malaysian

Qualifications

LL.B, University of Malaya, Malaysia

Past Employment

- Messrs Clough Thuraisingham & Partners
- Messrs. Yazid Baba & Partners
- Malaysian Technology Development Corporation
- Perbadanan Bekalan Air Pulau Pinang
- PROTON Holdings Berhad

Membership of Association

- Bar Council
- Licenced Company Secretary with the Companies Commission of Malaysia

Date appointed to the current position

9 April 2018

Declaration

- Not holding any directorship in public companies and listed issuers.
- 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 within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.

Key Management

(Cont'd.)



CHEW ENG HONG

Head, Corporate Transformation Office

Aged 52 | Female | Malaysian

Qualifications

Bachelor of Economics, University of Adelaide, Australia

Past Employment

- Coopers & Lybrand
- UMW Industrial Power Sdn. Bhd.
- UMW Corporation Sdn. Bhd.

Membership of Association

- Malaysian Institute of Accountants
- Australian Society of Certified Practising Accountants

Date appointed to the current position

12 February 2018

Declaration

- Not holding any directorship in public companies and listed issuers.
- 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 within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.



MUHAMMAD IMRAN ABDUL HALIM

Head, Business Systems

Aged 40 | Male | Malaysian

Qualifications

- LL.B, Universiti Kebangsaan Malaysia
- Post Graduate Diploma in Islamic Banking & Finance, International Islamic University, Malaysia

Past Employment

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

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 conflict of interest or any family relationship with any Director and / or major shareholder of the Company.
- Has never been convicted for any offence within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.



MOHD ALI MOHD SAIBI

Head, Health, Safety & Environment

Aged 48 | 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 conflict of interest or any family relationship with any Director and / or major shareholder of the Company.
- Has never been convicted for any offence within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.



MARYAM SALWAANA KAMAL MOHD KAMAL

Head, Corporate Communications

Aged 40 | Female | Malaysian

Qualifications

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

Past Employment

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

Membership of Association

None

Date appointed to the current position

1 October 2017

Declaration

- Not holding any directorship in public companies and listed issuers.
- 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 within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.



NORZALIZAH ALIAS

Head, Internal Audit

Aged 46 | Female | Malaysian

Qualifications

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

Past Employment

- PricewaterhouseCoopers
- JF Apex Securities Berhad
- Afrizan Tamili 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 conflict of interest or any family relationship with any Director and / or major shareholder of the Company.
- Has never been convicted for any offence within the five (5) years nor any public sanction or penalty by any relevant regulatory bodies during the FY2018.

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the annual report and audited financial statements of Velesto Energy Berhad (“VELESTO” or “the Group”) for the financial year ended 31 December 2018 (“FY2018”).

DATO' ABDUL RAHMAN AHMAD
Chairman





REVENUE

RM574
million

FY2017: RM587 million

PATAMI

-RM19.5
million

FY2017: -RM1,127 million

GROSS DEBT

RM1.4
billion

FY2017: RM1.9 billion

Despite our initial optimism in the beginning of the year, FY2018 proved to be an underwhelming year for most oil and gas industry players attributed to various global, macro-economic trends and developments that occurred during the year under review.

Excess supply caused by record US shale production, weaker than expected demand and geopolitical uncertainties, all had impacted the industry's momentum of recovery. With that, while crude oil prices had reached a high of USD80 per barrel, prices eventually could not be sustained and plummeted to USD57 by the end of FY2018. Production cuts by OPEC and non-OPEC countries helped to stabilise the market and against that backdrop oil and gas companies, for the most part, continued to proceed with

exploration and production ("E&P") activities, evidenced by increased rig counts and higher average industry utilisation rates.

However, the lack of consistency in industry activity reflected in delays in contract awards and commencement of work on awarded projects had impacted industry players, leaving gaps in rig utilisation. Charter rates also remained depressed due to ample supply of rigs available in the market.

Consequently, VELESTO's rig utilisation rate for FY2018 had only marginally improved to 73% (FY2017: 70%), which was on par to the industry average. Coupled with the effects of foreign exchange rates, this led to Group revenue for FY2018 declining slightly to RM573.8 million (FY2017: RM586.7 million).



Chairman's Statement (Cont'd.)



However, despite the challenges faced, VELESTO delivered notable positive developments during the year under review. We pursued continued cost rationalisation efforts and have further reduced our low operational base. There was no let-up in ensuring that we do not lose the hard-won efficiencies we have secured in recent years. Further we continued to rationalise our business by downsizing our oilfield business to strengthen our focus on our drilling segment.

This continued focus in improving cost efficiency had a meaningful and positive impact on group finances. In FY2018, operating expenses (excluding interest expense, depreciation and impairment provisions) declined by 8% enabling the Group to post a stronger earnings before interest, tax, depreciation and amortisation ("EBITDA") of RM270.3 million (FY2017: RM248.9 million). Consequently while we fell short to reach our break-even profitability target, Group core loss after tax (excluding impairment provisions) for FY2018 narrowed considerably by 94% to only RM9.1 million (FY2017: RM147.1 million) whilst loss after tax and minority interest reduced by 98% to only RM19.5 million (FY2017: RM1,127.0 million).

We made further progress across two fundamental areas: managing our gross debt and shoring up our order book. As at 31 December 2018, VELESTO's gross debt had further decreased to RM1.4 billion (FY2017: RM1.9 billion). With our strong cash position of RM400.6 million (including investment in money

markets), this meant net debt was reduced to RM1,036.6 million (FY2017: RM1,178.9 million), representing Group net debt to equity ratio of 0.37 times, which is highly manageable especially if compared to other industry peers.

With over RM1.029 billion cumulatively secured in contracts, our order book now stands at a healthy RM375 million. Of note, we have secured contracts not just with existing clients, but also new ones. These include Murphy, ConocoPhillips, Roc Oil and Shell. We also explored opportunities in South East Asia and the Middle East with our rigs achieving technical pre-qualification for the latter region which will strengthen our bidding competitiveness for the Middle East countries' tenders going forward.

However, this volatile industry and operating environment also meant our share price fluctuated considerably: having reached a high of 45.5 sen early in the year, before reaching a low of 16.5 sen. Nonetheless, we are pleased that it has recovered to 31 sen in March 2019 and VELESTO remain one of Bursa Malaysia's largest market capitalised companies in the Energy sector.

The Group has also strengthened its track record for operational excellence, efficient project execution and continued good health, safety and environmental ("HSE") performance. During the year, our rig NAGA 6 had received an award for the best performing rig for Malaysia operations in 2018 from PETRONAS. In addition, a VELESTO staff had

received a "Safety Champion" award from Hess during a successful crew evacuation that was undertaken from the rig due to tropical storm Pabuk.

In summary, VELESTO is reaping the benefits of the many strategic initiatives undertaken over the past several years to strengthen its business fundamentals and now has the required platform to chart a clear path towards long-term business and operational sustainability. By choosing to stay the course and to adopt painful, but necessary measures, we have weathered the turbulence of the past years to emerge stronger as we embrace the present industry recovery. By not compromising, VELESTO continues to set the benchmark for industry excellence while retaining our leadership position as one of Malaysia's most credible and competitive drilling services players.

VELESTO – A DRAGON ROARS TO LIFE

Our chosen brand name, which means dragon in the Slovakian language, resonates strongly with our rising ambitions to soar and chart our own independent path towards business sustainability and long-term profitability. VELESTO, in essence demonstrates our intention to compete aggressively as an independent and transformed business entity who has emerged stronger, leaner and more agile to compete effectively in the present "low price for the long-term" oil and gas environment.



The refreshed branding is supported by a new vision and mission as well as corporate values; all of which reflect our growing confidence and desire to deliver growth and progress. We have continued to cascade our new corporate values and philosophy across the organisation as well as externally towards conveying a clear message that VELESTO has resolved its past difficulties and is now on the cusp of greater accomplishments.

Importantly, we have continued to retain the unwavering confidence and full support of our key institutional shareholders: Permodalan Nasional Berhad, Lembaga Tabung Haji and Kumpulan Wang Simpanan Pekerja.

VELESTO's focus is to return to profitability by growing our revenue streams and optimising costs and having close to achieving this, will look to realise our new mission of becoming a competitive global energy service provider. As we realise these aspirations, undoubtedly, we will be better positioned to maximise shareholders' returns.

CORPORATE GOVERNANCE

The Group remains committed to enhancing its corporate governance practices and towards this end, has initiated several action plans towards

strengthening risk management and mitigation, HSE performance, high performance corporate culture as well as gender diversity and equality.

I am pleased to share that in FY2018, we have successfully met Bursa Malaysia's target of having 30% women sitting on the Group's Board of Directors. VELESTO has met this requirement well ahead of the 2020 deadline stipulated by Bursa Malaysia.

Other highlights included the formation of a dedicated Board Committee to provide oversight on Group risk. VELESTO's Board Risk Management Committee comprises five (5) directors, three (3) of which are Independent Non-Executive Directors. The Committee has been active in addressing various risk related matters and a detailed account of its activities are given in the Statement of Risk Management and Internal Control of this annual report, as well as the VELESTO Corporate Governance Report.

Also in FY2018, a rigorous board assessment exercise was undertaken by an independent third party to evaluate the effectiveness of the present Board composition, its mix of talents and skills and to identify areas for improvement including any gaps in competencies. The result of the assessments have been duly noted and action taken to ensure improvements.

We have also adopted the internationally recognised OHSAS and ISO frameworks across the organisation with various standards being implemented. These include OHSAS 18001, ISO 9001, ISO 14001 and ISO/TS 29001.

OUTLOOK AND PROSPECTS

We foresee that in FY2019 the industry will continue to recover though we expect a certain degree of uncertainty and price volatility. Overall, we anticipate Malaysian E&P activities will increase as reflected by the higher PETRONAS planned capital expenditure forecast of RM50 billion for 2019 and PETRONAS Activity Outlook 2019-2021. This is a welcomed development as the upstream segment has been lacking substantial investments over the past several years. The increased capital expenditure will likely be for green fields and new discoveries, both of which VELESTO is well positioned to bid and secure contracts.

Building on the successes achieved in FY2018, VELESTO will look to grow its order book, increase rig utilisation rates and build cash reserves to pare down our debts further. We will continue on our relentless focus on cost optimisation to increase competitiveness through business process re-engineering, strategic supplier relationships, better inventory management and digitalisation. Further, we will expand our investment on talent management and continued HSE excellence.

Chairman's Statement (Cont'd.)

To pursue opportunity for global expansion, we will bid for contracts locally and internationally, with an emphasis on South East Asia which we have operated in before, and the Middle East which is a new market for VELESTO. The prior experience attained, hold us in good stead to bid competitively. We also must continue to focus on customers' evolving requirements beyond just cost efficiency.

Our growth and expansion is supported by strong business fundamentals. The various consolidation measures undertaken during the downturn has not just sustained us during the difficult period, but has provided VELESTO with a lean and sound launchpad to pursue further growth. As the industry recovers, VELESTO is poised to capture the emerging opportunities in tandem with the increase in drilling activities.

APPRECIATION AND ACKNOWLEDGEMENTS

On behalf of the Board, I wish to welcome Dato' Dayang Fatimah Johari who was appointed as an Independent Non-Executive Director on 24 May 2018. Dato' Dayang Fatimah brings a unique wealth of experience and skills and is a strategic addition to augment the Board's existing competencies.

We would also like to thank Cheah Tek Kuang, who will be retiring at this coming Annual General Meeting. Cheah Tek Kuang had served the Board and VELESTO with distinction since his appointment on 2 May 2013 and we wish him well on his future endeavours.

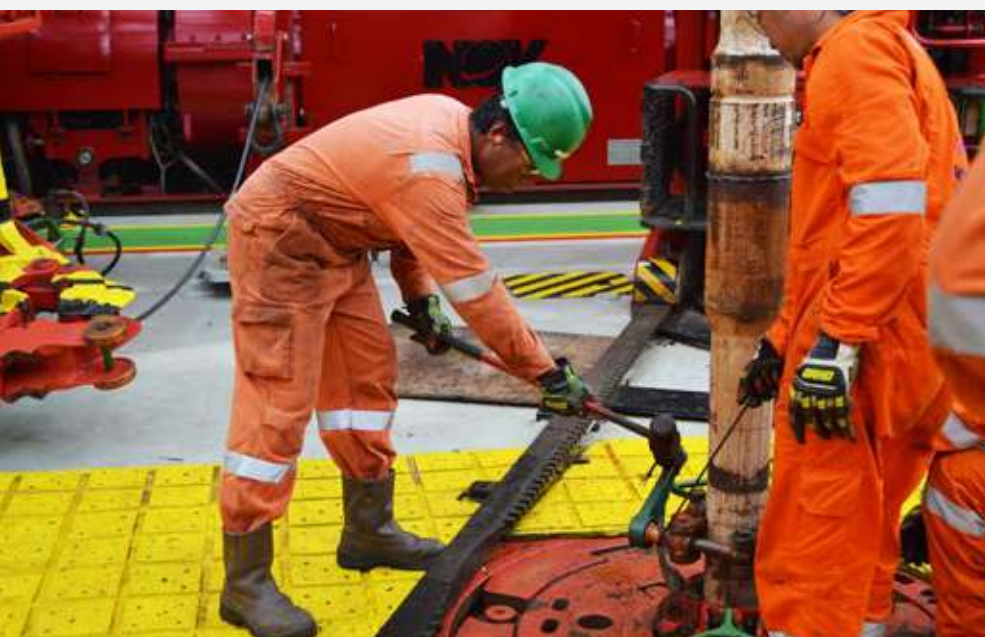
Also, the year in review and its many achievements would not have been possible without the dedication, sacrifice and professionalism of our staff. I wish to thank them

for their continued efforts and in the same vein, I wish to thank our Senior Management team who has persevered through the most difficult of times and for implementing strategies to bring VELESTO to a new phase of growth and opportunity.

We would like to thank PETRONAS and all of our other customers for their continued support and business partnership, our bankers, vendors and suppliers and our shareholders for their continued vote of confidence to the Group. Last but not least, I wish to convey my appreciation to my fellow board members for their wise counsel and for working to steer VELESTO through a very challenging but rewarding year under review.

We remain well on the road to recovery and have set our sights on a better future to be shared together with all stakeholders. With your continued support, we remain positive we can truly unlock our fullest potential to attain profitability and new heights of growth and progress.

DATO' ABDUL RAHMAN AHMAD
CHAIRMAN



Management Discussion & Analysis



INTRODUCTION

The industry continued its gradual path to recovery for most of 2018, with oil price topping USD80 per barrel. However, the price volatility continues, with the price plummeting to an average of USD57 per barrel towards the end of 2018 before recovering to around USD65 per barrel going into 2019.

On the back of this challenging industry background, Velesto Energy Berhad ("VELESTO" or the "the Group") continued to diligently pursue its path to recovery. Displaying strong resilience and Agility, the Group has risen to the challenge and delivered an improved business and operational performance for FY2018.

The fleet utilisation rate has increased to 73% from 70% recorded in FY2017 on the back of an increasing number of secured contracts from both existing and new clients. By adhering to cost discipline and by pursuing organisational efficiency, the loss for the year was significantly reduced, bringing the Group closer to profitability. The aggressive cost containment efforts, reduced debt gearing post debt restructuring and improved operational efficiency has helped VELESTO to emerge from FY2018 with a stronger balance sheet, improved cash flows from operating activities, reduced cost base and significantly lower impairment.

It is on this background that Management shares its review of VELESTO's performance in FY2018.

BUSINESS OVERVIEW

Formerly known as UMW Oil & Gas Corporation Berhad, VELESTO is Malaysia's leading drilling rig operator with a long-standing track record for operational excellence. Through its subsidiaries, VELESTO is principally involved in the provision of drilling services in support of exploration, development and production activities.

We are one of the few companies in Malaysia to own and operate drilling rigs. Our modern fleet consists of seven (7) offshore jack-up ("JU") drilling rigs; and five (5) hydraulic workover units ("HWUs") for workover services. The JU assets are NAGA 2, NAGA 3, NAGA 4, NAGA 5, NAGA 6, NAGA 7 and NAGA 8. The five (5) HWUs are GAIT 1, GAIT 2, GAIT 3, GAIT 5 and GAIT 6 (please refer to page 4 for more details on our rigs and assets).

VELESTO also undertakes Oilfield Services business where it offers a wide range of threading, inspection and repair services for Oil Country Tubular Goods ("OCTG") in Malaysia and China.



Management Discussion & Analysis (Cont'd.)

We serve mainly Malaysia's national oil producing company, PETRONAS and its subsidiaries followed by the various Production Arrangement Contractors ("PAC"). The Group operates in a highly niched, but competitive industry.

Our focus on Excellence helps us build a reputation as a leading choice among oil and gas majors locally. Our domestic Leadership position is attributed to the overall strong value proposition we offer, which stems from our vast industry experience, modern assets, good health, safety and environment ("HSE") track record, our comprehensive range of services, technical support and competitive pricing.

The business that VELESTO operates is also subject to external developments and conditions, primarily the global demand and supply for JUs, which is influenced by the stability of crude oil prices.

BUSINESS OBJECTIVES & STRATEGIES

The Group aspires to be a highly efficient rig operator, and to be the preferred and best-in-class global energy service provider via its long-term business strategy:



In realising the above, the Group remains committed to driving excellence in the following key business pillars:

Maximising Utilisation	<ul style="list-style-type: none"> · Improve rig scheduling · Expanding our client base · Develop contract frame agreements · Enhance industry cooperation · Minimalising idling of assets and cost of idling · Advanced planning of assets recertification
Improving Revenue Streams	<ul style="list-style-type: none"> · Negotiate higher day rates · Improve commercial terms and conditions · Explore offering 3rd party rigs · Continue to explore for new viable businesses · Maximising revenue opportunities from various angles
Business Efficiency & Process Automation	<ul style="list-style-type: none"> · Emphasis on Excellence · Emphasis on Agility and acceptance to changes · Implement Business Process Management framework · Strategic supply chain management · Streamline business process · Leverage on automation and digitalisation · Improve performance management
Embedding Organisation Culture	<ul style="list-style-type: none"> · New Company Core Values · Emphasis on Integrity in all aspects of business · Enhanced Leadership behaviour · Increase accountability · Enhance collaboration · Performance based culture
Developing Human Capital	<ul style="list-style-type: none"> · People-focused approach · Review compensation structure · Develop career progression plan · Enhance training and development plan · Multi-tasking and cross posting

GROUP OPERATIONAL HIGHLIGHTS

INDICATORS	2016	2017	2018
Rig utilisation rates	21%	70%	73%
Number of employees	574	645	658
Man-hours	1,144,317	2,738,745	3,653,560

GROUP FINANCIAL PERFORMANCE

GROUP REVENUE

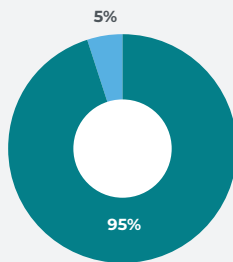
Despite higher rig utilisation achieved for FY2018 of 73% (FY2017: 70%), VELESTO saw its revenue reduced by 2.2% to RM573.8 million in FY2018 (FY2017: RM586.7 million). This reduction was mainly due to the strengthening of the Ringgit against the US Dollar by 2.1% in FY2018 and lower contribution from Oilfield Services segment.

The Drilling Services segment (including Workover Services) continued to be the largest contributor to the Group revenue at 97% with the balance 3% derived from our Oilfield Services and other segments. VELESTO's Drilling Services segment saw a reduction in revenue by 2.1% to close the year at RM556.6 million (FY2017: RM568.8 million).

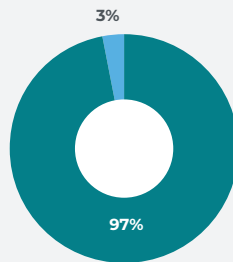
The Oilfield Services segment posted a revenue of RM16.2 million, or 3.9% lower than FY2017 of RM16.9 million. The reduction was mainly due to the lower demand for threading activities in the Labuan and Thailand operations, which subsequently led to the closure of their operations before the year end.

Malaysia remained the Group's main area of operations with 98.5% of Group revenue derived from local operations.

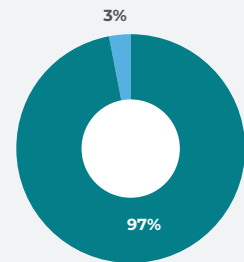
GROUP REVENUE



2016
RM321m



2017
RM587m



2018
RM574m

● Drilling Services (including Workover Services) ● Oilfield Services



Management Discussion & Analysis (Cont'd.)



GROUP EARNINGS

VELESTO posted a stronger earnings before interest, tax, depreciation and amortisation ("EBITDA") of RM270.3 million, an 8.6% year-on-year ("y-o-y") improvement (FY2017: RM248.9 million). The Group's EBITDA improvement was mainly due to lower operating expenses arising from our cost optimisation initiatives.

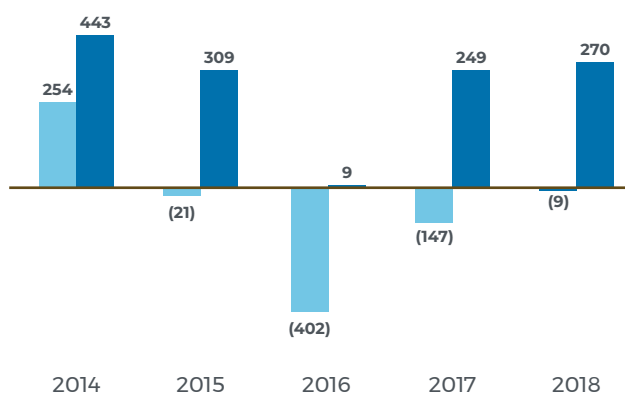
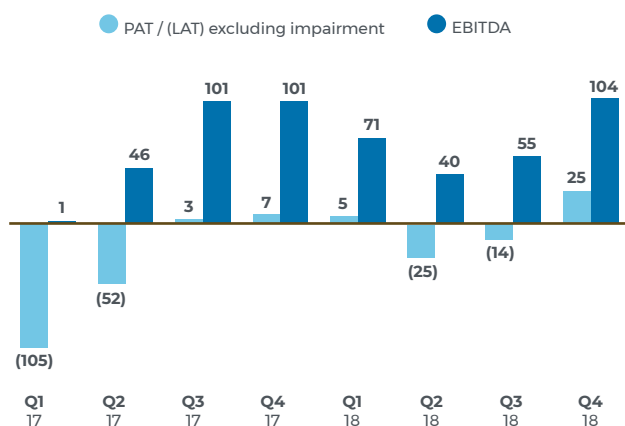
The continued positive effects of our on-going business rationalisation efforts have yielded a lower loss for the Group. VELESTO is presently operating at optimum operational expenditure ("Opex"). Our loss before tax position in FY2018 reduced significantly to RM17.6 million (FY2017: RM 1,130.5 million). This was largely due to lower depreciation, which decreased to RM191.5 million (FY2017: RM259.1 million), finance costs has decreased substantially post debt rationalisation to RM85.1 million, 38.4% lower y-o-y (FY2017: RM138.2 million) and impairment provisions reduced to RM11.3 million, 98.8% lower y-o-y (FY2017: RM982.1 million).

On the back of increased drilling activity, lower operating expenses and impairment provisions, our loss after tax position has decreased considerably by 98.2% y-o-y to RM20.4 million (FY2017: RM1,129.3 million).

With the Group achieving a higher rig utilisation rate of 73%, our impairment provisions have significantly reduced in FY2018 to RM11.3 million. These were mostly arising from asset impairment for workover units, Oilfield Services business and Drilling Academy assets. With continued increase in activity, we foresee lower probability of further impairments going forward.

Without the impairment, VELESTO would have shown a loss before tax of RM6.2 million and loss after tax of RM9.1 million for FY2018.

GROUP FINANCIAL PERFORMANCE (RM'MIL)



DIVIDEND

Management remains appreciative of shareholders for their continued loyalty and confidence in the Group. We remain committed to rewarding shareholders.

However, given our present position of recovery and the overall conditions of the operating environment, Management is of the view that both the Group's and shareholders' interests are better served by prioritising conservation of capital for business development activities and other strategic initiatives for the financial year. As such, Management has not declared shareholder dividends for FY2018. Dividends will be paid out once VELESTO returns to full and sustainable profitability going forward.

ASSETS & LIABILITIES, CAPITAL STRUCTURE & RESOURCES

During the year, VELESTO had commenced repayment towards the USD550 million syndicated facilities which was raised on 21 November 2017. In addition, a full repayment was also made for a Revolving Credit ("RC") facility amounting to approximately USD100 million (approximately RM397.4 million) in the first quarter of 2018. As a result, VELESTO has reduced its borrowings to RM1.4 billion, or 22.7% (FY2017: RM1.9 billion) and gross debt to equity ratio has improved from 0.67 times to 0.51 times, or 23.9%.

	FY2016 RM million	FY2017 RM million	FY2018 RM million
Short-term borrowings	1,500	461	89
Long-term borrowings	2,273	1,399	1,348
Due to UMWH	308	-	-
Total borrowings	4,081	1,860	1,437

* UMWH - UMW Holdings Berhad

The Group's net cash from operating activities for the year has improved significantly to RM157.6 million, mainly due to higher rig utilisation, improved operational efficiencies, improved collection of receivables and stable working capital requirements. The improved free cashflow was invested in money market funds and utilised for accelerating loan repayments. Following from the payment of loan instalments and full settlement of the RC, the cash balance net of restricted cash has decreased to RM187.4 million, not including other investments in money market funds of RM165.6 million by year end 2018.

	2016 (RM'000)	2017 (RM'000)	2018 (RM'000)
Net Cash (Used In) / Generated From Operating Activities	(63,953)	(50,880)	157,602
Net Cash Generated / (Used In) From Investing Activities	49,487	11,280	(172,434)
Net Cash (Used In) / Generated From Financing Activities	(647,600)	415,195	(469,020)
Net Increase / (Decrease) In Cash and Cash Equivalents	(662,066)	375,595	(483,852)
Effects Of Exchange Rate Changes	21,455	(38,938)	1,436
Cash And Cash Equivalents At The Beginning Of The Year	973,807	891,471	680,747
Cash And Cash Equivalents At The End Of The Year	891,471	680,747	235,029
Cash And Cash Equivalents At The End Of The Year, Net Of Restricted Cash	333,196	669,853	187,437

KNOWN TRENDS AND EVENTS

Global demand had initially been strong on the back of controlled production quota by the Organisation of the Petroleum Exporting Countries ("OPEC") and non-OPEC nations as well as a pick-up in global economic activity. However the positive momentum was affected by various macro-economic developments that occurred throughout the year.

The escalating trade conflict between US and China, the continued US sanction waiver on Iran oil imports given to certain countries, record pumping in the US and lower than expected demand from developing economies had contributed to rising inventories. The drop in crude oil prices had to a certain extent impacted the recovery momentum of the industry, though not derailing from the improving confidence and upstream activity of oil and gas players.

Management Discussion & Analysis (Cont'd.)

A key turning point was on 8 May 2018 when the US reinstated sanctions on Iran post its withdrawal from the Joint Comprehensive Plan of Action, more commonly known as the Iran nuclear deal. The imposed sanctions called for a tougher stance with countries asked to reduce their imports of Iran oil to zero before 4 November 2018, failing which they would face US trade sanctions. This led to an increase in crude oil prices with prices touching the USD70-USD80 mark and oil producing nations ramping up production to meet any shortfalls post November on the assumption that the market could tighten further. However, post 4 November, the US relented and extended waivers to eight (8) countries (China, India, South Korea, Japan, Italy, Greece, Taiwan and Turkey) to import oil from Iran for another 180 days. The market reacted bearishly with crude oil prices tumbling from USD86 per barrel to a range of USD60 per barrel in November 2018 due to the then excess production and supply as inventories began to increase.

Still, conditions improved when the OPEC and non-OPEC nations extended their initial production cuts towards the end of FY2018 and going into FY2019. The decision to trim production by 800,000 barrels per day provided a measure of stability to the market. Coupled with the oil and gas majors already being committed to their E&P investments, the market continued to see an uptake in activity.

According to IHS Markit, global marketed supply for JUs tightened to 454 rigs in December 2018 compared to 459 rigs a year before. Meanwhile, global demand of marketed contracted rigs increased significantly to 344 rigs from 324 rigs over the same period, resulting in a

higher utilisation of 75.8% by end-2018 (Dec 2017: 70.6%). In Malaysia, PETRONAS Activity Outlook 2019-2021 which was released in December 2018 has revised its projected demand for JUs in 2019 to 16-18 rigs, double of its previous guidance of 7-10 rigs in its December 2017 edition. In addition, the post-2021 outlook for the segment is positive, driven by client needs to monetise and capture value in volatile oil markets.

On the whole, despite market volatility, the oil and gas sector has seen its best performance to date since the crisis of 2015.

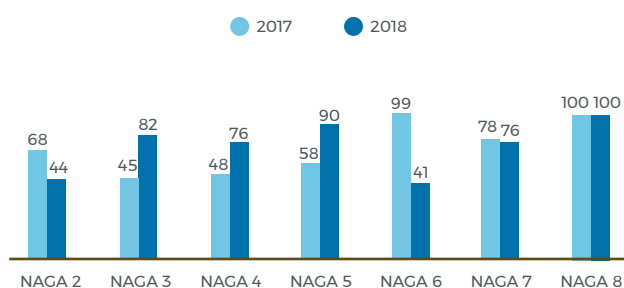
DRILLING SERVICES SEGMENT PERFORMANCE

While utilisation rates were on the uptrend, day charter rates were not improving in tandem, largely attributed to the ample supply of assets. This led to a price war among many drilling rig owners, who were eager to secure contracts even at the expense of revenue and earning margins.

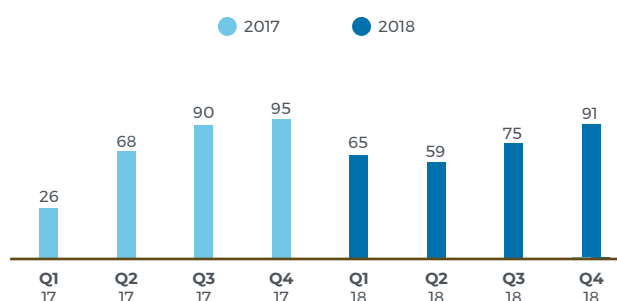
VELESTO, however bucked this trend and continued to leverage on its proven value proposition of quality assets, innovative technology, leading human talent and its good HSE track record. We have developed a strong brand name for reliability, HSE and operational excellence and this rather than cost has enabled the Group to keep its rigs busy during FY2018.

On the back of stronger demand for rigs, our rig utilisation rate improved to 73% with all of our rigs servicing contracts in FY2018. Several of our rigs' utilisation had improved in utilisation vis-à-vis FY2017.

RIG UTILISATION RATE (%)
2017 vs 2018



RIG QUARTERLY UTILISATION RATE (%)
2017 vs 2018



In FY2018, VELESTO secured more than RM400 million cumulatively in drilling contracts as shown below:

DATE	CLIENT	CONTRACT DETAILS	RIG/ HWU	CONTRACT VALUE
16 January 2018	PETRONAS Carigali Sdn. Bhd. ("PCSB")	Provision of HWUs for a contract period of three (3) years with an option to extend for one (1) year. The Contract is of an umbrella framework which provides an over-arching contractual relationship which may comprise a series of individual orders and call-outs.	GAIT 1, GAIT 2, GAIT 3, GAIT 5 and GAIT 6	Call-out basis
12 March 2018	PCSB	Provision of HWU for a contract period of three (3) years with an option to extend for one (1) year. The Contract is of an umbrella framework which provides an over-arching contractual relationship which may comprise a series of individual orders and call-outs.	GAIT 6	Call-out basis
3 July 2018	Roc Oil (Sarawak) Sdn. Bhd. ("ROC")	Provision of Drilling Rig Services comprising one (1) JU and associated services for ROC's D35 Phase 2 Infill Drilling Programme.	NAGA 4	USD31.0 million
27 July 2018	Sarawak Shell Berhad ("SSB") / Sabah Shell Petroleum Company Limited ("SSPC")	Provision of Drilling Rig Services for SSB / SSPC.	NAGA 7	USD25.0 million
9 August 2018	PCSB	Provision of Drilling Rig Services for PCSB's Drilling Programme, to drill two (2) firm wells with an option of additional one (1) plus one (1) wells.	NAGA 3	USD10.8 million
9 August 2018	PCSB	Provision of Drilling Rig Services for PCSB's Drilling Programme, to drill two (2) firm wells with an option of additional two (2) wells.	NAGA 5	
12 February 2019	Hess Exploration and Production Malaysia B.V.	Contract Extension for provision of a high pressure, high temperature ("HPHT") JU for North Malay Basin for eighteen (18) months with an option for further extension.	NAGA 8	USD38 million

The mix of short and long-term contracts will keep us busy well into 2019 with some contracts stretching into 2020. Much of the work awarded was for short-term contracts resulting in periods where assets would go idle, but only for a short period.

Equally encouraging was the resumption of activity for two (2) of our HWUs, having secured contracts. While the contribution to revenue is small, we are heartened by the return of operability of these assets, which were previously idle for almost two (2) years.

Management Discussion & Analysis (Cont'd.)

Beyond Malaysia, we have looked to expand our international presence, especially in the Middle East. Several of VELESTO's rigs have been technically qualified for drilling projects in the region and this will bolster our bidding efforts going forward.

Our rigs have an excellent operational performance in FY2018, which has been well acknowledged by our clients. In particular, we draw satisfaction that VELESTO's NAGA 6 was awarded the Best Rig Performance for 2018 Malaysia Operations by PCSB.

Other awards secured during the financial year are as follows:

- Lowest Cost Well - Rerama 1 - Shell
- Special Safety Champion - Hess
- Safety Performance Milestone - Murphy
- HSE & Operational Excellence - Vestigo

OILFIELDS SERVICES SEGMENT PERFORMANCE

The Group has continued to streamline its Oilfield Services businesses, by hiving off unprofitable operations through rationalisation exercises undertaken in FY2018. Despite the recovery in the oil and gas sector, demand for oilfield and related services have yet to pick-up with oil and gas majors continuing to utilise existing inventory to save costs. As a result, demand for oil pipes threading, inspection and repair services remained low.

During the year under review, the Group disposed its entire stake in UMW Oilpipe Services (Turkmenistan) Ltd ("UOS-TK") for a cash consideration of USD252,450 (equivalent to RM0.98 million). UOS-TK was involved in tubular integrated services consisting of thread repairing, accessory manufacturing and pipe inspection and maintenance. Similarly, we also ceased operations of our Oilfield Services operations in Thailand and Labuan with the former in the process of liquidation. There was a one-off payment of compensation made to the affected staff from Labuan operations of RM3.2 million. We have also impaired our assets in China amounting to RM7.4 million during the year.

The Group will continue to evaluate its remaining business in the Oilfield Services segment based on medium and long-term outlook and will take the necessary action to address the outcome.

GROUP REBRANDING & CONTINUED INTERNAL IMPROVEMENTS

Following the demerger from UMW Holdings Berhad in FY2017, the Group has emerged under a new branding, Velesto Energy Berhad. Our new corporate image and identity reflects our dynamic aspirations to aggressively compete in the marketplace, unhinged and unencumbered as independent entity.

Beyond a mere facelift, our VELESTO brand name reflects the essence of who we are as a company; that is a tested business strategically positioned to chart its own course in today's challenging industry environment. VELESTO is now better positioned to chart its own course to move forward and has the agility and speed to respond to market developments accordingly.

The rebranding is the culmination of the business transformation exercise, which saw the Group undergoing a successful demerger, recapitalisation, refinancing exercise and retirement of its debt. The rebranding is the final phase of a long but necessary vital journey that puts us well on track towards profitability and business sustainability. In April 2019, in support of the new VELESTO brand name, we launched a new set of core values, coupled with a refreshed vision and mission that serves as our launch pad for future growth.

CONTINUED COST RATIONALISATION

Despite improving market conditions, the Group has maintained efforts to rationalise cost towards further strengthening our competitive capability. One of the key highlights in FY2018 was the disciplined approach we adopted towards departmental budget allocations, where all departments and business units were tasked to yield savings from their present allocations.

Management is pleased to share that by designating greater accountability and ownership across the organisation structure for cost rationalisation, there has been a stronger buy-in for cost control measures. As a result, VELESTO has managed to further reduce its operational costs (excluding interest expense, depreciation and impairment) by 8% during the financial year.



In FY2018, we have upped our efforts with an emphasis on more efficient resource management. This includes (but is not limited to) more organised warehousing processes, which has resulted in better savings and optimised productivity. The Group has also adopted a more proactive and structured approach to procurement rather than the previous approach of reactive sourcing.

Tapping technology in procurement systems and via other methods, we have significantly improved our approach to procurement from being a cost-centric business function to a strategic driver that has enabled cost savings and improved vendor quality. Overall, our cost savings initiative have resulted in costs savings of RM30.3 million in FY2018 and we foresee deriving further savings going forward.

PEOPLE-FOCUSED DEVELOPMENT & ORGANISATIONAL CULTURE

The Group continues to view its multi-cultural and diverse workforce as a key competitive strength and in FY2018, we have endeavoured to further enhance the competencies and capabilities of our talent pool. Our strategic approach to people development is centred on three (3) key aspects: nurturing a high performance culture, providing competitive remuneration and developing leaders at all organisation levels via succession planning.

In this regard, VELESTO has seen a busy year as in tandem with the rebranding exercises, we have cascaded a new set of corporate values for the organisation, which has been supported by considerable staff on-boarding programmes and activities. It was imperative that we on-board our people to the "new" VELESTO organisation and its dynamic culture of high performance, teamwork and personal accountability.

We are happy to report that thus far, staff have responded positively as our recent employee engagement survey which showed that 72% of our employees are engaged.

One of the challenges all oil and gas operators faced in FY2018 is talent attrition as the industry progressively recovered. We are happy to report that our numbers in this regard remain low while we have further expanded our overall headcount to 658 (FY2017: 645). We continue to support development of local talent and Malaysians account for 75% of our employees.

In line with the development of local talent, we continue developing talent for the industry via our VELESTO-INSTEP Drilling Academy ("VIDA"). VIDA is a joint collaborative effort with Institut Teknologi Petroleum PETRONAS ("INSTEP") to develop Malaysian drilling talents for the oil and gas industry. It is accredited by the International Association of Drilling Contractors ("IADC") and International Well Control Forum ("IWCF"), two global authorities in the drilling industry. This enables VIDA to conduct trainings and certifications for job positions that warrant such certifications.

We have opened VIDA not just to our staff, but to the entire industry and educational institutions towards meeting the bigger aspirations of developing the much-needed talent for the local oil and gas sector. In 2018, VIDA received 275 participants (FY2017: 159), who attended the many accredited and non-accredited programmes. This included a number of oil and gas professionals from PETRONAS.

For more information on our people related initiatives and strategies, please refer to the Sustainability Report in this annual report.

SUSTAINABILITY

We continue to pursue our sustainability agenda and have achieved various notable highlights across many social and environmental aspects of our operations. In FY2018, the Group has continued to see a reduction in its carbon footprint, greenhouse gas emissions and has increased the amount of offshore water used rather than relying on onshore supply.

One of the key highlights was the switch from using oil based mud to a water based variant, which has facilitated significant reduction in our carbon footprint. We have also increased the quantities of water recycled across our operations and continue to comply with MARPOL regulations on all related environmental practices and procedures.

As a responsible corporate citizen, we have continued to make positive contributions to the surrounding communities in which we have a business presence. Across our operating bases in Kemaman and Labuan, we have initiated various corporate social responsibility ("CSR") programmes focusing on safety, education and environmental conservation, that have delivered tangible and positive outcomes for the local towns and villages in both Peninsular Malaysia, Sabah and Sarawak.

For further information on our sustainability performance and progress, kindly refer to our Sustainability Report in this annual report.

OUTLOOK & PROSPECTS

Our view is consistent with that of PETRONAS; that is market volatility will persist in FY2019, but there will still be a continued increase in activities by oil and gas majors. The industry remains on the road to recovery, but risks does persist. These risks include but are not limited to OPEC and non-OPEC countries ceasing to maintain quota discipline or not extending production quotas which will expire in June 2019. Furthermore, record high US pumping levels and a continued extension of waiver on Iran oil could hamper the market recovery seen in FY2018.

Management Discussion & Analysis (Cont'd.)



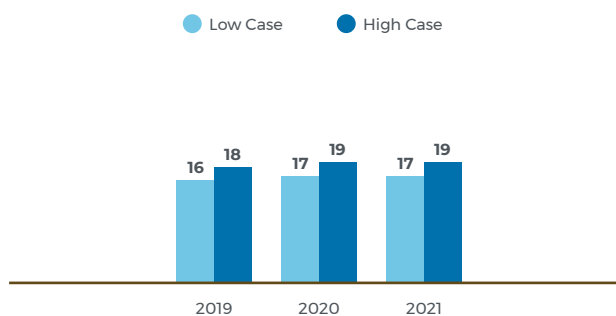
However, we believe that barring any major, unforeseen developments on a global scale, the oil and gas sector has passed its worst and is now in a recovery phase. There may still be minor price shocks in the interim, but eventually prices will stabilise to sustain operational activity in the medium and long term. PETRONAS' latest Activity Outlook also indicates a sustained increase in drilling activities from 2019-2021. Furthermore, crude oil prices are now trading at a much higher range compared to the past. This is a clear signal that the market remains on exploration mode with oil and gas majors having sufficient confidence to reinvest.

There is a positive outlook for both JUs and HWUs. The demand for the former is driven by exploitation on quick monetisation opportunities in volatile markets, in particular brownfield projects that require Infill Drilling. As for HWUs, demand will stem from well intervention activities either for well re-activation or well abandonment projects.

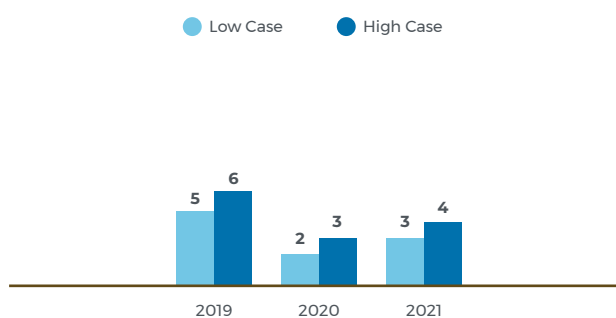
Since late 2018, VELESTO has received a growing number of tender invitations from Malaysia and abroad. Our tender participation activities include short and long term contracts. As at 31 December 2018, VELESTO has participated in 37 tenders valued at USD693 million compared to 26 tenders with a total value of USD746 million in the previous year.



NO. OF JACK-UP RIGS: THREE-YEAR OUTLOOK



NO. OF HWUs: THREE-YEAR OUTLOOK



Source: PETRONAS Activity Outlook 2019-2021

We also see opportunities arising for decommissioning activities, which is a fairly new area for Malaysia. Malaysia has a large number of aging offshore assets; some even exceeding 40 years of operation, with many of these reaching their end of life phase.

Hence, proper decommissioning efforts are required to minimise environmental impacts and return the field to its original natural conditions. The works involved include Plug and Abandonment ("P&A") activities to permanently kill oil and gas wells that have become uneconomic. Our HWUs have performed some of these type of works in 2018 and we are looking forward to more contracts in this new opportunity.

On the whole, we foresee VELESTO to be busy in FY2019. We will aggressively pursue our strategies in the year ahead with a specific focus on the following areas: Develop medium and long-term contracts with major clients to improve asset utilisation, improve operational and financial efficiency, negotiate for improved day rates and contract terms and conditions with key customers, continue cost reduction, drive talent development and retention and continue to cultivate a high performance culture while expanding our geographical presence.

Our strength lies in the fact that despite having undergone a tumultuous period, we have retained our own assets, which allows us to better control costs and respond quicker to client's requirements. Our ability to operate is not contingent on third parties unlike some other players. With the objective to return to profitability in FY2019 VELESTO is clear on the direction and efforts towards this goal, and we are confident of our prospects going forward.

The challenge for all industry players is the slow growth in day rate. Ample jack-up supply globally limits the potential for significant day rate improvement. More contracts and retirements of older rigs are required to balance out supply. Another challenge we face is that drilling rig operators are increasingly being asked to provide integrated services or to manage a bigger scope of operations. While this may pose additional business and operational risks, it also provide opportunities to widen our revenue streams.

On the whole, VELESTO remains on track with its business recovery and given its ability to sustain the momentum of activity for its rigs, we foresee continued improvement in revenues and with that an eventual return to profitability in the near term.

KNOWN AND ANTICIPATED RISKS

Risks include fluctuations in currency exchange, which is beyond the Group's control and risks associated when operating in foreign markets. Both these risks have been mitigated by appropriated strategies as given in the risk table below. For further information on the Group's risk management strategies, please refer to the Statement of Risk Management and Internal Control ("SORMIC") in this annual report.

RISK	MITIGATION MEASURES
Losses or leakages from operations due to inadequate, inefficient or ineffective internal processes, systems, policies, employee errors and events beyond our control, resulting in higher or unexpected additional costs	Streamline processes and systems across business segments to improve efficiencies: <ul style="list-style-type: none"> • Introduced centralised warehouse to reduce redundancies • Initiated vendor re-negotiation to reduce procurement costs
With the days of Big Oil being over and the start of a new normal for the oil and gas industry, oil and gas majors now possess stronger bargaining power to dictate terms with reduced room for negotiation for drilling contractors	Maintain close relationship with our existing and potential clients to enhance our bargaining power <p>Continue our aggressive marketing in areas which we have a strong presence to secure more contracts</p>
Some countries in Southeast Asia such as Indonesia and Brunei are introducing local content criteria in the tendering process for JUs in their respective countries in order to groom local talent and technology transfer which may impact our ability to participate in the business activities	Continuously engage with the relevant authorities to ensure we are up-to-date with the latest regulations <p>Actively look for reliable local partner in foreign target countries</p>
A portion of the Group's operations are conducted in foreign currencies which are susceptible to market volatility affecting exchange and interest rates which may affect our financial performance	Closely monitor the foreign exchange ("FOREX") market and vetting through economic data <p>Material foreign currency exposures are hedged via forward exchange contracts by using foreign exchange facilities maintained with leading banks</p> <p>Engage with our panel bankers on the outlook for FOREX</p>
Our drilling operations are subject to the inherent risks and occupational hazards of the oil and gas industry and any adverse incident could result in the loss of life, significant financial loss and compromise the integrity of our assets and reputation	Instil a strong safety culture and mind-set: <ul style="list-style-type: none"> • Ensure the strict adherence of our comprehensive safety policies and procedures by our employees and contractors • Perform periodic audits and reviews to enhance our health and safety procedures and practices • Conduct regular emergency drills to ensure preparedness in case of accidents or incidents

5 Years Group Summary Results

Financial Year Ended 31 December		2014	2015	2016	2017	2018
Revenue	RM Million	1,015	840	321	587	574
Profit / (Loss) Before Taxation	RM Million	284	(348)	(1,181)	(1,131)	(18)
Profit / (Loss) Attributable to Equity Holders of The Company	RM Million	252	(369)	(1,177)	(1,127)	(20)
Shareholders' Funds	RM Million	3,200	3,333	2,258	2,763	2,797
Return on Shareholders' Funds	%	8	(11)	(42)	(45)	(1)
Return on Total Assets	%	4.9	(4.6)	(18.0)	(23.6)	(0.4)
Basic Earnings / (Loss) Per Share	Sen	11.7	(17.1)	(54.5)	(36.8)	(0.2)
Share Price At Year End	RM	2.35	1.07	0.88	0.31	0.18
Market Capitalisation At Year End	RM Million	5,081	2,313	1,892	2,135	1,479

Summary of Group Results

Financial Year Ended 31 December		2017	2018
Revenue	RM Million	587	574
Loss Before Taxation	RM Million	(1,131)	(18)
Loss After Taxation	RM Million	(1,129)	(20)
Share Capital	RM Million	3,732	4,055
Reserves	RM Million	(969)	(1,258)
Basic Loss Per Share	Sen	(36.8)	(0.2)
Net Assets Per Share	Sen	39.5	34.0

Financial Calendar

Notice of 9th Annual General Meeting & Issuance of Annual Report 2018
26 April 2019

9th Annual General Meeting
29 May 2019

Financial Year Ended
31 December 2018

Approval of Quarterly Unaudited Financial Results:

Q1-2018
24 May 2018

Q3-2018
23 November 2018

Q2-2018
20 August 2018

Q4-2018
27 February 2019

SUSTAINABILITY REPORT



Sustainability Report

Building a Sustainable Future

MESSAGE FROM THE PRESIDENT

To our esteemed stakeholders, on behalf of Velesto Energy Berhad (**“VELESTO” or “the Group”**), I am pleased to share with you the progress we have made on our sustainability journey in 2018.



Our SR2018 marks our third consecutive year of publishing a dedicated report that tracks VELESTO's performance from a triple bottom-line perspective of economic, environmental and social ("EES") indicators. Our approach to sustainability is guided by the following key pillars:

Innovative & High-Performance Culture, Environmental Stewardship and Nurturing the Community.

One of the highlights in SR2018 is our initial efforts to explore the feasibility of mapping our sustainability journey to corresponding United Nations Sustainability Development Goals ("UN SDGs"). Certainly, we see a congruence with several SDGs and VELESTO's business operations and our sustainability pillars. These are SDG 3 (Good Health and Well-being), SDG 4 (Quality Education), SDG 5 (Gender Equality), SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth) and SDG 14 (Life Below Water).

Going forward, we shall continue these initial efforts to further align ourselves in support of the identified SDGs.

Besides the SDGs, one other new highlight is the Group's disclosure on the impact(s) of climate change on Group operations and inversely, how our operations are potentially contributing to climate change. In January 2019, two (2) of our rigs were affected by tropical storm Pabuk while operating offshore. While it was a one-off event, it serves as a reminder that we must be prepared at all times to secure our people and assets.

In FY2018, on the back of growing industry activity and the on-going recovery of the oil and gas sector, our rig utilisation has also been on the uptrend. With that, there has been an increase in energy and water consumption as well as greenhouse gas ("GHG") emissions. Despite this, we have continued to take measures across the Group to reduce our overall carbon footprint as much as possible. We have also continued with our social engagements towards supporting the community and delivering positive impacts to areas in where we have a business presence.

Our HSE performance remains strong, with zero fatalities though there were two (2) Lost Time Injuries ("LTIs") which meant our LTI clock was reset accordingly. We will continue to view these incidents as learning opportunities to strengthen our performance in this area. During the year, we also received several HSE awards from our clients, PETRONAS, Hess, Murphy and Vestigo. On the whole, VELESTO is well regarded for its exemplary track record and for setting industry benchmarks for Health, Safety & Environment.

As we stand on the verge of achieving business and financial stability, we remain committed to social and environmental sustainability; that our business operates in a manner that satisfies the triple bottom-line. People and planet will remain key to the Group alongside profits and other financial results.

We welcome feedback from you and encourage you to read SR2018 together with our Management Discussion and Analysis section in the VELESTO 2018 Annual Report to obtain a more comprehensive view of our sustainability journey and value creation process during the year in review.

We believe that sustainability is an inclusive journey and therefore, the views and insights from our many stakeholders is important in ensuring that we continue to deliver value as defined and recognised by all stakeholders.

ROHAIZAD DARUS
PRESIDENT

Sustainability Report

About Our Report

SR2018 is produced in line with VELESTO's aspirations to provide transparent, honest disclosure as a leading, sustainable Group of companies within Malaysia's oil and gas industry.

The Group has measured its performance against a comprehensive range of EES topics as given under the best practice and internationally recognised Global Reporting Initiative ("GRI") Standards 2016. The full GRI content index is provided at the end of the SR2018.

In accordance with the GRI Standards 2016, beyond defined EES topics, the Group has also provided disclosure on corporate governance and business ethics, risk management, corporate values and more.



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 :

Strategy & Investor Relations VELESTO ENERGY BERHAD

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BOUNDARY

As in previous years, VELESTO's reporting scope is focused on our drilling and oilfield services operations located in Malaysia. We have not included foreign subsidiaries that are or may potentially be part of the Group's on-going rationalisation. The scope is further streamlined to focus on the most pertinent projects, initiatives and activities of the 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.



REPORTING STANDARDS AND GUIDELINES

- GRI Standards 2016: Core option
- Bursa Malaysia FTSE4Good Index
- Bursa Malaysia Sustainability Reporting Guide - Second Edition



DATA COLLECTION

Data presented in SR2018 has been collated on a best-effort basis via internally conducted surveys, workshops and other forms of assessments. Data is for FY2018 which is from 1 January 2018 to 31 December 2018.

Where possible, data has been presented for three consecutive years to show meaningful comparisons against past performance and to provide the possibility of trend lines. In addition, data has been collected and results measured and calculated using industry standards as well as widely accepted calculation methodologies such as the 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.



ASSURANCE

The Group has not undertaken independent auditing and assurance for data presented in this report.

Sustainability Report

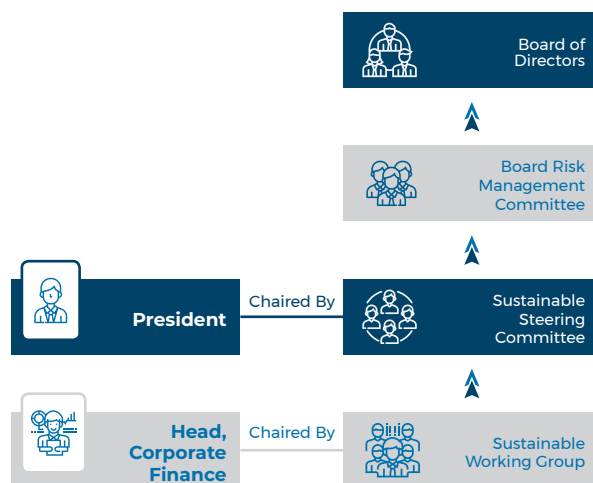
Sustainability Governance

VELESTO's governance of sustainability begins at the top; with the Board of Directors and Senior Management. With the growing importance of sustainability as a business driver, the Board in 2018, has played a more prominent oversight role in charting VELESTO's overall strategy for sustainability, with Senior Management playing an executive role in developing tactical plans for execution. One of the key highlights was the inclusion of Board input into specific sustainability strategies and initiatives. With this, the Board has progressively expanded its oversight and responsibility on EES matters beyond the customary aspects of risk management, audit, finance and corporate strategy.

The SR2018 was reviewed and approved by the Board of Directors on 16 April 2019.

Beyond the Board and Senior Management, VELESTO's sustainability agenda is driven by a multi-tier sustainability governance structure, which has been further enhanced. Going forward, we are including sustainability as a strategic aspect similar to corporate governance or audit and to place sustainability under the purview of the Group's BRMC. With this, the Board will have more comprehensive oversight on sustainability and where sustainability risks and opportunities are seamlessly integrated into the strategic agenda of the organisation.

SUSTAINABILITY GOVERNANCE STRUCTURE



An integral component of our sustainability governance structure is the role of the Group's Sustainability Steering Committee ("SSC") and the Sustainability Working Group ("SWG").

SUSTAINABILITY STEERING COMMITTEE ("SSC")

The composition of the SSC shall comprise of Senior Management of VELESTO:

- President (Chairman)
- Chief Financial Officer (Deputy Chairman)
- Chief Operating Officer
- Chief Commercial Officer
- Head, Human Resource
- Head, Legal & Secretarial
- Head, Health, Safety & Environment
- Head, Corporate Communications

Quorum for the meeting shall be any four (4) members of the SSC provided that either the President or the Chief Financial Officer is in attendance.

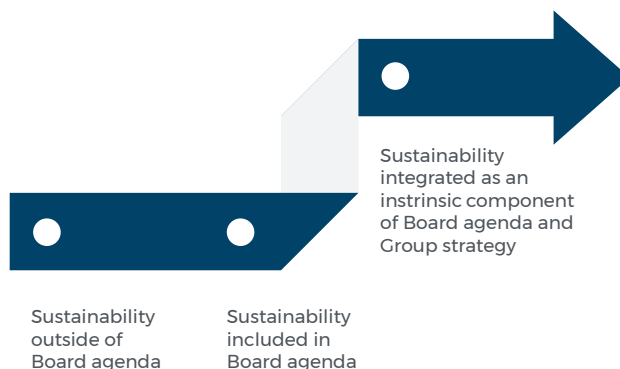
Principal Responsibilities

- Reviews and recommends sustainability statement to the Board;
- Reviews and recommends sustainability strategies, policies and other matters relating to it such as management systems, performance monitoring, policies, commitments and regulations;
- Ensures the sustainability strategy is aligned with the Company's vision and mission; and
- To continuously monitor stakeholders' expectation on Company's sustainability activities through proper communication strategy.

In line with BURSA's Sustainability Reporting Guide, VELESTO's governance of sustainability is at an intermediary 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.

SUSTAINABILITY WORKING GROUP ("SWG")

- The Working Group members consist of representatives from corporate and operations that are responsible for sustainability strategies and projects.
- Tracks the data to ensure that all outlined activities achieved defined targets.



The Group has also established various metrics and key performance indicators across EES topics, aspects and disclosures to chart, measure and assess its sustainability performance in key focus areas.

Sustainability Report

Sustainability Governance (Cont'd.)

CODE OF BUSINESS CONDUCT AND ETHICS

VELESTO's commitment to strong corporate governance is fortified in its Code of Business Conduct and Ethics ("CoBE"), which guides the Company in fulfilling its business obligations with integrity and transparency. To ensure consistent good business practices and governance, the CoBE sets our commitment to work responsibly, with integrity and respect. The objective of the CoBE is to act as a reference guide for conduct and ethics throughout one's employment with the Company.

The CoBE is rolled out to employees through various trainings 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 on their understanding of the Company's policy and procedures, and submit their individual "Disclosure of Conflict of Interest".

The CoBE is driven by our core values, keeping in mind the highest standard of business ethics. VELESTO will be continuously transmitting this CoBE for the employee to be aware that the Company is serious in handling any misconduct or any unethical behaviours of any employee. Refresher training will also be conducted periodically to ensure ongoing compliance.

WHISTLE-BLOWING POLICY AND PROCEDURES

The Whistle-Blowing Policy ("WBP") which complements the CoBE, provides a non-discriminatory and fair treatment for all reported incidents. The WBP ensures concerns regarding unethical, unlawful or improper conduct relating to mismanagement, malpractices, corrupt practices, fraud, conflict of interest, abuse of authority or breach of any laws and regulations by any member of its staff and management are investigated internally and if a violation is confirmed, appropriate actions will be taken.

This may involve serious consequences, up to and including dismissal or contract termination. Employees are at will and encouraged to file suspected wrongdoings through the proper mode of communications anonymously to the President, or the Head of Human Resources without facing repercussions. The Board Whistle-Blowing Committee, will then act and dispose of any reported incidents and investigations.

In FY2018, no whistle-blowing reports were made.

RISK MITIGATION

The inherent nature of VELESTO's business operations dictate that the Group 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.

The Group'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. The Group also employs a triple line of defence system, appropriate internal controls for monitoring risk as well as setting limits for authority. In event of disasters or business disrupting incidents, the Group has developed a comprehensive Business Continuity Plan ("BCP") which is regularly tested via simulation exercises that are implemented during the financial year.

While VELESTO 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, changing weather patterns and 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 on the Group's approach to risk management and mitigation including its ERM framework are given in the SORMIC of this Annual Report. In FY2018, via a likelihood and impact matrix, the following top five (5) risks pertaining to VELESTO were identified.

NO.	RISK EVENT	RISK RATING
1	Dependency on local market	EXTREME Likelihood: Almost Certain Impact: Major
2	Adverse changes in government policies	EXTREME Likelihood: Almost Certain Impact: Major
3	Low daily charter rate	EXTREME Likelihood: Almost Certain Impact: Major
4	Dependency on limited number of client	HIGH Likelihood: Possible Impact: Catastrophic
5	Cyclicality in offshore drilling and oilfield services sectors	HIGH Likelihood: Likely Impact: Major

Sustainability Report

Stakeholder Engagement

The Group has continued to engage both its internal and external stakeholders in eliciting their views towards guiding our determination and prioritisation of material topics, aspects and matters.

The views of stakeholders are essential in ensuring that VELESTO does not develop an insular view of its sustainability journey; and that perspectives and insights beyond our own form a key part of our concept of sustainability. This is to ensure that we have truly considered and addressed the concerns and aspirations of those whom we impact or may potentially impact through our business strategies, operations and activities.

We defined stakeholders as individuals or groups that are impacted or may be potentially impacted by the Group's business presence and activities, or have the potential to impact or influence the Group's operational and / or financial performance as well as overall corporate reputation and perception. Stakeholders are engaged in a diverse range of communication channels and mediums.

Given that the nature of VELESTO's business operations as a drilling services and oilfield services provider has remain unchanged, our stakeholders largely remain the same as per the previous financial year. Following is a restatement of our stakeholders and the engagement processes and outcomes achieved in FY2018.

STAKEHOLDER GROUPS	METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES / OUTCOMES
Shareholders and Investors	<ul style="list-style-type: none"> Analyst briefings Annual General Meeting ("AGM") Annual Report Investor briefings Announcements of corporate developments to BURSA Quarterly announcements of financial results to BURSA One-on-one meetings Investor information and update on the Company on VELESTO's Investor Relations webpage Press releases Press conferences 	<ul style="list-style-type: none"> Quarterly updates by the President on the position and status of the Company to analysts from various financial / research houses. A yearly update to shareholders on the strength and position of the Company, while also sharing the current health of their investment in the Company Regulatory matters Ad hoc (as/and when required) briefings to investors on the strength and position of the Company Quarterly announcements / discussions on the financial results Ad hoc (as/and when required) updates to analysts and fund managers Ad hoc (as/and when required) updates via press release distributed to the media 	<ul style="list-style-type: none"> More positive coverage by analysts Maintained share price performance Compliance with listing requirements
Board of Directors	<ul style="list-style-type: none"> Annual Report Annual General Meeting Board meetings 	<ul style="list-style-type: none"> Regulatory matters Company's operational and financial performance by month and year-to-date Key performance indicators ("KPI") year-do-date against target Market challenges and opportunities Monthly HSE issues and achievements 	<ul style="list-style-type: none"> Approved AGM agenda Business decision making Improved KPIs

Stakeholder Engagement (Cont'd.)

STAKEHOLDER GROUPS	METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES / OUTCOMES
Customers	<ul style="list-style-type: none"> Management engagement Customer feedback exercises Customers visits Formal meetings Email queries Trade shows and exhibitions Frequent rig / office visits 	<ul style="list-style-type: none"> Operational and safety issues Rig / office visits by existing and potential clients Quarterly management engagement and frequent operational meetings to discuss on technical clarifications / operational and commercial matters Continuous effort in promoting the Company Various emails with regards to commercial and technical clarifications from clients Various marketing emails to existing and potential clients Abu Dhabi International Petroleum Exhibition and Conference ("ADIPEC"), Malaysian Oil & Gas Services Council ("MOGSC"), Malaysia External Trade Development Corporation ("MATRADE") and etc Rig operating schedules 	<ul style="list-style-type: none"> Ensure all clarifications responded and appropriate actions had been undertaken Managing issues continuously by VELESTO Operations and HSE team Visits jointly organised by Business Development and Operations team Frequent engagements with clients and authorities on the respective matters Frequent marketing meetings held between VELESTO and new / existing clients Frequent communication via emails to clients to ensure all clarifications responded and action taken Frequent emails marketing to promote company to existing / potential clients in introducing our Company's capability and rig schedules Participated in various tradeshow and exhibitions when deemed necessary local and overseas for marketing and branding purposes
Government / Regulators / Agencies	<ul style="list-style-type: none"> Annual / periodical compliance as per relevant laws and regulations Management engagement Formal and informal meetings Written and email communications 	<ul style="list-style-type: none"> Compliance to regulatory requirements Feedback on impact of policies Explore areas of mutual support from government initiatives 	<ul style="list-style-type: none"> Mutual understanding on compliance requirements and adherence Participation in initiatives / programmes Clarification on regulations Appeal or concession, if required
Employees	<ul style="list-style-type: none"> Townhall sessions Festive celebrations get-together Internal communications mailers Employee excursions / events Management HSE walkabouts 	<ul style="list-style-type: none"> Quarterly updates by the President on the position and status of the Company to VELESTO staff in townhall sessions Providing updates on the latest happenings at the Company; events, etc. Some mailers also discuss topics related to work / life balance Hazard Observation Card ("HOC") winner 	<ul style="list-style-type: none"> Updated awareness on the Company Internal communications help to ensure that all members of the organisation are kept up-to-date on the on-goings at the Company and also serve as a needed break from work Promote safety awareness at workplace
Banks	<ul style="list-style-type: none"> Annual Report Periodic update meetings 	<ul style="list-style-type: none"> Corporate treasury and cash management services Investment management Financial risk management (interest and foreign exchange) Regulatory compliance and compliance to debt covenants 	<ul style="list-style-type: none"> Frequent assessment on needs and matters to prioritise actions that are crucial / relevant and to define action plan for implementation improvement
Communities	<ul style="list-style-type: none"> Corporate Social Responsibility ("CSR") events 	<ul style="list-style-type: none"> Implementation of VELESTO's three (3) main CSR pillars (safety, education and environment) at selected schools / communities with selected partners 	<ul style="list-style-type: none"> Improvement / betterment of the participating parties' understanding on safety, improved education experience, results and improved / better understanding of the environment

Assessing Materiality & Materiality Matrix

Equipped with the external insights from our various stakeholder engagements in FY2018, VELESTO via its SSC then initiated a materiality assessment exercise across the Group.

Key components in the materiality assessment process were the development of questionnaires (based on the GRI Standards 2016 content index) and the holding of internal workshops. Importantly, experience, expertise and views of Heads of Departments and Senior Management were tapped to develop a preliminary materiality prioritisation matrix.

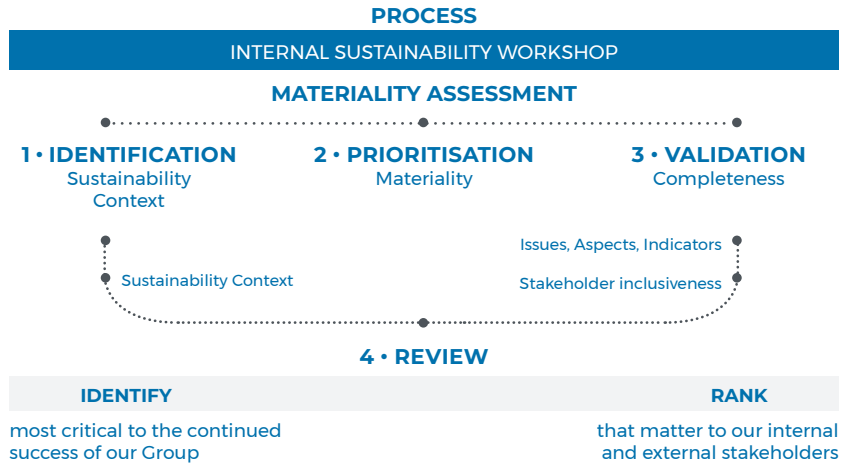
The process was cascaded across the Group to ensure a more thorough assessment of materiality revolving around three (3) key pillars: materiality identification, prioritisation and validation. In FY2018, the assessment process was more focused on the second and third pillars.

Our key criteria for materiality prioritisation is based on a two-dimensional approach which takes into account the impact or importance of a particular materiality matter to the Group and the same for stakeholders.

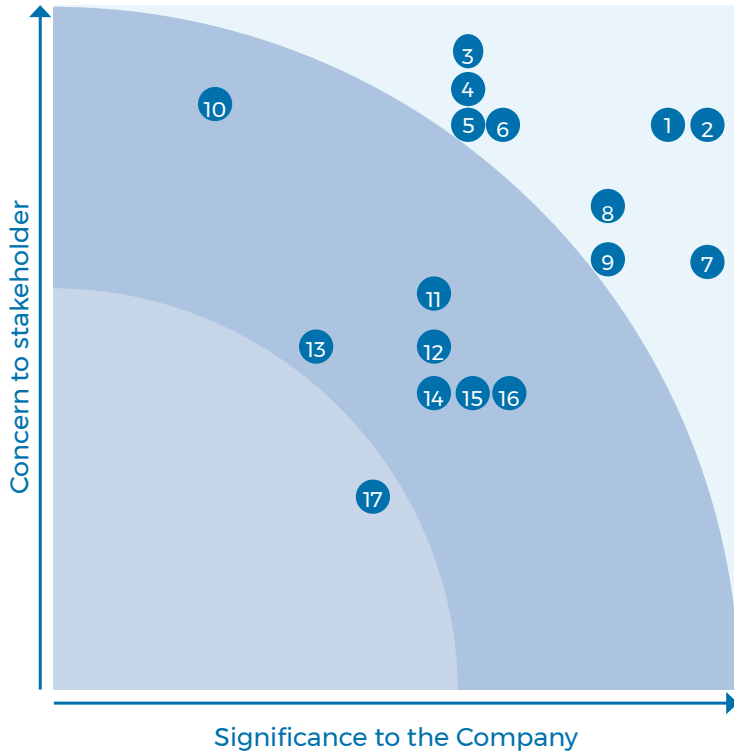
VELESTO's materiality matrix is a restatement in FY2018.

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

The developed materiality matrix was then shared with Senior Management and the Board, which was deliberated upon and validated accordingly. Following is a brief illustration of the Group's materiality assessment process in FY2018:



Assessing Materiality & Materiality Matrix (Cont'd.)



We will continue to practice a rigorous materiality assessment process going forward with an emphasis to further broaden the inclusion of external stakeholder views where possible. The relevance of new issues will be assessed based on the abovementioned process in the event of new developments / operational context.

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 QHSE
- 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

LINKAGE OF UNITED NATIONS' SUSTAINABILITY DEVELOPMENT GOALS

In FY2018, VELESTO has begun to explore the feasibility of linking our sustainability efforts to the UN SDGs.

As this process is still at a nascent stage or its infancy, the Group has yet to draw up formalised linkages and strategies that contribute to the 17 UN SDGs.

However, the Board and Senior Management is of the view that VELESTO's business presence, nature of operations and EES impacts are closely aligned to the following UN SDGs:

- UN SDG 3 (Good Health and 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)
- UN SDG 14 (Life Below Water).

ECONOMIC

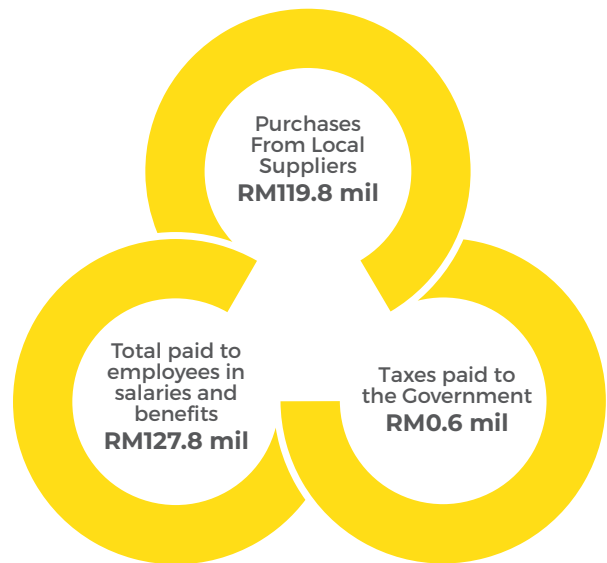


"We take care of the places we visited"

DIRECT ECONOMIC IMPACT

As we grew busier in tandem with the recovery of the oil and gas sector, VELESTO has seen a higher utilisation rates for its rigs underpinned by a string of contracts secured from existing and new clients. For the second consecutive year, in FY2018, VELESTO successfully operated all seven (7) jack-up rigs.

For a more comprehensive review of our financial and business performance, kindly refer to the Management Discussion and Analysis section of this annual report. As we generate financial returns, the Group has also generated improved economic value for stakeholders :



DEVELOPING MALAYSIAN TALENTS FOR THE OIL AND GAS INDUSTRY

One of our more tangible economic benefits is the role we play in developing and upskilling local talent for the oil and gas industry via the VELESTO-INSTEP Drilling Academy ("VIDA").

Accredited by the International Association of Drilling Contractors ("IADC") and International Well Control Forum ("IWCF"), VIDA is a joint collaborative effort with Institut Teknologi Petroleum PETRONAS ("INSTEP"). Essentially, VIDA runs programmes, training courses and provides certifications for the oil and gas industry, specifically in the niche drilling segment of the value chain.

Sustainability Report

Economic

(Cont'd.)

Enrolment is open to industry talents and not restricted just to VELESTO staff. We have continued to see a growing number of participants over the years who through the courses and programmes attended have gone on to have successful careers as oil and gas industry professionals within Malaysia and beyond.

Importantly, VIDA helps to ensure there is a sufficient local talent pool to meet key positions in the industry. This is crucial given the constant churn and attrition of talents, who may choose to move to other regions to pursue their careers. Over time, we have played an important role in facilitating knowledge transfer to upskill Malaysians, which is vital to the overall development of the oil and gas industry in Malaysia.

In 2018, VIDA received over 275 participants (FY2017: 159), which included a significant number of professionals from PETRONAS and other oil and gas industry players in general.

STIMULATING LOCAL ECONOMY IN COMMUNITIES

Our rigs are parked for operations in numerous locations both in East and West Malaysia which includes offshore sites in Terengganu, Kelantan, Sabah, Sarawak and Labuan. As in previous years, the presence of our rigs and operations in these areas provides an economic stimulus for rural communities via job opportunities, development of local community vendors (transportation, accommodation, logistics, food and beverage) and more.

As per previous years, the majority of crews hired for our operations in East Malaysia are local Sabahans and Sarawakians. This has significantly improved the marketability of personnel in less urban parts of Malaysia which are often overlooked. Various training programmes have been implemented to ensure our offshore crews are technically competent which has increased investment on local talent.

One of our unique vendor development initiatives is the development of skilled workers to produce specific premium type connections. This is a technical and highly specialised expertise that allows those trained to then carve a niche within the oil and gas industry. Our knowledge transfer to these vendors have enabled them to not just attain useful skills, but with that to also improve their earning capabilities and to also serve the domestic oil and gas sector.

SUPPLY CHAIN MANAGEMENT

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. Hence, progressively, VELESTO has sought to cascade our values, systems and business standards across our value chain as much as possible.

Our approach to procurement is guided by our CoBE as well as stringent requirements for vendors to have an excellent QHSE track record. In addition to these, all vendors are assessed during the registration process to ensure that they have the financial stability and capacity to fulfil VELESTO's business needs.

However vendors who do meet our selection criteria are treated based on merit and are entitled to submit tenders for projects. The Group subscribes to an open tender system for awarding contracts.

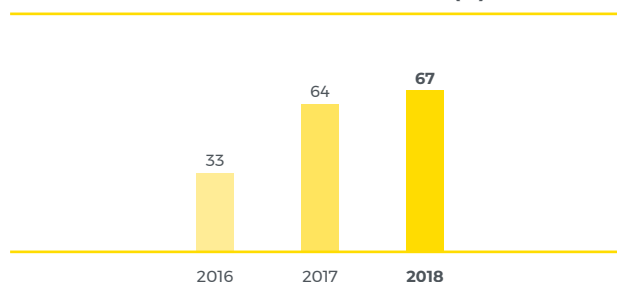
VELESTO places the utmost importance in integrity in all of our commercial dealings. During the year, the Company invited the Malaysia Anti-Corruption Commission to deliver a talk on raising awareness on the issue and impact of bribery in Corporate Malaysia to VELESTO employees.

The Group continues to assess its operations for corrupt practices, via stringent financial and non-financial auditing.

The Group actively seeks to grow its local procurement spend toward developing the capacity and capabilities of the local oil and gas value chain. This is provided that local vendors are able to deliver the best value proposition; that is products or services that meet or exceed requirements and at the most competitive cost possible.

One of the ways that VELESTO realises this commitment is via making purchases from local vendors for any items that are not sourced from an original equipment manufacturer ("OEM"). In FY2018, total local procurement spend continued to increase.

TOTAL SPEND WITH LOCAL SUPPLIERS (%)



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 in which we operate in.

HOLDING STATEMENT ON CLIMATE CHANGE

In compliance with the BURSA Sustainability Reporting Guide Second Edition, VELESTO has provided a brief account of the Group's response to climate change and related matters.

We remain committed to continue operating as a responsible business entity; a proactive and concerned corporate citizen that plays its part in addressing climate change and other environmental issues.

Our goal is to minimise the impact of our 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 CO₂, 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 CO₂ emission where Malaysia is one of the Non-Annex 1 parties for both commitment periods (2008-2012 and 2013-2020).

Beyond this, we are cognisant that there could be indirect contribution to climate change such as through transportation of personnel and goods supporting the

Sustainability Report

Environment

(Cont'd.)

provision of our services, and the discovery / production of hydrocarbons owned by our customers that are sold and distributed to end-consumers.

VELESTO accepts that it alone cannot combat climate change and thus, the best role it can play beyond mitigating its own impacts; is to cascade the awareness of climate change across its value chain to deliver a wider and more effective impact.

We will seek to continuously improve our climate change disclosure going forward.

DIRECT CLIMATE CHANGE IMPACT ON GROUP OPERATIONS

On 30 December 2018, one of the Group's JU's, NAGA 8 felt the full effects of tropical storm Pabuk which had struck the North Malay Basin. NAGA 5 which was nearby had also faced strong winds bordering 50 knots.

Drilling operations for NAGA 8 were suspended for 10 days (from 30 December 2018 - 8 January 2019) and NAGA 5 was shut down for 26 hours. The crews from NAGA 8, which was in the middle of the storm's path, had to be evacuated. The Group is grateful that during the Pabuk episode, no injuries or casualties were suffered and due to their sturdy design the losses to assets were minimal at just below RM10,000 per rig. Further, VELESTO did not suffer significant financial loss from the suspension of drilling operations, VELESTO received with partial recovery of day rates during the suspended period.

While we draw a measure of reassurance that all of our rigs operate in shallow waters and in locations where weather conditions are generally calm, Pabuk has delivered a timely reminder that climate change has led to major shifts in weather patterns and as such, natural disasters have a greater probability of recurring.

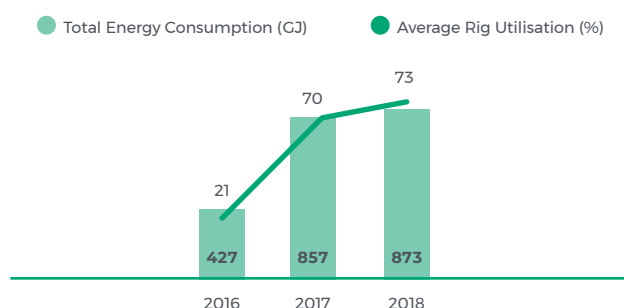
The Group has taken this new emerging variable into consideration as part of its overall risk register and business strategy and we continue to assess how best to address the issue of volatile weather conditions that could impact offshore operations.

ENERGY CONSUMPTION

The Group's approach to energy management is driven by its Rig Power Management System ("RPMS"). The system enables VELESTO to achieve efficient power consumption across all seven (7) rigs. This is essential that with the ongoing industry recovery, power consumption will likely be on the uptrend due to increased drilling activities.

The RPMS provides each rig with five (5) diesel powered generators with the biggest power consumer being the Muds pumps followed by the Top Drive System ("TDS") and the draw works. The RPMS is able to detect when the rig equipment requires a lower power load and with that, automatically shuts / revs the engine(s) down. This enables a more efficient use of energy for drilling activities.

Given that all seven (7) of our rigs saw increased utilisation in FY2018, our power consumption has also increased in tandem to 873GJ, 1.9% more y-o-y.



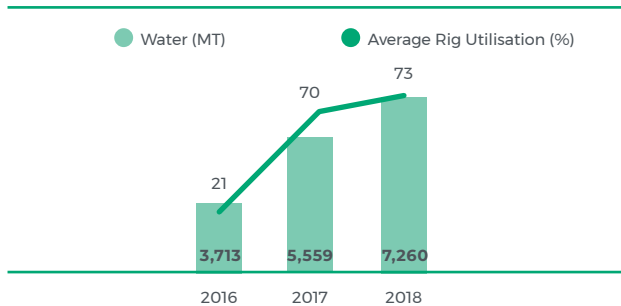
Since drilling rigs presently rely on diesel fuel as their sole running source, we remain mindful on the environmental and financial impacts of power consumed by VELESTO for its drilling activities. However, via our RPMS, we continue to remain energy efficient by actively optimising power utilisation. We also ensure that our generators are well maintained and running at optimum level to further improve fuel consumption efficiency.

WATER MANAGEMENT

The Group's primary water source of potable water is filtered seawater, distilled via reverse osmosis plants and also by means of rain water collection on some of the rigs. The process of extracting and filtering seawater is a daily activity on all of our jack-up rigs. Drilling operation uses drill water which largely is non-potable water sourced from onshore in addition to the aforementioned means. This water is mixed with mud and is used solely for drilling operations.

As our water consumption is mainly sourced from seawater, we do not have any operations in proximity with fresh water bodies or water catchment areas. Therefore, we believe our operations do not have a material impact on water security.

In FY2018, VELESTO withdrew and treated 7,260 metric tonnes (MT), a 30.6% higher amount y-o-y due to the increase operational activity of our rigs.



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 first to be decomposed fully before being discharged into the sea.

Waste water generated had decreased by 5.5% to 50,817m³ (FY2017: 53,750 m³) despite the increase in rig activity seen throughout the year. Waste water is generated from cleaning and washing activities of the crew on board. Waste water and sewage are biologically treated on board to internationally acceptable parameters before being discharged overboard.

WASTE MANAGEMENT

In accordance with the International Convention for the Prevention of Pollution for Ships (MARPOL 73/78), our offshore drilling have a dedicated waste management plan to ensure all types of waste are managed in a responsible manner. We engage contractors licensed by the Department of Environment (“DOE”) to ensure waste from our drilling operations are disposed responsibly. As for our oilfield services operations, waste is managed in accordance with the DOE Environmental, Quality (Schedule Waste) Regulation 2005.

In FY2018, total solid waste disposed was 2,080.5 m³ and chemical waste (oil sludge, waste oil and oily water) was 205.2 m³. Of this, 306 m³ 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

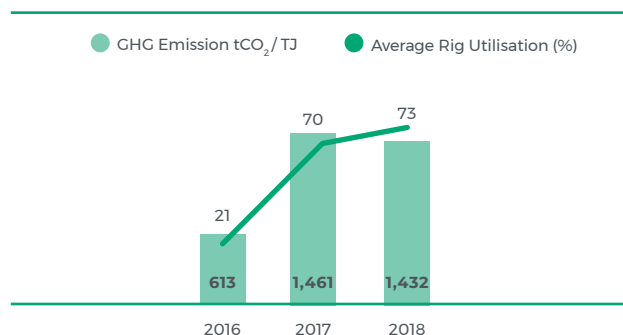
We are pleased that the Group has had no hydrocarbon spills for the second consecutive year. We continue to emphasise the prevention of spills by implementing best practices as well as improving our equipment maintenance processes and technical competency of crews.

In FY2018, total environmental spills recorded by our drilling operations were 0.25 bbls (FY2017: 21.5 bbls). The above spillage incidents did not have a material impact on the environment.

Our 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.

GREENHOUSE GAS EMISSIONS

The Group’s approach to measuring and managing GHG is in adherence with the internationally recognised Greenhouse Gas Protocol. All VELESTO rigs comply with Annex VI of MARPOL 73/78 which emphasises air pollution prevention, including control on the greenhouse gases emissions and the quality of fuel oil used by the diesel engines.



Total GHG emitted in FY2018 was 60,060 tCO₂e (FY2017: 61,372 tCO₂e), 2.1% lower y-o-y. Direct emissions constituted 59,738 tCO₂e or 1,432 tCO₂/TJ (FY2017: 60,919 tCO₂e or 1,461 tCO₂/TJ) while indirect emissions were 312 tCO₂e (FY2017:453 tCO₂e). The decrease in emissions is attributed to lower diesel consumption and more efficient energy consumption. Our calculation is based on diesel density of 0.85 kg/l and in accordance with the International Carbon Bank & Exchange.

BIO-DIVERSITY

As far as we know, our rigs are not operating in areas considered high in bio-diversity. We will continue to take this into consideration in our operations.

SOCIAL

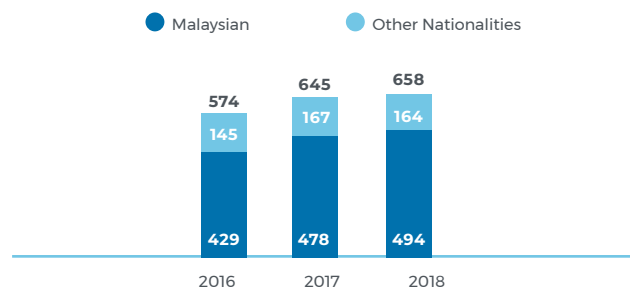


OUR PEOPLE

Our greatest asset and the pillar of our success

On the back of an increased rig utilisation rate, VELESTO is pleased to report a slight increase in the number of employees. As of 31 December 2018, VELESTO had 658 employees on its pay-roll, a 2.0% increase from the previous year's 645. Out of this, 494 or 75% are Malaysian employees.

BREAKDOWN OF VELESTO'S EMPLOYEES



Granted the increase is small, but we are optimistic that with the imminent recovery of the oil and gas sector, which will translate into more industry activity, we will see our rigs increasing their operational activity and with that, a reasonable growth in new hires.



We continued to be guided by our Human Capital Blueprint in ensuring a sustainable talent strategy that delivers a competitive edge to VELESTO. The Group is looking to not just hire staff, but to retain existing talents within the organisation.

As we looked to hire, we have continued to focus on cost effectiveness, improved staff efficiency and productivity via job redesign exercises and the continued restructuring of the expatriate crew compensation rate.

MAINTAINING HIGH PERFORMANCE CULTURE

We rolled out the ABC Behavioural Assessment System in 2016 to ignite a clear path towards building a high performance culture. This was an initiative in addition to the existing KPI-based assessment system we already had in place, which is still in use currently.

We continued to conduct familiarisation sessions for users in 2018 as our step-up and awareness plans towards embedding the system as part of our culture building initiatives. This system has proven to be an effective tool in assisting supervisors to evaluate an employee's compliance to basic employment rules, commitment and quality of work, integrity, safety awareness, and compliance to our core values.



The primary aim of this system is to provide a platform for healthy and objective discussions between employees and their superior to ensure productive and continuous contributions to the Company. This ABC assessment will be incorporated in an e-platform moving forward to allow easy access and traceability for all users.

WORKFORCE DIVERSITY

VELESTO prides itself on the multi-culturalism of its workforce which reflects our commitment to promoting diversity in the workplace. However, beyond providing equal opportunity employment, diversity serves a strategic purpose that supports our long-term sustainability.

In FY2018, we have maintained our mini "United Nations" with our workforce coming from more than 23 countries including Malaysia. The majority of the workforce at 75% are Malaysians. Ten (10) out of eleven (11) of our Key Management are Malaysians.

In terms of gender equality, we have successfully met Bursa Malaysia's target of having 30% women sitting on the Group's Board of Directors. In addition, four (4) out of eleven (11) of our Key Management team are women. However, female employees only represent 15% of our workforce, which is an area we will look to improve upon in the future.

Granted that the nature of our industry and business operations, inherently tends to have a gender ratio in favour of men, looking to achieve gender equality would be a challenge. However, Velesto remains committed to reducing the disparity between men and women in its workforce and where possible, to contribute in the development of female talent for the oil and gas industry in Malaysia.

A diverse workforce is a richer workforce in terms of skills sets, perspectives, experiences and more. The Group is able to tap on a wider range of capabilities within the organisation. Hence, we continue to recruit talents based on meritocracy and experience, irrespective of gender, ethnicity, religion and others.

Beyond recruitment, a conducive workplace environment and culture is essential towards fostering diversity. Hence, in FY2018, we have continued to emphasise an inclusive working environment and the Company is committed to promoting equal opportunity for all its employees.

Social

(Cont'd.)

OUR WORKFORCE	2016	2017	2018
Breakdown Of Employees (%)			
Malaysian	75	74	75
- Bumiputera	86	85	90
- Non-Bumiputera	14	15	10
Other Nationalities	25	26	25
Contract Type (%)			
Permanent	59	50	40
Contract	41	50	60
Gender Distribution (%)			
Male	80	82	85
Female	20	18	15
Employees Age Of (%)			
Below 30	26	23	16
30-50	60	60	66
Above 50	14	17	18
% Of New Hires			
Malaysian	95	72	77
Other Nationals	5	28	23

STAFF BENEFITS

EMPLOYEE REMUNERATION & BENEFITS

In support of our High Performance Culture pillar, VELESTO continues to offer attractive compensation packages and benefits to employees. Remuneration is based on merit where employees' compensation commensurate with their experience, professional qualifications, job performance and also 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 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

LEAVE BENEFITS

All employees have leave benefits which include various types of paid and unpaid leave. Female employees are entitled to paid maternity leave of 60 consecutive days for each confinement period. Male employees are granted paternity leave of two (2) days for all children.

STATUTORY CONTRIBUTIONS TO EMPLOYEES RETIREMENT / PENSION SAVINGS

As accorded by law, VELESTO continues to make statutory contributions for all employees to the Employees Provident Fund ("EPF") and the Social Security Organisation ("SOCSO"). In FY2018, VELESTO paid a total of RM6.65 million and RM0.52 million in line with the employers' contribution to EPF and SOCSO, respectively.

TALENT DEVELOPMENT

The attainment of a high performance culture necessitates that we continue to develop our workforce to a high level of competence and capability. This essentially means continuing to invest in training and development activities.

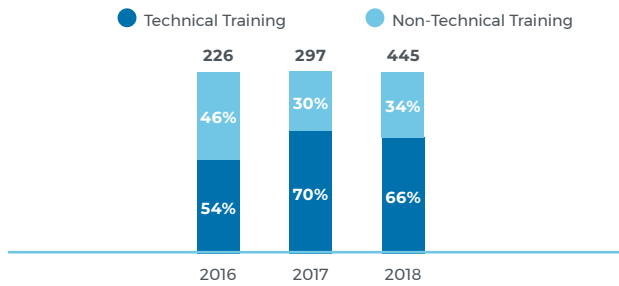
In FY2018, we maintained our commitment to training and development as reflected in the following numbers:

VELESTO TRAINING STATISTICS

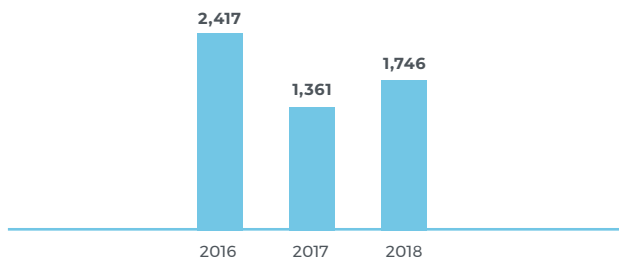
The average number of training days per employee stays the same as per the previous year at 4.9 days.



TRAINING SESSIONS



TOTAL NO. OF PARTICIPANTS

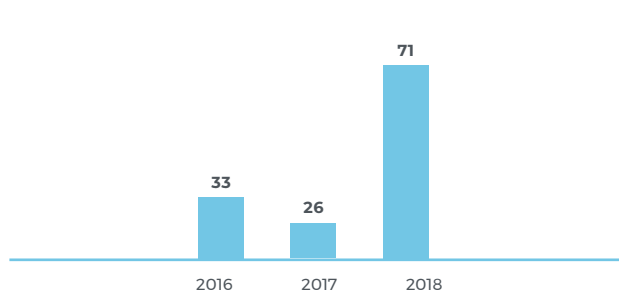


VELESTO POST GRADUATE ENHANCEMENT PROGRAMME: SKIM LATIHAN 1MALAYSIA (SLIM)

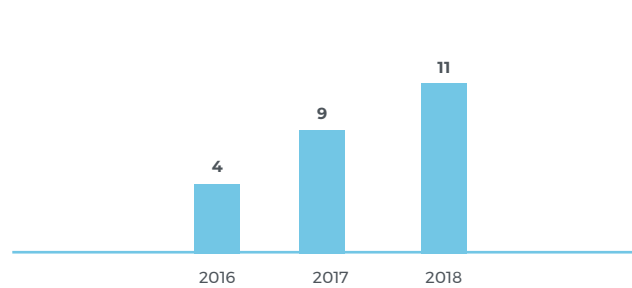
As in previous years, VELESTO has continued to support unemployed graduates which is a growing concern in Malaysia. In FY2018, we took in 71 trainees under the VELESTO Post Graduate Enhancement Programme: Skim Latihan 1Malaysia ("SLIM"). This is a 173% increase in our intake from the previous year.

Trainees are given on-the-job training and hands-on learning opportunities to move into a career within the oil and gas industry. Trainees are closely monitored and mentored by designated supervisors. At the end of their training session, should there be any vacancies within the Group, those qualified will be offered contract or permanent positions within the Group. In FY2018, a record of 11 trainees were absorbed by the Group.

TOTAL SKIM LATIHAN 1MALAYSIA TRAINEES



SLIM TRAINEES ABSORBED INTO VEB



COLLECTIVE BARGAINING AND FREEDOM OF ASSOCIATION

In accordance with the International Labour Organisation ("ILO") and the Universal Declaration of Human Rights, VELESTO recognises the rights of all employees to be accorded with proper and safe working conditions.

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 from the changes.

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 encouraged to seek the assistance of the Human Resource department ("HR") on any matters.

GRIEVANCE PROCEDURES

While employees are encouraged to resolve work related issues informally, 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 escalation of the issue across the respective management hierarchy.

HUMAN RIGHTS

VELESTO recognises its responsibility to protect employees' human rights and that of the communities in which it has 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 ILO 'Declaration on Fundamental Principles and Rights at Work'. We also abide by the Malaysian Employment Act 1955, which prohibits exploitative labour practices.

Sustainability Report

Community Investment

VELESTO's approach to Corporate Social Responsibility ("CSR") is guided by the following:



SAFETY



EDUCATION



ENVIRONMENT

In 2018, we continued to drive cultivation of a safety culture, capacity building through education, and protecting and preserving the environment. Following are some of the key societal events and other engagements undertaken during the financial year:



24 FEBRUARY 2018: COLLABORATION WITH MMEA & HESS FOR INAUGURAL SAFETY PSA INITIATIVE



In conjunction with the Malaysian Maritime Enforcement Agency's ("MMEA") 13th anniversary, VELESTO kicked off its marine safety Public Service Announcement ("PSA") initiative which is primarily aimed at the local fishing and coastal communities in Tok Bali, Kelantan.

Supported by MMEA and Hess, phase one of the first initiative saw the installation of five (5) signboards with various safety messages to alert fishermen and other maritime stakeholders of the potential hazards of encroaching into oil and gas operational areas. We hope that the signboards will help to prevent future incidents of encroachment which will ultimately result in reduced risks of untoward incidents and dangers impacting both the marine community and VELESTO's operations.

The safety initiative was launched by Dato' Abdul Rahman Mohamad, Deputy Director General (Management), MMEA, and witnessed by Rohaizad Darus, President, VELESTO and Captain MS Affendy Abdul Rani, Head of Logistics & Materials, Hess Corporation.



5 JULY 2018: UPSR MATHEMATICS WORKSHOP FOR SK DUSUN TUA



With the support from the District Education Office of Hulu Langat, VELESTO organised an intensive one-day Mathematics workshop for 110 pupils from SK Dusun Tua in enhancing their preparations for the national UPSR examinations. The 2018 workshop is a continuation from an earlier *Full-A-Mark* contribution to the school.

The selected students were put through the workshop by four (4) experienced teachers – specially selected by the District Education Office to share valuable tips and answering techniques with the students. Students were also taught how to avoid common mistakes when answering exam questions.



18 JULY 2018: HANDS-ON SCIENCE & MATHEMATICS LEARNING EXPERIENCE & PREPARATORY WORKSHOP FOR UPSR STUDENTS FROM SELECTED SCHOOLS IN BANTING



Held in collaboration with the Selangor State Education Department and the Science Bridge Academy, VELESTO brought the wonders of practical learning to the common classroom. The hand-picked students from 10 selected schools in the Kuala Langat district were exposed to a refreshing and novel learning experience in a specially tailored session, which also included locating and drilling for oil.

The hands-on session also witnessed more than 20 VELESTO personnel and SLIM trainees interacting with the children, acting as mentors and guiding the participants in assembling a mini DIY solar car.

The learning experience also included a special UPSR workshop for mathematics under the tutelage of Zulkifli Mahfudz, a renowned mathematics specialist. The series of 10 school outreach events is part of VELESTO's continued commitment to assisting rural schools as part of our education based CSR efforts.

Sustainability Report

Community Investment

(Cont'd.)



18 SEPTEMBER 2018: CPR WORKSHOP FOR EMERGENCY RESPONSE TEAM ("ERT") MEMBER STAFF



Every year, millions of people lost their lives due to inadequate response and assistance. According to Yayasan Jantung Malaysia, 30% of the total number of medically certified deaths in government hospitals in Malaysia are attributed to cardio vascular diseases. Of these deaths, some will occur outside the hospital, usually within the first two (2) hours after the onset of symptoms. Taking immediate action, while waiting for professional help, can considerably reduce fatalities.

Heeding this call, VELESTO organised a cardio pulmonary resuscitation ("CPR") workshop to refresh its ERT members on how to perform CPR techniques. CPR4Malaysia, led by its Chairman, Azizul Amar Rahmat (former Malaysian Red Crescent Society Director-Selangor Branch), facilitated the half-day session, which apart from theoretical lessons, also included practical, hands-on training on proper CPR techniques.



30 OCTOBER 2018: MARINE ECOSYSTEM AWARENESS

VELESTO organised a Marine Ecosystem Awareness programme towards stirring interest among staff in addressing human impact on the local marine ecosystem.

Held in collaboration with the School of Marine and Environmental Sciences, Universiti Malaysia Terengganu ("UMT"), the full-day programme saw VELESTO staff based in both Kemaman and Kuala Lumpur, coming together with students from Sekolah Menengah Sains Kuala Terengganu to participate in a beach clean-up at Pantai Tok Jembal.

Once the rubbish had been properly disposed, the group headed back to UMT for a hands-on lab session that focused on the extent of human impact on a micro level on marine life and environments.



22 NOVEMBER 2018: HIGH VISIBILITY SAFETY JACKET DISTRIBUTION FOR MOTORCYCLISTS

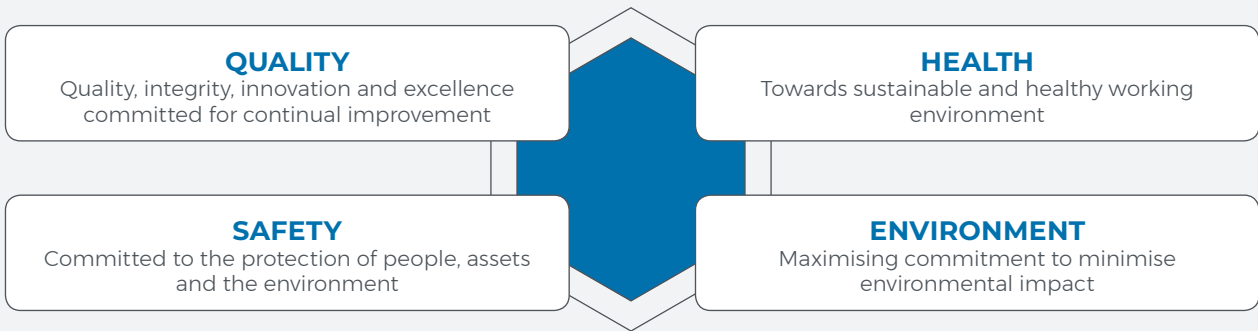
Doing its part to promote road safety, VELESTO distributed 1,000 high visibility safety jackets to motorcyclists. Held in collaboration with Prolintas, the event's main aim was to cultivate greater awareness on the importance of being safe while travelling on highways and roads at all times. The choice of motorcycle jackets was in line with the fact that motorcyclists are the most vulnerable to road accidents, many of which cause serious injuries or fatalities.



Quality, Health, Safety & Environment (“QHSE”)

Given the nature of our operations, QHSE performance is vital to the Group. In many ways, strong QHSE performance that meets and exceeds the standards set by industry regulators and the oil and gas majors is a prerequisite for VELESTO to operate and bid for contracts. Hence, with QHSE being our license to operate, it is in every sense, vital to our sustainability as a business entity.

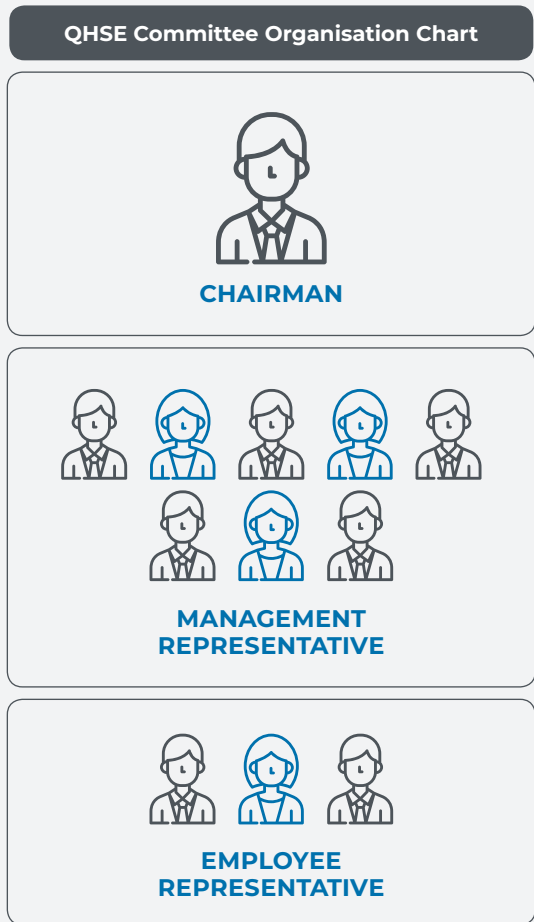
However, beyond making the business case for QHSE, we place the upmost priority on our performance in this area as it directly contributes to our overall EES performance. Both from a short and long term view, exemplary QHSE achievement is vital to ensuring that we remain an employer of choice and a good corporate citizen with a reduced carbon footprint.



As in previous years, QHSE is driven by VELESTO’s QHSE 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 QHSE strategy is the QHSE Committee. The QHSE Committee, which meets on a quarterly basis, monitors and enhances the overall QHSE performance for all business operations – offshore and onshore. QHSE issues are deliberated carefully and corrective actions are implemented to prevent reoccurrences of any unnecessary incidences.

The Committee is chaired by the President of VELESTO and comprises representatives from Management and the employees, both from the operating and corporate divisions. Total workforce representation is 6%.



Quality, Health, Safety & Environment (“QHSE”) (Cont'd.)

In FY2018, the following key QHSE issues were discussed / addressed by the Committee:

- Limited storage at Kemaman Supply Base (KSB) warehouse;
- To conduct Office Safety Walkabout at Plaza Sentral Office;
- Indoor Air Quality Assessment for office and rigs to ensure regulatory compliance;
- Verification of employee absenteeism due to personal or health related matters;
- Scheduled Waste Management activities;
- Dedicated workshop for QHSE Advisors to enhance their understanding of all QHSE procedures and forms and to ensure consistency of QHSE implemented across all rigs; and
- Enhancement of QHSE Awareness among employees.

INTEGRATED QHSE MANAGEMENT SYSTEM

We continued to strengthen our QHSE systems in FY2018 in accordance to international standards. VELESTO continued to make progress in FY2018 and is preparing for migration from OHSAS 18001:2007 Occupational Health & Safety Management System to ISO 45001. This comes on the back of our successful 2017 migration where the Group evolved to the ISO 9001:2015 Quality Management System and ISO 14001:2015 Environmental Management System.

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

STRONG QHSE CULTURE

While our QHSE policies and procedures provide a good framework of clear guidelines, a strong QHSE culture is vital in maintaining a safe and healthy workplace. While systems, policies and procedures are the tangible QHSE components, the intangible elements of personal responsibility and ownership, accountability and vigilance, looking out for each other and to take action (when a risky or unsafe condition is noticed) must be further cascaded across the organisation to all staff, in particular those who work offshore or in conditions more prone to QHSE incidents.

Admittedly, while we have achieved encouraging progress in the cultivation of a strong QHSE organisational culture, there are still gaps evident. We continue to encourage employees to embrace the QHSE culture towards developing an inherent health and safety first mindset in performing their duties.

However, we take pride that we successfully closed 98% of HSE Observation Cards submitted in FY2018, higher than 97% in 2017.



MANAGEMENT HSE VISITS

One of our FY2018 QHSE highlights was the visits made by management to rigs, supply bases and also the oilfield services plants. In 2018, a total of 24 management QHSE visits were conducted of which six (6) involved the President himself.



QHSE PROGRAMME & ACTIVITIES

Various QHSE related activities, including training, campaign and programmes were held to inculcate the QHSE culture across VELESTO. In 2018, beyond basic awareness, the focus remained on developing desired behaviours and attitudes that support a strong QHSE culture. Among the various strategic initiatives undertaken in FY2018 were:

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

QHSE AWARENESS TRAINING

In tandem with increased drilling activities in 2018, VELESTO held a higher number of QHSE Awareness training programmes. These programmes are specifically targeted at new crew members about to operate on rigs. The sessions serve to bring them up to speed on VELESTO's QHSE culture, the level of professionalism and conduct expected of newcomers as they work on rigs and importantly, how to be a team player towards ensuring productivity as well as safety of all aboard.

A total of eight (8) QHSE Awareness sessions were held at various locations which saw over 100 crew participating.

Quality, Health, Safety & Environment (“QHSE”) (Cont'd.)

QHSE INFOGRAPHIC

We also disseminated the VELESTO QHSE Infographic in FY2018. This is a bi-monthly QHSE Infographic which provides various QHSE-related information in graphical form for easier comprehension by employees. These infographics were distributed via emails and posters which were displayed at high-visibility locations in our offices and our rigs.

ROAD SAFETY CAMPAIGN

Over the past several years, the Group has made road safety one of its key QHSE thrusts. This was to instil and build awareness on road safety and also to make it a priority in their day-to-day commute.

Activities in FY2018 remained similar to the previous year. This included having staff commit to practice safe driving on roads by signing the VELESTO Road Safety Pledge. In FY2018, 120 staff signed the pledge. Aside from the pledge, basic defensive driving courses were also conducted by the Group for employees, in particular van drivers who transport our crews and employees.



Samples of QHSE Infographic



EMERGENCY RESPONSE & CRISIS PREPAREDNESS

Emergency preparedness and response enables VELESTO to mitigate against any emergencies or untoward incidents where the consequences of such incidents may harm employees, contractors, clients or the environment. This is an integral part of the Business Continuity Plan (“BCP”).

Emergency and crisis management is managed from the Emergency Control Centre (“ECC”), located at Level 18, Block 3A, Plaza Sentral. VELESTO’s ECC, has been upgraded from subsidiary to group level. Operating from this central location, the Emergency Management Team is able to monitor, track and make more precise decisions that are critical to the continuity of business operations as well as safeguarding the lives, health and safety of employees and stakeholders.

VELESTO’s Emergency Control Centre at its HQ in Plaza Sentral, Kuala Lumpur

In addition, Velesto has established a procedure which requires each Group physical facility to develop and implement an emergency response plan that protects employees, visitors, contractors, etc. Our Emergency Preparedness & Response Plan (“EPRP”) includes building evacuation (fire drills), Rig Abandon Drill, etc.

As per requirements, in FY2018, we conducted one drill per annum for the supply base, and a weekly drill on our rigs. The establishment of Emergency Response Team (“ERT”) is part of the Company’s emergency preparedness initiative. The team is comprised of in-house first responders

identified by the Company to be competently trained in preventing the escalation of any emergency into a disaster. The ERT is capable in containing an incipient threat by swiftly mitigating emergency situations according to the established plans stated in the Company's EPRP.

Fire Drill at HQ, Plaza Sentral



Fire Drill at the Labuan Operations Base



In FY2018, Crisis & Emergency Management exercises were held:

- NAGA 6: Well Control Incident Exercise (Ex - Kapur (Ginseng 1) on 4 September 2018
- Shell - NAGA 7 on 28 August 2018 at KSB prior to mobilisation to Rerama field, Offshore Sarawak.

These sessions comprised a simulation desktop exercise, debriefing sessions and required actions for responding to emergency and crisis situations. These trainings were held with our clients to provide them with assurance that VELESTO is well prepared to manage any crisis situations in a professional manner.

PROCESS SAFETY & ASSET INTEGRITY

Process safety and asset integrity plays an important role in the prevention of major accidents. At VELESTO, we continue building a strong process safety culture through lessons learnt from past experiences and oil and gas industries process safety events.

Process safety and asset integrity system / programmes are integrated in our QHSE-MS - maintenance and inspection programme. VELESTO is a certified OHSAS 18001 company. The system is specifically designed for ensuring all operations are executed in accordance with the company's, client's procedures and legal requirements consequently preventing major accidents and maximise equipment reliability.

Asset integrity assurance is the major component in preventing major accident event ("MAE"). The maintenance system is used to record and monitor scheduled maintenance for entire assets across VELESTO fleets as prevention to the unplanned release incident. The asset management references are API, OEM and industry recommended practices. The system is regularly reviewed by an independent consultant and clients in ensuring that MAE is properly managed.

VELESTO consistently enhances the existing system by developing asset management guidelines, asset tagging systems, Special Periodical Survey Project Planning ("Project Execution Plan") as well as development and exposure of our people to asset management.

IMS INTERNAL QHSE AUDIT

As part of VELESTO's Integrated Management System ("IMS") requirements, an internal audit is conducted annually across the Group's facilities. The objective is to ensure consistent implementation of IMS throughout the organisation and to identify opportunities for improvement. It also serves as preparation for external audit and certification. Audits were conducted on 23 April 2018 to 26 April 2018 at NAGA 2, NAGA 4 and NAGA 6, while for KSB and Asian Supply Base ("ASB"), audits were conducted on 10 October 2018 to 11 October 2018 and 1 November 2018 to 2 November 2018.

Quality, Health, Safety & Environment (“QHSE”) (Cont’d.)

The results obtained from the internal audit performance indicated that we have attained commendable scores for various operational aspects. However, there were several areas that warranted additional focus to achieve further improvement. These were operational planning and controls as well as production and service provision and also documented information.

IMS INTERNAL AUDITOR IN-HOUSE TRAINING

In ensuring an effective IMS QHSE Internal Audit, VELESTO has continued to train its team of internal auditors. In FY2018, 22 personnel were sent for training, which was 22.7% higher than the previous year. The training centres on understanding the fundamentals of the IMS standard and how to apply them during an audit process. The training also highlights the importance of good planning, correct auditing techniques, positive attitude and strong communication skills. It was conducted in an interactive workshop environment to reinforce the element of knowledge and skills.

INCIDENT INVESTIGATION

Investigation of incidents and the ranking of incidents in terms of both severity and consequences are key components to improving QHSE performance. VELESTO investigates significant incidents through its Incident Investigation Management System Procedure, which brings immediate visibility to high-risk incidents, and enables timely and rigorous assessment to determine the root causes. In order to further enhance the effectiveness of incident investigation, we trained key supervisors in Tripod Beta incident analysis technique.

All root causes of incidents must be addressed effectively and logged in the VELESTO’s Incident Management database for review and action tracking. This is so that incidents can be thoroughly investigated and to avoid a recurrence.

QHSE ALERT

The QHSE and Incident Early Alert (“IEA”) is an ongoing initiative, where employees are required to inform on any Near Miss incidents, Loss Time Injuries and other serious accidents. The QHSE or IEA alerts are disseminated to the operations team for educating and monitoring where incidents had occurred.

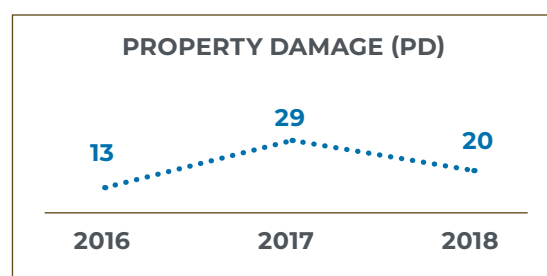
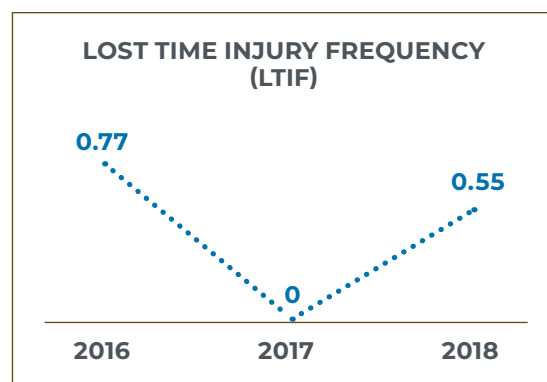
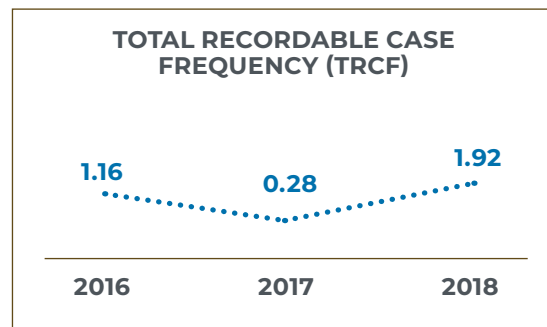
QHSE Alerts may come from within Velesto or from external sources such as clients or the IADC. Upon receiving QHSE Alerts, the Offshore Installation Manager (“OIM”) / Rig Superintendent / Project Manager or his representative will ensure that a copy of the QHSE Alert is distributed to all line supervisors for discussion and deliberation during toolbox or QHSEs meeting to prevent similar incidents from happening.

A copy of the QHSE Alert is also posted on the QHSE bulletin board for reading and reference at the respective sites. QHSE Alerts shall be retained on the QHSE bulletin board for a minimum of two (2) months and will be compiled at the worksite by the QHSE Advisor. QHSE Alert is translated into multiple languages for the benefit of worksite personnel.

QHSE PERFORMANCE

Our QHSE objectives both lagging and leading indicators are given in the table below. VELESTO employs a number of indicators to monitor QHSE performance.

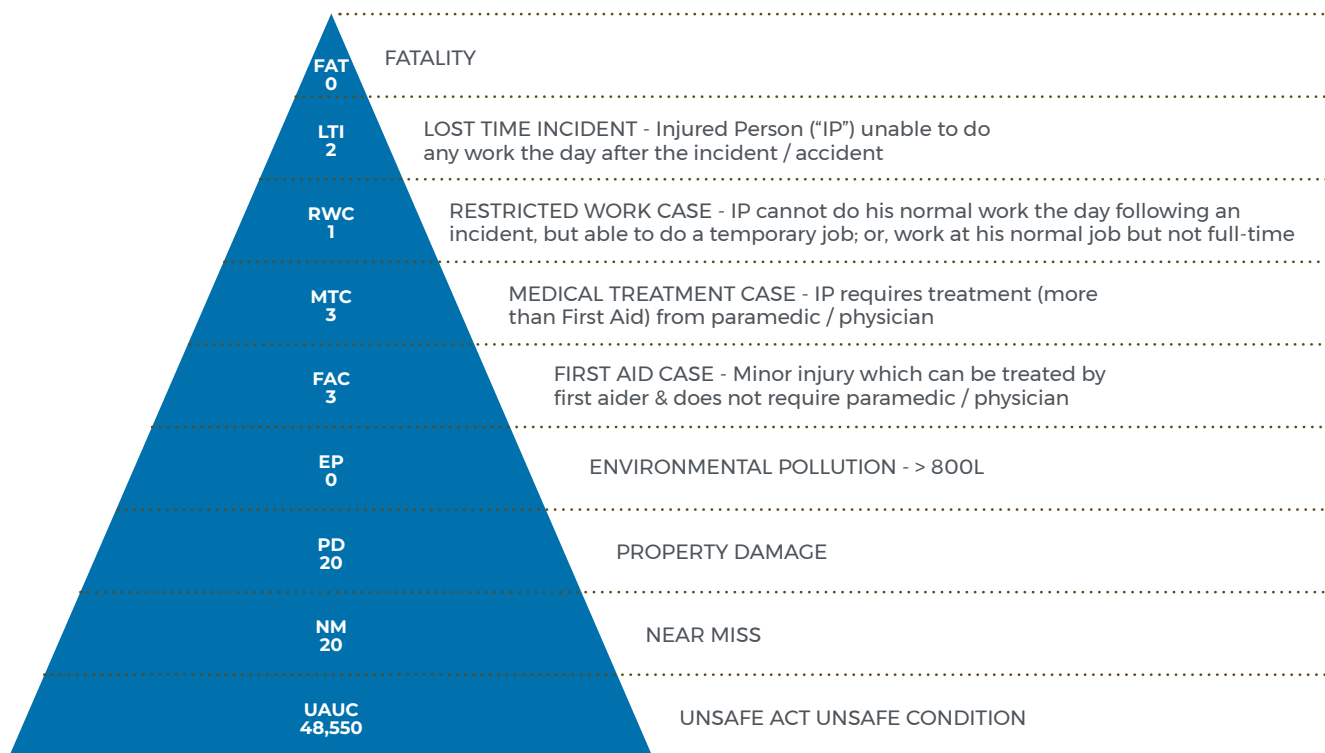
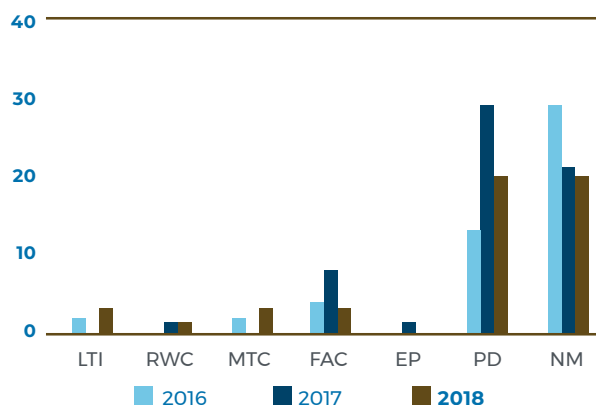
Total Recordable Case Frequency Rate (“TRCF”) is one key metric for historical employee and contractor injuries which includes Fatalities, Lost Time Injuries (“LTI”), Restricted Work Cases (“RWC”) and Medical Treatment Injuries (“MTI”). TRCF is used to compare performance across rigs and to assess VELESTO’s performance against our industry competitors.



There has been no fatality incidents recorded in the past three (3) years. In FY2018, the TCRF increased to 1.92 compared to 0.28 in FY2017. However, the Property Damage & Environmental incident rate has improved compared to the previous year.

The leading indicator is continuously monitored and implemented towards ensuring the prevention of unexpected incidents via the HOC, Near Miss and Intervention reporting. Leading indicators are assessed on a monthly basis to identify weak signals and to develop appropriate control measures. The management site visit is continuously conducted towards promoting QHSE Leadership and Commitment given its importance in the overall QHSE Management System.

INCIDENTS REPORTED
NUMBER OF INCIDENTS



AWARDS AND ACCOLADES

Our commitment and relentless efforts to uphold the highest standards in QHSE has once again earned VELESTO the acknowledgement of the various oil and gas majors we work with. In FY2018, we are honoured to have received the following HSE awards:

- Special Safety Champion – Hess
- Safety Performance Milestone – Murphy
- HSE & Operational Excellence – Vestigo
- Best Rig Performance for Q4 2018 – NAGA 6 – PETRONAS
- Best Rig Performance for Year 2018 – NAGA 6 – PETRONAS

These accolades serve to inspire us further to maintain and bolster our excellent HSE track record. We will endeavour to do better going forward while continuing to ensure that we do no harm in the way we operate and continue to ensure that everyone goes home safely to their families once the job has been completed to satisfaction.

Global Reporting Initiative (GRI) Content Index

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	102-4 Location of operations	8	Corporate Information
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102-17 Mechanisms for advice and concerns about ethics	50 & 94	"Sustainability Report (Sustainability Governance --Code of Business Conduct & Ethics), Corporate Governance Overview Statement (Good Business Conduct and Corporate) Culture --Code of Business Conduct and Ethics)	
Governance			
102-18 Governance structure	49 & 87	Sustainability Report (Sustainability Governance Structure), Corporate Governance Overview Statement (Principle A: Board Leadership and Effectiveness -- Board Responsibilities)	

GRI Standard	Disclosure	Page number(s) and / or URL(s)	Reference
	102-19 Delegating authority	49 & 88	Sustainability Report (Sustainability Governance Structure), Corporate Governance Overview Statement (Principle A: Board Leadership and Effectiveness -- Duties & Responsibilities of the Board)
	102-20 Executive-level responsibility for economic, environmental, and social topics	49	Sustainability Report (Sustainability Governance Structure)
	102-21 Consulting stakeholders on economic, environmental, and social topics	51	Sustainability Report (Stakeholder Engagement)
	102-22 Composition of the highest governance body and its committees	8	Corporate Information
	102-23 Chair of the highest governance body	82	Corporate Governance Overview Statement (Chairman of the Board)
	102-24 Nominating and selecting the highest governance body	95	Corporate Governance Overview Statement (Board Composition -- Procedures for Appointment of Directors)
	102-25 Conflicts of interest	94	Corporate Governance Overview Statement (Whistle-blowing Policy)
	102-26 Role of highest governance body in setting purpose, values, and strategy	87	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	99	"Corporate Governance Overview Statement (Boardroom Diversity -- Continuing Education and Training of Directors)
	102-28 Evaluating the highest governance body's performance	105	"Corporate Governance Overview Statement (Annual Assessment On Effectiveness of Board and Individual Directors)
	102-29 Identifying and managing economic, environmental, and social impacts	53	Sustainability Report (Assessing Materiality & Materiality Matrix)
	102-30 Effectiveness of risk management processes	113	Statement of Risk Management & Internal Control
	102-31 Review of economic, environmental, and social topics	54	Sustainability Report (Assessing Materiality & Materiality Matrix)
	102-32 Highest governance body's role in sustainability reporting	49	Sustainability Report (Sustainability Governance Structure)
	102-33 Communicating critical concerns	53	Sustainability Report (Assessing Materiality & Materiality Matrix)
	102-34 Nature and total number of critical concerns	53	Sustainability Report (Assessing Materiality & Materiality Matrix)
	102-35 Remuneration policies	106	Corporate Governance Overview Statement (Remuneration -- Directors' Remuneration Policy and Procedures)
	102-36 Process for determining remuneration	106	Corporate Governance Overview Statement (Remuneration -- Directors' Remuneration Policy and Procedures)
	102-37 Stakeholders involvement in remuneration	106	Corporate Governance Overview Statement (Remuneration -- Directors' Remuneration Policy and Procedures)
	102-38 Annual total compensation ratio	108	Corporate Governance Overview Statement (Remuneration -- Remuneration of Directors)

Global Reporting Initiative (GRI) Content Index (Cont'd.)

GRI Standard	Disclosure	Page number(s) and / or URL(s)	Reference
Stakeholder engagement			
	102-40 List of stakeholder groups	51	Sustainability Report (Stakeholder Engagement)
	102-41 Collective bargaining agreements	63	Sustainability Report (Social -- Our People)
	102-42 Identifying and selecting stakeholders	51	Sustainability Report (Stakeholder Engagement)
	102-43 Approach to stakeholder engagement	51	Sustainability Report (Stakeholder Engagement)
	102-44 Key topics and concerns raised	53	Sustainability Report (Stakeholder Engagement)
Reporting practice			
	102-45 Entities included in the consolidated financial statements	9	Group Corporate Structure
	102-46 Defining report content and topic Boundaries	48	Sustainability Report (About Our Report)
	102-47 List of material topics	53	Sustainability Report (Assessing Materiality & Materiality Matrix)
	102-48 Restatements of information	48 & 53	"Sustainability Report (About Our Report) and Sustainability Report (Assessing Materiality & Materiality Matrix)
	102-49 Changes in reporting	48	Sustainability Report (About Our Report)
	102-50 Reporting period	48	Sustainability Report (About Our Report)
	102-51 Date of most recent report	48	Sustainability Report (About Our Report)
	102-52 Reporting cycle	48	Sustainability Report (About Our Report)
	102-53 Contact point for questions regarding the report	48	Sustainability Report (About Our Report)
	102-54 Claims of reporting in accordance with the GRI Standards	48	Sustainability Report (About Our Report)
	102-55 GRI content index	48	Sustainability Report (About Our Report)
	102-56 External assurance	48	Sustainability Report (About Our Report)
Material Topics			
GRI 200 Economic Standard Series			
Economic Performance			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	55 & 33	"Sustainability Report (Economic -- Direct Economic Impact) & Management Discussion & Analysis
	103-2 The management approach and its components	55 & 33	"Sustainability Report (Economic -- Direct Economic Impact) & Management Discussion & Analysis
	103-3 Evaluation of the management approach	55 & 33	"Sustainability Report (Economic -- Direct Economic Impact) & Management Discussion & Analysis

GRI Standard	Disclosure	Page number(s) and / or URL(s)	Reference
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	55 & 33	"Sustainability Report (Economic -- Direct Economic Impact) & Management Discussion & Analysis
	201-2 Financial implications and other risks and opportunities due to climate change	58	Sustainability Report (Environment -- Statement on Climate Change)
	201-3 Defined benefit plan obligations and other retirement plans	62	Sustainability Report (Social -- Our People -- Staff Benefits)
Market Presence			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	48	Sustainability Report (About Our Report)
	103-2 The management approach and its components	33	Management Discussion & Analysis
	103-3 Evaluation of the management approach	33	Management Discussion & Analysis
GRI 202: Market Presence 2016	202-2 Proportion of senior management hired from the local community	61	Sustainability Report (Social -- Our People -- Workforce Diversity)
Indirect Economic Impacts			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	56	Sustainability Report (Economic -- Stimulating Local Economy in Communities)
	103-2 The management approach and its components	56	Sustainability Report (Economic -- Stimulating Local Economy in Communities)
	103-3 Evaluation of the management approach	56	Sustainability Report (Economic -- Stimulating Local Economy in Communities)
GRI 203: Indirect Economic Impacts 2016	203-2 Significant indirect economic impacts	56	Sustainability Report (Economic -- Stimulating Local Economy in Communities)
Procurement Practices			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	56	Sustainability Report -- Economic (Supply Chain Management)
	103-2 The management approach and its components	56	Sustainability Report -- Economic (Supply Chain Management)
	103-3 Evaluation of the management approach	56	Sustainability Report -- Economic (Supply Chain Management)
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	56	Sustainability Report -- Economic (Supply Chain Management)

Global Reporting Initiative (GRI) Content Index (Cont'd.)

GRI Standard	Disclosure	Page number(s) and / or URL(s)	Reference
Anti-corruption			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	50	Sustainability Report (Sustainability Governance --Code of Business Conduct & Ethics)
	103-2 The management approach and its components	50	Sustainability Report (Sustainability Governance --Code of Business Conduct & Ethics)
	103-3 Evaluation of the management approach	50	Sustainability Report (Sustainability Governance --Code of Business Conduct & Ethics)
GRI 205: Anti-corruption 2016	205-2 Communication and training about anti-corruption policies and procedures	56	Sustainability Report - (Economic -- Supply Chain Management)
GRI 300 Environmental Standards Series			
Energy			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	58	Sustainability Report (Environment -- Energy Consumption)
	103-2 The management approach and its components	58	Sustainability Report (Environment -- Energy Consumption)
	103-3 Evaluation of the management approach	58	Sustainability Report (Environment -- Energy Consumption)
GRI 302: Energy 2016	302-1 Energy consumption within the organization	58	Sustainability Report (Environment -- Energy Consumption)
GRI 302: Energy 2016	302-5 Reductions in energy requirements of products and services	58	Sustainability Report (Environment -- Energy Consumption)
Water			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	58	Sustainability Report (Environment -- Water Withdrawal, Usage & Discharge Management)
	103-2 The management approach and its components	58	Sustainability Report (Environment -- Water Withdrawal, Usage & Discharge Management)
	103-3 Evaluation of the management approach	58	Sustainability Report (Environment -- Water Withdrawal, Usage & Discharge Management)
GRI 303: Water 2016	303-1 Water withdrawal by source	58	Sustainability Report (Environment -- Water Withdrawal, Usage & Discharge Management)
Emissions			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	59	Sustainability Report (Environment -- Greenhouse Gas Emissions)
	103-2 The management approach and its components	59	Sustainability Report (Environment -- Greenhouse Gas Emissions)
	103-3 Evaluation of the management approach	59	Sustainability Report (Environment -- Greenhouse Gas Emissions)

GRI Standard	Disclosure	Page number(s) and / or URL(s)	Reference
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	59	Sustainability Report (Environment -- Greenhouse Gas Emissions)
	305-2 Energy indirect (Scope 2) GHG emissions	59	Sustainability Report (Environment -- Greenhouse Gas Emissions)
	305-3 Other indirect (Scope 3) GHG emissions	59	Sustainability Report (Environment -- Greenhouse Gas Emissions)
	305-5 Reduction of GHG emissions	59	Sustainability Report (Environment -- Greenhouse Gas Emissions)
Effluents and Waste			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	59	Sustainability Report (Environment -- Waste Management)
	103-2 The management approach and its components	59	Sustainability Report (Environment -- Waste Management)
	103-3 Evaluation of the management approach	59	Sustainability Report (Environment -- Waste Management)
GRI 306: Effluents and Waste 2016	306-1 Water discharge by quality and destination	59	Sustainability Report (Environment -- Waste Management)
	306-2 Waste by type and disposal method	59	Sustainability Report (Environment -- Waste Management)
	306-3 Significant spills	59	Sustainability Report (Environment -- Environmental Spills)
Supplier Environmental Assessment			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	56	Sustainability Report (Economic -- Supply Chain Management)
	103-2 The management approach and its components	56	Sustainability Report (Economic -- Supply Chain Management)
	103-3 Evaluation of the management approach	56	Sustainability Report (Economic -- Supply Chain Management)
GRI 400 Social Standards Series			
Employment			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	60	Sustainability Report (Social --Our People)
	103-2 The management approach and its components	60	Sustainability Report (Social --Our People)
	103-3 Evaluation of the management approach	60	Sustainability Report (Social --Our People)
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	60	Sustainability Report (Social --Our People)
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	62	Sustainability Report (Social -- Our People -- Staff Benefits)
	401-3 Parental leave	62	Sustainability Report (Social -- Our People -- Staff Benefits)

Global Reporting Initiative (GRI) Content Index (Cont'd.)

GRI Standard	Disclosure	Page number(s) and / or URL(s)	Reference
Labor/Management Relations			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	63	Sustainability Report (Social -- Our People -- Collective Bargaining & Freedom of Association)
GRI 402: Labor/ Management Relations 2016	402-1 Minimum notice periods regarding operational changes	63	Sustainability Report (Social -- Our People -- Collective Bargaining & Freedom of Association)
Occupational Health and Safety			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	67	Sustainability Report (Quality, Health, Safety and Environment)
	103-2 The management approach and its components	67	Sustainability Report (Quality, Health, Safety and Environment)
	103-3 Evaluation of the management approach	67	Sustainability Report (Quality, Health, Safety and Environment)
GRI 403: Occupational Health and Safety 2016	403-1 Workers representation in formal joint management-worker health and safety committees	67	Sustainability Report (Quality, Health, Safety and Environment -- QHSE Committee Organisation Chart)
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	73	Sustainability Report (Quality, Health, Safety and Environment -- QHSE Performance)
Training and Education			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	62	Sustainability Report (Social -- Our People -- Talent Development)
	103-2 The management approach and its components	62	Sustainability Report (Social -- Our People -- Talent Development)
	103-3 Evaluation of the management approach	62	Sustainability Report (Social -- Our People -- Talent Development)
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	62	Sustainability Report (Social -- Our People -- Talent Development)
Diversity and Equal Opportunity			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	61	Sustainability Report (Social -- Our People -- Workforce Diversity)
	103-2 The management approach and its components	61	Sustainability Report (Social -- Our People -- Workforce Diversity)
	103-3 Evaluation of the management approach	61	Sustainability Report (Social -- Our People -- Workforce Diversity)

GRI Standard	Disclosure	Page number(s) and / or URL(s)	Reference
Non-discrimination			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	61	Sustainability Report (Social -- Our People -- Workforce Diversity)
	103-2 The management approach and its components	61	Sustainability Report (Social -- Our People -- Workforce Diversity)
	103-3 Evaluation of the management approach	61	Sustainability Report (Social -- Our People -- Workforce Diversity)
Freedom of Association and Collective Bargaining			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	63	Sustainability Report (Social -- Our People -- Collective Bargaining & Freedom of Association)
	103-2 The management approach and its components	63	Sustainability Report (Social -- Our People -- Collective Bargaining & Freedom of Association)
	103-3 Evaluation of the management approach	63	Sustainability Report (Social -- Our People -- Collective Bargaining & Freedom of Association)
Local Communities			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	64	Sustainability Report (Social -- Community Investment)
	103-2 The management approach and its components	64	Sustainability Report (Social -- Community Investment)
	103-3 Evaluation of the management approach	64	Sustainability Report (Social -- Community Investment)
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	64	Sustainability Report (Social -- Community Investment)
Supplier Social Assessment			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	56	Sustainability Report (Economic -- Supply Chain Management)
	103-2 The management approach and its components	56	Sustainability Report (Economic -- Supply Chain Management)
	103-3 Evaluation of the management approach	56	Sustainability Report (Economic -- Supply Chain Management)
Customer Health and Safety			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	67	Sustainability Report (Quality, Health, Safety and Environment)
	103-2 The management approach and its components	67	Sustainability Report (Quality, Health, Safety and Environment)
	103-3 Evaluation of the management approach	67	Sustainability Report (Quality, Health, Safety and Environment)

Corporate Governance Overview Statement

OUR GOVERNANCE

As a specialist in the provision of offshore drilling services in the upstream oil and gas sector, VELESTO 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.

OUR COMMITMENT

Both the Board and the Management of VELESTO are very committed in preserving, enhancing and respecting the health, safety and environment issues in every aspect of operations within VELESTO Group.

Our Key Corporate Governance Highlights:

Practice 1.1 Key Responsibilities of the Board

Setting the corporate visions and mission, objectives and strategic direction of VELESTO

Overseeing and evaluating the conduct of businesses of VELESTO Group

Identifying principal risks and ensuring the risks are properly managed

Reviewing the adequacy and integrity of VELESTO's internal control

Human resource planning, in particular succession planning for critical positions

Our Key Corporate Governance Highlights:

Practice 1.3 Separation of Power



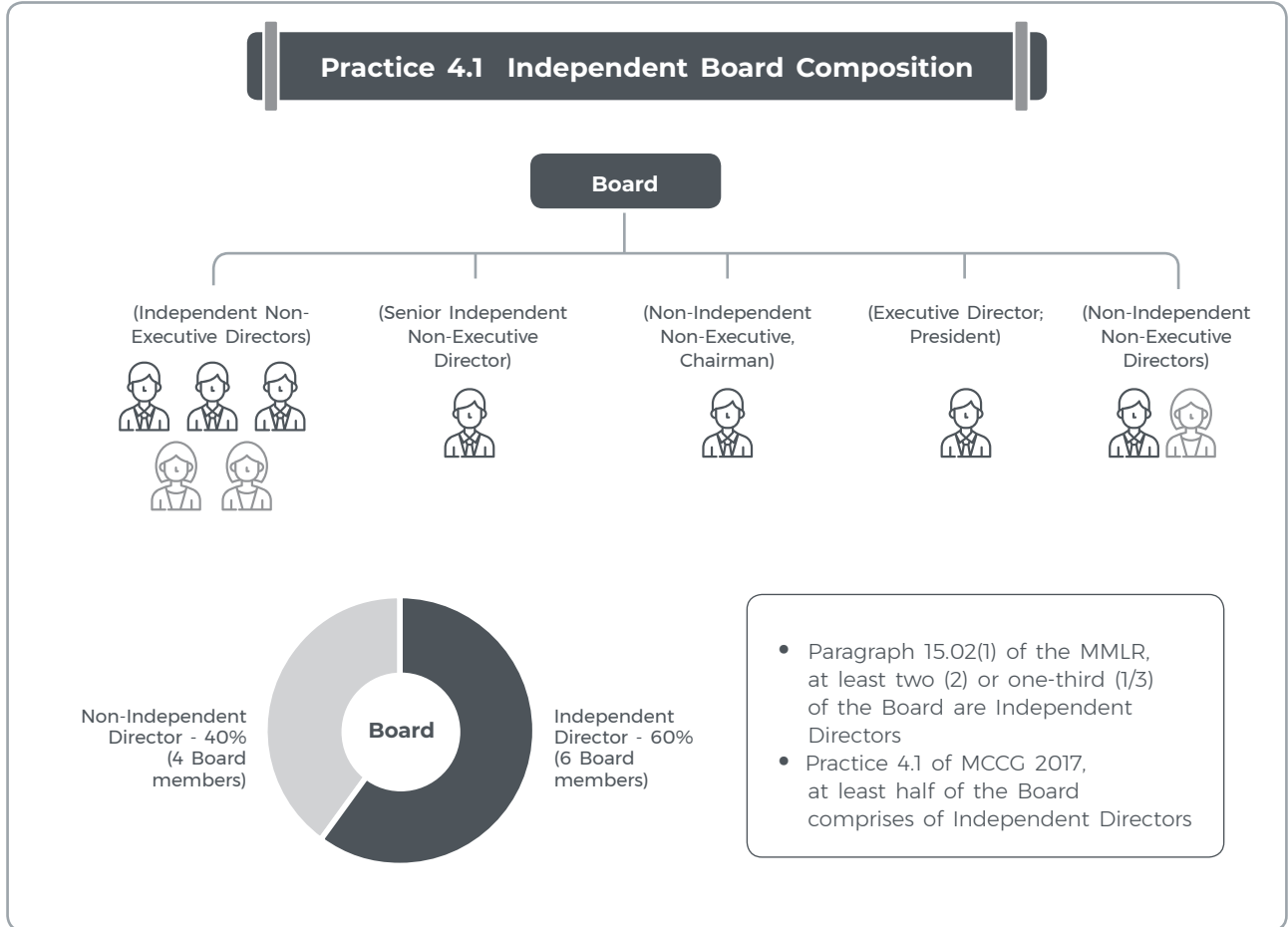
Chairman

Distinctly separate the positions of the Chairman and President which promotes accountability and facilitate division of responsibilities between them

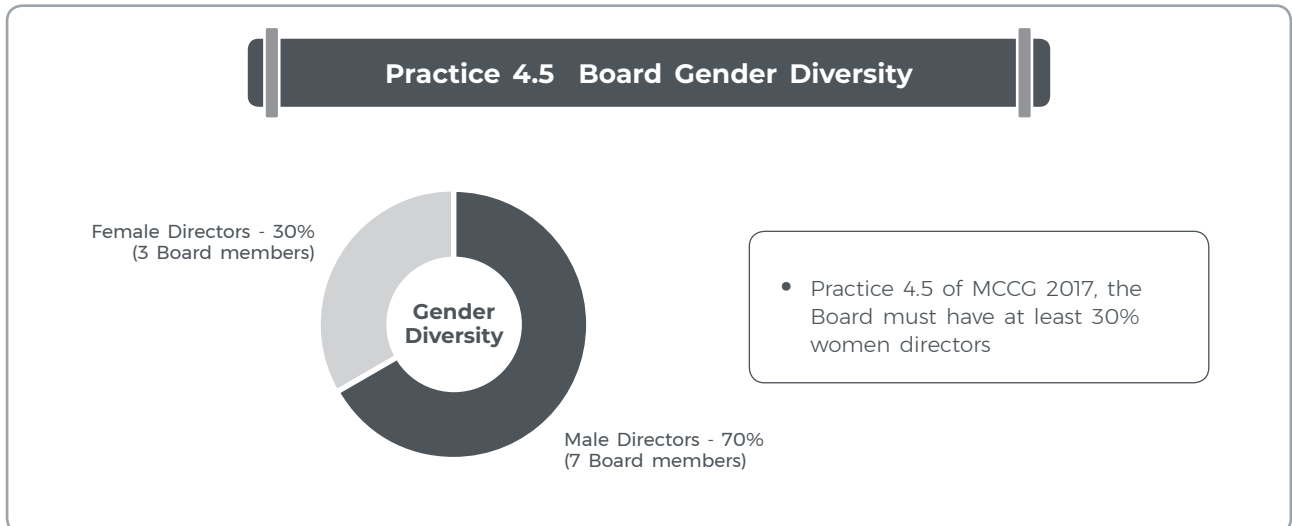


President

Our Key Corporate Governance Highlights:



Our Key Corporate Governance Highlights:



Corporate Governance Overview Statement (Cont'd.)

Practice 5.1 Independent annual assessment on effectiveness of the Board, its Committees and each Individual Directors

Engagement of an Independent External Expert to facilitate the effectiveness of the Board, its Committees and each Individual Directors.

- Practice 5.1 of MCCG 2017, the Board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director.
- For Large Companies, the board engages independent experts periodically to facilitate objective and candid board evaluations.

ENGAGEMENT APPROACH

RECOMMEND



- Prepare a final report detailing the qualitative and quantitative analyses.
- Devise individual summary reports of all Directors.
- Present the findings to the overall Board in a Board Meeting.

DESIGN



- Understand VELESTO's institutional philosophy and prevailing BEE process.
- Review relevant documents including Board Charter and Terms of Reference.
- Enhance VELESTO's existing assessment questionnaires and developed interview instruments.

ASSESS



- Circulate the enhanced questionnaires according to respective designation and Committee membership.
- Conduct interviews with all ten (10) Board members to obtain candid feedback.
- Review pertinent documents such as Board and Board Committee meeting minutes.
- Consolidate and assess the responses from the questionnaires and insights gleaned.

POSITIVE HIGHLIGHTS

EFFICACY OF BOARD DELIBERATIONS

There is a prevailing view that Board deliberations are conducted with a high level of rigour, professionalism and candour.

BOARD SKILL SETS

Members of the Board are "brand-names", whom are known for their hard-edged skills and vast experience in both upstream and downstream oil and gas industry.

RELATIONSHIP WITH KEY STAKEHOLDERS

There is symbiotic relationship with VELESTO's principal client and its controlling shareholder.

STRATEGIC PLANNING

There are cogent indicators that the Board's value creation role in short-term and long-term strategic planning is a key strength of the Board.

FOCUS ON INTERNAL CONTROL AND RISK MANAGEMENT

Heightened focus is given in addressing leakages, particularly procurement. Current risk management framework is proportionate to VELESTO's singular business nature.

Practice 6.1 Remuneration Policy and Procedures

Remuneration Policy and Procedures for Non-Executive Directors was reviewed on 21 March 2018 and thereafter a comprehensive review was undertaken by an Independent External Expert on 20 March 2019

REMUNERATION STRUCTURE

TOTAL REMUNERATION	Fixed Component	Fixed Component	Fixed and Variable Components
	FEES	MEETING ALLOWANCE	BENEFITS

	COMPONENT DESCRIPTION
Fees	A fixed sum shall be provided to Non-Executive Directors for their ongoing contribution to the Board (Directors' Fees) and Board Committees (Board Committee Fees for Board Audit Committee, Board Nomination & Remuneration Committee, Board Executive Committee and Board Risk Management Committee).
Meeting allowance	A payment shall be made to the Non-Executive Directors on a per-meeting basis with a condition that attendance (physical or virtual) is a prerequisite for remittance.
Benefits	Non-Executive Directors are provided with benefits such as per diem, mobile phone allowance as well as medical, hospitalisation and dental benefits. In addition to the aforementioned benefits, the Chairman of the Board shall be entitled for Company car (inclusive of driver).

Note:

At the Board of Directors meeting held on 15 December 2017, Dato' Abdul Rahman Ahmad - Non-Independent Non-Executive Chairman of VELESTO, agreed to receive RM 1.00 only as a token consideration in lieu of his entitlement under the VELESTO's Remuneration Policy, effective from 15 December 2017 until the 9th Annual General Meeting in 2019.

Corporate Governance Overview Statement (Cont'd.)

Practice 6.2 Remuneration Committee to implement its policies and procedures on remuneration

Engagement of Independent External Expert to assist in reviewing existing Remuneration Policy for the Non-Executive Directors

Approach : The Engagement was carried out in a methodical manner based on five (5) phases

Phase 1 : Engagement Initiation



- Set up Communication and reporting protocol.
- Identify comparators for remuneration benchmarking in consultation with VELESTO.

Phase 2 : Planning



- Review the existing remuneration framework and analyse market, sectorial, Permodalan Nasional Berhad's ("PNB") Strategic Investee companies and comparators data.

Phase 3 : Engagement Execution



- Facilitate the remuneration review of NEDs and document the policy and procedures.
- Produce the Remuneration Review report and Policy and Procedures based on key findings.

Phase 4 : Reporting



- Present to VELESTO's Board and BNRC on the outcome of the Engagement.

Phase 5 : Engagement Management



- Continually managing the process and maintaining quality of services.

Key points on Remuneration Review for VELESTO's Non-Executive Directors Policy

- The median Board Fees of VELESTO's NED per annum (i.e. RM140,000) trails the market median (i.e. RM165,168), but slightly higher compares to sectorial median (i.e. RM137,500). It is to note that the RM140,000 was on the assumption that the Chairman of VELESTO has received the actual payment of the NED fees. Effective 1 January 2018, Dato Abdul Rahman Ahmad has agreed to only receiving RM1.00 only as a token of payment, until the 9th AGM of the Company;
- VELESTO's NED also significantly below the market median for the Top 50, Top 100 and Top 150 Public Listed Companies ("PLC") (excluding financial institutions comparator companies) of RM191,417, RM179,665 and RM153,000, respectively;
- Board Committee Fees set by VELESTO is also relatively lower than its peers;
- Senior Independent Directors are typically accorded with a premium as compared to typical NED members. In VELESTO, all NED except the Chairman receive same fees, allowances and benefit-in-kind;
- Most PLC companies have a meeting allowance of between RM1,000 and RM3,500 for each meeting of the Board and Board Committees; and
- Approval sought from shareholders for NED Fees and Remuneration for VELESTO was on prospective basis.

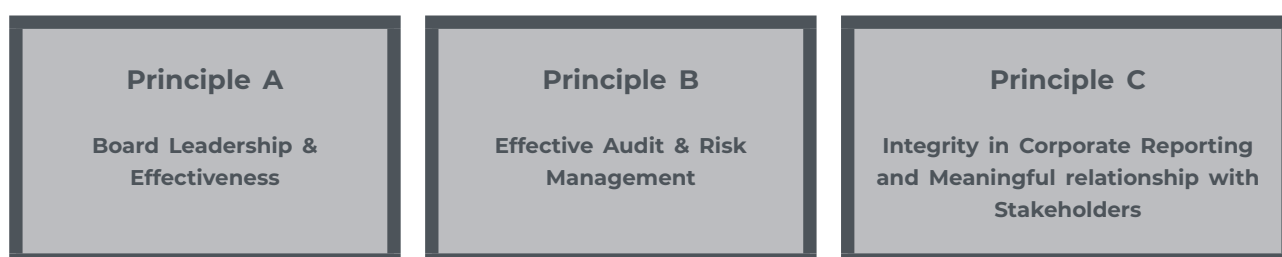


- In view of VELESTO current financial position and notwithstanding the recommendation made by the Independent External Expert, the Board has agreed to maintain status quo;
- Following concerns raised by Minority Shareholders Watch Group at the previous 8th AGM of the Company, the Board agreed to scrap provision on gratuity payment with effect from the day after the 9th AGM of the Company. The Board further agreed to pay-off amount accrued and entitled for gratuity payment prior to the said scrapping; and
- The Board agreed to scrap Leave Passage provision for revision, as well.

OUR GOVERNANCE APPROACH

Setting out below is a statement aims to provide an insight on how VELESTO applied the principles and the extent of its compliance with the best practices as stipulated in the MCCG 2017 under the leadership of the Board. To that, both the management and employees acknowledged that adherence to good governance and good practices are part of their commitment and responsibilities.

The reporting of the Corporate Governance Overview Statement is in accordance with three (3) main principles of MCCG 2017:-



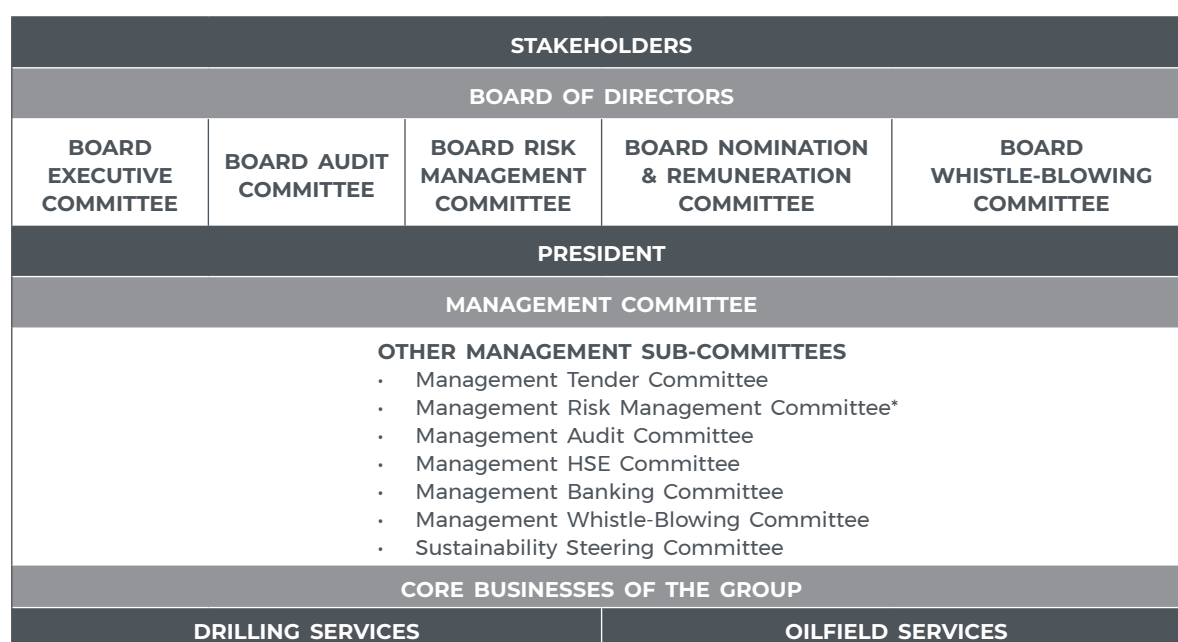
Details application for each practices of the MCCG 2017 during the FY2018 is disclosed in the Company's Corporate Governance Report which is available on the Company's website: www.velesto.com

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

I. BOARD RESPONSIBILITIES

1.1 ESTABLISHING CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD

The Group applies the following Company's Corporate Governance Framework, which provides an overview of the corporate governance processes and responsibilities within the Group:-



* includes Business Continuity Management.

Corporate Governance Overview Statement (Cont'd.)

VELESTO Corporate Governance Framework, supported by the Financial Limit Authority Guidelines ("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 Corporate Governance 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 visions and mission, objectives and strategic direction of the Group;
- Overseeing and evaluating the conduct of businesses of companies within the Group;
- Identifying principal risks and ensuring the risks are properly managed;
- Reviewing the adequacy and integrity of the Group's internal control; and
- Human resource planning, in particular succession planning for critical positions.

Each of the subsidiaries within the 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's Corporate Governance Framework and FLAG.

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

- Health, Safety and Environment;
- Human Resource;
- Legal & Secretarial (including Risk Management & Compliance);
- Business System (including Management Information System ("MIS"), Business Process and Quality);
- Operations (both Drilling and Workover services);
- Finance and Accounts (including Corporate Transformation Office);
- Commercial (including Contracts and Supply Chain); and
- Corporate Communications.

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

The following describes how the Board discharged its key fiduciary and leadership functions during FY2018.

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 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 Group, primarily enhancing shareholders' value and at the same time, ensuring long term sustainability of the Group.

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

- Board Executive Committee ("BEC")
- Board Audit Committee ("BAC")
- Board Risk Management Committee ("BRMC")
- Board Nomination & Remuneration Committee ("BNRC")
- Board Whistle-Blowing Committee ("BWBC")

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.

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 function 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.

Following the demerger exercise from UMW Holdings Berhad in July 2017, the Board has reviewed and rebranded the vision and mission for the Group, 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 monitor the performance of the Company and the Group, both financial as well as non-financial, on regular basis. Depending on 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 Group. Instructions given by the Board will be followed by action plans. Enquiries / concerns raised by the Board members in relation to the agenda items will be clarified by the Management.

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

- (a) Business Plan.

For FY2018, the Board set a tagline of "Return to Profitability" for the Group, with the main thrusts as follows:-

1. maximising utilisation of key assets via direct negotiation with key clients/stakeholders;
2. improving revenue stream through increased Day-Charter Rates and addition related income through improved commercial terms;
3. development and retention of high performers;
4. continuous improvement in business efficiency and cost optimisation;
5. improves process and enhance automation; and
6. other key initiatives including developing new corporate culture, further enhancing staff engagement, reviewing existing remuneration structure, enhancing industry cooperation as well as exploring new viable business.

- (b) Strategic Direction.

For FY2018, the Board coordinated a review on Group's business direction and new business opportunities, whereby external expert was appointed to assist and support the Board and Management in developing Group's strategies, moving forward.

- (c) Strategic planning - Divestment of Oilfield Services Division.

- (i) On 8 February 2018, VELESTO disposed off its entire shareholdings of 318,750 ordinary shares in UMW Oilpipe Services (Turkmenistan) Ltd. ("UOS-TK") representing 51% of the issued share capital of UOS-TK;

Corporate Governance Overview Statement (Cont'd.)

(ii) In October 2018, following approval by all shareholders of UOT (Thailand) Limited ("UOT"), TMF (Thailand) Limited was appointed as provisional liquidator to initiate Members Voluntary Liquidation. Subject to clearance from relevant authorities in Thailand, the liquidation proceedings is expected to commence in Q1 2019.

UOT is an associate company within the Group with 49% equity holding held via Velesto Oilpipe Services Sdn. Bhd.;

(iii) Velesto Oilpipe Services Sdn. Bhd. ("VOS") ceased operation in December 2018 and will remain as a dormant company.

(d) Annual Budget

For FY2018, the Board has reviewed and approved budget and expenditure for the mandatory five (5)-yearly Special Periodic Surveys for several of its drilling rigs.

(e) Change of Name

For FY2018, the shareholders was briefed during the Eighth (8th) Annual General Meeting ("AGM") of the Company held on 15 May 2018 on the change of name of the Company from "UMW Oil & Gas Corporation Berhad" to "Velesto Energy Berhad". The change of name was made following the demerger exercise from UMW Holdings Berhad in July 2017. It was part of VELESTO's rebranding strategy to position itself by having a new corporate identity for its existing and future undertakings.

(f) Organisation structure

In November 2019, the Board has, upon recommendation by the BNRC, approved and adopted VELESTO's new Organisation Structure, with the following objectives:-

- building a more dynamic and effective management of the Group and at the same time, to address issues that continue plague the operations and management of the Group such as Supply Chain, Business Process and Management Information System;
- creating new C-Suite positions, namely Chief Commercial Officer and Chief Operating Officer, (and together with the existing Chief Finance Officer) would be assisting the President in running and monitoring the day-to-day operations of VELESTO. It was also envision as succession planning objective; and
- restructuring various divisions and departments within VELESTO by providing clarity and accountability of functions and at the same time, to develop second-tier succession planning objective.

(iv) Review, approve and provide feedback on corporate key performance indicators ("KPIs") and targets.

During FY2018, the Board has reviewed and approved the 2018 KPIs for the Group, amongst otherwise:-

- developing new business and expand existing business to ensure business sustainability;
- ensuring compliance to the Group's corporate operation policies on conduct, integrity and governance; and
- strengthening employees' engagement by building leadership capability.

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

During FY2018, the Board through the BNRC has evaluated the performance and deliverable of the President. The Board and BNRC has also deliberated and approved the contract extension for the President.

As at the date of this statement, the Board has adopted Succession Plan Framework for all key leadership positions including the President and all his Direct Reports.

(vi) Set VELESTO risk parameters and risk appetites, understands major risk exposure and ensure appropriate risk mitigation approaches are in placed:-

(a) 2019 National Budget - Impact on the Group

The 2019 National Budget was announced by the Government on 2 November 2018. Subsequently, the Finance Bill 2018 was tabled at the Parliament on 19 November 2018.

The Board has, during the FY2018 reviewed various scenarios illustrating the impact to VELESTO on the new Tax Regime under the 2019 National Budget and further considered various options that VELESTO could opt to manage the impact thereof.

(b) Update on Entrepreneurship Risk Management and Business Continuity Management.

For FY2018, Board has reviewed and approved on the following matters:-

- The Group's top risks;
- Risk Action Plan status for the Group; and
- The Group's Business Continuity Management Programme.

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

- (a) together with Senior Management, promote good corporate governance culture within the Group, which reinforced ethical, prudent and professional behavior;
- (b) reviewed, challenged and resolved on Management's proposals and thereafter monitor the progress of the implementation thereof;
- (c) ensured that the strategic plans for VELESTO supports long-term value creation and included the strategies on economic, environmental and other social considerations underpinning sustainability;
- (d) supervised and assessed Management's performance in determining whether the business was properly managed;
- (e) ensured there was a sound framework for internal controls and risk management;

- (f) understood the principal risks of VELESTO's business and recognised that business decisions would involve taking appropriate but calculated risks;
- (g) 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;
- (h) 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;
- (i) ensured that the Company has in place procedures to enable effective communication with stakeholders; and
- (j) 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 followings:-

- (a) Material acquisitions and disposal of assets;
- (b) Investments in major projects;
- (c) Authority levels;
- (d) Treasury policies;
- (e) Risk Management policies;
- (f) Key human resource issues; and
- (g) 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.

Corporate Governance Overview Statement (Cont'd.)

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 corporate governance practices in the Company.

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

QUALIFIED COMPANY SECRETARIES

The Board is supported by two (2) suitably qualified and competent Company Secretaries, namely:-

- (a) Mohd Nizamuddin Mokhtar; and
- (b) Rafiza Ghazali

Both Company Secretaries are qualified to act as company secretary under Section 235(2) of the CA 2016.

The brief profile of the Company Secretaries are as follows:-

(i) Mohd Nizamuddin Mokhtar

Mohd Nizamuddin Mokhtar's profile is available for viewing at page 25 of this Annual Report. He was appointed as named-secretary for VELESTO with effect from 14 May 2018.

(ii) Rafiza Ghazali

Rafiza Ghazali's profile is available for viewing at page 24 of this Annual Report. She was appointed as the named-secretary for VELESTO with effect from 30 March 2018.

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

- 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 and Committee meeting logistics, attend and record minutes of all Board and Committee meetings and facilitate Board communication;
- (b) Advise the Board on its roles and responsibilities;
- (c) Facilitate the orientation of new Directors 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 shareholder 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 corporate governance issues.

The Board was satisfied with the performance and support rendered 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 FY2018, the notice of the scheduled board meetings and the board papers were circulated electronically via secured cloud sharing application, at least five (5) 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.

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

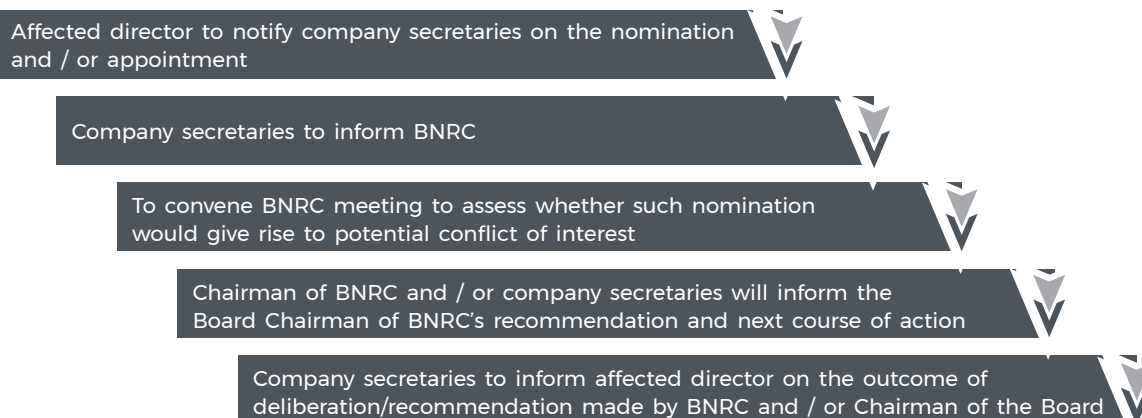
Where applicable, the Directors whether as a full board or in their individual capacity, are encouraged to seek independent professional advice:-

- 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 FY2018, the Board engaged external consultant i.e. Messrs. Ernst & Young ("EY"), PwC and KPMG Malaysia, 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 Group:-



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

Corporate Governance Overview Statement (Cont'd.)

1.2 DEMARCATION OF RESPONSIBILITY

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 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 18 December 2018.

A full copy of the Board Charter is available for viewing at the VELESTO's corporate website at 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 permeates at every point of interaction employees have with each other and the public. The Directors and the employees of the 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 should describe measures put in place to:-

- (i) handle actual or potential conflict of interests;
- (ii) prevent corrupt practices which include the offering and acceptance of gifts and other form of benefits;
- (iii) encourage the reporting of unlawful or unethical behaviour;
- (iv) protect and ensure the proper usage of the Company's assets; and
- (v) ensure compliance with laws, rules and regulations.

The CoBE is available for viewing at the VELESTO's corporate website at www.velesto.com

WHISTLE-BLOWING POLICY

In promoting the highest level of professionalism and ethics in the conduct of the Group's businesses, the Whistle-Blowing Policy welcome disclosures of suspected wrongdoings that include mismanagement, malpractices, corrupt practices, fraud, conflict of interest, abuse of authority or breach of any laws and regulations by any member of 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.

Disclosure channel

Should a person wishes to lodge a report on any suspected wrongdoings, they may elect to make disclosures to the Management Whistle-Blowing Committee via:-

Attention: Syed Rozhan Syed Hassan
Telephone number: +603-2096 8788
Email: syed.rozhan@velesto.com

The Whistle Blowing Policy is available for viewing at the VELESTO's corporate website at 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, experience and expertise required to achieve effective stewardship and management. The Board believes that a truly diverse and inclusive Board will leverage the differences in thought, perspective, knowledge, skill, regional and industry experience, cultural and geographical background, age, ethnicity and gender which will ensure that the Company retains its competitive advantage.

For FY2018, the Board comprises ten (10) members, six (6) Independent Non-Executive Directors (“INEDs”), two (2) Non-Independent Non-Executive Directors, one (1) Executive Director, who is the President of the Company and one (1) 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 (1/3) Independent Directors in the Board.

The role of the Independent Directors are particularly important in ensuring that the strategies proposed by the Executive Directors 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 MCCC 2017 which requires at least half of the Board comprises Independent Directors, hence, six (6) out of ten (10) 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 Group operates. The individuality and vast experience of the Directors in arriving at collective decisions at board level will ensure impartiality.

TENURE OF INDEPENDENT DIRECTORS

The Board takes cognisance that Practice 4.3 of MCCC 2017, has instituted a policy by way of inclusion in the Board Charter, which limits the tenure of its INEDs up to nine (9) years.

Accordingly to the annual review conducted by BNRC in FY2018, none of the INEDs has served the Board more than nine (9) years.

PROCEDURES FOR APPOINTMENT OF DIRECTORS 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 Directors.

Appointment of Directors

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 the requirement of Practice 4.5 of the MCCC 2017, 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.

The Board Charter stipulated 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.

Corporate Governance Overview Statement (Cont'd.)

During FY2018, the Board through its BNRC conducts an annual review 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 BNRC has applied the following selection process:-

- (a) Potential candidates are referred to the BNRC for consideration and recommendation to the Board;
- (b) The BNRC will determine appropriate means for seeking additional candidates, including engagement of outside consultants to assist the BNRC in the identification of candidates;
- (c) The BNRC shall decide on the appropriate means for the review and approval of individual candidates; and
- (d) In formulating its recommendation, the BNRC will consider not only the findings and conclusions of its evaluation process, but also the current composition of the Board, the attributes and qualifications that should be represented on the Board and whether the candidate can provide such additional attributes, capabilities or qualifications.

Having conducted all relevant reviews and assessments, for FY2018, the BNRC recommended the following Directors, to be appointed as VELESTO Directors:-

- 1) Rizal Rickman Ramli (Non-Independent Non-Executive Director); and
- ii) Dato' Dayang Fatimah Johari (Independent Non-Executive Director).

For the appointment of INED, Dato' Dayang Fatimah Johari has fulfilled the Independent 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 (2) 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; or
- has either been engaged as advisor by the Company nor is a Partner, Director or major shareholders of a firm/corporation which provides professional advisory services to the Company.

With the appointment of Dato' Dayang Fatimah Johari as INED in FY2018, the Board has three (3) women directors namely Haida Shenny Hazri, Rowina Ghazali Seth and Dato' Dayang Fatimah Johari, which represents 30% of the Board's composition. The Company has achieved its target of at least 30% women directors on the Board.

Previously, the Senior Independent Director role was assumed by Dato' Afifuddin Abdul Kadir, who has since retired as Director of the Company with effect from 15 May 2018. On 31 January 2019, Mohd Rashid Mohd Yusof was appointed as the new Senior Independent Non-Executive Director of the Company.

Re-election of Directors

- (i) In accordance with the Article 96 of the Company's Constitution, at the forthcoming Annual General Meeting ("AGM"), Dato' Abdul Rahman Ahmad and Rohaizad Darus were due for retirement and being eligible have offered themselves for re-election.

Cheah Tek Kuang who was also due for retirement, has informed the Board of his intention to retire as an Independent Non-Executive Director and therefore will not be seeking re-election at the AGM. Hence, he will retain office until the conclusion of this AGM in accordance with Article 96 of the Company's Constitution.

- (ii) In accordance with the Article 103 of the Company's Constitution, at the forthcoming AGM, Dato' Dayang Fatimah Johari was due for retirement and being eligible has offered herself for re-election.

In determining the Directors' eligibility for re-election, the BNRC conducted formal and objective annual evaluation to determine the effectiveness of the retiring Directors, taking into account the following:-

- (a) their will and ability to critically challenge and ask the right questions;
- (b) their character and integrity in dealing with potential conflict of interest situations;
- (c) their commitment to serve the company, due diligence and integrity; and
- (d) their confidence to stand up for a point of view.

Upon review, the BNRC were satisfied with the performance of the abovementioned Directors and recommended the re-election of Dato' Abdul Rahman Ahmad, Rohaizad Darus and Dato' Dayang Fatimah Johari, to the Board for approval. The Board has in turn, recommended the same to be considered by the shareholders at the forthcoming 9th AGM of the Company.

Appointments to Board Committees

The review 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, including (but are not limited to) the following factors:-

- the needs of the particular Board Committees;
- the results of the Board Effectiveness Evaluation for the Board Committees;
- time commitment and availability;
- regulatory requirements; and
- best practices or governance practices.

Appointments to Senior Management

The Human Resources Department 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 includes (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 assessment of Board and Board Committee members.

Gender Diversity

The Board, through its diversity policy, has identified and based on merit, appointed suitable female directors. The Board's commitment to gender diversity is clearly demonstrated by the representation three (3) female 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 continue to endeavor to include any professional member who fulfill the qualifications and fit the requirements set by the Board.

Age Diversity

The Board is of the view that directors with diverse age profile will be able to provide a different perspective and bring vibrancy to the VELESTO's strategy making process.

The age profile of the Directors were ranging from forty to seventy years of age, which underlies the Board's commitment to age diversity at the Board level appointment.

Corporate Governance Overview Statement (Cont'd.)

(a) Time Commitment by Directors

The Board members have devoted sufficient time and effort in attend Board meetings for the FY2018.

Details of attendance of each Director in respect of the Board meetings held during the FY2018 are as follows:-

BOARD

NAME OF DIRECTORS	NO. OF MEETINGS ATTENDED	% OF ATTENDANCE
Dato' Abdul Rahman Ahmad	9/9	100%
Rohaizad Darus	9/9	100%
Razalee Amin	8/9	89%
Cheah Tek Kuang	9/9	100%
Dato' Ibrahim Marsidi	8/9	89%
Mohd Rashid Mohd Yusof	9/9	100%
Rowina Ghazali Seth	8/9	89%
Haida Shenny Hazri	8/9	89%
Rizal Rickman Ramli	7/7	100%
Dato' Dayang Fatimah Johari	4/5	80%
Dato' Afifuddin Abdul Kadir <i>(retired w.e.f. 15 May 2018)</i>	3/3	100%

BOARD COMMITTEES

BAC

The membership of the BAC are stated in the BAC Report of this Annual Report. A summary of works of the BAC to discharge their duties during the FY2018 can be found on pages 121 to 123 of this Annual Report.

The attendance of BAC Meetings held during FY2018 is stated in the BAC Report in this Annual Report.

The TOR of the BAC was reviewed and approved by the Board on 18 December 2018.

A copy of the TOR of the BAC is available for viewing at the Group's corporate website at www.velesto.com

BNRC

The BNRC has on August 2017 merged from the Nomination Committee and Remuneration Committee. The BNRC comprises exclusively of INEDs as follows:-

COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP	NO. OF MEETINGS ATTENDED	% OF ATTENDANCE
Dato' Ibrahim Marsidi	Chairman	Independent Non-Executive Director	9/9	100%
Cheah Tek Kuang	Member	Independent Non-Executive Director	9/9	100%
Rowina Ghazali Seth	Member	Independent Non-Executive Director	9/9	100%
Dato' Dayang Fatimah Johari <i>(appointed w.e.f. 24 May 2018)</i>	Member	Independent Non-Executive Director	4/5	80%
Dato' Afifuddin Abdul Kadir <i>(retired w.e.f. 15 May 2018)</i>	Chairman	Independent Non-Executive Director	3/3	100%

The BNRC is governed by its TOR which outlines its limit, duties and responsibilities.

The TOR of BNRC was reviewed and approved by the Board on 18 December 2018.

A copy of the TOR of the BNRC is available for viewing at the VELESTO's corporate website at www.velesto.com

(b) Summary of Works

Pursuant to Paragraph 15.08A(3) of MMLR of BURSA, the summary of activities of the BNRC during the FY2018 were disclosed as follows:-

- i. Reviewed and recommended the following for 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 Group;
 - Appointment of Directors on the boards of companies within the Group;
 - Annual assessment and review of effectiveness of Board, Board Committees, individual Director and the President;
 - Setting Key Performance Indicators ("KPIs") for the President;
 - Assessment of the performance of the President; and
 - Proposal on Revised Questionnaires on Board Evaluation for Board and Board Committees, Board (self and peer assessment) and President.
- ii. Conducted an assessment 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 training to equip themselves for the effective discharge of its duties.

The Board has cultivated the following best practices:-

- (a) All newly appointed Directors are 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;
- (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; and
- (d) The Directors are briefed by the Company Secretaries on the letters issued by BURSA at the Board Meeting.

Corporate Governance Overview Statement (Cont'd.)

All Directors have attended the MAP prescribed by BURSA.

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 FY2018, the Board has participated in the following continuing education programmes:-

DIRECTOR	TRAINING PROGRAMME ATTENDED	ORGANISER
Dato' Abdul Rahman Ahmad	Group Away Day 2018	Velesto Energy Berhad
	2018 Joint Course	Human Capital Planning and Development, Permodalan Nasional Berhad (PNB)
	PNB CEO Roundtable Forum 2018	PNB Research Institute Sdn. Bhd.
	PNB Cyber and Information Security	Human Capital Planning and Development, PNB
	Awareness Seminar for Senior Management	Human Capital Planning and Development, PNB
	Latest Amendment for Strata Titles and Strata Management Act	Human Capital Planning and Development, PNB
Rohaizad Darus	Group Away Day 2018	Velesto Energy Berhad
	PNB CEO Roundtable Forum 2018	PNB Research Institute Sdn. Bhd.
	Malaysian Business Angel Network Pitch Session by PNB	PNB
	Integrated Management System (IMS) Awareness Training	Velesto Energy Berhad HSE Department
	Industry 4.0 Beyond Borders Forum	Malaysian Oil & Gas Services Council (MOGSC)
	Abu Dhabi International Petroleum Exhibition & Conference (ADIPEC) 2018	Society of Petroleum Engineers (SPE)
	Power Talk: Would a business judgment rule help directors sleep better at night?	Institute of Corporate Directors Malaysia (ICDM)
	The 4th Malaysian Oil & Gas Services Exhibition & Conference (MOGSEC)	MOGSC
Razalee Amin	Board Working Visit to NAGA 7 and Warehouse	Velesto Energy Berhad
	MIA International Accountants Conference 2018	Malaysian Institute of Accountants (MIA)
	Training on regulatory requirements from authorities (Continuation) "Quality Control"	CCM Duopharma Biotech Berhad
	Corporate Re-branding workshop	CCM Duopharma Biotech Berhad
	Training on regulatory requirements from authorities (Continuation) "Understanding regulatory affairs and evolution of regulatory requirements in Malaysia"	CCM Duopharma Biotech Berhad
	CCM Duopharma Biotech Berhad Group Directors and Senior Management Training	CCM Duopharma Biotech Berhad
	The 4th Malaysian Oil & Gas Services Exhibition & Conference (MOGSEC)	MOGSC

DIRECTOR	TRAINING PROGRAMME ATTENDED	ORGANISER
Cheah Tek Kuang	Group Away Day 2018	Velesto Energy Berhad
	CFA Society Malaysia o2o Talk 2018	Securities Industry Development Corporation (SIDC)
	Recent Tax Disputes and Directors Responsibilities in Present Regime	Malaysian Institute of Accountant (MIA)
	Bursa Sustainability Engagement Series for Directors / CEOs	Bursa Malaysia
	The 4th Malaysian Oil & Gas Services Exhibition & Conference (MOGSEC)	MOGSC
Dato' Ibrahim Marsidi	Group Away Day 2018	Velesto Energy Berhad
	Board Working Visit to NAGA 7 & Warehouse	Velesto Energy Berhad
	Breakfast Series: Non-Financials - Does It Matter	Bursa Malaysia
Mohd Rashid Mohd Yusof	Group Away Day 2018	Velesto Energy Berhad
	Financial Institutions Directors Training Program A	The Iclif Leadership and governance Centre
	Financial Institutions Directors Training Program B	The Iclif Leadership and governance Centre
	Understanding Liquidity Risk Management	The Iclif Leadership and governance Centre
	Credit and Risk Management in Banking	The Iclif Leadership and governance Centre
	Tax and Business Summit	KPMG
	Islamic Finance for Directors	International Shariah Research Academy for Islamic Finance (ISRA)
Rowina Ghazali Seth	Group Away Day 2018	Velesto Energy Berhad
	Anti-Money Laundering / Courier Financing of Terrorism-Banking Sector	The Iclif Leadership and governance Centre
	Financial Institutions Directors Education (FIDE) Programme	The Iclif Leadership and governance Centre
	Cyber Security : Cyber Proofing for the Next Wave	SIDC
	The 4th Malaysian Oil & Gas Services Exhibition & Conference (MOGSEC)	MOGSC
	Power Talk : Would a business judgement rule help directors sleep better at night?	ICDM

Corporate Governance Overview Statement (Cont'd.)

DIRECTOR	TRAINING PROGRAMME ATTENDED	ORGANISER
Haida Shenny Hazri	Group Away Day 2018	Velesto Energy Berhad
	Official Launch Of The Pathway To A Governance Practitioner Programme	Malaysian Institute of Corporate Governance
	The 4th Malaysian Oil & Gas Services Exhibition & Conference (MOGSEC)	MOGSC
	APAC Energy Assembly	Energy Council
	Rystad Energy Information Session	Rystad Energy
	Launch of Institute of Corporate Directors Malaysia (ICDM)	ICDM
	ICDM Power Talk – Effective Boards in a VUCA World	ICDM
	Bursa ICDM Breakfast Series: Companies of the Future – the role of the Boards	Bursa ICDM
Rizal Rickman Ramli	Board Working Visit to NAGA 7 & Warehouse	Velesto Energy Berhad
	Mandatory Accreditation Programme (MAP)	The Iclif Leadership and governance Centre
	PNB CEO Roundtable	PNB
	PNB Cyber and Information Security Awareness Seminar for Senior Management	PNB
	Property Division - MISD Business Planning Workshop 2019	PNB
	Corporate Exercise & Asset Pricing In Malaysia (Renegotiation and Re-Contracting)	PNB
	AMLATFPUAA 2001: The Law, Compliance & Case Studies For Senior Management	PNB
Dato' Dayang Fatimah Johari	Director Induction Session	Velesto Energy Berhad
	Board Working Visit to NAGA 7 & Warehouse	Velesto Energy Berhad
	Official Launch Of The Pathway To A Governance Practitioner Programme	Malaysian Institute of Corporate Governance
	Mandatory Accreditation Programme (MAP)	The Iclif Leadership and governance Centre
	The 4th Malaysian Oil & Gas Services Exhibition & Conference (MOGSEC)	MOGSC

In addition, the Company Secretaries and External Auditors update the Board on a regular basis the respective changes and amendments to regulatory requirements and laws and accounting standards to help Directors keep abreast of such developments.

Upon review, the Board concluded that the Directors' Trainings for the FY2018 were adequate.

BEC

The BEC was set up on 25 April 2016.

The BEC is governed by its TOR, which outlines its limit, duties and responsibilities. The principal duties and responsibilities of the BEC as defined in the TOR.

The TOR of the BAC was reviewed and approved by the Board on 18 December 2018.

A copy of the TOR of the BEC is available for viewing at the VELESTO's corporate website at www.velesto.com

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	4/4	100%
Rohaizad Darus	Member	Executive Director	4/4	100%
Razalee Amin	Member	Independent Non-Executive Director	4/4	100%
Haida Shenny Hazri	Member	Non-Independent Non-Executive Director	4/4	100%
Mohd Rashid Mohd Yusof	Member	Senior Independent Non-Executive Director	4/4	100%

The activities carried out by the BEC were as follows:-

- i. Reviewed and confirmed the minutes of the BEC Meeting held in FY2018;
- ii. Reviewed on the Management Report for FY2018;
- iii. Reviewed on the impairment of the Group's assets;
- iv. Reviewed and recommended to the Board on the amount due from Valued Group of UMW Holdings Berhad and discussed on the treatment to recover the foregoing amount;
- v. Reviewed and recommended to the Board on the consultant selection for the Group Strategic Direction on the potential new business;
- vi. Reviewed on the current business;
- vii. Reviewed on the litigation matters; and
- viii. Reviewed and recommended to the Board on the revised TOR for BEC.

Corporate Governance Overview Statement (Cont'd.)

BRMC

The BRMC was set up on 6 December 2013.

The BRMC is governed by its TOR, which outlines its limit, duties and responsibilities. The principal duties and responsibilities of the BRMC as defined in the TOR.

The TOR of the BAC was reviewed and approved by the Board on 18 December 2018.

A copy of the TOR of the BRMC is available for viewing at the VELESTO's corporate website at www.velesto.com

The Composition of BRMC are as follows:-

COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP	NO. OF MEETINGS ATTENDED	% OF ATTENDANCE
Cheah Tek Kuang	Chairman	Chairman, Independent Non-Executive Director	4/4	100%
Mohd Rashid Mohd Yusof	Member	Senior Independent Non-Executive Director	4/4	100%
Rowina Ghazali Seth	Member	Independent Non-Executive Director	4/4	100%
Haida Shenny Hazri	Member	Non-Independent Non-Executive Director	4/4	100%
Rizal Rickman Ramli	Member	Non-Independent Non-Executive Director	3/3	100%
Dato' Afifuddin Abdul Kadir <i>(retired w.e.f. 15 May 2018)</i>	Member	Independent Non-Executive Director	1/1	100%

During the FY2018, four (4) BRMC meetings were held. The activities carried out by the BRMC were as follows:-

- i. Reviewed and confirmed the minutes of the BRMC Meeting held in FY2018;
- ii. Reviewed on the Group Top Risks and Risk Action plan for FY2018;
- iii. Reviewed on the Health, Safety and Environment Division Progress Report;
- iv. Reviewed on the Emergency and Crisis Management;
- v. Reviewed on the Stress-Test on Foreign Exchange and Financial Capability to withstand changes on local and international ratings;
- vi. Reviewed and recommended to the Board on the revised TOR for BRMC; and
- vii. Updated on Business Continuity Management and its related activities.

BWBC

The BWBC was set up on 21 July 2014.

The membership of the BWBC are stated in the corporate information of this Annual Report. The BWBC is governed by its TOR, which outlines its limit, duties and responsibilities. The principal duties and responsibilities of the BWBC as defined in the TOR.

The TOR of the BWBC was reviewed and approved by the Board on 18 December 2018.

A copy of the TOR of the BWBC is available for viewing at the VELESTO's corporate website at www.velesto.com

During the FY2018, one (1) BWBC meeting was held.

ANNUAL ASSESSMENT 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 whether:-

- adequate time has been allocated by Non-Executive Directors on matters pertaining to the Group's operations;
- 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 Group, Executive and Non-Executive, has been undertaken to ensure continued ability to compete effectively in the market place.

The Board takes cognisance that the requirement of Practice 5.1 of MCCG 2017. The Board has through its BNRC engaged an Independent External Expert to facilitate the evaluation of the Board effectiveness. The evaluation process conducted by KPMG were as follows:-

1. Circulate the enhanced questionnaires according to respective designation and committee membership;
2. Conduct interview with all board members to obtain candid feedback;
3. Review pertinent documents such as Board and Board Committee meeting minutes; and
4. Consolidate and assess the responses from the questionnaires and insights gleaned.

All board of Directors had completed and submitted the written questionnaires and the one-to-one interview sessions:-

1. Board of Directors Assessment

In conducting the assessment, the following main criteria were adopted:-

- Board mix and composition;
- Quality of information and decision-making;
- Boardroom activities; and
- Board Chairman's role.

2. Directors' Skill Sets Assessment

In conducting the assessment, 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 assessment, 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.

Corporate Governance Overview Statement (Cont'd.)

5. Consolidated Board Committee Assessment

There were nine (9) positive highlights identified from the Board which were clustered into five (5) thematic categories, namely:-

HIGHLIGHTS	DETAILS
Strategic Planning	There were cogent indicators that the Board's value creation role in short-term and long-term strategic planning was a key strength of the Board
Board Skill Sets	Members of the Board were "brand-names", whom known for their hard edged skills and vast experience in both upstream and downstream oil and gas industry
Focus on Internal Control and Risk Management	Heightened focus was given in addressing leakages, particularly procurement. Current risk management framework is proportionate to the Group's singular business nature
Relationship with Key Stakeholders	Symbiotic relationship with the Company' principal client and its controlling shareholder
Efficacy of Board Deliberation	Board deliberations were conducted with a high level of rigour, professionalism and candour

Based on the evaluation conducted for the FY2018, the BNRC was satisfied with the performance of the Individual Directors and the Board effectiveness with the average score of 90%.

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 Directors, taking into consideration individual Director's performance, time commitment, experience, level of responsibilities, as well as the performance of the Group and market conditions.

The Board had on 20 March 2019 adopted Remuneration Policy and Procedures for Non-Executive Directors. The Remuneration Policy and Procedures for Non-Executive Directors is:-

- (i) 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 remuneration practices of VELESTO's Non-Executive Directors are anchored on the following overarching objectives:-

- (a) Drive behaviour that is consistent with VELESTO's sacrosanct 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 the 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.

The Remuneration Policy and Procedures for Non-Executive Directors is available for viewing at the Group's corporate website at www.velesto.com

For FY2018, the BNRC has engaged an Independent External Expert to assist in performing the Remuneration Review of Non-Executive Directors, including facilitating the documentation of policies and procedures. The BNRC, has then recommended the remuneration of the Non-Executive Directors to the Board and to seek approval from the shareholders at the forthcoming AGM, based on the outcome presented by KPMG on 20 March 2019.

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 sixty (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 Management's proposals on:-
 - framework of remuneration for Directors, covering fees, allowances and benefits-in-kind in their work as Directors of all Boards and 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.

Corporate Governance Overview Statement (Cont'd.)

3.1 REMUNERATION OF DIRECTORS

For the FY2018, 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 FY2018:-

DIRECTORS' REMUNERATION	FEES (RM)	SALARIES AND OTHER EMOLUMENTS (RM)	BONUS (RM)	BENEFITS-IN-KIND (RM)	OTHERS (RM)	TOTAL (RM)
Executive Director						
Rohaizad Darus	Nil	1,380,000	Nil	164,000	188,000	1,732,000
Non-Executive Directors						
Dato' Abdul Rahman Ahmad	1	Nil	Nil	Nil	Nil	1
Razalee Amin	83,323	21,200	Nil	3,600	Nil	108,123
Cheah Tek Kuang	83,323	27,700	Nil	3,600	Nil	114,623
Dato' Ibrahim Marsidi	83,323	28,500	Nil	3,600	Nil	115,423
Mohd Rashid Mohd Yusof	83,323	16,000	Nil	3,600	Nil	102,923
Rowina Ghazali Seth	83,323	20,200	Nil	3,600	Nil	107,123
Haida Shenny Hazri	83,323	15,400	Nil	3,600	Nil	102,323
Rizal Rickman Ramli	44,759	8,500	Nil	2,797	Nil	56,056
Dato' Dayang Fatimah Johari	53,952	10,500	Nil	2,158	Nil	66,610
Dato' Afifuddin Abdul Kadir <i>(retired w.e.f. 15 May 2018)</i>	26,952	10,500	Nil	38,845	Nil	76,297
GRAND TOTAL	625,602	1,538,500	0	229,400	188,000	2,581,502

3.2 REMUNERATION OF TOP FIVE (5) 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 Group due to intense competition and scarcity for C-level talent and the Group would like to ensure its senior employee retention efforts be safeguarded to ensure the success of the Group.

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 (5) Senior Management.

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I. 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 (2) years before being appointed as a member of the BAC.

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 FY2018, the BAC has carried out the annual assessment and in its assessment, the BAC considered, inter alia, the following factors:-

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.

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.

Rotation of Audit Partner

The audit partner responsible for the external audit of the Group is subject to rotation at least every five (5) 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 2018 External Auditors' Performance and EY Independence Evaluation on the External Auditors, namely Messrs. Ernst & Young ("EY") for the FY2018.

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 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 FY2018 and are not aware of any non-audit services that have compromised our 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 FY2018. The Board has in turn, recommended the same for shareholders' approval at the 8th AGM of the Company held on 15 May 2018.

Corporate Governance Overview Statement (Cont'd.)

SKILLSETS OF BAC

The members of our BAC possess the necessary qualifications/experience in financial and auditing matters. Their profiles are disclosed on pages 14 to 23 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 of BURSA.

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 assessment in FY2018, 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 exposure of VELESTO.

The BRMC has instituted Risk Management and Internal Control Framework by way of inclusion in the TOR of the BRMC, to ensure the smooth running of the business with the aim to manage the risks and control of the Company's business and financial affairs economically, efficiently and effectively to be able to seize profitable business opportunities in a disciplined way while avoiding or mitigating risks that could cause loss, reputational damage or business failure.

The BRMC assessed and monitored the efficacy of the risk management controls and measures taken, whilst the adequacy and effectiveness of the internal controls were reviewed by the BAC in relation to internal audit function for VELESTO Group.

The Board is of the view that the system of internal control and risk management in place in FY2018, is sound and sufficient to safeguard the Group's assets, as well as shareholders' investments, and the interests of customers, regulators, employees and other stakeholders.

The salient features of our risk management and internal control framework are disclosed in the SORMIC on pages 113 to 120 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 27 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 Group and its key function is to assist the 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.

In consequence thereto, the Board had a Corporate Disclosure Policy in place to provide consolidated guide, procedure and structure in disseminating corporate information to, and in dealing with shareholders, stakeholders, media representatives, analysts and investing public.

A copy of the Corporate Disclosure Policy is available on the VELESTO's website:
www.velesto.com

During FY2018, the Company has implemented the following manners to communicate with its Shareholders:-

i. General meeting

The 8th AGM was held on 15 May 2018. 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

Annual Report, Quarterly Financial Results and various announcements made to Bursa Securities in accordance with the MMLR of BURSA.

iii. Annual Report and Circular to Shareholders

The Annual Report for year 2017 together with the notice of AGM were distributed to Shareholders on 16 April 2018.

iv. Company's website

All announcements released to BURSA are also appear in the VELESTO's website at 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 - AGM/EGM.

v. Media release

One (1) write-up in respect of UMW JDC Drilling Sdn. Bhd., a joint venture with Japan Drilling Company has commenced the process of voluntary winding up, has been uploaded to the VELESTO's website at www.velesto.com/media-centre/

vi. Analyst briefing and / or Press conference

Analyst briefing was held four (4) times in FY2018 after the release of each Quarter Financial Results. A press conference was held after the 8th AGM on 15 May 2018, 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 the VELESTO and to provide clearer understanding of the VELESTO'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 with the listing the following information, for ease of communication by stakeholders:-

Strategy & Investor Relations
Velesto Energy Berhad
Telephone : +603 2096 8788
Email : investor_relations@velesto.com

The detailed communication with the stakeholders for FY2018 are disclosed in the Stakeholder Engagement as set out in this Annual Report.

Directors' Responsibility Statement

The Board is required by the Act to ensure that financial statements prepared for each financial year have been made out in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the results and cash flows of the Company and the Group for the financial year.

The Board is responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy, the financial position of the Company and the Group and that the financial statements comply with the Act.

Corporate Governance Overview Statement (Cont'd.)

In preparing the financial statements the Board has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that are reasonable and prudent;
- Ensured that all applicable accounting standards have been followed; and
- Prepared financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries that the Group has adequate resources to continue in operations for the foreseeable future.

II. CONDUCT OF GENERAL MEETINGS

NOTICE OF AGM

The notice of the 8th 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 the AGM.

DIRECTORS' COMMITMENT

All the Directors including the Chairman of the respective committees, were present at the 8th AGM of the Company held in year 2018 to engage with the shareholders personally and proactively.

The Board Chairman presided over the 8th AGM, and together with our President, Chairman of the Board Committees and Senior Management were readily available to address various questions from our shareholders and their proxies.

The proceedings of the 8th AGM included the presentation of financial statements to the shareholders, and a question and answer session in which the Chairman of the AGM would invite 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 are given to shareholders to raise issues relating to the affairs of the Company and that adequate responses are given.

POLL VOTING

In line with the MMLR of the BURSA on the requirement for poll voting for all resolution set out in the notice of general meetings, during the 8th AGM held in year 2018, the resolutions tabled at the 8th AGM were all voted by poll.

ELECTRONIC POLL VOTING

Taking into consideration of the shareholders' profile of the Company, the Board has adopted electronic voting in Eighth AGM of the Company held on 15 May 2018 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. Therefore, the Board shall again be adopting electronic voting at the forthcoming 9th AGM scheduled to be held on 29 May 2019.

VOTING IN ABSENTIA AND REMOTE SHAREHOLDERS' PARTICIPATION AT GENERAL MEETING(S)

Prior to implementing the voting in absentia and remote shareholders' participation at general meeting(s), the Board noted several factors/ conditions need to be fulfilled prior to making such consideration:-

- Availability of technology and infrastructure;
- Affordability of the technology and infrastructure;
- Sufficient number of shareholders residing/ locating at particular remote location(s); and
- Age profile of the shareholders.

In view thereof, the Board will not be recommending the adoption such Voting/ Participation at the forthcoming 9th AGM of the Company.

For shareholders who are not able to make the journey to the 8th AGM's venue, they are allowed to appoint any person(s) as their proxies to attend, participate, speak and vote in his stead at the Eighth AGM held on 15 May 2018.

CONCLUSION

The Board is satisfied that for the FY2018, it 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 4 April 2019.

Statement on Risk Management & Internal Control

for the Year Ended 31 December 2018

1. INTRODUCTION

Pursuant to the MMLR of BURSA and the requirements of the MCCG 2017, the Board is committed to maintaining sound systems of risk management and internal control in 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.

Set out below is the Board's SORMIC for the FY2018 which was 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. THE SORMIC outlines the nature and scope of risk management and internal control of VELESTO Group and covers all of VELESTO Group's operations except for associated company.

2. RESPONSIBILITY

The Board recognises the importance of establishing and maintaining sound systems of risk management and internal control 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 operational, organisational, compliance and governance controls, by challenging and reviewing the adequacy and integrity of these systems, from time to time.

The Board delegates to the BRMC the responsibility of overseeing and reviewing the effectiveness of VELESTO Group's Enterprise Risk Management ("ERM") as well as Business Continuity Management ("BCM"), while matters relating to internal control falls within the purview of BAC. The BRMC and BAC, together with the Management, in turn will provide updates and reports to the Board after their meetings and escalate significant matters and issues of concerns, for further deliberation and decision/direction by the Board. At the same time, the approved minutes of meetings of BRMC and BAC are forwarded to the Board, for notation.

Whilst the Board recognises that it continues to have overall responsibility on VELESTO Group's risk management and internal control systems, the implementation of these systems have been delegated to the Management, who regularly reports on risks identified and action or steps taken to mitigate and / or minimise the risks. The MAC and the Risk Management Committee ("RMC"), comprising of Senior Management staff, report to the BAC and the BRMC, respectively on quarterly basis. Apart from scheduled meetings, Management regularly update BAC and BRMC members as well as Board members on certain issues, from time to time.

VELESTO Group's risk management and internal control systems are designed to meet particular needs, to efficiently and effectively manage risks that may impede the achievement of VELESTO's business objectives, provide information for accurate reporting and ensure compliances with regulatory and statutory requirements. The processes for the identification, evaluation, monitoring and managing of significant risks that may materially affect VELESTO'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 to achieve the business and corporate objectives. These systems can therefore only provide reasonable and not absolute assurance against material misstatement, fraud or loss. VELESTO Group's concept of reasonable assurance also recognises that the cost of control procedures should not exceed the expected benefits.

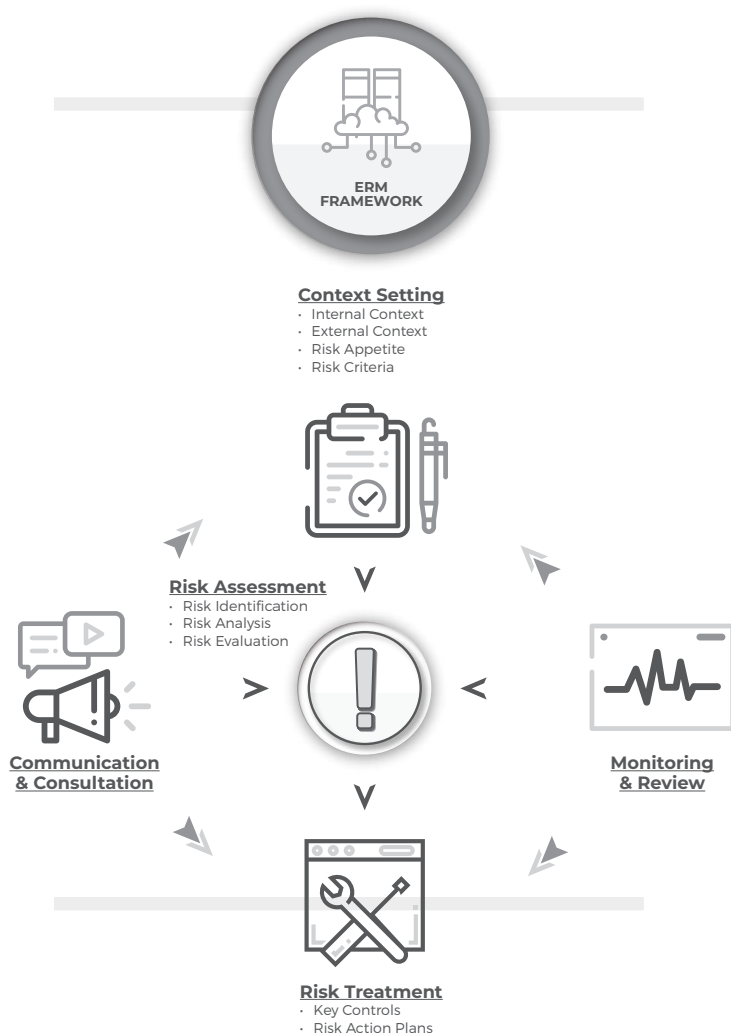
Statement on Risk Management & Internal Control

for the Year Ended 31 December 2018 (Cont'd.)

3. RISK MANAGEMENT

VELESTO has established an ERM Framework to proactively identify, evaluate and manage key risks to an optimal level. In line with VELESTO Group's commitment to deliver sustainable value, this framework aims to provide an integrated and organised approach entity-wide.

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 key risks identified. The Group's ERM Framework is summarised in the diagram below:

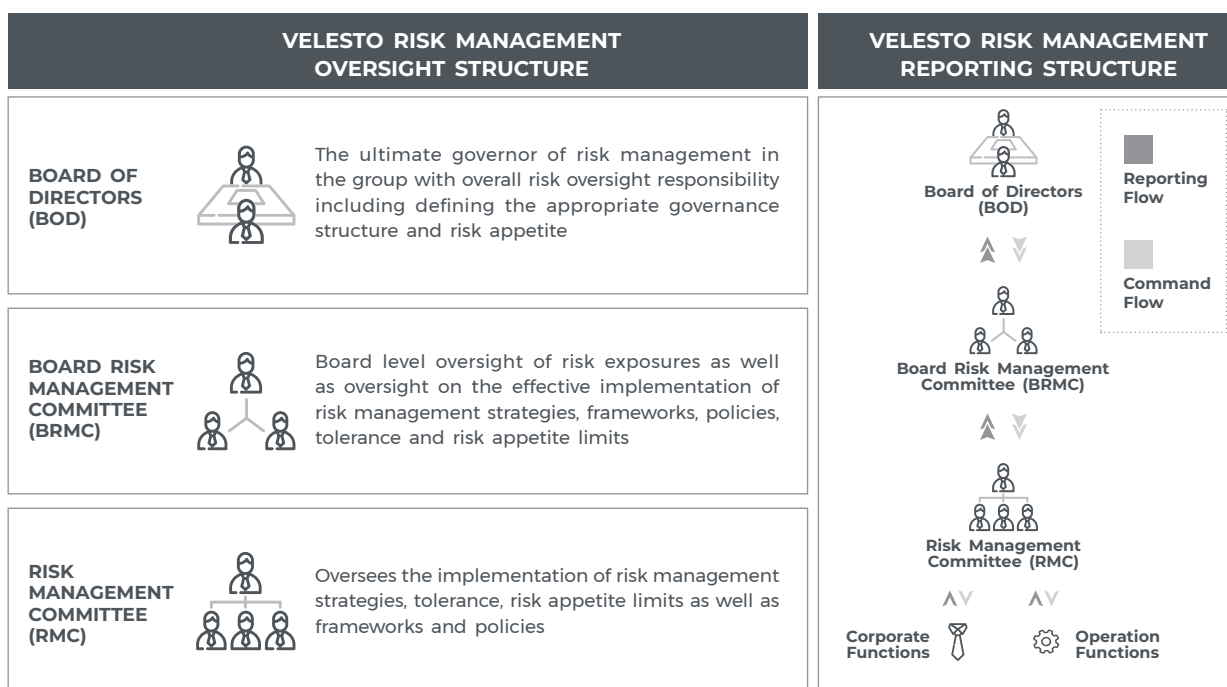


Risk Management Oversight

The oversight role of risk management is carried out by the BRMC. 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 play a crucial role in risk oversight and set the strategic direction for risk roles, responsibilities and risk reporting structures. The periodic reporting to both 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 reporting requirements to the BRMC and the Board, the RMC has specific responsibilities, which include but not limited to, establishing and implementing ERM mechanism to meet the requirements of ERM policies and articulate and challenge risk ratings.

The levels of Board and Management's participation and the reporting structure are shown in the diagrams below:-



The RMC is assisted by Risk Management and Compliance Department ("RMD") whose primary role, includes but not limited to, ensuring effective implementation of risks management and business continuity management framework, programmes and education across the Group, providing independent and objective assessment on risks, as well as timely reporting to the RMC, BRMC and the Board.

To enhance its 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 st Line: Risk-Taking Units	2 nd Line: Risk-Control Units	3 rd Line: Internal Audit
<ul style="list-style-type: none"> Manage risks that exists in day-to-day operations and projects diligently. Ensure the business operates within the established risk strategies, frameworks, policies and procedures. 	<ul style="list-style-type: none"> Provide risk oversight and guidance over effective operation of the risk management framework, policies and procedures. 	<ul style="list-style-type: none"> Provides assurance via independent assessment and validation that:- <ul style="list-style-type: none"> Risk management frameworks policies, and tools are sufficiently robust and consistent with regulatory standards. Controls to mitigate risks are adequate. Adequate oversight by RMD as well as by the Internal Audit Department.

Statement on Risk Management & Internal Control

for the Year Ended 31 December 2018 (Cont'd.)

Risk Management Policies

VELESTO is committed in promoting strategic practices to identify and manage Hazard, Operational, Financial, and Strategic Risks within the Group. These risk management practices will enable VELESTO to maximise opportunities in achieving its strategic objectives, while, at the same time providing safeguard measures against adverse impacts and negative outcomes.

Through the adoption and integration of a continuous, proactive, and systematic ERM Framework, VELESTO is positioned to deliver its objectives in a confident, effective, and efficient manner.

The ERM Framework establishes specific roles, responsibilities, and governance structures and shall include the usage of qualitative and quantitative assessment for the following processes:-

- Risk Identification;
- Risk Analysis;
- Risk Evaluation and Prioritisation;
- Risk Treatment and Management;
- Risk Monitoring and Review; and
- Communication and Consultation.

Board of Directors, Management and employees of VELESTO are bound to embrace an effective risk management culture, incorporate risk management as part of their day-to-day operations and project managements; and provide continuous support to ensure effective risk management practices in VELESTO is achieved.

Risk Management Process

VELESTO Group'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 Group's goals and objectives and assessed against the likelihood and Impact 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.

VELESTO Group's Top Five Risks

The following diagram exhibits the Top Five Risks in VELESTO Group and the mitigation actions undertaken by the Management of VELESTO:-

RISK EVENTS	RESPONSE
Dependency on local market	<ul style="list-style-type: none"> • Exploring new market opportunities within ASEAN and Middle East territories.
Adverse changes in government policies	<ul style="list-style-type: none"> • Keeping abreast and ensuring adherence/compliance to latest government policies. At the same time, managing the impact thereof if any.
Low daily charter rate	<ul style="list-style-type: none"> • Continuous discussions with clients to push for higher charter rate and / or favorable terms and conditions. • Continuous managing the costs to ensure reduction in operating costs.
Dependency on limited number of client	<ul style="list-style-type: none"> • Maintaining good relationship and delivering excellent job performance to clients while continuously fostering good relationship with potential clients.
Cyclicality in offshore drilling and oilfield services sectors	<ul style="list-style-type: none"> • Reviewing sustainability of current business while exploring business diversification strategies.

Risk Reporting

The Group's ERM Framework provides for regular review and reporting to the Management and to the Board. The ERM reports include information on risk profiles, risk action plans ("RAPs") and status updates. Directions and guides by the Board and BRMC members are cascaded to respective Risk Owners through regular meetings and discussions coordinated by RMD with the stakeholders.

Risk Management Activities

As part of VELESTO's effort to instill proactive risk management culture and ownership, the following activities were undertaken during the year under review:-

- Rolled out a comprehensive ERM Education Programme which included ERM awareness sessions, training and coaching for operating companies and corporate divisions as well as newly appointed employees. This is part of the VELESTO's effort to communicate and ensure continuous application of ERM in day-to-day business operations;
- A total of eight (8) ERM awareness and refresher sessions were conducted for all employees both for operation and corporate divisions;
- 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;
- Refined the risk register template for purposes of risk registration and monitoring;
- Further review VELESTO's Business Continuity Management initiatives;
- Established VELESTO's Enterprise Risk Management Policy; and
- Reviewed the existing Management System Procedures (MSPs) related to Enterprise Risk Management.

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 Business Continuity Management ("BCM") initiatives as part of its management process.

The following diagram manifests the BCM Framework of VELESTO:-



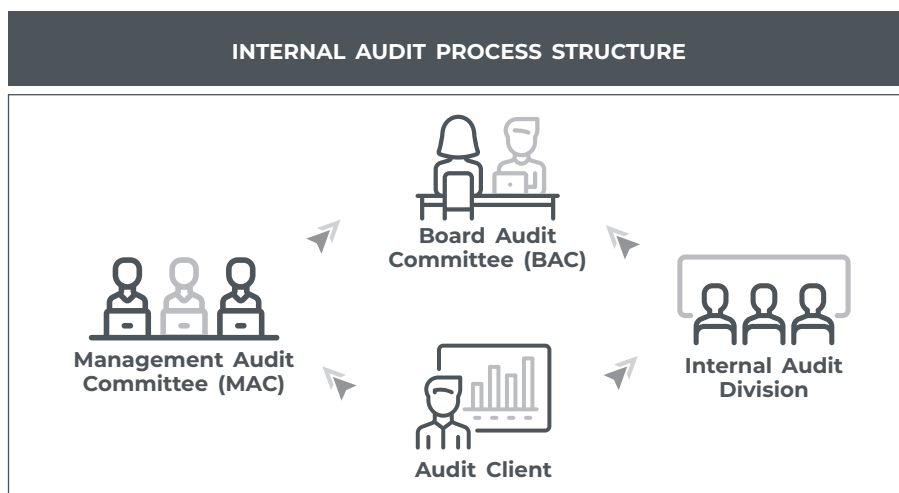
Statement on Risk Management & Internal Control

for the Year Ended 31 December 2018 (Cont'd.)

4. MAIN FEATURES OF INTERNAL CONTROL

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.

The main features of VELESTO Group's internal control structure and environment are described below:-



Board and Board Committees

The Board is committed to uphold and implement a strong culture and environment for the proper conduct of VELESTO Group's business operations. Apart from BAC and BRMC, the Board has also established other Board Committees to assist Board in discharging its statutory and fiduciary responsibilities. These include Board Executive Committee, Board Nomination & Remuneration Committee and Board Whistle-Blowing Committee.

The respective Board Committees operate within clearly-defined TOR, procedures and authority delegated and approved by the Board, which are reviewed from time to time to ensure that they are relevant and up-to-date. Information on the Board and Board Committees can be found in the Corporate Governance Overview Statement in page 82 to 112 and in the Company's website at www.velesto.com

Organisation Structure and Reporting Lines

The Board has established an organisation structure that is aligned to business requirements with clearly defined delegation of responsibilities to the Board Committees as well as to Management.

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 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.

Management Audit Committee

The MAC is set-up by the BAC primarily to assist BAC in fulfilling its responsibilities in reviewing the internal audit reports with the respective subsidiary management. MAC meeting is chaired by the Chief Financial Officer.

MAC's functions are:-

- review the internal audit report with the Management of the respective subsidiary;
- assess the adequacy and effectiveness of internal controls on the operations and the compliance with the established company policies, procedures and legal requirements;
- agree upon the corrective actions to be taken and its implementation;
- follow-up on status of the implementation of the agreed action plans; and
- report to BAC on the outcome of the meeting and the actions agreed upon.

Internal Audit Division

Internal Audit Division ("IAD") 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. IAD reports its findings directly to the BAC. The IAD functions are mandated in the Internal Audit Charter. This Charter was recently revised and approved by the Board on 20 August 2018.

IAD functions include undertaking 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. IAD adopts the standards and principles outlined in the International Professional Practices Framework ("IPPF") issued by Institute of Internal Auditors ("IIA"). The key activities of the internal audit function are set out in the BAC Report on pages 121 to 123 of this Annual Report.

Financial Budgeting and Performance Monitoring

VELESTO Group conducts annual planning and budgetary exercises which included industry and market studies, formulation of business strategies and establishment of key performance indicators ("KPIs") which were deliberated and approved by the Board 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.

These management reports analyse and explain variances against plan and report on the achievement of the KPIs after taking into account the changes in market conditions and significant business risks.

Policies and Procedures

The Board is committed in maintaining a strong control structure and environment for the proper conduct of the VELESTO's business operations and has put in place the following:

i. Written Policies and Procedures

Clearly defined and documented internal policies and procedures have been established through the relevant charters, TOR, organisational structures and appropriate authority limits. These policies and procedures have been communicated throughout the Group primarily via VELESTO SharePoint for implementation and compliance. These policies were approved by the Board and regularly updated to reflect changing business requirements.

ii. Limits of Authority and Responsibility

Clearly defined and documented lines and limits of authority, responsibilities and accountability have been established by the Group in the Financial Limits Authority Guidelines ("FLAG").

The FLAG outlines the authority of the Board, its Committees and Management for all transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organisation remains structured to ensure appropriate segregation of duties. The FLAG is also regularly updated to reflect changing risks or to address operational deficiencies.

iii. Code of Business Conduct and Ethics

The Code of Business Conduct and Ethics ("the Code") is applicable to all employees and the objective of the Code is to act as a reference guide for conduct and ethics throughout employment of the staff with the Group.

iv. Whistle-Blowing Policy

This policy addresses VELESTO Group 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 (the whistle-blower) raises a concern on risk, malpractice or wrongdoing that affects others such as clients, suppliers, other staff, company and the public interest. It also addresses the protections accorded to whistle-blowers.

v. Health, Safety and Environment Policy

The policy set out the Management stands in promoting a safe working environment and to ensure the staff implementing effective risk control measures in their day to day operational activities.

Statement on Risk Management & Internal Control

for the Year Ended 31 December 2018 (Cont'd.)

Monitoring, Reporting and Reviewing

The Board is updated on the business performance at scheduled meetings. The Group's business plan and budget performance for the year are reviewed and deliberated by the Board on quarterly basis.

The effectiveness of the Group's systems of risk management and internal control are monitored through monthly management review of financial and operating results, business processes, the state of internal controls and business risk profile by the respective Heads of Operations and Corporate Divisions that reports to the Management Committee.

In addition, these reviews are supplemented by a comprehensive review undertaken by IAD on controls implemented at each individual business units and operations. Reports on the reviews carried out by IAD are submitted on a regular basis to Management and the BAC.

5. 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 Group's risk management and internal control systems have operated adequately and effectively to a large extent, in all material aspects, for the FY2018 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 Group and that during the financial year under review there were no significant weaknesses in the risk management and internal control systems of the 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 Group are sound and sufficient to safeguard shareholders' investment and the 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 Group's risk management and internal control systems so that shareholders' investment and the Group's assets are consistently safeguarded.

6. REVIEW OF THIS STATEMENT

The External Auditors, Messrs. Ernst & Young, have performed limited assurance procedures on the Statement in accordance with Malaysian Approved Standard on Assurance Engagements, ISAE 3000, 'Assurance Engagement Other Than Audits or Reviews of Historical Financial Information' and Recommended Practice Guide 5 (Revised), 'Guidance for Auditors on Engagements to Report on the Statement on Risk Management & Internal Control' included in the Annual Report.

Messrs. Ernst & Young 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 passed at a joint meeting of BAC and BRMC held on 4 April 2019.

Board Audit Committee Report

The BAC is pleased to present the Board Audit Committee Report for the FY2018 in compliance with paragraph 15.15 of MMLR of BURSA.

BAC is mainly responsible to review the quality and effectiveness of the entire accounting and internal control system. The Committee reviews the adequacy and integrity of the audit exercise undertaken by both external auditors and internal auditors for every financial year.

This report provides an insight into the activities taken by the BAC during the year under review. For FY2018, the BAC comprises of four (4) Non-Executive Directors, all of which are INEDs and thus, fully complied with the requirements of paragraph 15.09(1)(a) and (b) of MMLR. The BAC Chairman, Razalee Amin, is a member of the Malaysian Institute of Certified Public Accountants and also a member of the Financial Planning Association of Malaysia. Accordingly, BAC complies with the requirement of paragraph 15.09(1)(c)(i) of MMLR.

The composition of BAC and attendance of BAC meetings for FY2018:-

The summary of BAC composition is as below

COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP	NO. OF MEETINGS ATTENDED	% OF ATTENDANCE
Razalee Amin	Chairman	Independent Non-Executive Director	6/6	100%
Cheah Tek Kuang	Member	Independent Non-Executive Director	6/6	100%
Dato' Ibrahim Marsidi	Member	Independent Non-Executive Director	6/6	100%
Dato' Dayang Fatimah Johari (appointed w.e.f. 24 May 2018)	Member	Independent Non-Executive Director	2/3	67%
Dato' Afifuddin Abdul Kadir (retired w.e.f. 15 May 2018)	Member	Senior Independent Non-Executive Director	2/2	100%

The President, Chief Financial Officer ("CFO"), Head of Legal & Secretarial, as well as Head of Internal Audit as well as the External Auditors are invited to attend BAC meetings to provide their input, advice, furnish the relevant and appropriate information and clarification to relevant items on the agenda.

The Company Secretary 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. The Chairman of BAC reports to the Board after each meeting. The approved minutes of BAC meetings are forwarded to Board members for information and significant issues are discussed at Board meetings.

Board Audit Committee Report (Cont'd.)

Terms of Reference

The TOR of the BAC set out the authority, duties and responsibilities of the BAC which are consistent with the requirements of the MMLR and MCCG 2017.

The updated TOR of the BAC is published on the VELESTO's website at www.velesto.com

The BNRC had conducted the annual performance evaluation of the BAC and its members for the FY2018 and the report of which was reviewed by the Board. The Board is satisfied that during the FY2018, the BAC and its members have discharged their functions, duties and responsibilities in accordance with the BAC's TOR.

Summary of BAC Activities

For the FY2018, the BAC had carried out the following activities in discharging its roles and responsibilities:-

• Financial Reporting

1. Reviewed the unaudited quarterly financial results, annual financial statements and the related press statement prior to the approval by the Board, to ensure compliance to the MMLR, Malaysian Financial Reporting Standards ("MFRS"), CA 2016 and other relevant legal and regulatory requirements.

In reviewing the above, the BAC also focuses on:-

- (i) Trend analysis on the financial amount and ratios;
 - (ii) Material changes against budget and trend; and
 - (iii) Financial impact due to implementation of the new accounting policy or accounting standards.
2. Reviewed the significant matters highlighted by the External Auditors in the financial statements and significant judgements made by the Management.
 3. Reviewed and examined the impairment assessments and assumption adopted in arriving at the recoverable amount.

• Internal Audit

1. Reviewed and approved the annual internal audit plan, manpower plan and budget of the Internal Audit Division ("IAD") for FY2018 to ensure the adequacy of resources, competencies and coverage of areas to be audited.
2. Oversaw the appointment of Head of Internal Audit Division, including interviewing the candidates.
3. Reviewed the internal audit, special reviews and investigation reports presented by IAD at the BAC Meeting. This includes review of the IAD activities with respect to:-
 - a) Status of IAD activities as compared to Annual Audit Plan;
 - b) Findings and results of special reviews and investigation conducted;
 - c) Adequacy of Management's responses to the audit findings and recommendations; and
 - d) Adequacy of IAD resources, training and development.
4. Tracked Management's implementation of internal audit recommendations on outstanding audit issues on a quarterly basis.
5. Reviewed the draft SORMIC for FY2018.

• External Audit

1. Reviewed the external auditors's scope of work and audit plans for the financial year. The representatives from the external auditors presented their audit strategy and plan.
2. Discussed with the external auditors without the presence of Management on matters deemed relevant in discharging the Board's duties and functions.
3. Assessed and recommended to the Board for approval of the audit fees payable to external auditors.
4. Considered major findings, key significant external audit matters and recommendations raised by the external auditors and Management's response and follow up actions thereto.

- **Related Party Transactions (“RPT”)**

Reviewed and deliberated on potential RPT transaction for FY2018. There is no transaction that fall within the definition of RPT prescribed under MMLR.

- **Internal Audit Division (“IAD”)**

IAD is an integrated part of the assurance structure of the Group. The Division’s primary responsibility is to provide an independent and reasonable assurance on the adequacy, integrity and effectiveness of the Group’s overall system of internal control, risk management and governance processes.

The Head of IAD reports directly to the BAC on a functional basis and to the President administratively. 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 it audits.

The total staff strength in IAD as at 31 December 2018 stood at 6 staff and a total of RM852,543 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.

Summary of IAD activities

During the FY2018, IAD has executed a total of 13 audits which comprised scheduled and ad-hoc engagements inclusive of special audits.

Amongst the key areas covered for the financial year under review were:-

- Warehouse Management;
- Inventory Management;
- Business/Rig Operations;
- Human Resource;
- Management Information System; and
- Quality, Health, Safety & Environment.

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.

This Report is made in accordance with the resolution passed at a joint meeting of BAC and BRMC held on 4 April 2019.

Additional Compliance Information

1. UTILISATION OF PROCEEDS

Status of utilisation of Rights Issue Proceeds as at 31 March 2019:

PURPOSE	PROPOSED UTILISATION	ACTUAL UTILISATION TO DATE
	RM MILLION	RM MILLION
Part repayment of the bank borrowings of the Group	1,500.0	Fully Utilised
Working capital requirements of the Group	310.0	
Defray expenses relating to Rights Issue	6.1	
Total	1,816.1	

2. AUDIT AND NON-AUDIT FEES

The amount of audit and non-audit fees incurred by the Company and the Group for the FY2018 is set out on page 195 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 FY2018 or entered into since the end of the previous financial year.

4. RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

There is no transaction that fall within the definition of Related Party Transactions and / or Recurrent Related Party Transactions of a Revenue or Trading Nature prescribed under MMLR, during the FY2018 or entered into since the end of the previous financial year.

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Notes to the Financial Statements

Directors' Report

The directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Group and 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.

CHANGE OF NAME

On 21 May 2018, the Company changed its name from UMW Oil & Gas Corporation Berhad to Velesto Energy Berhad.

RESULTS

The results of the Group and of the Company for the financial year ended 31 December 2018 are as follows:

	Group RM'000	Company RM'000
Loss for the year	(20,436)	(517,285)
Attributable to:		
Equity holders of the Company	(19,528)	(517,285)
Non-controlling interests	(908)	-
	(20,436)	(517,285)

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.

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
Cheah Tek Kuang
Dato' Ibrahim Marsidi
Mohd Rashid Mohd Yusof
Haida Shenny Hazri
Rowina Ghazali Seth
Rizal Rickman Ramli
Dato' Dayang Fatimah Johari (appointed on 24 May 2018)
Dato' Afifuddin Abdul Kadir (retired on 15 May 2018)

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
Izwan Radzi Megat Mohd Radzi
Syed Rozhan Syed Hassan
Kenzo Yamada
Yoichi Onoe
Satoru Umezu
Wai Thuy Fong
Kok Chong Mun
Yeo Kiong Pung, George
Antony Alexander Elliott
Rafiza Ghazali
Mohd Hagitar Awang Teh

Directors' Report

(Cont'd.)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during the 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.

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 in Note 21 and Note 23 to the financial statements) 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, except as disclosed in Note 31 to the financial statements.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the directors in office at the end of the financial year did not have any interest in the shares of the Company or its related corporations except for the following:

	Number of Ordinary Shares			
	1 January 2018	Bought	Sold	31 December 2018
The Company				
Direct interest				
Razalee Amin	203,000	-	-	203,000
Dato' Ibrahim Marsidi	30,000	-	-	30,000
Rohaizad Darus	3,800,000	-	-	3,800,000
Indirect interest				
Cheah Tek Kuang	36,311	-	-	36,311

	Number of Warrants			
	1 January 2018	Bought	Sold	31 December 2018
The Company				
Direct interest				
Rohaizad Darus	700,000	-	600,000	100,000

DIRECTORS' AND OFFICERS' INDEMNITY

The Company maintained a Directors' and Officers' Liability Insurance for the purpose of Section 289 of the Companies Act 2016, throughout the year, which provide appropriate insurance cover for directors of the Company. The amount of insurance premium effected for any director of the Company during the financial year was RM125,849. The directors 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 there were no known bad debts and that adequate allowance for impairment on receivables has been made; and
 - (ii) to ensure that any current assets which were unlikely to realise their values 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) it necessary to write off any 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.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any material contingent liability of the Group and 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.

Directors' Report (Cont'd.)

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Auditors' remuneration are disclosed in Note 23 to the financial statements.

To the extent permitted by law, the Company has agreed to indemnify its auditor, Ernst & Young, 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 during or since the end of the financial year.

Signed on behalf of the Board in accordance with a resolution of the directors dated 16 April 2019.

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** (formerly known as UMW Oil & Gas Corporation Berhad), do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 138 to 218 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 2018 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 16 April 2019.

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** (formerly known as UMW Oil & Gas Corporation Berhad), do solemnly and sincerely declare that the accompanying financial statements set out on pages 138 to 218 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 16 April 2019.

RAFIZA GHAZALI

Before me,

Independent Auditors' Report

to the members of VELESTO Energy Berhad
(formerly known as UMW Oil & Gas Corporation Berhad) (Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Velesto Energy Berhad (formerly known as UMW Oil & Gas Corporation Berhad), which comprise the statements of financial position as at 31 December 2018 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 138 to 218.

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 2018, 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("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.

REPORT ON THE FINANCIAL STATEMENTS (CONT'D.)

Key audit matters (cont'd.)

Impairment of non-current assets

(a) Impairment of property, plant and equipment and land use rights

As at 31 December 2018, the carrying amount of the property, plant and equipment and land use rights of the Group are RM3,530.4 million and RM1.4 million respectively, as disclosed in Note 4 and Note 5 of the financial statements. The slow recovery in the oil and gas industry, the reduction in operating day rates of the drilling rigs and the idle status of the hydraulic workover units during the year are indications that the property, plant and equipment may be impaired.

(i) Rigs, hydraulic workover units, drilling equipments, plant and machinery

Management estimated the recoverable amount of the rigs, hydraulic workover units, drilling equipments, plant and machinery using value in use based on discounted future cash flows. Accordingly, impairment assessment performed for the aforementioned assets resulted in impairment losses of RM3.9 million as disclosed in Note 4 to the financial statements.

(ii) Building and land use rights

Management estimated the recoverable amount of the building and land use rights using fair value less cost to sell ("FVLCS"). The fair value of the building and land use rights is obtained from valuation report performed by an independent valuer. The impairment assessment performed for the aforementioned assets resulted in impairment losses of RM6.6 million and RM0.8 million as disclosed in Note 4 and 5 to the financial statements.

(b) Impairment assessment of investments in subsidiaries

As at 31 December 2018, certain subsidiaries have reported continuing operating losses and / or depleting shareholders' funds. These are indications that the investments in these subsidiaries with a carrying amount of RM1,274.7 million may be impaired. The Company estimated the recoverable amount of the subsidiaries using value in use based on discounted future cash flows and compared the carrying amount of the investments in subsidiaries with their respective recoverable amounts. This resulted in impairment losses of investments in subsidiaries of RM565.3 million as disclosed in Notes 6 and 22 to the financial statements.

Given the significance of property, plant and equipment to the Group and investments in subsidiaries to the Company and the significant judgments and estimates involved in the assessment of the recoverable amount, we have identified the above impairment assessments as important to our audit.

Independent Auditors' Report

to the members of VELESTO Energy Berhad
(formerly known as UMW Oil & Gas Corporation Berhad) (Incorporated in Malaysia) (Cont'd.)

REPORT ON THE FINANCIAL STATEMENTS (CONT'D.)

Key audit matters (cont'd.)

Impairment of non-current assets (cont'd.)

Our procedures in reviewing the significant judgements and estimates applied in arriving at the recoverable amount for the impairment assessment or fair value less cost to sell as at 31 December 2018, 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 enquiries with 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;
- 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 test.

Inventory-related controls and stock takes

As at 31 December 2018, 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. Further details of the inventories are disclosed in Note 9.

Our procedures in reviewing the inventory-related controls and stock takes are as follows:

- Obtained an understanding on the controls over the inventory, including the procedures for goods transferred between locations, guidelines for urgent purchases, the physical security of the inventory, and stock takes;
- Attended and observed physical stock takes conducted by management for selected locations to assess adherence to stock take processes;

REPORT ON THE FINANCIAL STATEMENTS (CONT'D.)

Key audit matters (cont'd.)

Inventory-related controls and stock takes (cont'd.)

- Evaluated the roll forward and roll backward of inventory 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 financial year ended 31 December 2018 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, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 regards.

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.

Independent Auditors' Report

to the members of VELESTO Energy Berhad
(formerly known as UMW Oil & Gas Corporation Berhad) (Incorporated in Malaysia) (Cont'd.)

REPORT ON THE FINANCIAL STATEMENTS (CONT'D.)

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.
- 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.

REPORT ON THE FINANCIAL STATEMENTS (CONT'D.)

Auditors' responsibilities for the audit of the financial statements (cont'd.)

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 30 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

AF: 0039

Chartered Accountants

Kuala Lumpur, Malaysia

16 April 2019

NG YEE YEE

No. 03176/05/2019 J

Chartered Accountant

Consolidated Statement of Financial Position

as at 31 December 2018

	Note	2018 RM'000	2017 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	3,530,440	3,643,231
Land use rights	5	1,427	2,367
Investment in an associate	7	2,245	2,303
Deferred tax assets	8	666	100
		3,534,778	3,648,001
Current assets			
Inventories	9	179,504	194,841
Receivables	10	245,758	262,775
Tax recoverable		2,767	5,730
Other investments	12	165,606	-
Deposits, cash and bank balances	13	235,029	680,747
		828,664	1,144,093
TOTAL ASSETS		4,363,442	4,792,094
EQUITY AND LIABILITIES			
Non-current liabilities			
Long term borrowings	14	1,348,379	1,398,528
Current liabilities			
Short term borrowings	15	88,828	461,115
Payables	16	127,397	167,823
Taxation		336	435
		216,561	629,373
Total liabilities		1,564,940	2,027,901
Equity			
Equity attributable to equity holders of the Company			
Ordinary share capital	17	4,054,817	3,732,346
Islamic Redeemable Convertible Preference Shares ("RCPS-i")	17	-	322,471
Other reserves	18	921,811	868,674
Accumulated losses		(2,179,656)	(2,160,128)
		2,796,972	2,763,363
Non-controlling interests		1,530	830
Total equity		2,798,502	2,764,193
TOTAL EQUITY AND LIABILITIES		4,363,442	4,792,094

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Statement of Comprehensive Income

for the Year Ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Revenue	19	573,804	586,651
Other operating income	20	21,042	11,164
Changes in inventories		553	146
Finished goods purchased		(287)	(128)
Raw materials and consumables used		(59,732)	(73,334)
Employee benefits	21	(127,831)	(116,638)
Depreciation and amortisation		(191,465)	(259,057)
Impairment provisions	22	(11,325)	(982,135)
Other operating expenses	23	(149,895)	(177,210)
Profit/(loss) from operations		54,864	(1,010,541)
Finance costs	24	(85,118)	(138,221)
Investment income	25	12,442	17,836
Share of results of associate		249	419
Loss before tax		(17,563)	(1,130,507)
Income tax (expense)/credit	26	(2,873)	1,232
Loss for the year		(20,436)	(1,129,275)
Other comprehensive income/(loss):			
Foreign currency translation		53,262	(175,048)
Cash flow hedges:			
Fair value loss		–	(5,559)
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods (net of tax):		53,262	(180,607)
Total comprehensive income/(loss) for the year		32,826	(1,309,882)
Loss attributable to:			
Equity holders of the Company		(19,528)	(1,126,999)
Non-controlling interests		(908)	(2,276)
		(20,436)	(1,129,275)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		33,665	(1,307,499)
Non-controlling interests		(839)	(2,383)
		32,826	(1,309,882)
Basic loss per share attributable to equity holders of the Company (sen)	27	(0.24)	(36.79)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Statement of Changes In Equity

for the Year Ended 31 December 2018

	Non-distributable						Distributable				Total equity RM'000	
	Share capital RM'000 (Note 17)	Share premium RM'000 (Note 17)	Share options reserve RM'000 (Note 18)	Warrant reserve RM'000 (Note 18)	Capital reserve RM'000 (Note 18)	Gain on derecognition of financial liabilities RM'000 (Note 18)	Foreign currency translation reserve RM'000 (Note 18)	Hedging reserve RM'000 (Note 18)	Accumulated losses RM'000	Total RM'000		Non-controlling interests RM'000
At 1 January 2017	1,081,000	1,372,819	3,243	-	698	78,145	749,653	5,559	(1,033,129)	2,257,988	3,213	2,261,201
Transactions with owners												
Effect of implementation of Companies Act 2016 (Note 17)	1,372,819	(1,372,819)	-	-	-	-	-	-	-	-	-	-
Issue of ordinary shares pursuant to rights issue (Note 17)	1,281,733	-	-	169,285	-	-	-	-	-	1,451,018	-	1,451,018
Issue of RCPS-i (Note 17 and 18)	-	-	-	42,591	-	-	-	-	-	365,062	-	365,062
Rights issue expenses (Note 17)	(3,206)	-	-	-	-	-	-	-	-	(3,206)	-	(3,206)
Total transactions with owners	2,651,346	(1,372,819)	3,243	211,876	698	78,145	749,653	5,559	(1,033,129)	1,812,874	-	1,812,874
Loss for the year	-	-	-	-	-	-	-	-	(1,126,999)	(1,126,999)	(2,276)	(1,129,275)
Other comprehensive income for the year	-	-	-	-	-	-	(174,941)	(5,559)	-	(180,500)	(107)	(180,607)
Total comprehensive loss for the year	-	-	-	-	-	-	(174,941)	(5,559)	(1,126,999)	(1,307,499)	(2,383)	(1,309,882)
At 31 December 2017	3,732,346	-	3,243	211,876	698	78,145	574,712	-	(2,160,128)	2,763,363	830	2,764,193

Consolidated Statement of Changes In Equity

for the Year Ended 31 December 2018 (Cont'd.)

	Non-distributable					Distributable				Total equity RM'000		
	Share capital RM'000 (Note 17)	Share premium RM'000 (Note 17)	RCPs-i RM'000 (Note 17)	Warrant reserve RM'000 (Note 18)	Share options reserve RM'000 (Note 18)	Capital reserve RM'000 (Note 18)	Gain on derecognition of financial liabilities RM'000 (Note 18)	Foreign currency translation reserve RM'000 (Note 18)	Accumulated losses RM'000		Total RM'000	Non-controlling interests RM'000
At 1 January 2018	3,752,346	-	322,471	211,876	3,243	698	78,145	574,712	(2,160,128)	2,763,363	830	2,764,193
Transactions with owners												
Conversion of RCPs-i to ordinary shares (Note 17)	322,471	-	(322,471)	-	-	-	-	-	-	-	-	-
Disposal of a subsidiary	-	-	-	-	(56)	-	-	-	-	(56)	1,539	1,483
Total transactions with owners	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
Total comprehensive income for the year	-	-	-	-	-	-	-	53,193	(19,528)	33,665	(839)	32,826
At 31 December 2018	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 Year Ended 31 December 2018

	2018 RM'000	2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(17,563)	(1,130,507)
Adjustments for:		
Depreciation and amortisation	191,465	259,057
Impairment loss on property, plant and equipment (Note 4)	10,522	982,089
Impairment loss on land use rights (Note 5)	803	-
Interest expense	85,118	138,221
Investment income	(12,442)	(17,836)
Net loss/(gain) on disposal of property, plant and equipment	1,970	(297)
Property, plant and equipment written off	62	9
(Reversal of)/impairment losses on receivables	(1,474)	1,529
Reversal of provision for unutilised leave	(71)	(19)
Share of results of associate	(249)	(419)
Net fair value gain on derivatives	-	(2,580)
Net fair value gain on investments in money market fund	(85)	-
Net unrealised foreign exchange (gain)/loss	(1,131)	10,406
Operating profit before working capital changes	256,925	239,653
Decrease/(increase) in receivables	22,241	(138,135)
Decrease/(increase) in inventories	18,964	(1,282)
Decrease in payables	(54,844)	(9,523)
Net cash generated from operations	243,286	90,713
Interest paid	(85,126)	(139,846)
Taxes paid	(558)	(1,747)
Net cash generated from/(used in) operating activities	157,602	(50,880)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	13,783	17,026
Purchase of property, plant and equipment	(27,574)	(17,179)
Proceeds from disposal of property, plant and equipment	4,761	11,084
Dividend received from an associate	307	349
Net cash inflow from disposal of a subsidiary	1,810	-
Investment in money market fund	(165,521)	-
Net cash (used in)/generated from investing activities	(172,434)	11,280

Consolidated Statement of Cash Flows

for the Year Ended 31 December 2018 (Cont'd.)

	2018 RM'000	2017 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term borrowings	-	(2,125,382)
Net movement in short term borrowings	(432,322)	(919,059)
Placement of restricted cash deposits in licensed banks	(36,698)	(10,894)
Repayment on loan advances received from former holding company	-	(308,000)
Drawdown of long term borrowings	-	1,407,381
Proceeds from issuance of ordinary shares	-	1,451,018
Proceeds from issuance of RCPS-i	-	365,062
Rights issue expenses	-	(3,206)
Withdrawal of restricted cash deposits in licensed banks	-	558,275
Net cash (used in)/generated from financing activities	(469,020)	415,195
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(483,852)	375,595
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	669,853	333,196
EFFECTS OF EXCHANGE RATE CHANGES	1,436	(38,938)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	187,437	669,853
Cash and cash equivalents comprise:		
Deposits with licensed banks - Current (Note 13)	39,082	610,130
Cash and bank balances (Note 13)	195,947	70,617
	235,029	680,747
Less: Restricted cash (Note 13)	(47,592)	(10,894)
	187,437	669,853

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statement of Financial Position

as at 31 December 2018

	Note	2018 RM'000	2017 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	1,907	2,025
Investment in subsidiaries	6	1,124,651	1,605,835
Due from related companies	11	818,387	774,828
		1,944,945	2,382,688
Current assets			
Receivables	10	683	2,845
Tax recoverable		–	1,837
Due from related companies	11	399,823	152,846
Other investments	12	165,606	–
Deposits, cash and bank balances	13	19,729	564,233
		585,841	721,761
TOTAL ASSETS		2,530,786	3,104,449
EQUITY AND LIABILITIES			
Non-current liabilities			
Due to related company	11	388,273	298,091
Current liabilities			
Payables	16	3,704	6,617
Due to related companies	11	2,141	146,161
Taxation		373	–
		6,218	152,778
Total liabilities		394,491	450,869
Equity			
Equity attributable to equity holders of the Company			
Ordinary share capital	17	4,054,817	3,732,346
Islamic Redeemable Convertible Preference Shares ("RCPS-i")	17	–	322,471
Other reserves	18	290,021	290,021
Accumulated losses		(2,208,543)	(1,691,258)
Total equity		2,136,295	2,653,580
TOTAL EQUITY AND LIABILITIES		2,530,786	3,104,449

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statement of Comprehensive Income

for the Year Ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Revenue	19	8,500	17,029
Other operating income	20	21,446	1,672
Employee benefits	21	(16,157)	(15,057)
Depreciation		(645)	(819)
Impairment provisions	22	(575,314)	(1,498,910)
Other operating expenses	23	(15,614)	(47,259)
Loss from operations		(577,784)	(1,543,344)
Finance costs	24	(1,585)	(62,743)
Investment income	25	64,029	70,859
Loss before tax		(515,340)	(1,535,228)
Income tax (expense)/credit	26	(1,945)	1,136
Loss for the year, representing total comprehensive loss for the year		(517,285)	(1,534,092)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statement of Changes in Equity

for the Year Ended 31 December 2018

	Non-distributable				Distributable		Total equity RM'000
	Share capital RM'000 (Note 17)	Share premium RM'000 (Note 17)	RCPS-i RM'000 (Note 17)	Warrant reserve RM'000 (Note 18)	Gain on derecognition of financial liabilities RM'000 (Note 18)	Accumulated losses RM'000	
At 1 January 2017	1,081,000	1,372,819	-	-	78,145	(157,166)	2,374,798
Transactions with owners							
Effect of implementation of Companies Act 2016 (Note 17)	1,372,819	(1,372,819)	-	-	-	-	-
Issue of ordinary shares pursuant to rights issue (Note 17)	1,281,733	-	-	169,285	-	-	1,451,018
Issue of RCPS-i (Note 17 and 18)	-	-	322,471	42,591	-	-	365,062
Rights issue expenses (Note 17)	(3,206)	-	-	-	-	-	(3,206)
Total transactions with owners	2,651,346	(1,372,819)	322,471	211,876	-	-	1,812,874
Total comprehensive loss	-	-	-	-	-	(1,534,092)	(1,534,092)
At 31 December 2017	3,732,346	-	322,471	211,876	78,145	(1,691,258)	2,653,580
At 1 January 2018	3,732,346	-	322,471	211,876	78,145	(1,691,258)	2,653,580
Transactions with owners							
Conversion of RCPS-i to ordinary shares (Note 17)	322,471	-	(322,471)	-	-	-	-
Total transactions with owners	322,471	-	(322,471)	-	-	-	-
Total comprehensive loss	-	-	-	-	-	(517,285)	(517,285)
At 31 December 2018	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 Year Ended 31 December 2018

	2018 RM'000	2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(515,340)	(1,535,228)
Adjustments for:		
Depreciation of plant and equipment	645	819
Interest expense	1,585	62,743
Investment income	(64,029)	(70,859)
Net unrealised foreign exchange (gain)/loss	(15,018)	101,159
Dividend income	–	(8,644)
Amount due from a subsidiary written off	2,795	–
Loss on disposal of plant and equipment	18	182
Net fair value gains on investments in money market fund	(85)	–
Reversal of provision for unutilised leave	–	(23)
Provision for impairment in investment in subsidiaries	565,275	1,327,925
Provision for impairment in amount due from subsidiaries	10,039	170,985
Operating (loss)/profit before working capital changes	(14,115)	49,059
Decrease/(increase) in other receivables	849	(75)
(Decrease)/increase in other payables	(2,929)	2,019
Net changes in related companies balances	(28,443)	436,870
Cash (used in)/generated from operating activities	(44,638)	487,873
Tax refunded/(paid)	265	(525)
Net cash (used in)/generated from operating activities	(44,373)	487,348
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	65,342	70,123
Advances to subsidiaries	(397,838)	(146,754)
Purchase of plant and equipment	(577)	(538)
Proceeds from disposal of plant and equipment	32	80
Investment in money market fund	(165,521)	–
Dividend received from a subsidiary	–	8,644
Net cash used in investing activities	(498,562)	(68,445)

Statement of Cash Flows

for the Year Ended 31 December 2018 (Cont'd.)

	2018 RM'000	2017 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term borrowings	-	(676,032)
Net movement in short term borrowings	-	(1,035,674)
Repayment of loan advances received from former holding company	-	(308,000)
Interest paid	(1,569)	(69,426)
Proceeds from issuance of ordinary shares	-	1,451,018
Proceeds from issuance of RCPS-i	-	365,062
Rights issue expenses	-	(3,206)
Withdrawal of restricted cash deposits in licensed bank	-	221,825
Net cash used in financing activities	(1,569)	(54,433)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(544,504)	364,470
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	564,233	199,763
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	19,729	564,233
Cash and cash equivalents comprise:		
Deposits with licensed banks (Note 13)	15,500	558,317
Cash and bank balances (Note 13)	4,229	5,916
	19,729	564,233

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Notes to the Financial Statements

31 December 2018

1. CORPORATE INFORMATION

Velesto Energy Berhad (“VEB”) (formerly known as UMW Oil & Gas Corporation Berhad) 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 30 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 Malaysia and 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 16 April 2019.

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 2018, the Group and the Company adopted the new and amended MFRSs (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 2018 as described fully in Note 2.3.

MASB has also issued new and revised MFRS 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.

Notes to the Financial Statements

31 December 2018 (Cont'd.)

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 costs 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.

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 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 the statement of 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.

Notes to the Financial Statements

31 December 2018 (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.)

Business combinations (cont'd.)

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).

Business combinations under common control

Business combinations under common control are accounted for in the consolidated accounts retrospectively from the date the ultimate holding company obtains the ownership interest. Assets and liabilities are recognised upon consolidation at their carrying amount in the consolidated financial statements of the ultimate holding company. 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 or net assets in subsidiaries not held by the Group. Non-controlling interests in the consolidated statements 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(a) Basis of consolidation, subsidiaries and associate (cont'd.)

(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 policies. 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).

(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 investments 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.

Notes to the Financial Statements

31 December 2018 (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 (cont'd.)

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.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(b) Property, plant and equipment (cont'd.)

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).

(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).

Notes to the Financial Statements

31 December 2018 (Cont'd.)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(d) Financial assets

At 1 January 2018, the Group and the Company applied MFRS 9 Financial Instruments as disclosed below:

Initial recognition and measurement

Financial assets are classified at initial recognition and 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.

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.

Subsequent measurement

For the purpose of subsequent measurement, financial assets of the Group and of the Company 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(d) Financial assets (cont'd.)

Subsequent measurement (cont'd.)

(i) Financial assets at amortised cost (debt instruments) (cont'd.)

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 Company's financial assets at amortised cost include trade receivables, other receivables (other than prepayments and deferred expenses), 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 financial assets at fair value through profit or loss include investment in money market fund.

Notes to the Financial Statements

31 December 2018 (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 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).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(e) Impairment of financial assets (cont'd.)

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.

(f) Cash and cash equivalents

Cash and cash equivalents include cash and bank balances and deposits at call with licensed banks with a maturity of three months or less.

(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 represent 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 gains and losses.

Notes to the Financial Statements

31 December 2018 (Cont'd.)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(h) Intangible assets (cont'd.)

Goodwill (cont'd.)

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.

(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 financial reporting date, foreign currency non-monetary items which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate when the fair values were determined.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Foreign currencies (cont'd.)

(ii) Foreign currency transactions (cont'd.)

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 operations, at which time they are recognised in profit or loss.

(iii) Foreign operations

Financial statements of foreign subsidiaries 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.

(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 at amortised cost, net of directly attributable transaction costs.

The Group's and the Company's financial liabilities include trade and other payables, loans and borrowings and amounts due to subsidiaries.

Notes to the Financial Statements

31 December 2018 (Cont'd.)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(j) Financial liabilities (cont'd.)

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

(i) 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 statement 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 income statement.

(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.

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 tax

Income tax on 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.

Notes to the Financial Statements

31 December 2018 (Cont'd.)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(n) Income tax (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.

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 at the point in time at which the service is performed.

Day-rate based contracts may include lump-sum fee for mobilisation and demobilisation which are recognised based on the policies stated in Note 2.2(o)(ii) and (iii). Fees received from customer under contract for upgrade to the rig is 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 services are performed.

Mobilisation costs incurred as part of a contract are deferred and recognised as 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 as and when services are rendered, or at the point when it becomes known and certain that demobilisation fee can be charged to the customer.

(iv) Sale of goods

Sales are recognised upon delivery of goods, net of returns and trade discount.

(v) Rendering of services

Revenue from services rendered is recognised net of service tax on accrual basis as and when services are performed.

Notes to the Financial Statements

31 December 2018 (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.)

(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

(i) As lessee

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. All other leases are classified as operating leases. Finance lease assets are capitalised at the lower of the fair value of the leased asset or the present value of the minimum lease payments, at the inception of the lease. The corresponding lease obligations, net of finance charges are included in borrowings. The interest rate implicit in the lease is used as the discount factor in calculating the present value of the minimum lease payments. Initial direct costs incurred are included as part of the asset.

The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the outstanding balance of the liability for each period.

The depreciation policy for assets held under finance leases is consistent with that for depreciable property, plant and equipment as described in Note 2.2(b).

Lease rental payments on operating leases are recognised in profit or loss on a straight-line basis over the period of the lease.

(ii) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.2(o)(vi).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(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 contribution to their respective countries' statutory pension schemes. The contributions are recognised as an expense in profit or loss as incurred.

(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.

For the purpose of impairment testing of these assets, 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, 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.

Notes to the Financial Statements

31 December 2018 (Cont'd.)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(r) Impairment of non-financial assets (cont'd.)

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 President who regularly review 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 29, including the factors used to identify the reportable segments and the measurement basis of segment information.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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 2018, the Group and the Company adopted the following new and amended MFRSs (collectively referred as “pronouncements”) mandatory for annual financial periods beginning on or after 1 January 2018.

Description

MFRS 9 Financial Instruments

MFRS 15 Revenue from Contract with Customers

Clarifications to MFRS 15 Revenue from Contracts with Customers

MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)

MFRS 140 Transfers of Investment Property (Amendments to MFRS 140)

Annual Improvements to MFRSs 2014 – 2016 Cycle

IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

Adoption of the above pronouncement did not have any significant effect on the financial performance or position of the Group and the Company other than as set out below:

MFRS 15 Revenue from Contract with Customers

MFRS 15 supersedes MFRS 111 Construction Contracts, MFRS 118 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. MFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

MFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted MFRS 15 using the modified retrospective method to apply MFRS 15 to only contracts that are not completed contracts at the date of initial application. The adoption of MFRS 15 has had no significant impact on the Group’s financial position of performance except for new disclosure in the financial statements as disclosed in Note 19.

Notes to the Financial Statements

31 December 2018 (Cont'd.)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Changes in accounting policies (cont'd.)

MFRS 9 Financial Instruments

MFRS 9 Financial Instruments replaces MFRS 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments, classification and measurement, impairment and hedge accounting. The Group has applied MFRS 9 using prospective approach, with the initial application date of 1 January 2018 and will not restate comparative information.

The adoption of MFRS 9 does not have any material impact on the Group's and the Company's financial statements as the classification and measurement of the Group's financial assets under MFRS 9 is similar to the Group's previous classification and measurement under MFRS 139.

With regard to the impairment of financial assets based on the expected credit loss ("ECL") model, there is no material impact to the Group's and Company's financial statement arising from the ECL model.

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 the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 3 Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to MFRS 9 Prepayment Features with Negative Compensation	1 January 2019
Amendments to MFRS 11 Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
MFRS 16 Leases	1 January 2019
Amendments to MFRS 112 Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to MFRS 119 Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to MFRS 123 Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to MFRS 128 Long-term interests in Associates and Joint Ventures	1 January 2019
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
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 10 and MFRS 128 Sale or Contribution of Assets between an Investor and its Associate or Joint-Venture	Deferred

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective (cont'd.)

The adoption of the above pronouncements is not expected to have material impact on the financial statements in the period of initial application, except for those discussed below:

MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under MFRS 16 is substantially unchanged from today's accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early application permitted for entities that have applied MFRS 15.

The Group has assessed the estimated financial impact on its financial statements on initial application of MFRS 16. Upon adoption of MFRS 16, the significant impact on financial statements will arise from non-cancellable operating lease commitment of office buildings, plant and equipment and motor vehicles where the Group is currently assessing the potential impact. A preliminary assessment indicates that these arrangements will meet the definition of a lease under MFRS 16 and hence, the Group will recognise the right-of-use assets and a corresponding liability in respect of these leases. It is not practicable to provide reasonable estimate of the financial effect until the Group completes the review.

As allowed by the transitional provision of MFRS 16, the Group has elected the modified retrospective approach with no restatement of comparative and the cumulative adjustments resulting from the initial application of MFRS 16 to be recognised in retained earnings and reserves as at 1 January 2019.

The Group considers that it is achieving its scheduled milestones and expects to be in a position to fully comply into the requirements of MFRS 16 for the financial year ending 31 December 2019.

Notes to the Financial Statements

31 December 2018 (Cont'd.)

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

3.1 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 upon the likely timing and level of future taxable profits together with future tax planning strategies. The total carrying value of recognised and unrecognised tax losses, capital allowances and reinvestment allowances of the Group are as disclosed in Note 8.

(ii) Impairment of property, plant and equipment, land use rights and investment in subsidiaries

During the current financial year, the Group and the Company have recognised impairment losses in respect of property, plant and equipment, land use rights, and investment in subsidiaries.

The Group carried out the impairment test based on value in use and fair value less cost to sell of the CGU of the property, plant and equipment, land use rights and impairment in subsidiaries.

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 valuer 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 disclosed in Note 4, Note 5 and Note 6.

4. PROPERTY, PLANT AND EQUIPMENT

Group	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
Cost						
At 1 January 2017	34,104	7,379,536	80,440	38,046	34,442	7,566,568
Exchange differences	(794)	(648,815)	(1,737)	(3,542)	(1,760)	(656,648)
Additions	25	9,763	101	6,759	531	17,179
Write-offs	-	-	(5,893)	-	(19)	(5,912)
Disposals	-	(338,357)	(282)	(10,647)	(390)	(349,676)
Reclassification	161	6,368	(102)	(7,607)	1,180	-
At 31 December 2017/ 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	20,566	6,585,279	23,930	343	32,216	6,662,334
Accumulated depreciation						
At 1 January 2017	8,525	1,029,799	46,371	-	23,221	1,107,916
Exchange differences	(59)	(75,069)	(1,567)	-	(1,478)	(78,173)
Depreciation charge for the year	574	249,824	2,733	-	5,870	259,001
Write-offs	-	-	(5,887)	-	(16)	(5,903)
Disposals	-	(135,489)	(243)	-	(90)	(135,822)
Reclassification	-	(47)	(29)	-	76	-
At 31 December 2017/ 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	1,896	1,280,534	10,490	-	26,962	1,319,882

Notes to the Financial Statements

31 December 2018 (Cont'd.)

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Group	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
Accumulated impairment losses						
At 1 January 2017	3,081	1,134,029	21,666	-	1,751	1,160,527
Exchange differences	-	(158,288)	-	-	-	(158,288)
Impairment losses (Note 22)	-	982,073	-	-	16	982,089
Disposals	-	(203,067)	-	-	-	(203,067)
At 31 December 2017/ 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 22)	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	6,637	1,792,715	10,863	-	1,797	1,812,012
Net carrying amount						
At 31 December 2018	12,033	3,512,030	2,577	343	3,457	3,530,440
At 31 December 2017	21,375	3,584,730	9,483	23,009	4,634	3,643,231

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Company	**Other assets RM'000	Assets-in- progress RM'000	Total RM'000
Cost			
At 1 January 2017	5,997	69	6,066
Additions	403	135	538
Disposals	(262)	-	(262)
Reclassification	47	(47)	-
At 31 December 2017/1 January 2018	6,185	157	6,342
Additions	577	-	577
Disposals	(50)	-	(50)
Reclassification	127	(127)	-
At 31 December 2018	6,839	30	6,869
Accumulated depreciation			
At 1 January 2017	3,498	-	3,498
Depreciation charge for the year	819	-	819
At 31 December 2017/1 January 2018	4,317	-	4,317
Depreciation charge for the year	645	-	645
At 31 December 2018	4,962	-	4,962
Net carrying amount			
At 31 December 2018	1,877	30	1,907
At 31 December 2017	1,868	157	2,025

** Included in the other assets are office equipment, furniture and fittings, renovation, improvements and motor vehicles.

Notes to the Financial Statements

31 December 2018 (Cont'd.)

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

The Group's recoverable amount for the impaired rigs, HWUs, drilling equipment and plant and machinery of RM15,775,000 (2017: RM3,507,052,000) 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% (2017: 19.3%). Impairment losses of RM3,885,000 (2017: RM982,089,000) was recognised using this basis.

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 rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

The calculation of value in use are 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 valuation performed by independent valuer based on comparable buildings. The fair value measurement is derived based on level 3 of the fair value hierarchy. Further details of fair value hierarchy are disclosed in Note 32. Impairment of RM6,637,000 was recognised using this basis.

5. LAND USE RIGHTS

Group	Short term leasehold land RM'000
Cost	
At 1 January 2017	2,835
Exchange differences	(104)
At 31 December 2017/1 January 2018	2,731
Exchange differences	(97)
At 31 December 2018	2,634
Accumulated amortisation	
At 1 January 2017	321
Exchange differences	(13)
Amortisation for the year	56
At 31 December 2017/1 January 2018	364
Exchange differences	(13)
Amortisation for the year	53
At 31 December 2018	404
Accumulated impairment losses	
At 31 December 2017/1 January 2018	-
Impairment losses (Note 22)	803
At 31 December 2018	803
Net carrying amount	
At 31 December 2018	1,427
At 31 December 2017	2,367

The recoverable amounts of the land use rights are determined based on fair value less cost to sell. The valuation was performed by an independent valuer. The fair value measurement is derived based on level 3 of the fair value hierarchy. Further details of fair value hierarchy are disclosed in Note 32.

Included in the total impairment is an impairment loss of RM803,000 land use rights with recoverable amount of RM1,460,000.

Notes to the Financial Statements

31 December 2018 (Cont'd.)

6. INVESTMENT IN SUBSIDIARIES

	Company	
	2018 RM'000	2017 RM'000
Unquoted shares, at cost		
In Malaysia	3,282,978	3,198,887
Outside Malaysia	22,902	22,902
	3,305,880	3,221,789
Less: Impairment losses (Note 22)	(2,181,229)	(1,615,954)
	1,124,651	1,605,835

As at 31 December 2018, certain subsidiaries of the Company have reported continuing operating losses and depleting shareholders' funds. 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 RM565,275,000 (2017: RM1,327,925,000) as disclosed in Note 22.

Details of the subsidiaries are set out in Note 30.

7. INVESTMENT IN AN ASSOCIATE

	Group	
	2018 RM'000	2017 RM'000
Unquoted shares, at cost	1,090	1,090
Share of post-acquisition reserves	1,155	1,213
	2,245	2,303

Details of the associate are as follows:

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2018 %	2017 %
Oil-Tex (Thailand) Company Limited*	Thailand	Provision of logistic services for the oil and gas industry.	20	20

* Audited by firm other than Ernst & Young.

Financial year end of Oil-Tex (Thailand) Company Limited is 31 March.

7. INVESTMENT IN AN ASSOCIATE (CONT'D.)

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 2018 and 2017 of the associate have been used.

The summarised financial information of the associate, not adjusted for the proportion of ownership interest held by the Group is as follows:

	2018	2017
	RM'000	RM'000
Assets and liabilities:		
Current assets	11,111	11,458
Non-current assets	494	1,623
Total assets	11,605	13,081
Current liabilities, representing total liabilities	1,367	1,803
Results		
Revenue	10,103	9,788
Profit for the year	207	2,093
Total comprehensive income	659	403

Reconciliation of the summarised financial information presented above to the carrying amount of the Group's interest in associate is as follows:

	2018	2017
	RM'000	RM'000
Net assets at 1 January	11,278	12,619
Profit for the year	207	2,093
Dividend paid	(1,704)	(1,744)
Other comprehensive income	452	(1,690)
Net assets at 31 December	10,233	11,278
Share of net assets	2,047	2,256
Goodwill	47	47
Carrying value of the Group's interest in associate	2,094	2,303

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31 December 2018 (Cont'd.)

8. DEFERRED TAXATION

	Group	
	2018	2017
	RM'000	RM'000
At 1 January	(100)	(112)
Recognised in profit or loss (Note 26)	(549)	2
Exchange differences	(17)	10
At 31 December	(666)	(100)

Presented after appropriate offsetting as follows :

Deferred tax liabilities	1,582	1,582
Deferred tax assets	(2,248)	(1,682)
	(666)	(100)

The components and movements of deferred tax liabilities and assets during the financial year are as follows:

Deferred tax liabilities:

	Accelerated capital allowances RM'000
At 1 January 2018/31 December 2018	1,582
At 1 January 2017	701
Recognised in profit or loss	881
At 31 December 2017	1,582

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
At 1 January 2018	(1,582)	(1)	-	(99)	(1,682)
Recognised in profit or loss	-	-	(478)	(71)	(549)
Exchange differences	-	-	(13)	(4)	(17)
At 31 December 2018	(1,582)	(1)	(491)	(174)	(2,248)
At 1 January 2017	(701)	(3)	-	(109)	(813)
Recognised in profit or loss	(881)	2	-	-	(879)
Exchange differences	-	-	-	10	10
At 31 December 2017	(1,582)	(1)	-	(99)	(1,682)

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Unutilised tax losses	78,716	142,856	57,502	57,351
Unabsorbed capital and reinvestment allowances	53,025	39,742	3,656	3,321
Others	1,202	10,893	980	580
	132,943	193,491	62,138	61,252

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. 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.

Deferred tax assets have not been recognised in respect of these items as it is not probable that future taxable profits of the applicable Group entities will be sufficient to allow the benefits to be realised.

Notes to the Financial Statements

31 December 2018 (Cont'd.)

9. INVENTORIES

	Group	
	2018 RM'000	2017 RM'000
At cost:		
Raw materials, spare parts and consumables	179,504	194,841

The cost of inventories recognised as an expense during the year amounted to RM59,466,000 (2017: RM73,316,000).

10. RECEIVABLES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Trade receivables (Note (a))	234,244	243,887	-	-
Other receivables (Note (b))	11,514	18,888	683	2,845
Total trade and other receivables	245,758	262,775	683	2,845
Less:				
Prepayments (Note (b))	(4,832)	(7,867)	(146)	(230)
Deferred expenses (Note (b))	-	(752)	-	-
	240,926	254,156	537	2,615
Add:				
Deposits, cash and bank balances (Note 13)	235,029	680,747	19,729	564,233
Due from subsidiaries - Non-current (Note 11)	-	-	818,387	774,828
Due from subsidiaries - Current (Note 11)	-	-	399,823	152,846
Total financial assets at amortised cost	475,955	934,903	1,238,476	1,494,522

10. RECEIVABLES (CONT'D.)

(a) Trade receivables

	Group	
	2018 RM'000	2017 RM'000
Trade receivables	79,233	175,505
Allowance for impairment (Note (i))	(9)	(1,492)
	79,224	174,013
Accrued income	155,020	69,874
	234,244	243,887

The Group's normal trade credit terms for the financial year ended 31 December 2018 range from 30 days to 60 days (2017: 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.

The Group has concentration of credit risk in the form of outstanding balances due from 10 (2017: 8) debtors representing 89% (2017: 80%) of the total net trade receivables.

(i) Receivables that are impaired

	Group	
	2018 RM'000	2017 RM'000
Individually impaired		
Trade receivables	9	1,492
Less: Allowance for impairment	(9)	(1,492)
	-	-
Movement in allowance for impairment		
At 1 January	1,492	9
Exchange differences	(9)	-
Charge during the year (Note 23)	-	1,492
Reversal of impairment loss (Note 20)	(1,474)	(9)
At 31 December	9	1,492

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.

Notes to the Financial Statements

31 December 2018 (Cont'd.)

10. RECEIVABLES (CONT'D.)

(b) Other receivables

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deposits	1,114	1,713	385	337
Prepayments (Note (a))	4,832	7,867	146	230
Deferred expenses (Note (a))	-	752	-	-
Sundry receivables	5,568	6,199	152	1,465
Due from subsidiaries of former holding company	-	3,338	-	813
	11,514	19,869	683	2,845
Less: Allowance for impairment losses	-	(981)	-	-
	11,514	18,888	683	2,845

Prepayments mainly comprise insurance premium and advance payments to vendors in respect of certain services.

Deferred expenses relate to mobilisation expenses incurred on drilling and workover contracts that are deferred and recognised on a straight-line basis over the term of the contract.

11. DUE FROM/(TO) RELATED COMPANIES

	Company	
	2018 RM'000	2017 RM'000
Non-current:		
Due from subsidiaries		
- interest bearing at 2.60% to 5.87% (2017: 1.94% to 4.91%) per annum	948,719	898,824
Less: Allowance for impairment losses (Note 22)	(130,332)	(123,996)
	818,387	774,828
Current:		
Due from subsidiaries		
- interest bearing at 2.80% to 6.82% (2017: 1.75% to 5.13%) per annum	480,705	232,182
- non-interest bearing	2,157	-
	482,862	232,182
Less: Allowance for impairment losses (Note 22)	(83,039)	(79,336)
	399,823	152,846
Total amount due from related companies	1,218,210	927,674

	Company	
	2018 RM'000	2017 RM'000
Non-current:		
Due to subsidiaries	(388,273)	(298,091)
Current:		
Due to subsidiaries		
- interest bearing at nil (2017: 4.22%) per annum	-	(146,161)
- non-interest bearing	(2,141)	-
	(2,141)	(146,161)
Total amount due to related companies	(390,414)	(444,252)

Amounts due from subsidiaries that are not expected to be realised within twelve months after the reporting period are classified as non-current.

At the reporting date, the Company has provided an allowance of RM10,039,000 (2017: RM170,985,000) for impairment of the amount due from subsidiaries with nominal amount of RM198,829,000 (2017: RM204,514,000).

Notes to the Financial Statements

31 December 2018 (Cont'd.)

12. OTHER INVESTMENTS

	Group and Company	
	2018 RM'000	2017 RM'000
Investment in money market fund, at fair value	165,606	-

13. DEPOSITS, CASH AND BANK BALANCES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current:				
Deposits with licensed banks	39,082	610,130	15,500	558,317
Cash and bank balances	195,947	70,617	4,229	5,916
	235,029	680,747	19,729	564,233

Included in the cash and bank balances amounting to RM47,592,000 (2017: RM10,894,000) are not available for general use by the Group due to restrictions by the lender in respect of term loan of USD354,125,000 (2017: USD365,000,000) obtained by the Group as disclosed in Note 14.

The range of interest rates per annum of deposits as at the reporting date was as follows:

	Group		Company	
	2018 %	2017 %	2018 %	2017 %
Deposits with licensed banks	1.00 – 3.70	0.10 – 3.86	3.30 – 3.70	0.50 – 3.86

The range of maturities of deposits as at the reporting date was as follows:

	Group		Company	
	2018 Days	2017 Days	2018 Days	2017 Days
Deposits with licensed banks	13 – 90	1 – 90	13 – 84	1 – 30

14. LONG TERM BORROWINGS

	Group	
	2018 RM'000	2017 RM'000
Secured (Floating rate)		
Term loan	1,468,202	1,482,630
Less: Unamortised transaction costs	(30,995)	(39,928)
	1,437,207	1,442,702
Less: Amount payable within one year (Note 15)	(88,828)	(44,174)
Total long term borrowings	1,348,379	1,398,528

In the previous year, 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 15)	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000	Total RM'000
31 December 2018					
Secured					
- Term loan	88,828	108,418	472,851	798,105	1,468,202
31 December 2017					
Secured					
- Term loan	44,174	87,028	524,810	826,618	1,482,630
- Revolving credit	416,941	-	-	-	416,941
	461,115	87,028	524,810	826,618	1,899,571

Notes to the Financial Statements

31 December 2018 (Cont'd.)

14. LONG TERM BORROWINGS (CONT'D.)

Changes in liabilities arising from financing activities:

	Group			Total RM'000
	Revolving credit RM'000	Unsecured term loan RM'000	Secured term loan RM'000	
At 1 January 2017	1,227,617	1,823,542	721,359	3,772,518
Drawdown	480,301	-	1,451,827	1,932,128
Repayment	(1,185,128)	(1,686,028)	(698,032)	(3,569,188)
The effect of changes in foreign exchange rate	(105,849)	(137,514)	(32,452)	(275,815)
At 31 December 2017/1 January 2018	416,941	-	1,442,702	1,859,643
Repayment	(397,373)	-	(34,949)	(432,322)
The effect of changes in foreign exchange rate	(19,568)	-	29,454	9,886
At 31 December 2018	-	-	1,437,207	1,437,207

The range of weighted average effective interest rates per annum at the reporting date for secured and unsecured short term borrowings are disclosed in Note 15.

15. SHORT TERM BORROWINGS

	Group	
	2018 RM'000	2017 RM'000
Secured (Floating rate)		
Revolving credits	-	415,316
Term loans payable within one year (Note 14)	88,828	44,174
	88,828	459,490
Unsecured (Floating rate)		
Revolving credits	-	1,625
Total short term borrowings	88,828	461,115

15. SHORT TERM BORROWINGS (CONT'D.)

The range of weighted average effective interest rates per annum at the reporting date for borrowings were as follows:

	Group	
	2018 %	2017 %
Secured term loan	4.49 – 5.70	4.49 – 4.99
Revolving credits	–	3.75 – 6.15

16. PAYABLES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Trade payables:				
Trade payables	9,360	48,969	–	–
Accruals	79,976	70,159	–	–
	89,336	119,128	–	–
Other payables:				
Accruals	27,842	29,733	850	850
Provision for unutilised leave	755	591	590	390
Deferred income	–	94	–	–
Sundry payables	9,464	18,277	2,264	5,377
	38,061	48,695	3,704	6,617
Total trade and other payables	127,397	167,823	3,704	6,617

Notes to the Financial Statements

31 December 2018 (Cont'd.)

16. PAYABLES (CONT'D.)

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Total trade and other payables	127,397	167,823	3,704	6,617
Less:				
Deferred income	-	(94)	-	-
Provision for unutilised leave	(755)	(591)	(590)	(390)
Add:				
Long term borrowings (Note 14)	1,348,379	1,398,528	-	-
Short term borrowings (Note 15)	88,828	461,115	-	-
Due to subsidiaries (Note 11)	-	-	390,414	444,252
Total financial liabilities carried at amortised costs	1,563,849	2,026,781	393,528	450,479

Trade payables are non-interest bearing and are normally settled within 30 days to 60 days (2017: 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 (2017: 30 days to 90 days).

17. ORDINARY SHARE CAPITAL, SHARE PREMIUM AND ISLAMIC REDEEMABLE CONVERTIBLE PREFERENCE SHARES ("RCPS-i")

(a) Ordinary share capital and share premium

	Group and Company			
	Number of ordinary shares '000	Share capital RM'000	Share premium RM'000	Total share capital and share premium RM'000
At 1 January 2017	2,162,000	1,081,000	1,372,819	2,453,819
Effect of implementation of Companies Act 2016	-	1,372,819	(1,372,819)	-
Right issue during the year	4,836,728	1,281,733	-	1,281,733
Right issue expenses	-	(3,206)	-	(3,206)
At 31 December 2017/1 January 2018	6,998,728	3,732,346	-	3,732,346
Conversion of RCPS-i to share capital	1,216,872	322,471	-	322,471
At 31 December 2018	8,215,600	4,054,817	-	4,054,817

17. ORDINARY SHARE CAPITAL, SHARE PREMIUM AND ISLAMIC REDEEMABLE CONVERTIBLE PREFERENCE SHARES (“RCPS-i”) (CONT’D.)

(a) Ordinary share capital and share premium (Cont’d)

The Companies Act 2016 (the Act), which came into effect on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amount standing to the credit of the share premium account of RM1,372,819,000 became part of the Company’s share capital pursuant to the transitional provisions set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use the amount standing to the credit of its share premium account of RM1,372,819,000 for purposes as set out in Section 618(3) of the Act. There was no impact on the number of ordinary shares in issue or the relative entitlement of any shareholders as a result of this transition.

In the previous financial year, the Company issued renounceable rights issue of 4,836,727,688 new ordinary shares on the basis of 14 rights shares for every 5 ordinary shares held in the Company.

(b) RCPS-i

In the previous financial year, the Company issued 1,216,872,312 new Islamic Redeemable Convertible Preference Shares (“RCPS-i”).

RCPS-i is 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 RCPS-i are 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 one 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, 1,216,872,312 RCPS-i was converted to ordinary shares.

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31 December 2018 (Cont'd.)

18. 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 granted by the former ultimate holding company to the employees of the Group.

(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 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.

(f) Hedging reserve

Hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flows hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedge reserve will be reclassified to income statement only when the hedge transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item.

19. REVENUE

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Drilling and workover services	500,317	501,597	-	-
Sale of goods	18,670	24,496	-	-
Rendering of services	54,817	60,478	-	-
Gross dividend income from subsidiaries	-	-	-	8,644
Management fees from subsidiaries	-	-	8,500	8,305
Management fees from former fellow subsidiaries	-	80	-	80
	573,804	586,651	8,500	17,029

Timing of recognition

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Goods and services transferred at a point in time	23,008	24,496	-	8,644
Services transferred over time	550,796	562,155	8,500	8,385
	573,804	586,651	8,500	17,029

Notes to the Financial Statements

31 December 2018 (Cont'd.)

20. OTHER OPERATING INCOME

Included in other operating income are:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Gain on sale of investment	1,151	-	-	-
Net fair value gain on derivatives	-	2,580	-	-
Gain on disposal of property, plant and equipment	135	508	-	-
Rental income	226	447	573	683
Reversal of impairment losses on receivables (Note 10(a))	1,474	9	-	-
Insurance claim	4,040	-	-	-
Warranty income	-	7,310	-	-
Net fair value gain on money market fund	85	-	85	-
Net foreign exchange gain	13,880	-	20,352	-

21. EMPLOYEE BENEFITS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Wages and salaries	91,083	86,932	12,166	11,650
Social security costs	522	457	82	78
Reversal of provision for unutilised leave	(71)	(19)	-	(23)
Pension costs - defined contribution plan	6,428	6,140	1,915	1,850
Termination benefits	3,221	239	-	-
Other employee related expenses	26,648	22,889	1,994	1,502
	127,831	116,638	16,157	15,057

Included in employee benefits is executive director's remuneration as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Salaries and other emoluments	1,380	957	1,380	957
Pension costs - defined contribution plan	188	152	188	152
Benefits-in-kind	164	140	164	130

22. IMPAIRMENT PROVISIONS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Property, plant and equipment (Note 4)	10,522	982,089	-	-
Land use rights (Note 5)	803	-	-	-
Investment in subsidiaries (Note 6)	-	-	565,275	1,327,925
Other receivables	-	46	-	-
Amount due from subsidiaries (Note 11)	-	-	10,039	170,985
	11,325	982,135	575,314	1,498,910

23. OTHER OPERATING EXPENSES

Included in other operating expenses are:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Non-executive directors' remuneration:				
- fees	626	515	626	515
- meeting allowances	159	245	159	245
- other emoluments	65	132	65	132
Rental of premises	5,078	7,423	2,431	2,832
Rental of equipment, barge and rig	4,457	8,686	88	95
Repair and maintenance of equipment and rigs	31,668	21,710	15	33
Auditors' remuneration:				
Statutory audit				
- auditors of the Company	668	781	146	146
- other auditors	109	93	-	-
Other services				
- auditors of the Company	-	434	-	434
Management fees payable to a former related company	-	77	-	77
Net impairment losses on receivables (Note 10(a))	-	1,492	-	-
Amount due from a subsidiary written off	-	-	2,795	-
Loss on disposal of property, plant and equipment	2,105	211	18	182
Property, plant and equipment written off	62	9	-	-
Net foreign exchange loss	-	12,247	-	37,286

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31 December 2018 (Cont'd.)

23. OTHER OPERATING EXPENSES (CONT'D.)

	Directors' fees		*Other emoluments	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Group and Company				
Non-executive directors:				
Tan Sri Asmat Kamaludin	-	54	-	120
Badrul Feisal Abdul Rahim	-	36	-	23
Dr. Leong Chik Weng	-	12	-	8
Razalee Amin	83	72	25	50
Dato' Afifuddin Abdul Kadir	27	72	49	43
Cheah Tek Kuang	83	72	31	43
Dato' Ibrahim Marsidi	83	72	32	47
Fina Norhizah Hj Baharu Zaman	-	12	-	5
Mohd Rashid Mohd Yusof	83	38	20	14
Haida Shenny Hazri	83	38	19	11
Rowina Ghazali Seth	83	37	24	13
Rizal Rickman Ramli	45	-	11	-
Dato' Dayang Fatimah Johari	54	-	13	-
	626	515	224	377

	Director's fees		**Other emoluments	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Group and Company				
Executive director (Note 21):				
Rohaizad Darus	-	10	1,732	1,239

* Included in the other emoluments are meeting fees allowance, 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.

24. FINANCE COSTS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Interest expenses				
- Bank borrowings	84,665	123,334	-	47,778
- Due to former holding company	-	14,280	-	14,280
- Due to subsidiary	-	-	1,585	685
- Others	453	607	-	-
	85,118	138,221	1,585	62,743

25. INVESTMENT INCOME

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Distribution income from:				
- Money market fund	3,261	-	3,261	-
Interest income from:				
- Deposits with licensed banks	9,181	17,836	7,387	13,730
- Subsidiaries	-	-	53,381	57,129
	12,442	17,836	64,029	70,859

Notes to the Financial Statements

31 December 2018 (Cont'd.)

26. INCOME TAX EXPENSE/(CREDIT)

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Income tax:				
Malaysian income taxes	3,127	724	2,626	415
Foreign income taxes	780	1,394	-	-
	3,907	2,118	2,626	415
(Over)/under provision in prior years:				
Malaysian income taxes	(561)	(3,424)	(681)	(1,551)
Foreign income taxes	76	72	-	-
	(485)	(3,352)	(681)	(1,551)
	3,422	(1,234)	1,945	(1,136)
Deferred taxation (Note 8):				
Relating to origination and reversal of temporary differences	(549)	(140)	-	-
Under provision in prior years	-	142	-	-
	(549)	2	-	-
Total income tax expense/(credit)	2,873	(1,232)	1,945	(1,136)

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

26. INCOME TAX EXPENSE/(CREDIT)(CONT'D.)

Reconciliations between tax expense and the accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2018 and 2017 are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Loss before taxation	(17,563)	(1,130,507)	(515,340)	(1,535,228)
Taxation at Malaysian statutory rate of 24% (2017: 24%)	(4,215)	(271,322)	(123,682)	(368,455)
Effect of different tax rates in other jurisdictions	861	466	-	-
Income not subject to tax	(14,925)	(22,324)	(13,131)	(15,074)
Expenses not deductible for tax purposes	36,398	307,533	139,227	384,669
Utilisation of previously unrecognised deferred tax assets	(16,580)	(17,023)	-	(783)
Deferred tax assets recognised on previously unrecognised tax losses	(1,623)	-	-	-
Deferred tax assets not recognised	3,502	4,748	212	58
Under provision of deferred tax in prior years	-	142	-	-
Over provision of income tax in prior years	(485)	(3,352)	(681)	(1,551)
Share of results of associate	(60)	(100)	-	-
Tax expense/(credit) for the year	2,873	(1,232)	1,945	(1,136)

27. LOSS PER SHARE

Basic

	Group	
	2018	2017
Net loss attributable to equity holders (RM'000)	(19,528)	(1,126,999)
Weighted average number of ordinary shares in issue ('000)	8,125,218	3,063,089
Basic loss per share (sen):	(0.24)	(36.79)

Basic loss per share is calculated by dividing the net 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 (2017: 1,513,399,754) warrants for rights issue and RCPS-i have not been included in the calculation of diluted loss per share because they are anti-dilutive.

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31 December 2018 (Cont'd.)

28. COMMITMENTS

	Group	
	2018 RM'000	2017 RM'000
(a) Capital commitments		
Approved and contracted for:		
- land and buildings	573	-
- equipment, plant and machinery	13,297	2,981
- others	150	7
	14,020	2,988
Approved but not contracted for:		
- land and buildings	7,061	4,618
- equipment, plant and machinery	121,539	58,230
- others	3,475	1,359
	132,075	64,207
Total capital commitments	146,095	67,195
(b) Operating leases		
Non-cancellable operating lease commitments as lessee:		
- within 1 year	4,451	5,959
- later than 1 year but less than 5 years	2,376	6,321
	6,827	12,280

29. SEGMENT REPORTING

For management purposes, the Group is organised into business segments based on nature of services and has 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 Oil Country Tubular Goods ("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.

(a) Business segments

2018	Drilling services RM'000	Oilfield services RM'000	Others RM'000	Eliminations RM'000	Note	Per consolidated financial statements RM'000
Revenue:						
External customers	556,638	16,204	962	-		573,804
Inter-segment	-	-	9,219	(9,219)	I	-
Total revenue	556,638	16,204	10,181	(9,219)		573,804
Results:						
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	(85,110)	(8)	-	-		(85,118)
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
Segment (loss)/profit before tax	(12,672)	(13,693)	8,802	-		(17,563)
Income tax expense	(166)	(502)	(2,205)	-		(2,873)
Segment (loss)/profit after tax	(12,838)	(14,195)	6,597	-		(20,436)

Notes to the Financial Statements

31 December 2018 (Cont'd.)

29. SEGMENT REPORTING (CONT'D.)

(a) Business segments (cont'd.)

2018 (cont'd.)	Drilling services RM'000	Oilfield services RM'000	Others RM'000	Eliminations RM'000	Note	Per consolidated financial statements RM'000
Assets:						
Investment in associate	-	2,245	-	-		2,245
Additions to non-current assets	26,236	761	577	-	III	27,574
Segment assets	4,058,006	49,729	255,707	-		4,363,442
Liabilities:						
Segment liabilities	1,523,742	4,415	36,783	-		1,564,940
2017						
	Drilling services RM'000	Oilfield services RM'000	Others RM'000	Eliminations RM'000	Note	Per consolidated financial statements RM'000
Revenue:						
External customers	568,772	16,867	1,012	-		586,651
Inter-segment	-	-	8,242	(8,242)	I	-
Total revenue	568,772	16,867	9,254	(8,242)		586,651
Results:						
Depreciation and amortisation	(254,172)	(3,636)	(1,249)	-		(259,057)
Impairment of property, plant and equipment	(982,089)	-	-	-		(982,089)
Finance costs	(138,123)	(98)	-	-		(138,221)
Investment income	3,924	127	13,785	-		17,836
Share of results of associate	-	419	-	-		419
Other material non-cash items	(10,029)	196	(1,768)	-	II	(11,601)
Segment loss before tax	(1,106,524)	(5,428)	(18,555)	-		(1,130,507)
Income tax credit/(expense)	1,428	(288)	92	-		1,232
Segment loss after tax	(1,105,096)	(5,716)	(18,463)	-		(1,129,275)

29. SEGMENT REPORTING (CONT'D.)

(a) Business segments (cont'd.)

2017 (cont'd.)	Drilling services RM'000	Oilfield services RM'000	Others RM'000	Eliminations RM'000	Note	Per consolidated financial statements RM'000
Assets:						
Investment in associate	-	2,303	-	-		2,303
Additions to non-current assets	16,421	221	537	-	III	17,179
Segment assets	4,138,196	54,668	599,230	-		4,792,094
Liabilities:						
Segment liabilities	1,997,856	12,870	17,175	-		2,027,901

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	2018 RM'000	2017 RM'000
Reversal of impairment losses on receivables	20	1,474	9
Impairment losses on receivables	23	-	(1,492)
Net (loss)/gain on disposal of property, plant and equipment	20, 23	(1,970)	297
Net fair value gain on money market fund	20	85	-
Net unrealised foreign exchange gain/(loss)		1,131	(10,406)
Property, plant and equipment written off	23	(62)	(9)
		658	(11,601)

- III. Additions to non-current assets consist:

	Note	2018 RM'000	2017 RM'000
Property, plant and equipment	4	27,574	17,179

Notes to the Financial Statements

31 December 2018 (Cont'd.)

29. 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	Singapore RM'000	Others RM'000	Total RM'000
31 December 2018				
Revenue from external customers	565,219	–	8,585	573,804
Non-current assets	3,515,329	–	16,538	3,531,867
31 December 2017				
Revenue from external customers	577,556	–	9,095	586,651
Non-current assets	3,618,169	1	27,428	3,645,598

Non-current assets information presented above consist of the following items as presented in the consolidated statement of financial position:

	2018 RM'000	2017 RM'000
Property, plant and equipment	3,530,440	3,643,231
Land use rights	1,427	2,367
	3,531,867	3,645,598

30. SUBSIDIARIES

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2018 %	2017 %
Subsidiaries of the Company:				
UMW JDC Drilling Sdn. Bhd.#	Malaysia	Provision of drilling operations for the oil and gas industry	85	85
Velesto Malaysian Ventures Sdn. Bhd. (formerly known as UMW Malaysian Ventures Sdn. Bhd.)	Malaysia	Investment holding	100	100
Velesto Singapore Ventures Pte. Ltd. (formerly known as UMW Singapore Ventures Pte. Ltd.)*	Singapore	Investment holding	100	100

30. SUBSIDIARIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2018 %	2017 %
Subsidiaries of the Company: (cont'd.)				
Velesto Rig Asset (L) Ltd. (formerly known as UMW 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
Subsidiaries of:				
Velesto Malaysian Ventures Sdn. Bhd. (formerly known as UMW Malaysian Ventures Sdn. Bhd.)				
Velesto Singapore Ventures Pte. Ltd. (formerly known as UMW Singapore Ventures Pte. Ltd.)				
Velesto Rig Asset (L) Ltd. (formerly known as UMW Rig Asset (L) Ltd.)				
Velesto Workover Sdn. Bhd. (formerly known as UMW Workover Sdn. Bhd.)	Malaysia	Provision of workover operations for the oil and gas industry	100	100
Velesto Drilling Sdn. Bhd. (formerly known as UMW Offshore 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. (formerly known as UMW Drilling Co. Ltd.)	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 2 (L) Ltd. (formerly known as UMW Drilling 2 (L) Ltd.)	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 3 (L) Ltd. (formerly known as UMW Drilling 3 (L) Ltd.)	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 4 (L) Ltd. (formerly known as UMW Drilling 4 (L) Ltd.)	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 5 (L) Ltd. (formerly known as UMW Drilling 5 (L) Ltd.)	Malaysia	Ownership and leasing of rig	100	100

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31 December 2018 (Cont'd.)

30. SUBSIDIARIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2018 %	2017 %
Subsidiaries of: (cont'd.)				
Velesto Malaysian Ventures Sdn. Bhd. (formerly known as UMW Malaysian Ventures Sdn. Bhd.)				
Velesto Singapore Ventures Pte. Ltd. (formerly known as UMW Singapore Ventures Pte. Ltd.)				
Velesto Rig Asset (L) Ltd. (formerly known as UMW Rig Asset (L) Ltd.)				
Velesto Drilling 6 (L) Ltd. (formerly known as UMW Drilling 6 (L) Ltd.)	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 7 (L) Ltd. (formerly known as UMW Drilling 7 (L) Ltd.)	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 8 (L) Ltd. (formerly known as UMW Drilling 8 (L) Ltd.)	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling Academy Sdn. Bhd. (formerly known as UMW Drilling Academy Sdn. Bhd.)	Malaysia	Provision of training and courses in relation to oil and gas drilling activities	100	100
Velesto 1 Pte. Ltd. (formerly known as UMW Standard 1 Pte. Ltd.)	Singapore	Ownership and leasing of rig	100	100
Velesto 3 Pte. Ltd. (formerly known as UMW Standard 3 Pte. Ltd.)	Singapore	Dormant	100	100
Velesto Drilling Ltd. (formerly known as UMW Offshore Drilling Ltd.)	Cayman Islands	Contract drilling operations and other engineering services for oil and gas exploration, development and production	100	100
Offshore Driller B324 Ltd.	Cayman Islands	Dormant	100	100
Offshore Driller 4 Ltd.	Cayman Islands	Dormant	100	100
Velesto Oilpipe Services Sdn. Bhd. (formerly known as UMW Oilpipe Services Sdn. Bhd.)	Malaysia	Provision of threading, inspection, repair and maintenance services for OCTG	100	100

30. SUBSIDIARIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2018 %	2017 %
Subsidiaries of: (cont'd.)				
Velesto Malaysian Ventures Sdn. Bhd. (formerly known as UMW Malaysian Ventures Sdn. Bhd.)				
Velesto Singapore Ventures Pte. Ltd. (formerly known as UMW Singapore Ventures Pte. Ltd.)				
Velesto Rig Asset (L) Ltd. (formerly known as UMW Rig Asset (L) Ltd.)				
UMW Oilpipe Services (Turkmenistan) Ltd. [^]	Malaysia	Provision of threading, inspection, repair and maintenance services for OCTG	–	51
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

In members' voluntary winding up on 26 February 2018.

* Audited by firms other than Ernst & Young.

[^] Disposed of shareholdings on 8 February 2018.

(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	
	2018 %	2017 %
UMW JDC Drilling Sdn. Bhd.	15	15
UMW Oilpipe Services (Turkmenistan) Ltd.	–	49
UOT (Thailand) Limited	41.2	41.2

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30. SUBSIDIARIES (CONT'D.)

(a) Subsidiaries with non-controlling interests (cont'd.)

(ii) Summarised statements of financial position

	2018 RM'000	2017 RM'000
Non-current assets	–	2,268
Current assets	6,926	7,940
Current liabilities	(657)	(4,155)

(iii) Summarised statements of comprehensive income

	2018 RM'000	2017 RM'000
Revenue	40	1,158
Loss for the year	(1,845)	(6,996)
Other comprehensive income/(loss)	67	(545)
Total comprehensive loss	(1,778)	(7,541)

(iv) Summarised statements of cash flows

	2018 RM'000	2017 RM'000
Net cash used in operating activities	(2,338)	(12,209)
Net cash generated from investing activities	937	440
Net decrease in cash and cash equivalents	(1,402)	(11,769)
Cash and cash equivalents at end of year	4,483	5,874

(b) Disposal of a subsidiary

During the current financial year, the Group disposed of 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.

31. 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	
	2018 RM'000	2017 RM'000
Dividend income	–	(8,644)
Management fees income	(8,500)	(8,305)
Interest income	(53,381)	(57,129)
Interest expenses	1,585	14,965
Rental income	(573)	(683)
Services rendered income	(505)	(939)

- (b) Compensation of key management personnel

The aggregate compensation of key management personnel, including the executive director of the Company is as follows:

	2018 RM'000	2017 RM'000
Salaries and wages	4,476	4,386
Social security cost	9	10
Pension costs – defined contribution plan	637	687
Other staff related costs	626	442
	5,748	5,525

Notes to the Financial Statements

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32. 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:

	Note
Receivables	
- Trade and other receivables	10
- Due from related companies	11
Borrowings	
- Floating rate borrowings (non-current)	14
- Floating rate borrowings (current)	15
Payables	
- Trade and other payables	16
- Due to related companies	11

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).

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

Fair value hierarchy (Cont'd)

	Level 1	
	2018 RM'000	2017 RM'000
Assets		
Investments in money market fund (Note 12)	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.

33. 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	
	2018 RM'000	2017 RM'000
Loans and borrowings	1,437,207	1,859,643
Due to former holding company	-	3,926
Less: Deposits, cash and bank balances	(235,029)	(680,747)
Other investments	(165,606)	-
Net debt	1,036,572	1,182,822
Total equity	2,798,502	2,764,193
Total capital	3,835,074	3,947,015
Gearing Ratio	0.27	0.30

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31 December 2018 (Cont'd.)

34. 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.

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 of 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.

34. FINANCIAL RISK MANAGEMENT (CONT'D.)

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.

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 2018, approximately 3% (2017: 15%) of the Group's trade receivables and approximately 8% (2017: 33%) 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 2018, the Group has such balances amounting to RM40,390,000 (2017: RM47,369,000).

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 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 Effect on loss after taxation (Decrease)/increase		Company Effect on loss after taxation (Decrease)/increase	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
US Dollar/RM				
- strengthened 5% (2017: 5%)	(1,688)	(2,283)	(44,865)	(34,343)
- weakened 5% (2017: 5%)	1,688	2,283	44,865	34,343

Notes to the Financial Statements

31 December 2018 (Cont'd.)

34. 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 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 Effect on loss after taxation Increase/(decrease)		Company Effect on loss after taxation Increase/(decrease)	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
London					
Interbank	+ 50	7,341	7,413	(637)	(713)
Offered Rate	- 50	(7,341)	(7,413)	637	713
Cost of funds of lenders	+ 50	-	2,077	(5,639)	(3,398)
	- 50	-	(2,077)	5,639	3,398

34. FINANCIAL RISK MANAGEMENT (CONT'D.)

(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.

At the reporting date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position, including derivatives with positive fair values.

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.

(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.

Notes to the Financial Statements

31 December 2018 (Cont'd.)

34. 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 2018				
	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	Total RM'000
Financial liabilities:					
Trade and other payables (exclude provisions and deferred income)	126,642	–	–	–	126,642
Borrowings	180,582	199,265	702,178	988,713	2,070,738
Total undiscounted financial liabilities	307,224	199,265	702,178	988,713	2,197,380

Group	31 December 2017				
	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	Total RM'000
Financial liabilities:					
Trade and other payables (exclude provisions and deferred income)	167,138	–	–	–	167,138
Borrowings	532,062	154,685	699,537	988,705	2,374,989
Total undiscounted financial liabilities	699,200	154,685	699,537	988,705	2,542,127

34. FINANCIAL RISK MANAGEMENT (CONT'D.)

(d) Liquidity risk (cont'd.)

Company	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	
Financial liabilities:					
Other payables (exclude provisions)	3,114	-	-	-	3,114
Due to subsidiaries	390,414	-	-	-	390,414
Total undiscounted financial liabilities	393,528	-	-	-	393,528

Company	31 December 2017				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	
Financial liabilities:					
Other payables (exclude provisions)	6,227	-	-	-	6,227
Due to subsidiaries	444,252	-	-	-	444,252
Total undiscounted financial liabilities	450,479	-	-	-	450,479

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 2018 and 31 December 2017.

Notes to the Financial Statements

31 December 2018 (Cont'd.)

35. CONTINGENT LIABILITIES

Velesto Drilling Sdn. Bhd. (formerly known as UMW Offshore Drilling Sdn. Bhd.) ("VED") is a wholly owned subsidiary of the Group. On 17 July 2018, VED was awarded a Final Award by the Singapore International Arbitration Centre, for the sum of USD19.2 million being the Early Termination Fee (together with interests and costs thereof) against Frontier Oil Corporation ("FOC").

On 21 December 2018, VED has filed a Petition For Recognition and Enforcement of the Foreign Arbitral Award ("Petition") against FOC at the Regional Trial Court in Makati City, Philippines.

Attempts by the Court Sheriff to serve the said Petition on FOC were unsuccessful, as FOC has moved its office elsewhere. VED has since filed a Motion for Issuance of Alias Summons in order to serve the Petition upon FOC's president, corporate secretary and treasurer.

VED was advised by its solicitors that from the facts of the case, VED stands a good chance to enforce the Final Award against FOC in the Philippines.

List of Properties

PROPERTY OWNED BY THE GROUP

As at 31 December 2018

The details of land and buildings owned by the Group are set out below:

Location	Description	Existing Use	Date of issuance of CCC ⁽¹⁾ 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 ⁽²⁾	6,564/13,909	Nil	RMB2,394,095 (RM1,426,762) (Land)	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 Xiaqing Road and Greenbelt, People's Republic of China						RMB19,775,905 (RM11,785,466) (Building)	
No. 101, Central South Fourth Street, Tianjin Economic-Technological Development Area West Zone, 300462 Tianjin, People's Republic of China						Refer to note ⁽³⁾	
Leasehold for a period of 50 years, expiring on 2061							

Notes:

- ⁽¹⁾ Certificate of completion and compliance or certificate of fitness for occupation issued by the local authorities.
- ⁽²⁾ 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.
- ⁽³⁾ Based on the rate of RMB1 = RM0.60093 as at 31 December 2018.

Statistics on Shareholding

as at 31 March 2019

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	693	36	729	2.19	17,359	1,082	18,441	0
100 - 1,000	3,054	65	3,119	9.39	2,061,973	36,529	2,098,502	0.03
1,001 - 10,000	14,338	212	14,550	43.77	75,847,929	923,214	76,771,143	0.93
10,001 - 100,000	12,192	247	12,439	37.42	444,188,812	8,764,529	452,953,341	5.51
100,001 to less than 5% of issued shares	2,266	134	2,400	7.22	2,932,677,224	431,530,346	3,364,207,570	40.95
5% and above of issued shares	2	0	2	0.01	4,319,551,003	0	4,319,551,003	52.58
TOTAL	32,545	694	33,239	100	7,774,344,300	441,255,700	8,215,600,000	100

CATEGORY OF SHAREHOLDERS

Category	No. of Shareholders		No. of Issued Shares		% of Issued Shares	
	Malaysian	Foreigner	Malaysian	Foreigner	Malaysian	Foreigner
Individual	25,600	359	890,996,067	19,828,631	10.84	0.24
Body Corporate						
A) Banks/Finance Companies	63	1	5,249,561,103	5,368	63.9	0
B) Investment Trusts/Foundations/Charities	5	0	136,803	0	0	0
C) Industrial and Commercial Companies	213	5	465,865,988	40,140	5.68	0
Government Agencies/Institutions	3	0	312,907	0	0	0
Nominees	6,659	329	1,167,462,453	421,381,561	14.21	5.13
Others	2	0	8,979	0	0	0
TOTAL	32,545	694	7,774,344,300	441,255,700	94.63	5.37

30 LARGEST SHAREHOLDERS

(Without aggregating securities from different securities accounts belonging to the same person)

No.	Shareholders	No. of Shares (Holdings)	% of Issued Shares
1	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	3,166,371,044	38.54
2	PERMODALAN NASIONAL BERHAD	1,153,179,959	14.04
3	URUSHARTA JAMAAH SDN. BHD.	410,247,380	4.99
4	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. EMPLOYEES PROVIDENT FUND BOARD	337,109,974	4.10
5	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA	221,590,522	2.70
6	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA 2 - WAWASAN	214,000,000	2.60
7	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA 2	76,127,968	0.93
8	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA 3 - DIDIK	69,234,103	0.84
9	AMANAHRAYA TRUSTEES BERHAD PUBLIC SMALLCAP FUND	68,457,400	0.83
10	HSBC NOMINEES (ASING) SDN. BHD. JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	65,490,427	0.80
11	HSBC NOMINEES (ASING) SDN. BHD. JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	55,185,939	0.67
12	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC OPPORTUNITIES FUND	44,735,900	0.54
13	AMANAHRAYA TRUSTEES BERHAD PUBLIC STRATEGIC SMALLCAP FUND	38,381,000	0.47
14	CITIGROUP NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 1)	37,438,713	0.46
15	CITIGROUP NOMINEES (ASING) SDN. BHD. CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA	33,355,701	0.41
16	HSBC NOMINEES (TEMPATAN) SDN. BHD. HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT PROGRESS FUND (4082)	33,164,900	0.40
17	AMANAHRAYA TRUSTEES BERHAD PB ISLAMIC SMALLCAP FUND	29,718,700	0.36
18	CITIGROUP NOMINEES (ASING) SDN. BHD. CGML IPB FOR PEDDER STREET ASIA ABSOLUTE RETURN MASTER FUND LIMITED	27,765,000	0.34
19	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. EMPLOYEES PROVIDENT FUND BOARD (RHB INV)	26,346,532	0.32
20	CITIGROUP NOMINEES (ASING) SDN. BHD. CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	25,652,512	0.31
21	HSBC NOMINEES (TEMPATAN) SDN. BHD. HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT AL-FAUZAN (5170)	25,396,600	0.31
22	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM NASIONAL	25,246,927	0.31
23	AMANAHRAYA TRUSTEES BERHAD PB ISLAMIC EQUITY FUND	23,356,200	0.28
24	RAJANDRAN A/L VISVALINGAM	23,286,700	0.28
25	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. EMPLOYEES PROVIDENT FUND BOARD (ABERDEEN)	20,008,200	0.24
26	CIMSEC NOMINEES (TEMPATAN) SDN. BHD. CIMB BANK FOR KARANGAN AGRICULTURE Sdn. Bhd. (PBCL-0G0524)	18,284,540	0.22

Statistics on Shareholding

as at 31 March 2019 (Cont'd.)

No.	Shareholders	No. of Shares (Holdings)	% of Issued Shares
27	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND	18,123,961	0.22
28	AMANAHRAYA TRUSTEES BERHAD ASN EQUITY 5	17,943,100	0.22
29	MONT PRISTINE DEVELOPMENT SDN. BHD.	17,200,000	0.21
30	MAYBANK NOMINEES (TEMPATAN) SDN. BHD. PLEGDED SECURITIES ACCOUNT FOR TAN HOW YAP	17,000,000	0.21

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	3,166,371,044	38.54	0	0
PERMODALAN NASIONAL BERHAD*	1,153,179,959	14.04	0	0
CITIGROUP NOMINEES (TEMPATAN) SDN. BHD.				
• Employees Provident Fund Board	340,859,974			
• Employees Provident FD BD (AMUNDI)	15,000,000			
• Employees Provident FD BD (RHB INV)	26,346,532			
• Employees Provident FD BD (ABERDEEN)	20,008,200	5.02	0	0
• EMPLYS PRVNT FD BD (F.TEMISLAMIC) IC	4,339,100			
• EMPLYS PRVNT FD BD (ABERISLAMIC) IC	6,585,200			

* 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.

DIRECTORS INTEREST

As at 31 March 2019, 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	Cheah Tek Kuang	0	0.00	36,311	0.00*
5	Dato' Ibrahim Marsidi	30,000	0.00*	0	0.00
6	Mohd Rashid Mohd Yusof	0	0.00	0	0.00
7	Rowina Ghazali Seth	0	0.00	0	0.00
8	Haida Shenny Hazri	0	0.00	0	0.00
9	Rizal Rickman Ramli	0	0.00	0	0.00
10	Dato' Dayang Fatimah Johari	0	0.00	0	0.00

Note: *Less than 0.01%

The above information was extracted from Record of Depositories on 31 March 2019.

Statistics on Warrant Holding

as at 31 March 2019

Issued Warrants of the Company : 1,513,399,754

ANALYSIS BY SIZE OF HOLDINGS

Size of Warrant Holdings	No. of Warrant Holders		Total No. of Warrant Holders		No. of Issued Warrants		Total No. of Issued Warrants	
	Malaysian	Foreign	No.	%	Malaysian	Foreigner	No.	%
Less than 100	127	2	129	2.64	6,341	29	6,370	0
100 - 1,000	405	10	415	8.5	243,993	4,592	248,585	0.02
1,001 - 10,000	1,817	28	1,845	37.78	8,856,311	108,213	8,964,524	0.59
10,001 - 100,000	1,822	30	1,852	37.93	76,075,952	1,306,315	77,382,267	5.11
100,001 to less than 5% of issued warrants	622	18	640	13.11	443,102,893	43,598,256	486,701,149	32.16
5% and above of issued warrants	2	0	2	0.04	940,096,859	0	940,096,859	62.12
TOTAL	4,795	88	4,883	100	1,468,382,349	45,017,405	1,513,399,754	100

CATEGORY OF WARRANT HOLDERS

Category	No. of Warrant Holders		No. of Issued Warrants		% of Issued Warrants	
	Malaysian	Foreigner	Malaysian	Foreigner	Malaysian	Foreigner
Individual	3,483	41	259,640,967	2,969,718	17.15	0.2
Body Corporate						
A) Banks/Finance Companies	23	0	990,322,053	0	65.44	0
B) Investment Trusts/Foundations/ Charities	0	0	0	0	0	0
C) Industrial and Commercial Companies	45	0	99,068,173	0	6.54	0
Government Agencies/Institutions	0	0	0	0	0	0
Nominees	1,244	47	119,351,156	42,047,687	7.89	2.78
Others	0	0	0	0	0	0
TOTAL	4,795	88	1,468,382,349	45,017,405	97.02	2.98

30 LARGEST HOLDERS

(Without aggregating securities from different securities accounts belonging to the same person)

No.	Holders	No. of Warrants	% of Issued Warrants
1	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	652,687,400	43.13
2	PERMODALAN NASIONAL BERHAD	287,409,459	18.99
3	URUSHARTA JAMAAH SDN. BHD.	69,066,620	4.56
4	MONT PRISTINE DEVELOPMENT SDN. BHD.	25,000,000	1.65
5	HSBC NOMINEES (ASING) SDN. BHD. JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	20,487,189	1.35
6	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA 2	17,470,163	1.15
7	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA 2 - WAWASAN	14,885,900	0.98
8	AMANAHRAYA TRUSTEES BERHAD AMANAH 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

No.	Holders	No. of Warrants	% of Issued Warrants
10	MAYBANK NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR TAN CHIN SEOH	8,000,000	0.53
11	KENANGA NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR LIEW YOON PECK	6,000,000	0.40
12	LEE YIH LEANG	6,000,000	0.40
13	LOW KIM PENG	5,412,300	0.36
14	SHUHAIMY BIN OTHMAN	4,690,000	0.31
15	KENANGA NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR LIM AI LING	4,500,000	0.30
16	YOONG SIN KUEN	4,057,700	0.27
17	LEE LAI FONG	3,707,000	0.24
18	MAYBANK NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR AU KWAN SENG	3,300,000	0.22
19	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR SHIN KONG KEW @ CHIN KONG KEW (R25 MARGIN)	3,147,600	0.21
20	HILMAN BIN TULOT	3,100,000	0.20
21	YONG FAN HING	2,805,500	0.19
22	KENANGA NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR DATO' NG AIK KEE (001)	2,800,000	0.19
23	PUBLIC NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR GOH SOON AUN (E-BBB)	2,671,500	0.18
24	TAN YIH - JIA	2,500,000	0.17
25	PUBLIC NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR AU KWAN SENG (E-KLC)	2,499,400	0.17
26	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
27	SU SONG UNG	2,309,900	0.15
28	MAYBANK NOMINEES (TEMPATAN) SDN. BHD. CHEW LENG KAY	2,300,000	0.15
29	CIMSEC NOMINEES (TEMPATAN) SDN. BHD. CIMB BANK FOR LIM CHONG SOO (MY2591)	2,250,000	0.15
30	GOH KIM KEONG	2,240,000	0.15

SUBSTANTIAL WARRANT HOLDERS

As per the register of substantial warrant holders

Holders	No. of Warrants	% of Issued Warrants
AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA PERMODALAN NASIONAL BERHAD	652,687,400	43.13
	287,409,459	18.99

DIRECTORS INTEREST

As at 31 March 2019, the warrant holdings 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	Cheah Tek Kuang	0	0.00	0	0.00
5	Dato' Ibrahim Marsidi	0	0.00	0	0.00
6	Mohd Rashid Mohd Yusof	0	0.00	0	0.00
7	Rowina Ghazali Seth	0	0.00	0	0.00
8	Haida Shenny Hazri	0	0.00	0	0.00
9	Rizal Rickman Ramli	0	0.00	0	0.00
10	Dato' Dayang Fatimah Johari	0	0.00	0	0.00

Note: *Less than 0.01%

The above information was extracted from Record of Depositories on 31 March 2019.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 9th Annual General Meeting of Velesto Energy Berhad (formerly known as UMW Oil & Gas Corporation Berhad) will be held at **Dewan Tun Abdul Razak, Menara Kembar Bank Rakyat, No. 33, Jalan Rakyat, 50470 Kuala Lumpur, Malaysia** on **Wednesday, 29 May 2019** at **10.00 a.m.** for the following purposes:

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 and the Reports of the Directors and Auditors thereon.
(Please refer to Explanatory Note A).

2. (i) To note the retirement of Cheah Tek Kuang, who retires in accordance with Article 96 of the Company's Constitution and not seeking for re-election.

(ii) To re-elect the following Directors, each of whom retire in accordance with Article 96 of the Company's Constitution and being eligible, offer themselves for re-election:-

(i) Dato' Abdul Rahman Ahmad

(ii) Rohaizad Darus

(Please refer to Explanatory Note B).

Ordinary Resolution 1

Ordinary Resolution 2

3. To re-elect Dato' Dayang Fatimah Johari, who retire in accordance with Article 103 of the Company's Constitution and being eligible, offer herself for re-election.
(Please refer to Explanatory Note C).

Ordinary Resolution 3

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 9th Annual General Meeting until the next Annual General Meeting:-

Ordinary Resolution 4

	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 Executive 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

(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 9th Annual General Meeting until the next Annual General Meeting:-

Ordinary Resolution 5

Notice of Annual General Meeting (Cont'd.)

	NON-EXECUTIVE CHAIRMAN (BOARD AND BOARD COMMITTEE)	NON-EXECUTIVE DIRECTORS & MEMBERS OF BOARD COMMITTEE
Ringgit Malaysia		
Meeting Allowances (per meeting attendance)	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, hospitalization and dental coverage, Directors & Officers Liability Insurance coverage, per diem and other claimable reimbursable expenses.		

Please refer to Explanatory Note D)

- To re-appoint Messrs. Ernst & Young as the Company's Auditors for the year ending 31 December 2019 and to authorise the Board of Directors to determine their remuneration.
(Please refer to Explanatory Note E)
- To transact any other ordinary business for which due notice has been given in accordance with provisions in the Company's Constitution.

Ordinary Resolution 6

By Order of the Board,

MOHD NIZAMUDDIN MOKHTAR (LS0010247)

RAFIZA GHAZALI (MIA43580)

Company Secretaries

Kuala Lumpur

29 April 2019

NOTES:

- A member of the Company entitled to attend and vote at the Meeting may appoint a proxy or proxies to attend and vote 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 hold 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 Form of Proxy 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 Form of Proxy 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 instrument appointing the proxy, together with the duly registered Power of Attorney referred to in Note 3 above, if any, must be deposited with the Company's Share Registrar Office at Securities Services (Holdings) Sdn. Bhd. at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Malaysia, not less than forty eight (48) hours before the time appointed for the AGM or any adjournment thereof.
 6. For the purpose of determining a member who shall be entitled to attend this 9th 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 21 May 2019. Only a depositor whose name appears in the General Meeting Record of Depositors as at 21 May 2019 shall be entitled to attend the said Meeting or appoint a proxy to attend and / or vote in his / her stead.

EXPLANATORY NOTES TO THE RESOLUTIONS:

Explanatory Note A

This agenda item is intended for discussion only as section 340(1) (a) of the CA 2016 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 (1/3) 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 (3) years. A retiring Directors shall be eligible to seek re-election.

At this 9th AGM, Dato' Abdul Rahman Ahmad, Cheah Tek Kuang and Rohaizad Darus will be retiring as directors.

Cheah Tek Kuang has informed the Company of his intention not to seek for re-election as an Independent Non-Executive Director, while Dato' Abdul Rahman Ahmad and Rohaizad Darus, have offered themselves to be re-elected as the Non-Independent Non-Executive Chairman and Executive Director, respectively, at this 9th AGM.

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.

Dato' Dayang Fatimah Johari was appointed on 24 May 2018, and therefore shall retire at this 9th AGM. Dato' Dayang Fatimah Johari, being eligible, has offered herself to be re-elected as Independent Non-Executive Director, at this 9th 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.

In accordance with Practice 5.1 of the MCG 2017, the Board has engaged an external independent expert to facilitate the Board Effectiveness Evaluation ("BEE") exercise. Based on the results of the said BEE exercise, the 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 contribution to the Board deliberations through active participation and decision making by the Board.

All retiring directors, (including Cheah Tek Kuang who is not seeking for re-election), 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 9th AGM.

Both the BNRC and the Board recommended the re-election of Dato' Abdul Rahman Ahmad, Rohaizad Darus and Dato' Dayang Fatimah Johari as the Directors of the Company, at this 9th AGM. In addition, Dato' Dayang Fatimah Johari, being the Independent Non-Executive Director, has provided 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 CA 2016 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.

For 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 FY2018 are disclosed on page 108 of the Annual Report.

NOTE : Dato' Abdul Rahman Ahmad has agreed to receive RM1.00 only, as a token of consideration in lieu of the Fees, Allowances and Benefits entitled to him, effective from 15 December 2017 to this coming 9th Annual General Meeting. Dato' Abdul Rahman Ahmad also has not exercised his entitlement for Leave Passage as well as company car and driver.

The Board has recently carried out a comprehensive review on the Remuneration of Non-Executive Directors Scheme for the Company, which was done by an external consulting firm, and taking into consideration concerns raised by the Minority Shareholder Watch Group ("MSWG") on issue relating to Directors' Gratuity Entitlement ("Gratuity") at the previous 8th AGM of the Company, the Board resolved that the Gratuity shall be discontinued and ceased with effect from 31 December 2018 and that the Company to pay the amount already accrued to each director for the said Gratuity calculated based on RM7,500 for each year of service up to cessation date, with a total accumulated amount of RM184,125.

Notice of Annual General Meeting (Cont'd.)

NO.	NAME	TENURE	AMOUNT ACCRUED
		Year	Ringgit Malaysia
1.	Dato' Abdul Rahman Ahmad	2.0	15,000
2.	Rohaizad Darus	7.0	-
3.	Razalee Amin	5.6	42,000
4.	Dato' Ibrahim Marsidi	5.6	42,000
5.	Cheah Tek Kuang	5.6	42,000
6.	Mohd Rashid Mohd Yusof	1.5	11,250
7.	Rowina Ghazali Seth	1.5	11,250
8.	Haida Shenny Hazri	1.5	11,250
9.	Rizal Rickman Ramli	0.8	5,625
10.	Dato' Dayang Fatimah Johari	0.5	3,750
		TOTAL	184,125

A copy of the said Remuneration Policy and Procedures for Non-Executive Directors is available at VELESTO's corporate website www.velesto.com

Explanatory Note E

Pursuant to Section 271(4)(a) of the CA 2016, 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 has indicated their willingness to continue its services for another year.

The BAC and the Board have considered the re-appointment of Messrs. Ernst & Young 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 has met the relevant criteria prescribed by Paragraph 15.21 of the MMLR of BURSA.

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 appearing on pages 14 to 23 of this Annual Report. Directors' interests in the securities of the Company are disclosed on page 222 to 224 of this Annual Report.

1. The Annual Report 2018 is available under "Financial Reports" of the "Investor Relations" page on the Company's website at www.velesto.com and also on Bursa Malaysia's website at www.bursamalaysia.com under "Company Announcements" of the Listed Companies tab.
2. If you wish to request for a printed copy of the Annual Report 2018, please forward your request by completing the Requisition Form provided in the Abridged Annual Report. A copy of the Annual Report 2018 will be sent to you by ordinary post upon receipt of the written request.

Form of Proxy

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** (formerly known as UMW Oil & Gas Corporation Berhad) (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 9th Annual General Meeting of the Company to be held at **Dewan Tun Abdul Razak, Menara Kembar Bank Rakyat, No. 33, Jalan Rakyat, 50470 Kuala Lumpur, Malaysia** on **Wednesday, 29 May 2019** at **10.00 a.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 Dato' Abdul Rahman Ahmad in accordance with Article 96 of the Company's Constitution. Ordinary resolution 1		
To re-elect Rohaizad Darus in accordance with Article 96 of the Company's Constitution. Ordinary resolution 2		
To re-elect Dato' Dayang Fatimah Johari in accordance with Article 103 of the Company's Constitution. Ordinary resolution 3		
To approve the Directors Fees in accordance with the Remuneration Policy and Procedures for Non-Executive Directors of the Company, with effect from this 9 th Annual General Meeting until the next Annual General Meeting. Ordinary resolution 4		
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 9 th Annual General Meeting until the next Annual General Meeting. Ordinary resolution 5		
To re-appoint Messrs. Ernst & Young as the Company's Auditors for the year ending 31 December 2019 and to authorise the Board of Directors to determine their remuneration. Ordinary resolution 6		

Dated this ____ day of _____ 2019

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. A member of the Company entitled to attend and vote at the Meeting may appoint a proxy or proxies to attend and vote 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.
2. 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 Form of Proxy 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 Form of Proxy 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.
3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint a proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
4. The instrument appointing the proxy must be deposited at the office of the Company's registrar, Securities Services (Holdings) Sdn. Bhd. at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Malaysia, not less than 48 hours before the time appointed for the taking of the poll and any adjournment thereof.
5. For the purpose of determining a member who shall be entitled to attend the meeting, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd., in accordance with Article 68 & 69 of the Company's Constitution and Section 34(l) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 21 May 2019. Only a depositor whose name appears on the General Meeting Record of Depositors as at 21 May 2019 shall be entitled to attend the said meeting or appoint a proxy to attend and / or vote in his / her stead.
6. Pursuant to Paragraph 8.29A(i) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of the 9th AGM of the Company shall be put to vote by way of a poll.
7. 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. : 878786-H

Affix
Stamp
Here

SECURITIES SERVICES (HOLDINGS) SDN. BHD.

Level 7, Menara Milenium, Jalan Damanlela,
Pusat Bandar Damansara, Damansara Heights,
50490 Kuala Lumpur,
Malaysia

2. Fold this flap to seal

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.
“BWBM”	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 8 th 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 Amortization.
“EES”	Economic, Environmental and Social.
“E&P”	Exploration and Production.
“fka”	formerly known as
“FYE”	Financial Year Ended.
“FY2018”	Financial year ended 31 December 2018.
“GHG”	Greenhouse Gas Emissions.
“GRI”	Global Reporting Initiative.
“Government”	Government of Malaysia.
“HSE”	Health, Safety and Environment.
“HPHT”	High-Pressure, High-Temperature
“HWU”	Hydraulic Workover Unit.
“IADC”	International Association of Drilling Contractors.

Glossary

(Cont'd.)

"INED"	Independent Non-Executive Director.
"JU"	Jack-up Drilling Rig.
"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.
"O&G"	Oil & Gas.
"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.
"SR2018"	Sustainability Report 2018.
"SSM"	Suruhanjaya Syarikat Malaysia.
"TOR"	Terms of Reference.
"VELESTO Group" or "Group"	collectively, VELESTO and its subsidiaries (including associate company).
"VELESTO" or "Company"	Velesto Energy Berhad, (<i>formerly known as UMW Oil & Gas Corporation Berhad</i>), (Company No. 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 BERHAD (Company No.: 878786-H)

(formerly known as UMW Oil & Gas Corporation Berhad)

(Incorporated in Malaysia under the Companies Act, 1965 and is deemed registered under Companies Act, 2016)

ADMINISTRATIVE GUIDE

9TH ANNUAL GENERAL MEETING (“AGM”) OF VELESTO ENERGY BERHAD (the “Company”)

Date : Wednesday, 29 May 2019

Time : 10:00 a.m.

Venue : Dewan Tun Abdul Razak, Menara Kembar Bank Rakyat, No. 33, Jalan Rakyat,
50470 Kuala Lumpur, Malaysia

Registration

1. Registration is from 8:30 a.m. and will end by 10:00 a.m. or at such time as may be determined by the Chairman of the meeting. After which, registration will be closed.
2. Registration will take place at the registration counters located at the Foyer on Level 2.
3. Kindly present your **original National Registration Identity Card (“NRIC”) or Passport for verification** by the Registrar. Photocopy of NRIC or Passport is not allowed. Upon verification of your NRIC or Passport and signing of the Attendance List, you will be given a wristband for identification. Please ensure you collect your original NRIC or Passport thereafter.
4. No individual will be allowed to enter Hall 1 and Hall 2 of Dewan Tun Abdul Razak without the wristband. There will be no replacement in the event you lose or misplace the wristband.
5. No individual will be allowed to register on behalf of another person, registration personnel will handle only verification of identity and registration of shareholders and / or proxy holders. If you have any enquiries on other matters, please refer to our staff who will be at hand to provide assistance or you may approach our staff at the Helpdesk.

General Meeting Record of Depositors

Only depositors whose **names appear in the General Meeting Record of Depositors as at 21 May 2019 will be entitled to attend the AGM** or to appoint **proxy** to attend and / or vote on the depositor’s behalf.

Proxy

1. A member entitled to attend and vote is entitled to appoint more than **one proxy** which shall be counted as one member, to attend and vote in his / her stead. If you are unable to attend the meeting and wish to appoint a proxy to vote on your behalf, please submit your Form of Proxy in accordance with the instructions printed therein.
2. If you submit your Form of Proxy prior to the meeting and subsequently decide to attend the meeting personally, please revoke the appointment of your proxy at the time of registration. Your proxy, on revocation, will not be allowed to attend the meeting.
3. You may submit your Form of Proxy by fax, post or email to the Registrar as follows:

SECURITIES SERVICES (HOLDINGS) SDN. BHD.

(Company No.: 36869-T)

Level 7, Menara Milenium

Jalan Damanlela

Pusat Bandar Damansara

Damansara Heights

50490 Kuala Lumpur

Telephone No. : +603-2084 9000

Facsimile No. : +603-2094 9940

Email : info@sshshb.com.my

not less than 48 hours before the time appointed for holding the AGM. Any Form of Proxy received after the time stipulated will not be valid.

Corporate Representative

Any corporate member who wishes to appoint a representative instead of a proxy to attend the AGM should present a valid instrument appointing a corporate representative which shall be in writing under the common seal of the corporation.

Annual Report 2018

1. The Annual Report 2018 is available under “Financial Reports” of the “Investor Relations” page on the Company’s website at www.velesto.com and also on Bursa Malaysia’s website at www.bursamalaysia.com under “Company Announcements” of the Listed Companies tab.
2. If you wish to request for a printed copy of the Annual Report 2018, please forward your request by completing the Requisition Form provided in the Abridged Annual Report. A copy of the Annual Report 2018 will be sent to you by ordinary post upon receipt of the written request.

Voting Procedure

1. The voting at the 9th AGM will be conducted on a poll in accordance with Paragraph 8.29A of Bursa Malaysia Securities Berhad Main Market Listing Requirements. The Company has appointed Securities Services Sdn. Bhd. (“SS”) as Poll Administrator to conduct the poll by way of electronic voting (“eVoting”) and Commercial Quest Sdn. Bhd. as scrutineers to verify the poll results.
2. To facilitate the eVoting procedures, a video presentation on how to vote will be provided in the meeting before the start of voting session.

Door gifts

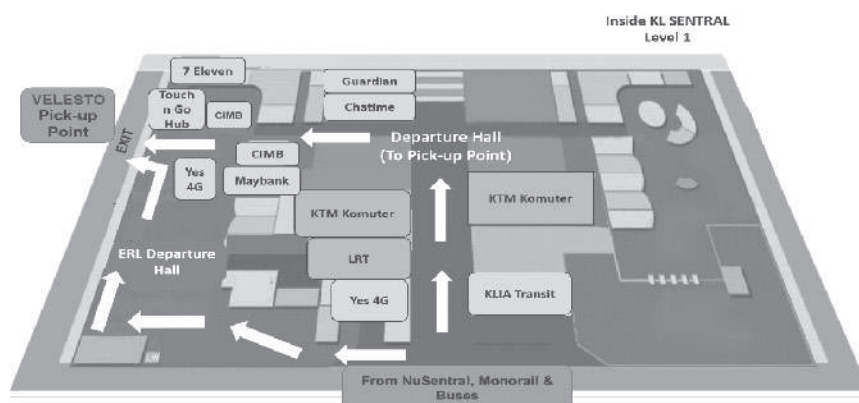
Each person, whether attending as shareholder or proxy, shall be eligible for one door gift only. Door gifts are STRICTLY while stocks last, on a first-come-first-served basis. The Company reserves the right to change the type of door gift.

Parking

1. You may park your vehicle at the parking bays at Level 1, 1A and 1B of Menara Kembar Bank Rakyat.
2. Please validate your parking ticket for a ‘Complimentary Parking Ticket’ at the counters located at the Foyer on Level 2. Kindly note that you are still required to validate the ‘Complimentary Parking Ticket’ at the autopay machine before you exit the Menara Kembar Bank Rakyat’s car park.

Shuttle Service

1. For those using the public transportation, kindly disembark at the Kuala Lumpur Sentral Station.
2. Shuttle van / car with the Company’s sticker displayed will be provided from 8:00 a.m. until 2.00 p.m. every 30-minute between the pick-up point and AGM’s venue.



Enquiry

If you have any enquiry prior to the meeting, please contact the following persons during office hours:

1. Name : Wong Piang Yoong / Jerry Tan Hor Seng/ Norhasliliwati Abdullah Hashim
Registrar : **SECURITIES SERVICES (HOLDINGS) Sdn. Bhd.**
Telephone No. : +603-2084 9000
Facsimile No. : +603-2094 9940
2. Name : Mohd Nizamuddin Mokhtar (Company Secretary)
Company : **VELESTO ENERGY BERHAD**
Telephone No. : +603-2096 8788
Facsimile No. : +603-2274 7787

Location Map



LOCATION MAP
BRCC
(BANK RAKYAT CONVENTION CENTRE) @ MENARA KEMBAR BANK RAKYAT



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

T +603-2096 8788
F +603-2096 8733

www.velestocom