



UMW
OIL & GAS

Forging Ahead

Embracing Change

Annual Report | 2016





FORGING AHEAD, EMBRACING CHANGE

UMW Oil & Gas Corporation Berhad (“UMW-OG”) remains steadfast in its commitment to create long-term sustainable growth and shareholder value. This cover visual shows how UMW-OG is forging ahead into the future, and that the organisation is surging ahead with the determination to survive and thrive in this new operating normal, taking the necessary rationalisation measures to remain competitive in this challenging market.

STRATEGY FOR CONSOLIDATING OUR STRENGTHS

OPERATIONS

- Streamlining and reshaping processes and procedures to optimise and reduce operating costs
- Improving operational efficiency while maintaining high safety standards

ASSETS

- Managing day rates to be market-competitive to maximise rig utilisation
- Maintaining the high operating efficiency rates of more than 95% of our rigs

PEOPLE

- Training and development to upskill our employees to build a strong knowledge foundation
- Providing high quality education and training, both locally and internationally through our drilling academy



IN OUR 2016 REPORT

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OUR PERSPECTIVE

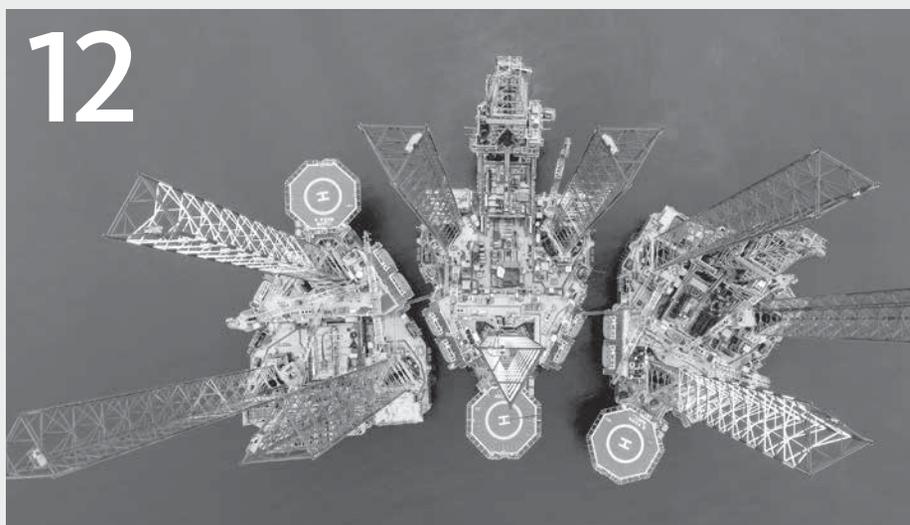
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PROXY FORM

UMW OIL & GAS CORPORATION BERHAD

(“UMW-OG” or “the Company”) is a Malaysia-based multinational provider of drilling and oilfield services for the upstream sector of the oil and gas industry. We provide drilling and workover services for exploration, development and production wells in Malaysia and Southeast Asia with our fleet of offshore drilling rigs and hydraulic workover units. Our Oilfield Services business offers 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.

UMW Holdings Berhad (“UMWH”), our parent company and single largest shareholder, is a leading industrial conglomerate in Malaysia, with diverse and global businesses in the automotive, equipment, manufacturing and engineering, and oil and gas industries.

BEYOND BOUNDARIES

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.

OUR ASSETS

OFFSHORE DRILLING RIGS



NAGA 1



UMW NAGA 2



UMW NAGA 3



UMW NAGA 4



UMW NAGA 5



UMW NAGA 6



UMW NAGA 7



UMW NAGA 8

CORE VALUES

Going *Beyond Boundaries*® is not only about crossing geographical or physical borders. It is about redefining the boundaries of our minds and doing new things in a better way. In short, it is about eliminating all barriers and scaling new heights.

UMW-OG is built on the foundation of four core beliefs in being:



HONOURABLE

Our continual efforts in building trusted relationships and behaving with the utmost integrity, resulting in quality products and services that stand the test of time.



UNSHAKEABLE

Our commitment to our customers, partners, employees as well as the community at large, and to persevere and strive for excellence in all our undertakings.



VIBRANT

Our energetic and open-minded approach to new ideas that inspire fresh solutions for our partners and businesses.



PIONEERING

We lead the way with bold ideas that shape the future of our industries.

HYDRAULIC WORKOVER UNITS



UMW GAIT 1



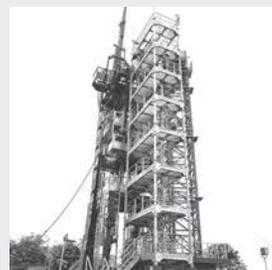
UMW GAIT 2



UMW GAIT 3



UMW GAIT 5



UMW GAIT 6

OILFIELD SERVICES OPERATIONS



MALAYSIA - Labuan West plant



MALAYSIA - Labuan East plant



THAILAND - Lan Krabue plant



THAILAND - Songkhla plant



CHINA - Tianjin plant

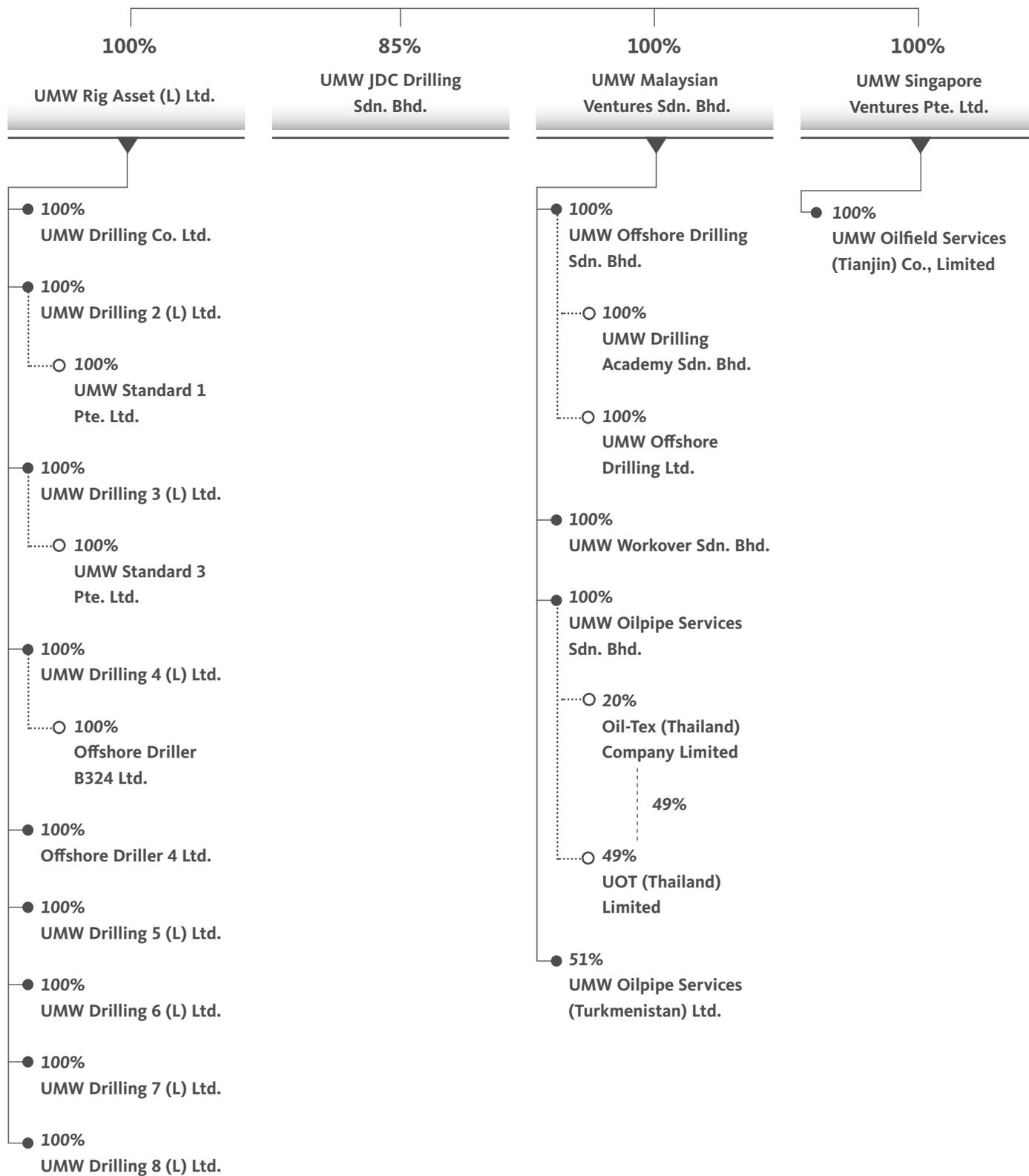


TURKMENISTAN - Turkmenbashi plant

CORPORATE STRUCTURE



UMW OIL & GAS CORPORATION BERHAD



CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Sri Asmat bin Kamaludin (Chairman)

Non-Independent
Non-Executive Director
Date of appointment : 2 May 2013

Dato' Abdul Rahman bin Ahmad (Deputy Chairman)

Non-Independent
Non-Executive Director
Date of appointment : 19 January 2017

Rohaizad bin Darus (President)

Non-Independent
Executive Director
Date of appointment : 31 January 2012

Badrul Feisal bin Abdul Rahim

Non-Independent
Non-Executive Director
Date of appointment : 1 October 2015

Dr. Leong Chik Weng

Non-Independent
Non-Executive Director
Date of appointment : 21 April 2011
Date of resignation : 24 February 2017

Razalee bin Amin

Independent
Non-Executive Director
Date of appointment : 2 May 2013

Dato' Affuddin bin Abdul Kadir

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 bin Marsidi

Independent
Non-Executive Director
Date of appointment : 2 May 2013

Fina Norhizah binti Hj. Baharu Zaman

Independent
Non-Executive Director
Date of appointment : 15 August 2013
Date of resignation : 1 March 2017

BOARD AUDIT COMMITTEE

- Razalee bin Amin (Chairman)
- Badrul Feisal bin Abdul Rahim
- Cheah Tek Kuang
- Dato' Ibrahim bin Marsidi

BOARD NOMINATION COMMITTEE

- Dato' Affuddin bin Abdul Kadir (Chairman)
- Dr. Leong Chik Weng
- Resigned on 24 February 2017
- Badrul Feisal bin Abdul Rahim
- Appointed on 14 March 2017
- Razalee bin Amin
- Dato' Ibrahim bin Marsidi
- Appointed on 14 March 2017
- Fina Norhizah binti Hj. Baharu Zaman
- Resigned on 1 March 2017

BOARD REMUNERATION COMMITTEE

- Dr. Leong Chik Weng (Chairman)
- Resigned on 24 February 2017
- Dato' Affuddin bin Abdul Kadir
- Cheah Tek Kuang
- Dato' Ibrahim bin Marsidi

BOARD EXECUTIVE COMMITTEE

- Dr. Leong Chik Weng (Chairman)
- Resigned on 24 February 2017
- Badrul Feisal bin Abdul Rahim
- Razalee bin Amin
- Dato' Affuddin bin Abdul Kadir
- Appointed on 14 March 2017
- Cheah Tek Kuang
- Dato' Ibrahim bin Marsidi
- Fina Norhizah binti Hj. Baharu Zaman
- Resigned on 1 March 2017

BOARD RISK MANAGEMENT COMMITTEE

- Dr. Leong Chik Weng (Chairman)
- Resigned on 24 February 2017
- Badrul Feisal bin Abdul Rahim
- Razalee bin Amin
- Appointed on 14 March 2017
- Dato' Affuddin bin Abdul Kadir
- Appointed on 14 March 2017
- Cheah Tek Kuang
- Dato' Ibrahim bin Marsidi
- Rohaizad bin Darus
- Fina Norhizah binti Hj. Baharu Zaman
- Resigned on 1 March 2017

BOARD WHISTLE-BLOWING COMMITTEE

- Fina Norhizah binti Hj. Baharu Zaman
(Chairman) - Resigned on 1 March 2017
- Badrul Feisal bin Abdul Rahim
- Razalee bin Amin
- Dato' Affuddin bin Abdul Kadir

COMPANY SECRETARY

Lee Mi Ryoung (MAICSA 7058423)

REGISTERED OFFICE

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

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

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia
Securities Berhad
Stock Name : UMWOG
Stock Code : 5243
Listing Date : 1 November 2013

PRINCIPAL BANKERS

- Affin Bank Berhad
- AmBank (M) Berhad
- Asian Finance Bank Berhad
- CIMB Bank Berhad
- Deutsche Bank AG, Singapore Branch
- HSBC Amanah Malaysia Berhad
- Malayan Banking Berhad Group
- Sumitomo Mitsui Banking Corporation
Malaysia Berhad

WEBSITE

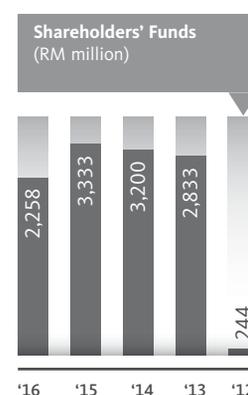
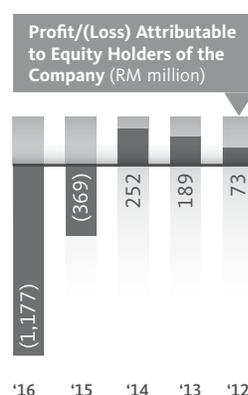
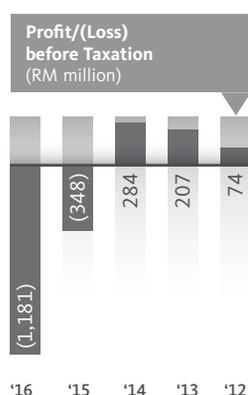
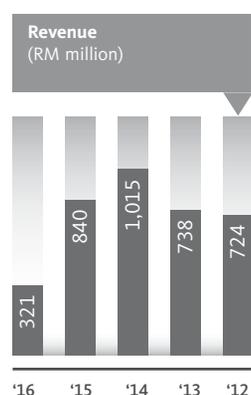
<http://www.umw-oilgas.com>

E-MAIL ADDRESS

info@umw-oilgas.com

5-YEAR GROUP SUMMARY RESULTS

Financial Year Ended 31 December		2012	2013	2014	2015	2016
Revenue	RM million	724	738	1,015	840	321
Profit/(Loss) Before Taxation	RM million	74	207	284	(348)	(1,181)
Profit/(Loss) Attributable to Equity Holders of the Company	RM million	73	189	252	(369)	(1,177)
Shareholders' Funds	RM million	244	2,833	3,200	3,333	2,258
Return on Shareholders' Funds	%	35	12	8	(11)	(42)
Return on Total Assets	%	4	5	5	(5)	(18)
Basic Earnings/(Loss) Per Share	sen	4.7	11.5	11.7	(17.1)	(54.5)
Share Price at Year End	RM	N/A	4.01	2.35	1.07	0.875
Market Capitalisation at Year End	RM million	N/A	8,670	5,081	2,313	1,892



SUMMARY OF GROUP RESULTS

Financial Year Ended 31 December		2016	2015
Revenue	RM million	321	840
Loss Before Taxation	RM million	(1,181)	(348)
Loss After Taxation	RM million	(1,183)	(368)
Share Capital	RM million	1,081	1,081
Reserves	RM million	1,177	2,252
Basic Loss Per Share	sen	(54.5)	(17.1)
Net Assets Per Share	RM	1.0	1.5

FINANCIAL CALENDAR

Financial Year Ended / Ending	Date
Announcement of Results:	
First Quarter	23 May 2016
Second Quarter	22 August 2016
Third Quarter	28 November 2016
Fourth Quarter	27 February 2017
Notice of 7 th Annual General Meeting & issuance of Annual Report 2016	21 April 2017
7 th Annual General Meeting	15 May 2017

STATISTICS ON SHAREHOLDINGS AS AT 31 MARCH 2017

Issued Shares of the Company : 2,162,000,000 ordinary shares
 Class of Shares : Ordinary shares
 Voting Right : One vote per one ordinary share

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	Foreigner	No.	%	Malaysian	Foreigner	No.	%
Less than 100	140	2	142	0.70	2,016	3	2,019	0.00
100 - 1,000	2,871	37	2,908	14.39	2,214,510	25,700	2,240,210	0.10
1,001 - 10,000	11,906	107	12,013	59.45	55,606,888	481,119	56,088,007	2.59
10,001 - 100,000	4,498	96	4,594	22.74	141,987,000	3,680,897	145,667,897	6.74
100,001 to less than 5% of issued shares	468	80	548	2.71	504,943,544	66,683,823	571,627,367	26.44
5% and above of issued shares	2	0	2	0.01	1,386,374,500	0	1,386,374,500	64.13
TOTAL	19,885	322	20,207	100.00	2,091,128,458	70,871,542	2,162,000,000	100.00

CATEGORY OF SHAREHOLDERS

Category	No. of Shareholders		No. of Issued Shares		% of Issued Shares	
	Malaysian	Foreigner	Malaysian	Foreigner	Malaysian	Foreigner
1 Individual	16,043	147	222,401,069	5,438,503	10.29	0.25
2 Body Corporate						
A) Banks / Finance Companies	45	0	432,959,564	0	20.03	0.00
B) Investment Trusts / Foundations / Charities	3	0	131,500	0	0.00	0.00
C) Industrial and Commercial Companies	153	1	1,215,905,300	3,100	56.24	0.00
3 Government Agencies / Institutions	2	0	18,530,300	0	0.86	0.00
4 Nominees	3,637	174	201,198,621	65,429,939	9.31	3.03
5 Others	2	0	2,104	0	0.00	0.00
Total	19,885	322	2,091,128,458	70,871,542	96.72	3.28

STATISTICS ON SHAREHOLDINGS AS AT 31 MARCH 2017

30 LARGEST SHAREHOLDERS

(Without aggregating securities from different securities accounts belonging to the same person)

No.	Shareholders	No. of Shares	%
1	UMW Holdings Berhad	1,204,777,400	55.73
2	Amanahraya Trustees Berhad Amanah Saham Bumiputera	181,597,100	8.40
3	Citigroup Nominees (Tempatan) Sdn. Bhd. Employees Provident Fund Board	69,646,700	3.22
4	Lembaga Tabung Haji	59,796,700	2.77
5	Kumpulan Wang Persaraan (Diperbadankan)	53,159,200	2.46
6	Amanahraya Trustees Berhad Amanah Saham Wawasan 2020	30,000,000	1.39
7	Amanahraya Trustees Berhad Amanah Saham Malaysia	26,000,000	1.20
8	Lembaga Tabung Angkatan Tentera	18,395,800	0.85
9	Amanahraya Trustees Berhad Public Islamic Dividend Fund	17,336,000	0.80
10	Permodalan Nasional Berhad	12,854,544	0.59
11	Amanahraya Trustees Berhad Public Islamic Equity Fund	11,511,500	0.53
12	Amanahraya Trustees Berhad Amanah Saham Didik	9,172,764	0.42
13	Citigroup Nominees (Tempatan) Sdn. Bhd. Employees Provident Fund Board (AMUNDI)	8,500,000	0.39
14	HSBC Nominees (Asing) Sdn. Bhd. BBH and Co Boston for Vanguard Emerging Markets Stock Index Fund	7,922,100	0.37
15	HSBC Nominees (Asing) Sdn. Bhd. Exempt AN for JPMorgan Chase Bank, National Association (U.S.A)	7,382,900	0.34
16	Amanahraya Trustees Berhad Amanah Saham Nasional	6,355,700	0.29
17	Citigroup Nominees (Tempatan) Sdn. Bhd. Kumpulan Wang Persaraan (Diperbadankan) (I-VCAP)	6,338,200	0.29
18	CIMB Group Nominees (Tempatan) Sdn. Bhd. CIMB Bank Berhad (EDP2)	6,190,200	0.29
19	Amanahraya Trustees Berhad Amanah Saham Bumiputera 2	6,050,000	0.28
20	Rahmah binti Abdul Rahim	5,628,100	0.26
21	HSBC Nominees (Asing) Sdn. Bhd. SBL of Morgan Stanley & Co. International PLC	4,307,081	0.20
22	Amanahraya Trustees Berhad Amanah Saham Gemilang for Amanah Saham Kesihatan	3,708,100	0.17
23	HLIB Nominees (Asing) Sdn. Bhd. Hong Leong Fund Management Sdn. Bhd. for Asia Fountain Investment Company Limited	3,400,000	0.16
24	Maybank Nominees (Tempatan) Sdn. Bhd. Bank Kerjasama Rakyat (M) Berhad	3,043,700	0.14
25	Assets Nominees (Asing) Sdn. Bhd. Guoline Capital Limited	3,000,000	0.14
26	AXD System Global Sdn. Bhd.	3,000,000	0.14

30 LARGEST SHAREHOLDERS

(Without aggregating securities from different securities accounts belonging to the same person)

No.	Shareholders	No. of Shares	%
27	Amanahraya Trustees Berhad Amanah Saham Nasional 2	2,919,456	0.14
28	DB (Malaysia) Nominee (Asing) Sdn. Bhd. Exempt AN for Bank of Singapore Limited	2,841,700	0.13
29	Citigroup Nominees (Asing) Sdn. Bhd. CBNY for Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc	2,630,400	0.12
30	Cartaban Nominees (Asing) Sdn. Bhd. SSBT Fund FA2N for Parametric Tax-Managed Emerging Markets Fund	2,615,100	0.12

SUBSTANTIAL SHAREHOLDERS

As per the register of substantial shareholders

Substantial Shareholders	No. of Shares	%
UMW Holdings Berhad	1,204,777,400	55.73
Amanahraya Trustees Berhad Amanah Saham Bumiputera	181,597,100	8.40

DIRECTORS' INTEREST IN THE COMPANY

As at 31 March 2017, 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	Tan Sri Asmat bin Kamaludin	0	0.00	0	0.00
2	Dato' Abdul Rahman bin Ahmad	0	0.00	0	0.00
3	Rohaizad bin Darus	1,000,000	0.05	0	0.00
4	Badrul Feisal bin Abdul Rahim	0	0.00	0	0.00
5	Razalee bin Amin	203,000	0.01	0	0.00
6	Dato' Afifuddin bin Abdul Kadir	275,000	0.01	0	0.00
7	Cheah Tek Kuang	0	0.00	26,000	0.00*
8	Dato' Ibrahim bin Marsidi	30,000	0.00*	0	0.00
	TOTAL	1,508,000	0.07	26,000	0.00*

Note : * Less than 0.01%

The above information was extracted from the Record of Depositors on 31 March 2017.

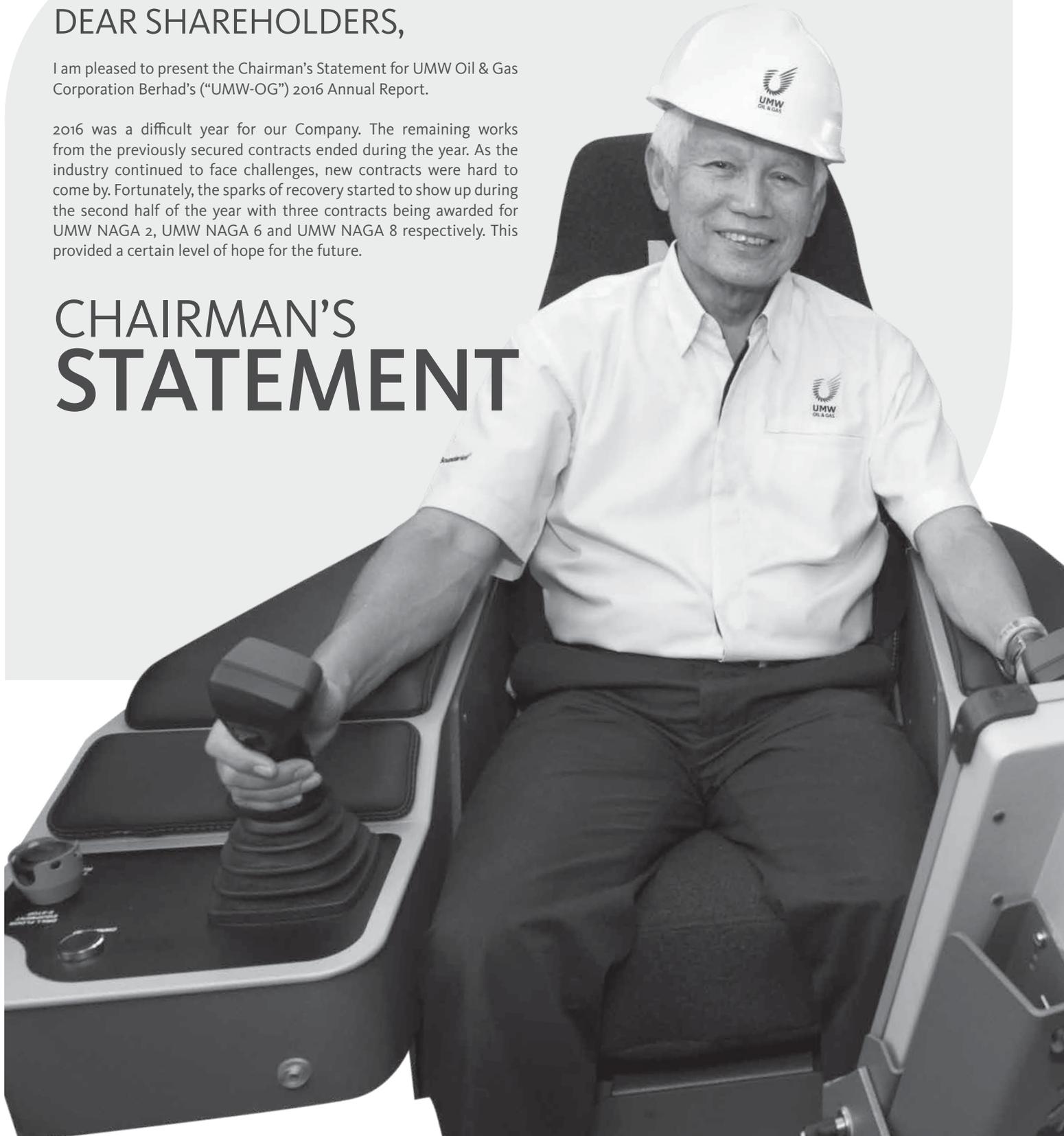
As at 31 December 2016, the Directors did not have any interests in the shares of UMW Holdings Berhad or the Company's related corporations except for Tan Sri Asmat bin Kamaludin holding indirectly 18,000 shares (less than 0.01%) in UMW Holdings Berhad.

DEAR SHAREHOLDERS,

I am pleased to present the Chairman's Statement for UMW Oil & Gas Corporation Berhad's ("UMW-OG") 2016 Annual Report.

2016 was a difficult year for our Company. The remaining works from the previously secured contracts ended during the year. As the industry continued to face challenges, new contracts were hard to come by. Fortunately, the sparks of recovery started to show up during the second half of the year with three contracts being awarded for UMW NAGA 2, UMW NAGA 6 and UMW NAGA 8 respectively. This provided a certain level of hope for the future.

CHAIRMAN'S STATEMENT



The light at the end of the tunnel looked a little bit brighter with the announcement of planned production cuts by both OPEC and Non-OPEC members of oil producing countries on 30 November 2016. This brought the benchmark Brent oil price to above USD50 per barrel and it was sustainable for a longer period. While the announcement and the subsequent events following it gave little indication of how high the price would go, it did provide an indicative floor price for the oil. With a clear indication of the floor price, oil and gas companies started to resume investments in the exploration and development of fields that were viable at the oil price below the floor.

This, in turn increased exploration and development activities globally. In Malaysia, this was evidenced by the recent awards of two more contracts to UMW NAGA 5 and UMW NAGA 7, respectively.

However, securing the said contracts came with a price where they were secured at lower charter rates due to the current low but stabilised oil price environment, and depressed oil and gas services supply chain. This current environment translated into much lower drilling activities by our clients, primarily PETRONAS.

However, the risk of stagnation or even a reversal still exists and all industry players need to tread the near future with great caution. In light of this, we took significant actions to reduce costs and improve net cash flow. Capital and operating expenses were reduced significantly through various means. This included relooking at existing contracts with vendors and also streamlining the organisation by reducing our employee and contractor's headcount among others.

MOVING AHEAD AND ADAPTING

Though it has been another challenging year for the sector, we have continued to persevere and took the opportunity to reposition ourselves not just to weather the storm, but also to emerge stronger from this experience. In embracing the low oil price scenario as the new operating norm, our push for a more efficient and productive way of working will enable us to better respond to the various dynamics at play in this sector and allow us to boost profitability as the market recovers.

We are adapting to the new norm in the industry by challenging ourselves to do things differently in survival mode to enable us to weather the current challenges and emerge stronger in the future. Amongst the steps taken is bringing forward the cost cutting initiatives that had been carried out since 2015.

During this difficult period, we are faced with excess resources due to the significant reductions in contracts. As a result, the Company has offered a Voluntary Separation Scheme ("VSS") towards the fourth quarter of 2016 to bring our people resources in line with what the company can afford.

With the undying support from the UMW-OG family, supported by the high quality assets that make up

our fleet, the Management and I remain positive that UMW-OG has the expertise within the organisation to deliver continued growth and positive returns to its shareholders as the market slowly recovers.

OUR PEOPLE

The growth and success of our business revolves around the quality and commitment of our people and I strongly believe that we have a talented and robust team at UMW-OG. They have been the main driver in ensuring that the Company remained on track to deliver all its objectives despite an extremely challenging oil price environment.

For that reason, we place a strong emphasis on human capital and continue to develop our employment practices and policies to ensure we can attract and retain the best talent. As a home-grown outfit, we are also committed to developing Malaysians in tandem with the Government's efforts of retaining and engaging local talent. This is done by emphasising on hands-on training and personal guidance from supervisors, in addition to formal trainings under our very own UMW Drilling Academy ("UDA") and also under third party training providers.

In addition, employee engagements are also conducted via various media, namely the quarterly town halls, the intranet, online newsletters and through other cooperation within departments and subsidiaries.

PRIORITISING QHSE

UMW-OG conducts its business responsibly, with respect for the people and communities within the areas which we work in. As with any player in the oil and gas industry, our highest priority is to make sure that nothing goes wrong and no one gets hurt. We safeguard our activities to ensure that we do not compromise our health and safety obligations and recognised standard in line with our pursuit to achieve the goal of zero incidents and world-class performance in all measures of safety.

I am pleased to share that the safety performance of UMW-OG has improved in the reporting year with our 2016 Total Recordable Case Frequency ("TRCF") reducing to 0.10 from 0.13 in 2015. However, we were unfortunate to record one Loss Time Incident ("LTI").

RESPONSIBLE CORPORATE PRACTICES

The Board of UMW-OG acknowledges that we have a duty to secure the future of the Company and ensure sustainable value creation for all our stakeholders. We are committed to upholding the highest standards of corporate governance, and have put in place robust risk management and internal control practices to ensure the responsible management in the Group.

Our governance framework underscores the importance of sustainability to the Group, and I am pleased to introduce a new section to the Annual Report – the inaugural publication of UMW-OG's

Sustainability Report – where it highlights UMW-OG's CSR programmes in continuing our support of the communities where we have a presence. In keeping with the theme of cost savings, we also continued to carry out activities by means of joint ventures, sharing the cost where possible such as in the *Sahabat Maritim* Programme where we joined PETRONAS and other oil and gas companies to assist and educate the communities that are involved in marine activities such as fishermen and people living in coastal areas. Our social investments are guided by the three pillars of SAFETY, EDUCATION and ENVIRONMENT. More details are available in the Sustainability Report.

DIVIDENDS

Due to the current challenging state of the industry, the Board has recommended that no final dividend for the FY2016 be paid.

OUTLOOK

Although we have seen some recovery in the oil price since the start of the year, we remain focused on retaining the cost saving initiatives implemented in 2016 to guard against the uncertainties in the macro environment. The conceivable future remains positive and should allow UMW-OG to eventually deliver tangible returns to shareholders. In 2017, we expect to build on the hopes of recovery seen towards the end of 2016, coupled with exciting changes due to the new industry environment and potentially, the enlarged shareholding of Permodalan Nasional Berhad ("PNB"), making it our new largest shareholder.

We shall stay the course of the Group's strategies, embracing the changes in the industry to continue delivering value to our shareholders.

ACKNOWLEDGEMENTS

On behalf of the Board, we say thank you and farewell to Dr. Leong Chik Weng, Non-Independent & Non-Executive Director, and also Puan Fina Norhizah binti Hj. Baharu Zaman, Independent & Non-Executive Director, who retired earlier this year after serving over five and three years on the Board respectively. Having joined the Company from its inception, they contributed in setting UMW-OG on its growth path. I would also like to take this opportunity to welcome on board Yang Berbahagia Dato' Abdul Rahman bin Ahmad, who just assumed the new position as Deputy Chairman of UMW-OG.

I earnestly hope all our stakeholders will continue to lend UMW-OG their support to help the Company forge ahead into this new future.

ASMAT BIN KAMALUDIN
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

The year 2016 was a period of uncertainty with a number of surprise political developments like Brexit and the United States (“U.S.”) election sending shockwaves across the global economy. China’s market growth continues to decelerate, and the U.S. Federal Reserve has increased interest rates with more expected to follow this year. And crucially for us, the Organisation of the Petroleum Exporting Countries (“OPEC”) has in November pledged to cut production, providing a reprieve for the two-year slide in oil prices.

ROHAIZAD BIN DARUS
President



With the accord in place, the benchmark Brent oil price now hovers above USD50 per barrel, way above the low of USD27 per barrel seen in early 2016, but still half of what it used to be before the industry downturn. The output reduction agreement is providing the much needed stability for the industry and puts the oil market on the path towards rebalancing, though it will take time for the full impact of the big supply cuts to be felt and for drilling activities to fully resume to the level seen in 2014.

Against this backdrop, UMW Oil & Gas Corporation Berhad (“UMW-OG”) has taken several measures to adjust our operations to the current oil price environment, determined to forge ahead through these challenges by embracing this as the new norm. We have implemented initiatives to reduce costs, improve efficiency in cash management and manpower rationalisation, and is focused on consolidating our strength as an integrated offshore service provider.

Business Operations & Strategy

Business Overview

UMW-OG is an investment holding company. Through our subsidiaries, UMW-OG participates in the robust upstream activities of the oil and gas industry in Malaysia and other parts of Southeast Asia (“SEA”).

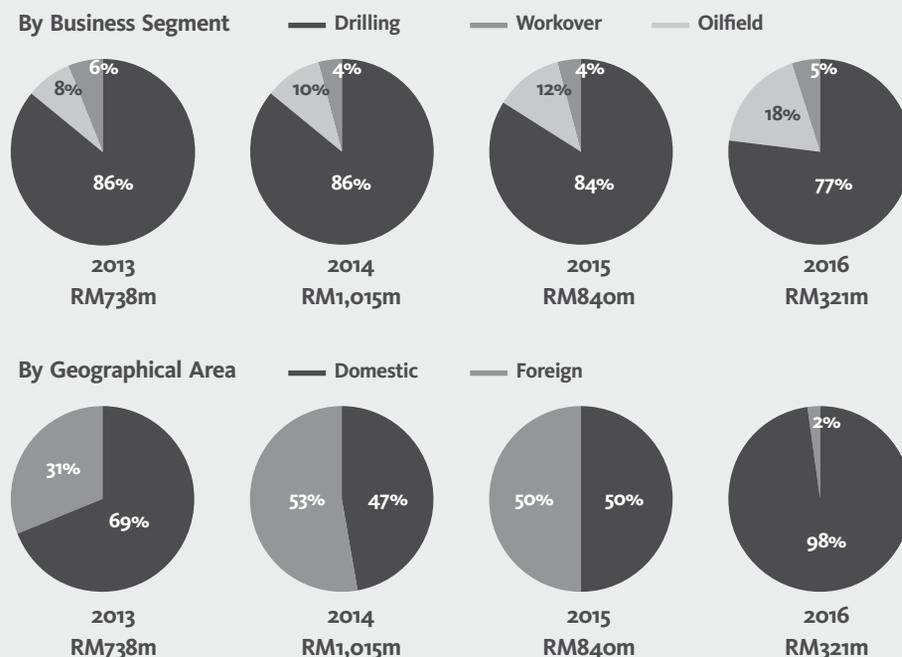
The core business of the Company is in the Drilling Services segment where we provide drilling services with our fleet of offshore drilling rigs and workover services through our hydraulic workover units (“HWU”s). Our Drilling Services segment also acts as an agent for two providers of specialised equipment and service.

UMW-OG’s fleet of offshore drilling rigs and HWUs consists of one semi-submersible, seven premium jack-up drilling rigs (“JU”s), and five HWUs. We jointly own and operate NAGA 1, a semi-submersible drilling rig, with Japan Drilling Company. The remaining rigs are fully owned and operated by us which include UMW NAGA 2, UMW NAGA 3, UMW NAGA 4, UMW NAGA 5, UMW NAGA 6, UMW NAGA 7 and UMW NAGA 8. In addition, we also have five HWUs in our fleet – UMW GAIT 1, UMW GAIT 2, UMW GAIT 3, UMW GAIT 5 and UMW GAIT 6. The rigs are used to provide our drilling services to oil companies for their exploration, development and production activities.

Our Oilfield Services business offers a wide range 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. Our threading facilities are furnished with quality equipment characterised

by high precision and accuracy machines for premium connections. We have a wide range of threading licenses from major international licensors, and we keep our Oilfield Services operations lean and our facilities standards tight.

REVENUE BREAKDOWN



Objective & Strategy

Our vision is to be a leading player in the oil and gas industry that operates both domestically and globally, supported by proven track records, true spirit, quality services and healthy growth potential.

To that end, we aim to strengthen our competitive position to become a global shallow water drilling and oilfield services provider-of-choice for the oil and gas industry through this 6-pronged long-term strategy:



MANAGEMENT DISCUSSION AND ANALYSIS

OPTIMISING OUR STRENGTHS

Operations	Assets	People
Enhance savings through initiatives driven by the Corporate Transformation Office	Maximise rig utilisation to stabilise revenue stream	Effective manpower management for talent development and cost reduction
<ul style="list-style-type: none"> • Cost optimisation • Improve operational and organisational efficiency • Streamlining processes and procedures • Maintaining high safety standards • Leveraging and expanding client base • Geographical expansion 	<ul style="list-style-type: none"> • Aggressive marketing • Managing price • Leveraging and expanding client base • Training and development 	<ul style="list-style-type: none"> • Training and development • High performance culture • Manpower reduction • Reduction in remuneration

Our business is dependent on PETRONAS, its subsidiaries and Production Sharing Contractors (“PSC”) as our key customers. It is a competitive business where players compete on the basis of experience, past performance, safety record and practices, reliability, range of services, technical support and price to a limited number of customers and in shrinking market share environment.

We will continue to focus our core businesses in the Southeast Asia market where we have a strong presence, while keeping an eye on the Middle East and North Sea where there are potential business opportunities. The Company will also look into other areas of businesses which will provide recurring and sustainable income, enabling the Company to remain relevant and resilient should

there be another industry downturn. The intensive Group-wide cost cutting initiatives implemented in 2016, including vendor renegotiation, restructuring of remuneration, and centralising warehouse operations, will help to keep our operations lean and our pricing competitive going forward.

STRATEGIC FOCUS AREAS FOR 2017

Markets		Assets	
Strengthen Current Market	Develop New Market	Increase Utilisation Rates	Competitive Pricing
SEA remains the main market for the company. Malaysia, Vietnam, Indonesia, Thailand, Cambodia and Brunei are expected to have potential drilling campaign in 2017.	UMW-OG is looking to continue its effort to expand regionally in the Middle East and the southern part of North Sea markets. Both market regions offer bigger opportunities for business expansion.	Demand for JUs is expected to increase, with more JUs due for retirement than the number entering the market.	With the ongoing low oil price market environment, operating day rates are not expected to improve significantly.
We are actively participating in ongoing tenders with numerous oil and gas companies.	Various marketing measures with potential clients in both regions have been carried out since 2015.	We are continuing to tender for contracts for our young fleet of high-specification assets to improve utilisation rates.	We will continue with our cost reduction initiatives and operate efficiently while maintaining our high safety standards.

GROUP FINANCIAL PERFORMANCE

Financial Results	2016 RM mil	2015 RM mil	% change
Revenue	321	840	-62%
Loss Before Tax	(1,181)	(348)	>100%

In the 2016 financial year, the Group recorded total revenue of RM321 million, a decrease of RM519 million or 62%, compared to the RM840 million reported in the preceding year. The revenue reduction was the direct result of full impact from the significantly lower levels of exploration, development and production activities in the oil and gas industry, whereas in 2015, the Group continued to receive income from existing unfinished contracts.

As a result, the Group posted a loss before tax of RM1,181 million for the financial year ended 31 December 2016, as compared to a loss before tax of RM348 million in the preceding year. The losses were resulted by weak demand for the Group's drilling and oilfield services due to prolonged low oil prices as well as asset impairment amounting to RM780 million.

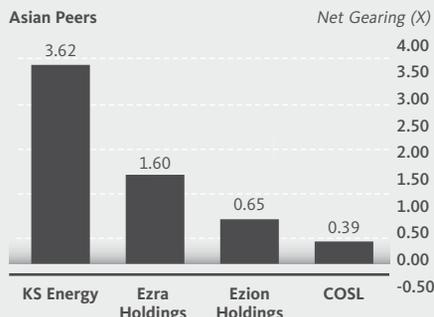
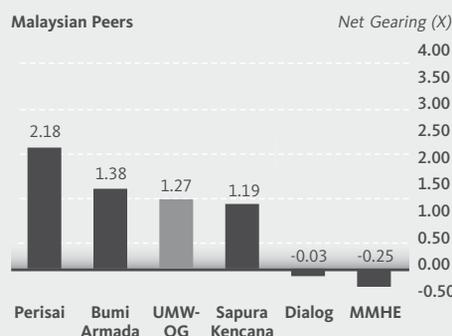
FINANCIAL POSITION HIGHLIGHTS

Financial Position Highlights	2016 RM mil	2015 RM mil	% change
Short-term borrowings	1,500	2,257	-34%
Long-term borrowings	2,273	1,747	30%
Total borrowings	3,773	4,004	-6%
Cash and bank balances	891	974	-9%

During 2016 financial year, the Group had raised syndicated loan to convert part of the short-term borrowings to long-term loan. As a result, the short-term borrowings had reduced 34% whilst long-term borrowings increased 30% as compared to previous financial year. Total cash and bank balances were lower by 9% to RM891 million as at 31 December 2016.

Gearing Ratio

The net gearing ratio of the Group as at 31 December 2016 of 1.27 was in line with the majority of other Malaysian oil and gas players.



REVIEW OF OPERATING ACTIVITIES

Drilling Services Segment

Operational Highlights

The year under review continued to be challenging for the drilling rig market, facing a decline in demand from oil producers. Sluggish drilling activities have resulted in lower number of working rigs globally. In SEA, the number of rigs declined 36%, whereby only 25 JUs were on contract. In Malaysia, only seven JUs were contracted, representing a decline of 22% from 2015.

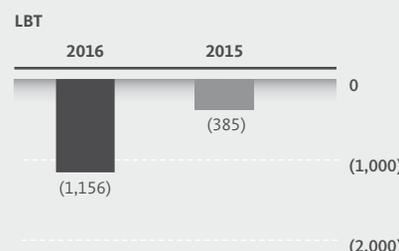
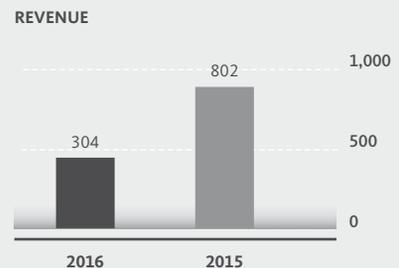
Out of these seven units, UMW-OG commanded a market share of 71.4% with five rigs: ongoing contracts from 2015 for UMW NAGA 4 and UMW NAGA 7 with PETRONAS Carigali Sdn. Bhd. ("PCSB"), UMW NAGA 8 for Sapura Kencana Energy Inc. ("SKE"), and the recently awarded UMW NAGA 6 contract for PCSB as well as UMW NAGA 8 contract in October 2016 for Hess Exploration and Production Malaysia B.V ("HESS"), buoyed by OPEC's move to curb production.

In addition to these, UMW NAGA 2 also secured another contract for three wells from Ophir Production Sdn. Bhd. in November 2016.

Our investments in business development and promotional activities, such as our participation in the biennial Offshore Technology Conference

("OTC") Asia 2016, has proven effective in enabling us to pitch our services to a vast number of local and international potential clients, helping us gain stronger market shares in the business.

Performance Highlights

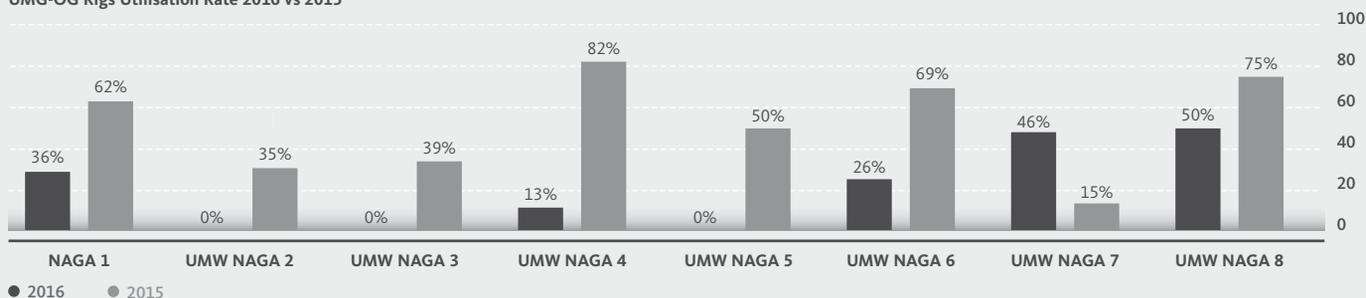


The Drilling Services segment contributed revenue of RM304 million or 95% of the Group's total revenue of RM321 million for the financial year ended 31 December 2016, a decrease of RM498 million or 62% over the RM802 million recorded in 2015.

Low asset utilisation coupled with reduced charter rates caused by surplus drilling rigs mainly contributed to the revenue reduction in 2016.

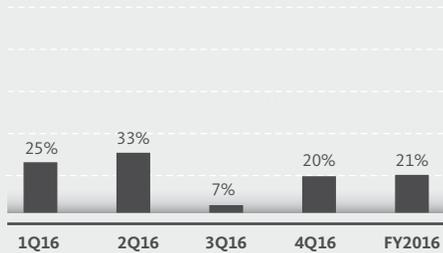
During the fourth quarter of 2016, two of the Group's seven JUs were income generating while another three JUs were preparing for mobilisation in 2017. Revenue for the same quarter of 2015 was however, contributed by four JUs with utilisation rates ranging from 15% to 100% at higher charter rates.

UMG-OG Rigs Utilisation Rate 2016 vs 2015



MANAGEMENT DISCUSSION AND ANALYSIS

Drilling Rigs Utilisation 2016



With fewer contracts available as major CAPEX are either cancelled or put on hold, the resultant oversupply of JUs in the market have put a strain on the operating day rates and margins are squeezed as a result. Consequently, the Drilling Services segment incurred a loss of RM1,156 million, including asset impairment of RM764 million, in 2016 compared to a loss of RM385 million achieved in 2015.

Looking Ahead

The joint decision by OPEC and non-OPEC members of producing countries in November 2016 to reduce oil production has brought some stability to the global oil price with the average Brent benchmark continuously trading above USD50 per barrel for a sustainable period. While the magnitude of upside in oil price is still uncertain, the decision effectively limits the downside and sets a floor for the oil price. This provides oil companies with a level of certainty in making investment decisions, resulting in an increase of activities in the upstream sector.

This is reflected in the increase of tender exercises and contract awards in late 2016 and early 2017. On 4 January 2017, the Group announced that UMW NAGA 7 had secured an up to 18-month contract from PETRONAS Carigali Sdn. Bhd. UMW NAGA 7 as well as UMW NAGA 2, which also secured a contract earlier from Ophir Production Sdn. Bhd., are expected to commence operations in the early second quarter of 2017. The Group is also currently in various stages of tendering for a number of local and overseas contracts and is optimistic on achieving a significant increase in asset utilisation this year.

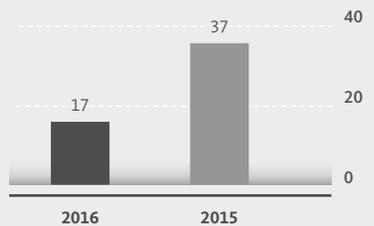
Oilfield Services Segment

Operational Highlights

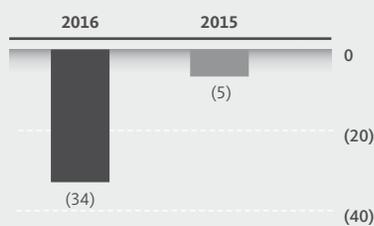
The Oilfield Services segment was also affected by the global oil price decline and had yet to benefit from the gradual recovery in the oil and gas industry during the year 2016. Demands for oil pipes threading, inspection and repair services remained low as oil majors continued to control costs by making use of existing new and used stocks.

Performance Highlights

REVENUE



LBT



As a result of the lower volume of activities, the Oilfield Services segment recorded revenue of RM17 million or 5% of the total revenue of RM321 million, a reduction of RM20 million or 54% over the RM37 million registered in the preceding year.

Consequently, the Oilfield Services segment reported a loss before tax of RM34 million for the financial year ended 31 December 2016 compared to a loss of RM5 million recorded in 2015. Asset impairment loss of RM16 million also contributed to the loss in 2016.

Looking Ahead

The Oilfield Services segment is also anticipated to gradually benefit from the increased activities in exploration and production. Thus,

demand for oil pipes threading, inspection and repair services is expected to improve in 2017, which will result in a higher level of utilisation of the Group's domestic and regional oilfield services facilities.

BUSINESS RISKS

As with any businesses, our operations are subjected to a number of risk factors, many of which are outside our control. In line with Bursa Malaysia Securities Berhad's new disclosure requirements, we have outlined below a few key risks which may have a material effect on our operations and performance, and our approach or action taken to mitigate these risks.

RISK FACTORS

Risk of losses or leakages from operation due to inadequate, inefficient or ineffective internal processes, systems, policies, employee errors and events beyond our control, resulting in higher or unexpected additional costs

With the lower levels of oil and gas activities and corresponding capital spending, most oil companies has the bargaining power and are able to dictate their terms with minimal room for negotiation for drilling contractors

Some countries in SEA 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

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

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

MITIGATION MEASURES

- Streamline processes and systems across business segments to improve efficiencies
 - Introduced centralised warehouse to reduce redundancies
 - Initiated vendor renegotiation to reduce procurement costs
-
- Maintain close relationship with our existing and potential clients to enhance our bargaining power
 - Continue our aggressive marketing in areas which we have a strong presence to secure more contracts
-
- Continuously engage with the relevant authorities to ensure we are up-to-date with the latest regulations
 - Actively look for reliable local partner in foreign target countries
-
- Closely monitor the FOREX market and vetting through economic data
 - Engage with our panel bankers on the outlook for FOREX
-
- Instil a strong safety culture and mindset
 - 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 safety drills to ensure preparedness in case of accidents or incidents

DIVIDEND

The primary objective of UMW-OG's capital management policy is to ensure that it maintains a healthy capital ratio in order to support its business, and making future developments possible while maximising its shareholders' value.

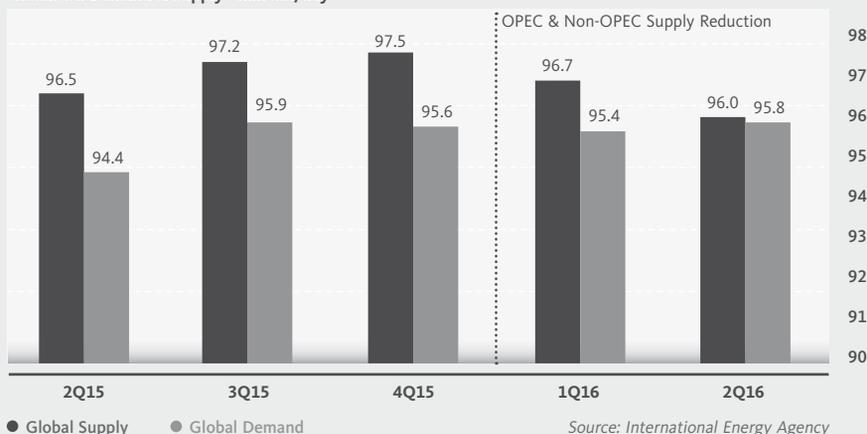
Certain initiatives are carried out by the Management which include making adjustment to address changes in the economic environment and risks built-in into its business operation. These initiatives may include adjustments to the amount of dividends distributed to shareholders. For the financial year ending 31 December 2016, the Directors do not recommend the payment of any dividend.

drilling programme is mixed with long-term and short-term contracts.

In SEA, most of the national oil companies and local government have mandated that local drilling contractor be given preference and priority for drilling campaign project awards compared to foreign companies, which gives an advantage to locally groomed drilling companies such as UMW-OG to capitalise on the expected improvement in regional drilling activities in 2017.

We also foresee the market potentials in the Middle East, where JU demand is forecasted to increase from 110 rigs to around 118 rigs between now and December 2017. The number of working rigs is low in most of the Middle East region's

Global Oil Demand & Supply - mm bbl/day



OUTLOOK

UMW-OG previously established its long term strategy in 2013 with a distinct target and a progressive plan towards achieving that target. While the Company acknowledges that the 'new normal' may require us to relook at the strategy, we will forge ahead with long-term initiatives that are relevant in present business environment; while continuing to strengthen our domestic market, return to regional market and develop our footprint in the global market.

The reduction in OPEC and Non-OPEC production has stabilised oil price above USD50 per barrel, signalling the start of recovery in the oil and gas sector. This will result in the increase in exploration and production activities, and we will be seeing more tenders and contract awards on the horizon. UMW-OG is currently participating in a number of ongoing tenders in Malaysia with numerous oil companies. The

active sectors (Saudi, Qatar, UAE, and Kuwait) in 2016, but it is expected to climb again in 2017, with less JUs entering the market to offset those on the way towards retirement. This places us in a stronger position to improve utilisation rates of our young fleet of high-specification JUs, though day rates will remain a challenge due to the slow decrease in oversupply. We will continue our cost optimisation efforts to improve our margins.

In summary, the market outlook for 2017 appears to be better than 2016. We are confident that this year will bring a refreshed and revived oil and gas industry, driven by OPEC's curative measures in reducing the supply glut that has spurred the rising demand for JUs in the region and elsewhere. While the recovery is expected to be slow, we feel that it is the best time to position ourselves to maximise the benefits in the industry recovery, forging ahead with our strategic plan and embracing the changes of this cyclical industry.

PROFILE OF BOARD OF DIRECTORS



TAN SRI ASMAT BIN KAMALUDIN

73 years, Malaysian (Male)
Chairman / Non-Independent
Non-Executive Director

Date of Appointment: 2 May 2013

Length of Service (as at 31 March 2017)
3 years 10 months

Board of Directors meetings attended in the financial year
10/12

Qualification(s) / Membership(s)

- Bachelor of Arts (Honours) in Economics - University of Malaya, Malaysia
- Diploma in European Economic Integration (Distinction) - University of Amsterdam, Netherlands
- Vice Chairman and Board Member of The Japanese Chamber of Trade & Industry, Malaysia

Directorship(s) in Public Companies

Listed Entities

1. Air Asia X Berhad
2. Compugates Holdings Berhad
3. Panasonic Manufacturing Malaysia Berhad

Other Public Companies

1. The Royal Bank of Scotland Berhad
2. YTL Cement Berhad

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Tan Sri Asmat began his career in Malaysia's Civil and Diplomatic Service, where he served in the Domestic Trade Division and the International Trade Division until he moved up to the position of the Secretary-General of the Ministry of International Trade and Industry ("MITI"), a position he held for nine years out of his total tenure of 35 years in MITI. He was appointed by MITI to the Economic Research Institute for ASEAN and East Asia as a Governor representing Malaysia on the governing board, a position he has held for six years.

His stint with the Government also included being the Senior Economic Counsellor to monitor the implications for Malaysia in the formation of the European Economic Community (now referred to as the European Union) in April 1973 as well as organising key events involving Malaysia with several international bodies such as ASEAN, World Trade Organisation and Asia-Pacific Economic Cooperation. He was also a member of a working group in the National Economic Advisory Council ("NEAC").

His services in the area of trade relations between Japan and Malaysia won him the honour of the Japanese Prime Minister's award for contributions to Japanese-Malaysian ties, in 1995.

In 2014, Tan Sri Asmat was awarded the "Order of the Rising Sun, Gold and Silver Star" by His Majesty, the Emperor of Japan. The Japanese decoration was bestowed in recognition of Tan Sri Asmat's long-term contribution to further strengthening the bilateral economic relations between Japan and Malaysia.



DATO' ABDUL RAHMAN BIN AHMAD

48 years, Malaysian (Male)
Deputy Chairman / Non-Independent
Non-Executive Director

Date of Appointment: 19 January 2017

Length of Service (as at 31 March 2017)
2 months

Qualification(s) / Membership(s)

- Master of Arts in Economics – Cambridge University, United Kingdom
- Member of the Institute Chartered Accountants in England and Wales

Directorship(s) in Public Companies

Listed Entity

None

Other Public Companies

1. Permodalan Nasional Berhad
2. Amanah Saham Nasional Berhad
3. Amanah Mutual Berhad
4. Pelaburan Hartanah Nasional Berhad

- Nominee director of Permodalan Nasional Berhad, a major shareholder of the Company.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

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

Dato' Abdul Rahman was the Group Managing Director/Chief Executive Officer of Malaysian Resources Corporation Berhad and subsequently served the same position for Media Prima Berhad. He was the Chief Executive Officer of Ekuiti Nasional Berhad before assuming his current post in Permodalan Nasional Berhad as President & Group Chief Executive Officer.



ROHAIZAD BIN DARUS

52 years, Malaysian (Male)
President / Non-Independent
Executive Director

Date of Appointment: 31 January 2012

Length of Service (as at 31 March 2017)
5 years 2 months

Board of Directors meetings attended in the financial year
12/12

Membership of Board Committee

- Board Risk Management Committee

Qualification(s) / Membership(s)

- Bachelor of Science in Mechanical Engineering – California State University, Long Beach, United States
- Board of Engineers, Malaysia
- Institute of Engineers, Malaysia

Directorship(s) in Public Companies

Listed Entity

None

Other Public Company

None

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Rohaizad began his career with PETRONAS Gas Sdn. Bhd. in 1988. He later joined Texas Instruments (M) Sdn. Bhd., as a Mechanisation Engineer and held that position until 1990.

In 1990, he joined Esso Production Malaysia, Inc. and rose to the position of Senior Engineer, a position he held until 1995. His responsibilities included analysing and planning Esso Production Malaysia, Inc.'s gas supply requirements and field development schedule. From 1995 to 1998, he joined Huptec Engineering Sdn. Bhd. and was appointed its Managing Director. He was responsible for the overall management of the company's operations including corporate, operational, financial, asset and human resources management.

After 1998, he joined Sarku Engineering Services Sdn. Bhd., which later became a subsidiary of SapuraCrest Petroleum Berhad ("SapuraCrest"), a predecessor of SapuraKencana Petroleum Berhad (currently known as Sapura Energy Berhad) as Executive Director and rose to become its Chief Executive Officer/Executive Director until 2003. 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 overseeing the management of the company's marine vessels and other major assets, which included maintenance work, regulatory compliance, dry-docking activities and work scheduling. He also represented SapuraCrest in overseeing the management and operations of a joint venture company in relation to marine transportation business.

In 2007, Rohaizad was appointed 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 Chief Operating Officer of SapuraCrest, a position he held until 2010. He was subsequently appointed Chief Executive Officer of SapuraCrest 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 SapuraCrest group. His final appointment before he left SapuraCrest in December 2011 was as Chief Executive Officer of the Oil and Gas Construction Services Division.

PROFILE OF BOARD OF DIRECTORS



BADRUL FEISAL BIN ABDUL RAHIM

48 years, Malaysian (Male)

Non-Independent Non-Executive Director

Date of Appointment: 1 October 2015

Length of Service (as at 31 March 2017)

1 year 6 months

Board of Directors meetings attended in the financial year

9/12

Membership of Board Committees

- Member of Board Audit Committee
- Member of Board Nomination Committee
- Member of Board Risk Management Committee
- Member of Board Executive Committee
- Member of Board Whistle-Blowing Committee

Qualification(s) / Membership(s)

- Bachelor of Science in Accountancy – University of Missouri, Columbia, United States
- American Associate Degree (AAD) in Accountancy, MARA Junior Science College

Directorship(s) in Public Companies

Listed Entity

UMW Holdings Berhad

Other Public Company

None

- Nominee director of UMW Holdings Berhad, a major shareholder of the Company.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Badrul Feisal began his career as an Auditor at Messrs. Arthur Andersen and moved to Malaysian Technology Development Corporation Sdn. Bhd. (“MTDC”), a company wholly-owned by Khazanah Nasional Berhad (“Khazanah”) in 1996 and in 2001, he was appointed the Executive Director of MTDC Private Equity Management Sdn. Bhd.

Badrul Feisal joined Khazanah in 2001 and in 2004 he was appointed the Senior Vice President in the investment division and held various senior positions in Khazanah. He was the Chief Operating Officer of Edaran Otomobil Nasional Berhad from 2007 to 2009.

Badrul Feisal acquired vast corporate and operational experiences such as crisis management, corporate strategies and planning, business and financial restructuring, merger and acquisition and human capital management, not only through his leadership in these companies but also through manning responsibility over Khazanah’s key subsidiaries such as Tenaga Nasional Berhad, BBMB Securities Sdn. Bhd. and Northern Utility Resources Sdn. Bhd., Commerce Asset-Holdings Berhad and UEM Group.

Prior to joining UMW Group, Badrul Feisal was the Managing Director of Insight Value Sdn. Bhd. from January 2010 to November 2010. He was appointed the Senior General Manager at the President and Group Chief Executive Officer’s Office in UMW Group in December 2010. He served as the Acting Executive Director for UMW Oil and Gas Division in April 2011 until December 2011. He was also the Executive Director, Group Corporate Development Division before being appointed the Group Chief Operating Officer of UMW Holdings Berhad in January 2013.

Badrul Feisal is currently the President and Group Chief Executive Officer of UMW Holdings Berhad.



RAZALEE BIN AMIN

63 years, Malaysian (Male)

Independent Non-Executive Director

Date of Appointment: 2 May 2013

Length of Service (as at 31 March 2017)

3 years 10 months

Board of Directors meetings attended in the financial year

12/12

Membership of Board Committees

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

Qualification(s) / Membership(s)

- Bachelor of Economics in Accounting – University of Malaya
- Postgraduate Diploma in Accounting – University of Malaya
- Malaysian Institute of Accountants
- Malaysian Institute of Certified Public Accountants
- Financial Planning Association of Malaysia

Directorship(s) in Public Companies

Listed Entity

CCM Duopharma Biotech Berhad

Other Public Company

Bank Kerjasama Rakyat Malaysia Berhad

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Razalee began his career with Messrs. Hanafiah Raslan & Mohamad, a Chartered Accountants firm upon graduation. In 1983, he joined Sateras Resources (Malaysia) Berhad, as the Group Financial Controller. He then joined MBf Finance Berhad in 1987 and was appointed as the Senior Vice President in the Investment and Acquisitions Division. He left MBf Finance Berhad and joined Damansara Realty Berhad in 1994 as the Senior General Manager. In 1996, he started his own Chartered Accountants firm, Messrs. Razalee & Co and he is currently its Managing Partner.



DATO' AFIFUDDIN BIN ABDUL KADIR

63 years, Malaysian (Male)

Senior Independent Non-Executive Director

Date of Appointment: 2 May 2013

Length of Service (as at 31 March 2017)

3 years 10 months

Board of Directors meetings attended in the financial year

10/12

Membership of Board Committees

- Chairman of Board Nomination Committee
- Member of Board Remuneration Committee
- Member of Board Risk Management Committee
- Member of Board Executive Committee
- Member of Board Whistle-Blowing Committee

Qualification(s) / Membership(s)

- Bachelor of Science in Agriculture Business – Universiti Pertanian Malaysia (now known as Universiti Putra Malaysia)
- Diploma in Agriculture – Universiti Pertanian Malaysia (now known as Universiti Putra Malaysia)

Directorship(s) in Public Companies

Listed Entities

1. Pelikan International Corporation Berhad
2. Power Root Berhad

Other Public Companies

1. Lam Soon (M) Berhad
2. Lion Corporation Berhad

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Dato' Afifuddin began his career in 1975 with the Malaysian Agricultural Research and Development Institute ("MARDI") as a Research Assistant in Agricultural Engineering.

He joined the Malaysian Industrial Development Authority ("MIDA") in 1979 as a Technical Professional Officer in the Industrial Studies Division. From 1982 to 2008, he held various senior positions in the domestic and international offices of MIDA, including the Director of MIDA in Sabah, the Vice-Consul Investment/Deputy Director of MIDA's branch in London, the Director/Economic Counsellor of MIDA's branch in Paris and the Director/Consul Investment of MIDA's branch in London. In April 2008, he was promoted to Deputy Director General II of MIDA. Three months later, he was promoted to Deputy Director General I/Deputy Chief Executive Officer I of MIDA, a position which he held until his retirement in September 2011.

PROFILE OF BOARD OF DIRECTORS



CHEAH TEK KUANG

69 years, Malaysian (Male)
Independent Non-Executive Director

Date of Appointment: 2 May 2013

Length of Service (as at 31 March 2017)

3 years 10 months

Board of Directors meetings attended in the financial year

11/12

Membership of Board Committees

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

Qualification(s) / Membership(s)

- Bachelor of Economics – University of Malaya, Malaysia

Directorship(s) in Public Companies

Listed Entities

1. IOI Corporation Berhad
2. Berjaya Sports Toto Berhad

Other Public Companies

1. Eco World International Berhad
2. Governor of Yayasan Bursa Malaysia

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Cheah Tek Kuang began his career with Malaysia Industrial Development Authority (MIDA) as Deputy Director in the Planning and Research Unit from 1970 until 1978. He later joined AmInvestment Bank Berhad in October 1978 and served in various senior positions in the bank and was promoted as the 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 in March 2012. He has been an Independent Non-Executive Director of Bursa Malaysia Securities Berhad for a period of nine years beginning from the demutualisation of the Kuala Lumpur Stock Exchange (currently known as Bursa Malaysia Securities Berhad) up to early 2013.



DATO' IBRAHIM BIN MARSIDI

64 years, Malaysian (Male)
Independent Non-Executive Director

Date of Appointment: 2 May 2013

Length of Service (as at 31 March 2017)

3 years 10 months

Board of Directors meetings attended in the financial year

12/12

Membership of Board Committees

- Member of Board Audit Committee
- Member of Board Nomination Committee
- Member of Board Remuneration Committee
- Member of Board Risk Management Committee
- Member of Board Executive Committee

Qualification(s) / Membership(s)

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

Directorship(s) in Public Companies

Listed Entity

TELEKOM Malaysia Berhad

Other Public Company

None

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Dato' Ibrahim joined Malayan Banking Berhad and was appointed as a Sub Accountant in 1979. Later that year, he joined PETRONAS and held a number of senior managerial positions, which included among others, the Senior Manager of Eastern and Northern Region, the General Manager of Liquefied Petroleum Gas ("LPG") and Retail Business in PETRONAS Dagangan Berhad ("PDB") and the General Manager of Crude Oil Group, PETRONAS before being promoted as the Managing Director and Chief Executive Officer of PDB, a company listed on Bursa Malaysia Securities Berhad and a leading supplier of petroleum products in Malaysia. He held that position until his retirement in December 2007.

Upon joining PETRONAS in 1979, he was actively involved in the development of domestic marketing activities of PETRONAS which led to the formation of PETRONAS Dagangan Sdn. Bhd. (thereafter known as PDB when the company was listed on Bursa Malaysia Securities Berhad in 1994).

During his tenure as the Managing Director and Chief Executive Officer of PDB, he spearheaded the transformation of the company including the development of the company's brand and business strategy as well as the development of administrative and electronic payment systems.

KEY MANAGEMENT



ROHAIZAD BIN DARUS

52 years, Malaysian (Male)
President / Non-Independent
Executive Director

For details of the President's profile, please refer to page 19 (Profile of Board of Directors) of this Annual Report.



WAI THUY FONG

57 years, Malaysian (Female)
Chief Financial Officer

Qualification(s)

- Bachelor of Commerce – University of Newcastle, Australia

Membership(s)

- Malaysian Institute of Certified Public Accountants
- Malaysian Institute of Accountants
- Chartered Taxation Institute of Malaysia

Date appointed to the current position:

1 February 2013

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Wai Thuy Fong joined UMW Corporation Sdn. Bhd. in June 2002 as a Senior Manager in the Group Financial Services Division. She rose through the ranks of UMW to Senior General Manager before assuming her current position with our Group on 1 February 2013.

She has more than 20 years of experience in the field of taxation, audit, accounting and finance. Prior to joining UMW Corporation Sdn. Bhd., she served as the Group Financial Controller of Lay Hong Berhad from 1996 to 2002 and as the Financial Controller of Fonco Engineering Group of Companies from 1993 to 1996. Her other experiences from 1990 to 1993 include her tenure with Ernst & Young, Malaysia and Coopers & Lybrand, Singapore. She began her career with the Inland Revenue Department, Singapore as an Inland Revenue Officer from 1983 to 1987.


ABDUL MUTALIB BIN IDRIS

57 years, Malaysian (Male)

Head, Oilfield Services

Head, Corporate Transformation Office

Qualification(s)

- Master in Business Administration (Purchasing & Materials Management) – Arizona State University, United States

Membership(s)

None

Date appointed to the current position:

1 August 2012

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Abdul Mutalib Idris began his career with Felda Trading Corporation as a Merchandiser in 1984 where he was responsible for sourcing and purchasing FMCG for Felda Trading's supply chains.

He was later appointed as a Senior Merchandiser for Cold Storage (M) Sdn. Bhd. in 1988 before joining Petronas Carigali Sdn. Bhd. as Senior Purchasing Analyst in 1992. In 1996, he signed up with Nippon Oil Exploration (M) Sdn. Bhd. and was appointed as a Senior Project Purchasing Analyst prior to his move to Greater Nile Petroleum Operating Company in Khartoum, Sudan where as the Logistic Head, he helped to establish new Logistic Department and developed standard operating procedures to support the company's oil and gas activities in Sudan.

He then joined Esso Production Malaysia Inc. in 1988 as a Senior Purchasing Analyst responsible for formulating tender plans and strategies for Esso's long lead engineered equipment and packages.

In 1999, he joined SAAG Oil & Gas Sdn. Bhd. as their Executive Director of Business Development.

He then spearheaded the establishment of Tanjung Maintenance Services Sdn. Bhd., a maintenance service subsidiary of Tanjung Offshore Berhad in 2001 as its Chief Executive Officer for a period of 11 years prior to joining our Company on 1 August 2012.

KEY MANAGEMENT



IZWAN RADZI MEGAT BIN MOHD RADZI
40 years, Malaysian (Male)
Head, Drilling Services

Qualification(s)

Bachelor of Science in Mechanical Engineering
– University of Tulsa, United States

Membership(s)

- International Association of Drilling Contractors (IADC)
- Society of Petroleum Engineers (SPE)

Date appointed to the current position:
1 May 2016

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Holding an essential position in the company, Izwan Radzi Megat is equipped with more than 17 years of experience in the oil and gas industry. He began his career in 2000 with Schlumberger as a Field Engineer. From there, he was later assigned to several roles, including Offshore Drilling Optimisation, Product Development and also Field Operations Management. He spent most of his Schlumberger career in North and South America, with also a role as Global Product Champion for their headquarters in the USA.

In 2009, he joined Transocean and served in multiple roles, including Marketing and also as a Rig Manager. His last position before joining UMW-OG, was as a Director of Transocean Drilling Sdn. Bhd. On 1 June 2015 he joined our subsidiary, UMW Offshore Drilling Sdn. Bhd. (“UOD”) as General Manager. He was further appointed as our Acting Head Drilling Services on 15 October 2015 prior to his present role.



ABDUL HADI BIN ABDUL BARI
41 years, Malaysian (Male)
Head, Business Development & Commercial

Qualification(s)

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

Membership(s)

None

Date appointed to the current position:
1 March 2013

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Commencing with an attachment at Innosabah Securities Sdn. Bhd. as a Junior Investment Analyst in 1997, Abdul Hadi then moved to Permodalan Nasional Berhad where he was an Analyst in the Corporate Finance Department from 2001 to 2004. He has experiences in equity and sector research and was also involved in successful execution of several merger & acquisition and restructuring exercises.

In 2005, he joined TL Geosciences Sdn. Bhd., a wholly-owned subsidiary of SapuraCrest Petroleum Berhad. Within the span of four years, he was first promoted as a Section Head of Business Development and Commercial in 2007 and later as a Head of Business Development and Commercial in 2009.

He is instrumental in expanding and strengthening the business of TL GeoSciences Group internationally and was entrusted to lead TL OilServes Sdn. Bhd., one of the vessel owning and chartering unit of SapuraCrest Petroleum Berhad. In 2011, he left TL Geosciences Sdn. Bhd. and joined Offshore Business Unit of MISC Berhad as Senior Manager of the Business Development and Commercial Division. Prior to joining our Company, he worked at Asian Geos Sdn. Bhd., a Gardline Geosciences (UK) Group of Companies, as the General Manager of its Commercial & Business Development Division.

On 1 April 2012, he joined our subsidiary, UMW Offshore Drilling Sdn. Bhd. ("UOD") as an Assistant General Manager, Commercial & Proposal. He was then transferred to UMW-OG on 1 May 2012 as Assistant General Manager (Marketing) and was further appointed as the Acting Head of Business Development prior to his present role.



SYED ROZHAN BIN SYED HASSAN

52 years, Malaysian (Male)
Head, Human Resources

Qualification(s)

Bachelor in Business Administration (Finance)
– Eastern Washington University, United States

Membership(s)

Society for Human Resource Management

Date appointed to the current position:

1 June 2010

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Syed Rozhan Syed Hassan has close to 30 years of experience in the human resource field, serving various companies encompassing electronics, semiconductor and oil and gas sectors just to name a few.

He started his human resource career with SONY Electronics (M) Sdn. Bhd. in February 1988, and went on to serve 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., and Johnson Controls Automotive Holdings (M) Sdn. Bhd.

Prior to joining UMW-OG, he was the Human Resource Director (Malaysia and Singapore) for Freescale Semiconductor Malaysia Sdn. Bhd.

KEY MANAGEMENT



CHEW ENG HONG

50 years, Malaysian (Female)
Head, Corporate Development & Sustainability

Qualification(s)

- Bachelor of Economics – University of Adelaide, Australia

Membership(s)

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

Date appointed to the current position:
1 January 2014

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Chew Eng Hong began her career with Coopers & Lybrand as an Assistant Manager in 1990. After five years of various audit exposures, she joined UMW Industrial Power Sdn. Bhd., as its Accountant in 1995.

Having served 11 years as an Accountant, she was transferred to the Oil & Gas Division of UMW Corporation Sdn. Bhd. as their Accounts & Finance Manager in 2006. From her role in the Accounts & Finance Division for the Oil & Gas group of companies, her portfolio expanded to the Corporate Development and Planning Division, whereby she was actively involved in the strategic planning and development of the long-term plans of the Oil & Gas Division.

Her roles included corporate restructuring, strategic investment, planning and execution of strategies, monitoring of investments and also the Enterprise Risk Management in the Oil & Gas group of companies.

She was promoted to the position of Assistant General Manager of the Corporate Strategy and Investment Division in 2010 and subsequently assumed the position of Acting Head, Corporate Development in 2012. In addition to her roles in strategic planning and corporate exercises, she led the Investor Relations team for the Company following the listing exercise.



AMINUDIN BIN HAMBALI

51 years, Malaysian (Male)
Head, Quality, Health, Safety & Environment (QHSE)

Qualification(s)

- Master of Science, Occupational Safety and Health Management – Universiti Utara Malaysia, Malaysia
- Bachelor of Science, Manufacturing System Technology – University of Houston, United States

Membership(s)

- Malaysian Society for Occupational Safety and Health (MSOSH)

Date appointed to the current position:
27 June 2013

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Aminudin Hambali began his career in 1989 with Industri Plastik Yuta as Production Engineer before joining Lion Fasteners in 1991 as a Process Engineer.

In 1997, he joined Connectics Malaysia where he served until 2004 before joining Scomi Engineering Berhad from 2005-2009. Both stints saw Aminudin appointed as their QHSE Manager.

Then, from 2009 to 2011, he served Offshore Subsea Works Sdn. Bhd., also serving as a QHSE Manager.

His last position before joining UMW-OG, was as QHSE Senior Manager, Asia Pacific Subsea Division of Technip Geoproduction (M) Sdn. Bhd. Aminudin carries with him eight years of experience in the oil and gas industry.



LEE MI RYOUNG

41 years, Malaysian Permanent Resident (Female)
Head, Secretarial

Qualification(s)

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

Membership(s)

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

Date appointed to the current position:
1 December 2015

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

With 18 years of experiences in Legal and Secretarial services of which 11 years were in the oil and gas industry, Lee Mi Ryoung leads the Secretarial Division of UMW-OG.

In 2012, she joined Shell Malaysia Trading Sdn. Bhd. and served as its Legal Counsel, Downstream as well as the Company Secretary of Shell Refining Company (FOM) Berhad until 2015.

From 2006 until 2012, she served as Legal Counsel of PETRONAS and Company Secretary for PETRONAS LNG Ltd, PETRONAS LNG Sdn. Bhd. and assistant company secretary for Malaysia LNG Group of Companies.

Prior to her work at the Lion Group from 2004 to 2006 as Legal Counsel, she was the Legal Executive at Messrs Shook Lin & Bok for a year in 2003 and Legal Adviser of Yeng Chong Realty Berhad from 1999 to 2003.

KEY MANAGEMENT



SHHRIN ALBAKRI BIN MUSTAFA ALBAKRI

43 years, Malaysian (Male)
Head, Legal

Qualification(s)

- Bachelor of Laws (Honours) – University of Malaya, Malaysia

Membership(s)

None

Date appointed to the current position:
13 September 2016

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Shahrin Albakri first stepped his foot into the career world in 1999 as a legal practitioner. He then signed up with Sime Darby Property Berhad in 2006 as the Head of Legal. In 2011, Shahrin was attached as the Head, Legal and Compliance with Pelabuhan Tanjung Pelepas Sdn. Bhd.

His last position before joining UMW-OG was as the Head of Legal and Compliance of Gas Malaysia Berhad.



NG NIAP TONG

56 years, Malaysian (Male)
Head, Supply Chain

Qualification(s)

- Fellow Chartered and Certified Accountant (FCCA), United Kingdom

Membership(s)

None

Date appointed to the current position:
4 January 2017

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

Ng Niap Tong's foray in the oil and gas industry began in 1998 with Crest Petroleum Berhad as a Head of Internal Audit.

In 2008, he joined TL Offshore Sdn. Bhd. (a subsidiary of SapuraKencana Petroleum Berhad, currently known as Sapura Energy Berhad) and served as its General Manager of Supply Chain until 2014. His last position before joining UMW-OG, was as Manager of Marine Quality Management of Ocean Technologies Geomatics Sdn. Bhd.

Ng Niap Tong carries with him 19 years of working experience in the oil and gas industry.

CALENDAR OF SIGNIFICANT EVENTS 2016

FEBRUARY

18

CSR : 2ND EDITION OF SPM ENGLISH LANGUAGE TUITION PROGRAMME
SMK Jeram, Kuala Selangor, Selangor



MARCH

22 - 25

OFFSHORE TECHNOLOGY CONFERENCE (OTC) ASIA 2016
KL Convention Centre, Kuala Lumpur



24

UNI-INDUSTRY PROGRAMME
UTM Campus, Jalan Semarak and OTC Asia, KL Convention Centre, Kuala Lumpur



CSR : EDUCATIONAL VISIT
Petrosains and OTC Asia, KL Convention Centre, Kuala Lumpur



MAY

17

6TH ANNUAL GENERAL MEETING
Menara Bank Rakyat, Kuala Lumpur



19 - 20

CSR: SAHABAT MARITIM PROGRAMME
Kampung Merchang, Marang, Terengganu



SEPTEMBER

3

BUSINESS PLAN CONFERENCE 2017
Cyberview Resort and Spa, Cyberjaya



29

2016 OIL AND GAS INTERNSHIP CONVENTION
Curtin University, Miri, Sarawak



OCTOBER

4

UMW WORKOVER LEADERSHIP VISIT
UMW Workover Labuan Staging Yard, Labuan, Sabah



NOVEMBER

9

CSR : ROAD SAFETY AWARENESS PROGRAMME 2016
Taman DeCare, Putrajaya



21

QHSE DAY 2016
UMW-OG HQ, Plaza Sentral, Kuala Lumpur



22

CSR : "LOVING MOTHER NATURE" ENVIRONMENT THEME EXCURSION
Forest Research Institute Malaysia (FRIM), Kuala Lumpur



DELIVERING VALUE TO OUR STAKEHOLDERS

SUSTAINABILITY REPORT



43

ECONOMIC

Contributing to the economies of local communities and broader society wherever our operations have a presence



44

ENVIRONMENTAL

Environmental stewardship



46

SOCIAL

Nurturing the community



MESSAGE FROM PRESIDENT



In UMW-OG, we strive to ensure our business practices integrate sustainability into our operations for higher productivity, efficient usage of resources and innovation to meet our long-term strategy, safely and responsibly.

UMW-OG endured another challenging year in 2016. The plunge in oil markets since 2014 has seen crude prices halved to little more than USD50 per barrel. As crude prices get dragged down by a global supply glut, there is significant continued scale-back in capital expenditures as a result of lower drilling activities. Operating in this new normal requires much adjustment as the current oil price environment continues to pose significant challenges to the industry and the outlook remains subdued.

In UMW-OG, we remain steadfast in our daily operational tasks to meet our top priority of working safely and efficiently to deliver services to our customers responsibly. The key measures that we have implemented include UMW-OG's group-wide efforts to reduce costs, improved efficiency in cash management and manpower rationalisation, and many other initiatives to ensure we

remain relevant and sustainable. Despite the prolonged market challenges, we at UMW-OG are persisting with our corporate and social commitments as we recognise the importance of how our business impacts the economy, environment and society.

We have embarked on our sustainability journey, taking into consideration the economic, environmental and social risks and opportunities alongside financial implications. Our sustainability strategy is based on three key pillars of:

-  **Innovative & High-Performance Culture**
-  **Environmental Stewardship**
-  **Nurturing the Community**

embodying the concept of the triple bottom line approach: People, Planet and Profit.



INNOVATIVE & HIGH-PERFORMANCE CULTURE

Our human capital efforts are guided by the long-term Human Capital strategy, developed to ensure we remain capable, agile and competitive in the long-run. This strategy centres around three key initiatives: **Right Leaders, Right People and Enabling Culture.**



LEADERSHIP TALENT

Right Leaders

Leadership is very critical in any organisation in providing clear direction and implementing

strategy and programmes for a company. To develop the right leaders, we nurture our people through various programmes which include talent development, producing “all-rounded” employees with predictive behaviour, good problem solving skills and structured thinking.



DEVELOPMENT OF RIGHT PEOPLE

Right People

We take much effort to hire, foster and empower a diverse workforce. A diverse workforce, be it in age, ethnicity or gender, shapes an organisation. We always strive to have a balanced workforce, to harness their respective abilities as a value-adding proposition to the future employers and the market at large.

Developing our talent pool, and with practical succession planning in place, will enable our organisation to focus, develop and grow future talents for the continuity of UMW-OG.



ENABLING CULTURE

Enabling Culture

Culture-building efforts are a priority in our people development agenda. The Company instils a high-performance culture by setting clear expectations, defining employees’ roles, creating a trusting environment, and encouraging employees’ growth and development. Continuous education and awareness efforts of our core values, code of business conduct and ethics, behavioural assessment, business acumen training,

and inculcating positive work attitudes are some of the many initiatives implemented during the year. Achieving sustainable growth requires commitment from the whole company to build a culture that can adapt to ongoing changes in a competitive environment.

Health and Safety

Like in any other oil and gas organisation, quality, health, safety and environment (“QHSE”) are always a top priority in all aspects of our business operations. Rendering quality services with high standards of safety behaviour, ensuring everyone remains safe and healthy, and protecting the environment, essentially embodies UMW-OG’s motto; **“Nobody Gets Hurt, No Damage to the Environment”**.

Developing a strong safety culture and delivering superior safety performance are achieved by instilling and continuously enhancing safety culture mindset and operational discipline in everything we do. Throughout the year, the Company organised and implemented various initiatives to promote awareness on safety culture and behaviour among its employees. Visible and active support through senior management health, safety and environment (“HSE”) walkabouts on our offshore rigs and onshore facilities demonstrate our top-down commitment towards health and safety.

By having a dedicated and engaged leadership, UMW-OG is committed to maintaining a high standard in the safety management of its fleet, regardless of operating locations and in accordance to our comprehensive marine policy. Competent and well-rounded quality, health and safety talents promote sustainable health and safety performance.



ENVIRONMENTAL STEWARDSHIP

Protecting and preserving our environment is a key pillar of our corporate social responsibility (“CSR”) initiatives.



MANAGING RESOURCES

Business Operations – Managing Resources

In our daily operations, we aim to minimise the environmental impact by implementing eco-friendly procedures and complying with all applicable environmental laws. Our businesses are operated in ways that foster sustainable use of natural resources. Effective waste management is practised in our operations, whereby waste is segregated and disposed of at approved licensed facilities only.



PROTECTING THE ENVIRONMENT

Protecting the Environment

Over the recent years, UMW-OG has been actively promoting green awareness on various environmental issues through numerous activities. Our employees participated in the Mangrove Rehabilitation Programme whereby mangrove saplings were planted for environmental protection. Mangroves preserve water quality and reduce pollution by filtering suspended material and assimilating dissolved nutrients making significant contributions that benefit the coastal ecology.

MESSAGE FROM PRESIDENT

Another green initiative taken was the tossing of effective microorganism (“EM”) mud balls into a lake in Shah Alam. EM mud balls inhibit the growth of algae and break down sludges, improving the lake condition, and ultimately preserving it. Continuous efforts will be taken to protect the planet through inculcating environmental awareness in everything that we do and at places where we have a presence.

We strongly believe that doing simple things will make a big difference in protecting our environment.



NURTURING THE COMMUNITY

UMW-OG is committed in making a difference wherever our business touches the world.



EDUCATION

Education

As a responsible corporate citizen, we recruit locally wherever possible, training, grooming and building local talents. UMW Drilling Academy, in collaboration with INSTEP, was established to train Malaysians in drilling and oil and gas related skills. In addition to building local talent pool, our academy has expanded its coverage by training foreign talents including Myanmarese.

UMW Drilling Academy is a registered member of International Accreditation of Drilling Contractors (“IADC”) and International Well Control Forum (“IWCF”). In line with its provision of providing training, the academy has been granted accreditation to deliver WellSHARP training by IADC on 7 July 2015; and WellControl training by IWCF on 5 April 2016.



CORPORATE CITIZENSHIP

Good Corporate Citizenship

We participate in enhancing the communities within our social and business surroundings through the power of human connection.

UMW-OG continues to support the PINTAR Education programme with various activities, which include the English tuition programme for selected SPM candidates of our adopted school. This initiative creates awareness on the power of academic excellence among students from low-income households and also aids sustainable development of the rural community.

In support of Skim Latihan 1Malaysia (“SL1M”), our UMW Post Graduate Enhancement Programme provides a training platform for young and talented fresh graduates, enabling them to have first-hand experience in real working life.

Another community initiative that UMW-OG is involved in is the Sahabat Maritim programme. This initiative promotes safe fishing activities in areas where oil and gas facilities are located, and also educates the fishermen on the roles they play in maintaining the sovereignty of the country’s waters.

Our team continues to reach out to those in need, extend helping hands in the flood affected areas and also share the joy of festivities with underprivileged children.

UMW-OG is redefining the future through our business approach, a sustainability-minded model built for today’s ever-changing and resource dependent world. Our approach

is to focus on the areas where we have the greatest potential to create a positive change, and to hold ourselves accountable by measuring and reporting our progress, maintaining open communication with our internal and external stakeholders, and collaborating with those in our value chain to expand the scale of our contributions.

A sustainable business means a business that can thrive in the long-term, and we are aiming to that direction. Every crisis to us is an opportunity. The challenge we face now is our chance to build a strategy for sustainability into the core of UMW-OG. As important as it is to prepare for the future, we gladly share the experiences of our past. We hope you will find this report both informative and inspiring, as it details the gains that has been made to support sustainability through the concerted efforts of a dedicated team. There is always room for improvement, so we will continue to strive for excellence, to conduct our business in a responsible manner, committed towards a sustained progression amid the challenging economic and market backdrop.

Great power creates great expectations: society increasingly holds global businesses accountable as the only institutions strong enough to meet the huge long-term challenges facing our planet. Coming to grips with them is more than a corporate responsibility. It is essential for corporate survival.

Rohaizad Darus

President
UMW Oil & Gas Corporation Berhad

ABOUT THIS REPORT

UMW-OG'S FIRST SUSTAINABILITY REPORT IN ACCORDANCE WITH GRI G4

Scope of this Report

Our sustainability report aims to provide our stakeholders a better understanding into how we conduct our activities by disclosing our management approach of sustainability risks and opportunities in the areas of the Economic, Environmental and Social ("EES").

This report has been prepared in accordance with the Global Reporting Initiative ("GRI") G4 Guidelines for Sustainability Reporting, focusing on material issues for our operations. The data presented in this report is for the calendar year 2016, and will be published annually.

Our stakeholder identification and engagement, and materiality assessment processes are specified in full on pages 37 and 38 respectively of this report.

In terms of the GRI G4 guidelines, our Sustainability Report 2016 addresses 17 material aspects covering three categories.

Report Boundary

The coverage scope of this report is limited to our drilling services, and oilfield services operations located in Malaysia. We may expand our sustainability reporting to encompass the activities of our foreign oilfield services operations in future reports. In 2016, our offshore drilling rigs were operating in Malaysian waters, serving PCSB, SKE, HESS and Ophir.

Stakeholder Engagement

At UMW-OG, stakeholder engagement is an important part of our sustainability strategy and forms the basis of our continuous improvement efforts. We engage with various stakeholder groups, from local communities

to clients, employees, and shareholders, in both formal and informal settings. Our key stakeholder groups have been identified through various discussions in our daily operations. The following table provides details on the stakeholder groups which are important to the Company and our methods of engagement:

 Stakeholder Groups	 Methods of Engagement
Bankers	<ul style="list-style-type: none"> • Annual Report • Periodic update meetings
Board of Directors	<ul style="list-style-type: none"> • Annual Report • Annual General Meeting • Board meetings • Directors' training sessions • One-on-one meetings
Communities	<ul style="list-style-type: none"> • Corporate Social Responsibility events
Customers	<ul style="list-style-type: none"> • Customer feedback exercises • Customer visits • Email queries • Formal meetings • Trade shows and exhibitions
Employees	<ul style="list-style-type: none"> • Festive celebrations • Long Service Awards • Luncheon with President • Management facilities visits • Town hall sessions
Shareholders and Investors	<ul style="list-style-type: none"> • Analyst briefings • Annual General Meeting • Annual Report • Announcements of corporate developments to Bursa Malaysia • Investor information and update on the Company on UMW-OG's Investor Relations website • One-on-one meetings • Press conference • Press releases • Quarterly announcements of financial results to Bursa Malaysia

ABOUT THIS REPORT

Materiality

Data provided in our Sustainability Report includes information on the most material issues identified that may potentially impact our business strategy and are the most relevant to our primary stakeholders. Our materiality approach is based on the GRI G4 guidelines to determine our most relevant report topics and key areas of impact. Indicators that reflect UMW-OG's significant EES impacts or that would influence the assessments and decisions of stakeholders are deemed to be "material" for sustainability reporting purposes.

key material aspects



Economic

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



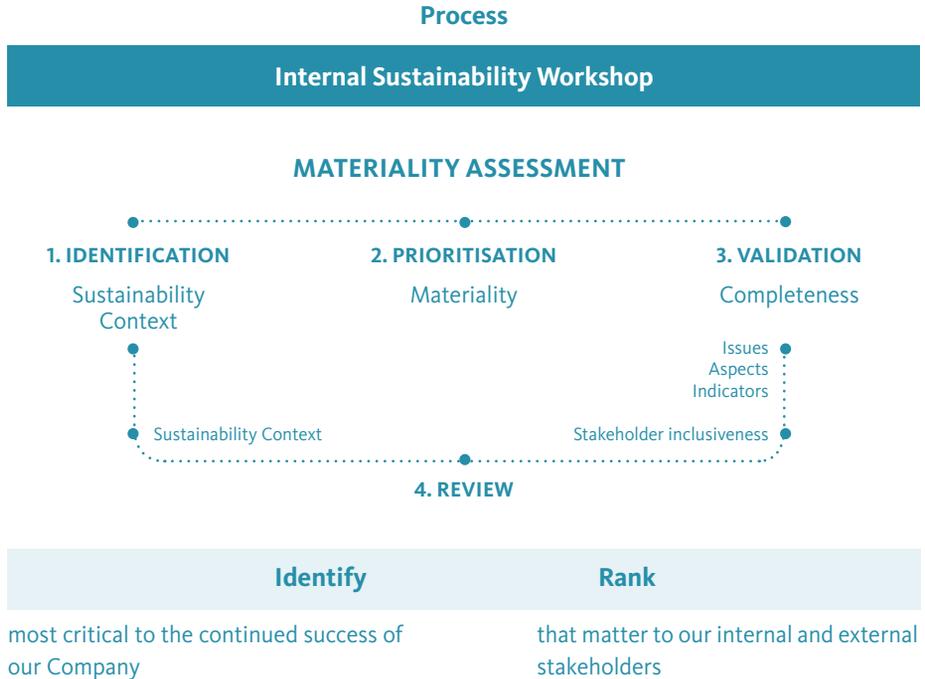
Environmental

- 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



UMW-OG'S MATERIALITY MATRIX

The matrix is a representation of key issues relevant to the business, illustrating the degree of importance to stakeholders (vertical axis) and significance to the Company (horizontal axis).



In determining the materiality issues, UMW-OG engaged with both external and internal key stakeholders. The two top priority issues identified are:

- QHSE**
 QHSE is regarded as the key essential to the sustainability of our operations. Stakeholders have high expectations and we are determined to remain safe and responsible : be it as an employer, operator, business partner; and responsible stewards of the environment.
- Economic performance**
 Business continuity and survival is a key concern to all our key stakeholders, both internal and external. In this current challenging environment and uncertain times, the Company strives to manage the operations safely and responsibly to its best endeavours.

Material issues will be reviewed regularly, and the relevance of new issues will be assessed based on the abovementioned process in the event of new developments / operational context.

Data Collection

The data presented in this report is collated through a series of surveys, workshops and assessments conducted internally. We strive on improving our data collection procedure in order to see accurate results of our sustainability performance.

Assurance

We have not undertaken third-party assurance for the data presented in this report with the exception of financial data which is audited by an independent third-party. We may consider working towards a form of third-party assurance in the future.

Data Measurement Techniques and Assumptions

Other sustainability information presented is based on internal data and widely accepted calculation methodologies such as the Greenhouse Gas (“GHG”) Protocol. The data

in this report is on a best-effort basis and we strive for further improvements in our future reports.

Feedback

Please send any comments, insights and queries regarding UMW-OG’s sustainability reporting to:

Corporate Development & Sustainability Division

UMW Oil & Gas Corporation Berhad
 Block 3A, Level 18, Block 3A, Plaza Sentral
 Jalan Stesen Sentral 5
 50470 Kuala Lumpur, Malaysia
 +603-20968788

SUSTAINABILITY AND BUSINESS STRATEGY

UMW-OG is committed to managing our operations in a responsible manner, continuously enhancing our HSE performance taking into account our economic, environmental and community commitments to our stakeholders. Sustainability is an integral part of our operations, and it is reflected in the way our operations are conducted, how our human capital welfare and well-being are managed, our efforts in protecting the planet and the positive impact we bring to the local communities where our operations have a presence. Guided by the above, our sustainability strategy is anchored by three strategic pillars.

3 PILLARS OF UMW-OG'S SUSTAINABILITY STRATEGY



Innovative & High-Performance Culture



Environmental Stewardship



Nurturing the Community

RESULTS



Fortified with sustainable operational excellence and integrity



High safety standards

Key elements of our sustainability strategy that address our material issues include the following:

Sustainability Strategy	Key Focus Areas	Outcome for UMW-OG
 <p>Innovative & High-Performance Culture</p>	Talent Development	<ul style="list-style-type: none"> Producing capable, committed, "all-rounded" employees with predictive behaviour, good problem solving skills and structured thinking. Diversity in workplace with a variety of background, ethnicity and gender equality.
	Quality, Health and Safety	<ul style="list-style-type: none"> Commitment in fostering a strong safety culture, mindset and operational discipline among our stakeholders at all times and places. Competent and well-rounded quality, health and safety talents promoting sustainable health and safety performance.
 <p>Environmental Stewardship</p>	Managing resources	<ul style="list-style-type: none"> Remain fully committed towards process excellence and being proficient in managing resources, reducing waste and being energy efficient.
	Protecting the environment	<ul style="list-style-type: none"> Committed to do our part in protecting the environment.
 <p>Nurturing the Community</p>	Education	<ul style="list-style-type: none"> Focusing on education to build future talents for the nation.
	Corporate Citizenship	<ul style="list-style-type: none"> Enhance the quality of life of the communities where the Company has a presence.

OUR GOAL	OUR AIM	OUR PRIORITY
To be committed to grow and create long-term sustainable growth and value to all stakeholders	To carry out our operations in a socially responsible and holistic manner	Creating a safe working environment and developing a strong safety culture, with emphasis on preservation of the environment wherever we operate

CORPORATE GOVERNANCE AND BUSINESS ETHICS

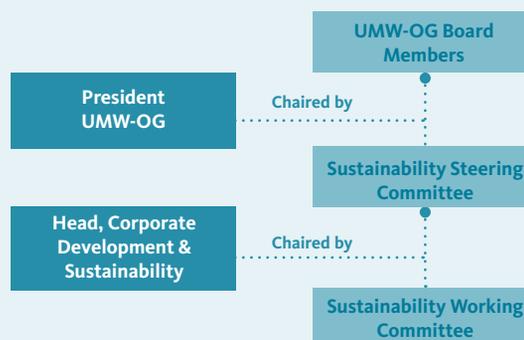
A STRONG CORPORATE GOVERNANCE PRACTICE IS IMPORTANT TO MAINTAIN THE COHESIVENESS OF OUR COMPANY, TO SUSTAIN THE LONG-TERM INTERESTS OF STAKEHOLDERS, STRENGTHEN OUR MANAGEMENT, AND FURTHER ENHANCE THE TRUST UMW-OG HAS EARNED FROM OPERATING WITH HONESTY AND INTEGRITY.

As a responsible company, UMW-OG's commitment to ethical and responsible business practices and high standards of corporate governance, begins with the UMW-OG Core Values and Code of Business Conduct and Ethics. We constantly strive for continuous improvement to ensure our operations are conducted in a safe manner that also preserves the environment. Details of our corporate governance is elaborated in the Statement on Corporate Governance on pages 61 to 77.

Sustainability Governance

Sustainability governance starts at the top and we have an internal sustainability structure and culture of accountability that cascades down throughout our Company via committees. The Company's Board of Directors ("Board") set the sustainability tone at the top, which then cascades down to the Company. It is essential for the Board to be engaged in the sustainability agenda. They define the long-term view, anticipating and addressing risks from environmental, economic and social impacts.

UMW-OG SUSTAINABILITY GOVERNANCE



Code of Business Conduct and Ethics

UMW-OG's commitment to a strong corporate governance is fortified in its Code of Business Conduct and Ethics ("CoBE"), which guides the Company in fulfilling its business obligations with utmost integrity as well as 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 a 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. UMW-OG 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 the employee. Refresher trainings 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 Chairman of the Board or Management Whistle-Blowing Committees, or the Head of Human Resources without facing repercussions. Upon recommendation or report from the Management Whistle-Blowing Committee, the Board Whistle-Blowing Committee ("WBC"), will then act and dispose of any reported incidents and investigations. Details of our WBC is elaborated in the Statement on Corporate Governance on page 64.

CORPORATE GOVERNANCE AND BUSINESS ETHICS

Managing Corruption and Integrity

UMW-OG's core values guide the way we conduct ourselves wherever we operate. The Company has zero-tolerance approach towards bribery and corruption in any form, and is committed to behave in a professional and fair manner, with high integrity, in our business operations.

We conduct a Fraud Risk Assessment exercise known as Internal Control Risk Assessment ("ICRA"). For the year 2016, approximately 90% of the corporate functions' processes were evaluated with the identification of its respective associated fraud risks and non-compliance risks. This ICRA exercise is an on-going programme throughout the year.

Other initiatives underlining our commitment towards integrity is the fraud prevention check-up survey which engages top management on seven key areas; namely fraud risk oversight, fraud risk ownership, fraud risk assessment, fraud risk tolerance and risk management policy, process-level anti-fraud control / reengineering, environment-level anti-fraud controls, "Tone at the Top" and proactive fraud detection.

Managing Risks

The oil and gas industry encounters numerous strategic, operational, financial and external risks, some of which, is beyond the Company's control. Risk management is crucial, enabling the Company to manage effectively and efficiently any potential untoward incidents.

UMW-OG Enterprise Risk Management ("ERM") framework has a structured process for operating companies and corporate divisions to identify, analyse, evaluate, treat, communicate and monitor their risks.

Continuous efforts were undertaken to instil a proactive risk management culture and ownership:

- a. Rolled out a comprehensive ERM education programme;
- b. A total of four awareness sessions were conducted for all employees;
- c. Discussions with Heads of operating companies and corporate divisions;
- d. Risk advisory and independent assessment;
- e. Refinement of the risk register template; and
- f. Established Business Continuity Management ("BCM") framework.

The Group's ERM Framework provides for regular review and reporting. The ERM reports contain information on risk profiles, risk action plans ("RAPs") and status updates. These reports are presented and deliberated at quarterly Risk Management Committee ("RMC") meetings, quarterly Board Risk Management Committee ("BRMC") meetings and half-yearly Board meetings.

Details on the ERM framework is specified in the Statement on Risk Management & Internal Control on pages 78 to 84 of the Annual Report.



ECONOMIC

Economic Performance

Our economic performance data is reported on pages 89 to 183 of the Annual Report.

Supply Chain Management

As we have operations regionally, we work with many contractors, vendors and local businesses. Our success is linked to how well we manage those that supports us. It is imperative that our vendors are aligned with our values and CoBE to ensure high standards of operating excellence, delivering the goods and services with operational integrity. UMW-OG's procedures clearly define our expectations for all contractors and suppliers to comply and perform with our CoBE and QHSE standards.

Supporting Local Vendor

Wherever we operate, we strive to maximise local content in all tender processes and contractual agreements. Local content rules pose a challenge as well as opportunity to position UMW-OG as a responsible partner. This is possible with purchases made from local vendors for any non-OEM items.

Vendors who wish to provide goods and services to UMW-OG will need to be registered in the Company's approved supplier list. To be considered, the essential requirements needed are work experience, years established, financial strength, completeness of key documentation, track record of providing and delivering goods and services and fulfilling our QHSE requirements.

AS A RESPONSIBLE CORPORATE CITIZEN, WE CONTRIBUTE, IN OUR BEST ENDEAVOUR, TO THE ECONOMIES OF LOCAL COMMUNITIES AND BROADER SOCIETY WHEREVER OUR OPERATIONS HAVE A PRESENCE THROUGH JOB OPPORTUNITIES, TAXES, LOCAL SPENDING AND ALSO ENVIRONMENTAL STEWARDSHIP.

Indirect Economic Impact

At UMW-OG, we are always mindful of contributing to the sustainable economic development of the host countries and communities where we operate. We strive to create a lasting and positive impact through the promotion of local economic growth. The indirect economic benefits include recruiting local talent, purchasing local goods and services and providing business opportunities to local vendors and contractors the opportunity to participate in our operations through competitive bidding.

In 2015, the total spend with local vendors and suppliers during our drilling campaign in Vietnam, represented more than 30% of our total operating costs, mainly for labour and catering services. While in 2016, we spent about 33% with local vendors and suppliers in Malaysia.





ENVIRONMENTAL



WE ARE COMMITTED TO OPERATE IN A RESPONSIBLE MANNER, MINIMISING THE IMPACT ON THE ENVIRONMENT, PROTECTING AND PRESERVING THE ENVIRONMENT WHERE POSSIBLE.

Energy Consumption

We continue to reduce the environmental impacts from our operations through efficient energy consumption, mainly derived from fuel burning and electricity purchased. The usage of diesel and electricity are collated and converted using a conversion factor to derive the energy consumption.

In 2016, UMW-OG's offshore drilling operations achieved 46% reduction in energy consumption, from 790 gigajoule ("GJ") in 2015 to 427 GJ in 2016, representing a decrease of 46%. This significant reduction was a result of the clustering of our warm-stacked rigs. Due to the design of the power system on the drilling rigs, the engines generate excess power when in idling mode. When clustered together, one rig can power up to two other rigs, optimising the usage of diesel and reducing overall operating costs significantly.

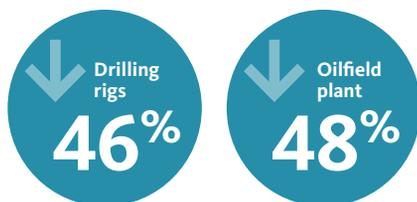
Our oilfield services plant in Labuan also consumed less energy in 2016, a reduction of 48% from the previous year as a result of lower demand for pipe production and threading services amid the challenging industry landscape.

GHG Emission

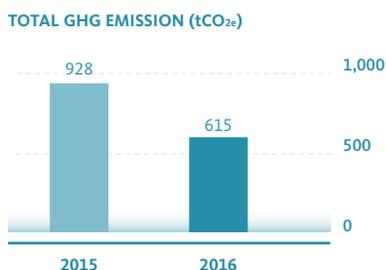
The continual rise of global energy consumption gives rise to greenhouse gas ("GHG") emission. Low carbon initiatives have become the key programme for all oil and gas companies, including UMW-OG. Recognising the global environmental issues such as climate change, we are taking stern steps to ensure all our assets comply with class regulation, and all equipment, systems, fitting arrangements and materials are certified under International Air Pollution Prevention ("IAPP").

In 2016, overall emission relating to fuel and electricity consumption for UMW-OG is 615 tCO₂e compared to 928 tCO₂e in 2015.

ENERGY CONSUMPTION



Direct monitoring of CO₂ emission through our operations was not done, since no device was installed to assist with monitoring. No third-party CO₂ emission which includes vendor and contractor which is under contract with UMW-OG is considered in this overall emission calculation.



Waste Management

Due to the distinctive operational nature of the offshore drilling services from the oilfield services, our waste management are being managed separately.

Waste management for our offshore drilling operations is governed by International Convention for the Prevention of Pollution for Ships (MARPOL 73/78), while our oilfield services operations are governed by the Department of Environment Malaysia (“DOE”) Environmental, Quality (Schedule Waste) Regulation 2005.

Following MARPOL 73/78 regulations, we are pleased to report that all UMW-OG offshore drilling rigs own a dedicated waste management plan to ensure proper and responsible procedures. All waste from our operations is segregated and treated according to industry best practice and local environmental regulations until being safely disposed of. In Malaysia, the hazardous waste is managed and disposed at licensed facilities approved by DOE only.

In 2016, due to much lower drilling activities, UMW-OG generated 164 tonnes of hazardous waste from our total operations, which is 26% lesser than the amount of hazardous waste recorded in 2015.

Water Management

Recognising that water is a vital resource, UMW-OG places water resource management as a priority in our daily operations. Fresh water, an integral part of the ecosystem, is a scarce resource. Thus, various initiatives are in place, to optimise the use of water and minimise the environmental impact of water usage.

Water Discharge

Our rigs are equipped with internationally approved oily water separators facility to treat water with oil content below 15 parts per million (“ppm”). This is as per Annex 1 of MARPOL 73/78 which states that, any kind of oil is prohibited to be discharged into the sea unless certain criteria are satisfied. The amount of water treated during our offshore operations in 2015 was 591 m³ compared to 248 m³ in 2016, a reduction of 58%, as a result of lower drilling activities.

Water Withdrawal

The water used in our offshore drilling operations comes from non-fresh water sources, i.e. seawater. Reducing water usage and improving water quality are important elements of environmental stewardship. At UMW-OG, we continue to actively manage and work towards reducing our freshwater withdrawal by reusing water, and using freshwater resources as efficiently as possible within our operations.

AVERAGE WATER CONSUMED PER RIG



Water withdrawal from municipal council or utilities saw a significant drop from 52,960 m³ in 2015 to 20,545 m³ in 2016. The reduction is mainly due to lower activities in our offshore drilling rigs and oilfield services plant. On average, water consumed per rig is 7,742 m³ in 2015 as compared to 3,713 m³ in 2016. Seawater is also being used in our offshore drilling operations, mainly to cool the main engines, air conditioning condenser, toilet flushing and to prepare drilling fluid.

Spills to the Environment

Preventing spills is essential in limiting our environmental impact, ensuring a safe workplace and reducing costs. Effective spill management requires routine maintenance and continuous improvement in every phase of our operations.

While all hydrocarbon spills are considered serious, those greater than 800 litres are defined as significant incidents. Immediate reporting with detailed investigations in accordance with the requirements of our management system will be triggered, and corrective actions taken. UMW-OG is proud to report that there have been no recorded hydrocarbon and hazardous chemical spills throughout 2016 as compared to 2015. For 2015, our recorded spills was no greater than 382 litres.



SOCIAL

OUR GREATEST ASSET AND THE PILLAR OF OUR SUCCESS

Our People

At the end of year 2016, our workforce stood at 574, a significant reduction of 27% from the previous year. As with other oil and gas companies, 2016 was a very challenging year for UMW-OG. Drilling contracts were hard to come by, as major CAPEXes were significantly reduced or put on hold. The low level of activities affected us tremendously, as our rig utilisation rate dropped to a low of 21% compared to 52% in year 2015. Adapting to this new normal, we had to reorganise and rationalise our workforce to align to this need.

Human Capital

We entered 2016 expecting the market to still stay volatile with uncertainty in the global oil prices and a decline in drilling activities throughout the regions. We knew we had to embrace for another challenging year and to do this, we have to be very flexible and creative to balance our people's agenda against the Company's commercial needs. We continue to be guided by our Human Capital long-term strategy in managing this agenda to ensure we remain objective, effective and efficient in our approach and initiatives. All our implemented initiatives are done to contribute and strengthen our work culture, effective business behaviour, and higher manpower efficiency and cost effectiveness.

Manpower Rationalisation

With the drilling campaigns becoming scarce in the market, we took a very careful and objective approach in managing our manning level throughout the organisation. We understand well that manpower forms a major part of our operating cost structure, thus we have to undertake the necessities to ensure this cost is under control.

We reviewed our manning needs progressively throughout the year and along the way, we had to undertake a manpower rationalisation exercise throughout our operations. Operating assets are manned at their optimum level with only the required positions, as listed in our contracts, are assigned on the rigs. Our oilfield services plant discontinued shift operations and scheduled all work orders on normal working hours.

On top of the continuous reviews, we also implemented a Job Analysis exercise where we reviewed unutilised manhours in the various positions, and reassigned available manpower to new assignments or positions. The two noted initiatives ultimately have resulted in a total manning reduction of 27%, and a closure of 57% open positions via internal transfers and reassignments. These initiatives have also contributed to a cost savings of close to RM11.0 million.

Despite all the challenges, we continue to selectively conduct development programmes for capable personnel, focusing on high performance individuals with high level of personal and professional commitment and continue to contribute to the organisation.



People, Performance and Results

Instilling a high-performance culture throughout the organisation is a continuous exercise throughout the year. Each year, all eligible UMW-OG employees participate in a performance appraisal that drives business results by aligning individual and corporate performance objectives across ethics, service quality, financial performance and health, safety and environment.

Employees and managers determine these goals and perform progress assessments. Employees also work with their managers to create developmental goals based on current position and career objectives. Key performance indicators ("KPI") is a common measure to assess all UMW-OG's employees.

Strengthening Our Culture

2016 has seen a continuous flow of initiatives from our Human Capital team to elevate this agenda. We rolled out the ABC Behavioural Assessment System to further strengthen our high-performance culture build-up. This system focuses more on the assessment of individual working behaviours in their day-to-day assignments. This provides the supervisors with an assessment toolkit to evaluate an employee's compliance to basic employment conduct, commitment and quality of work, integrity, safety awareness, and compliance to our core values. Employees who are rated below a certain threshold score are required to discuss with their managers on how to improve their performance on a more structured basis. The system promotes a forum of a healthy and objective discussion between employees and their superior to ensure everybody makes their own significant contributions to the Company during these challenging times.

To ensure that all employees understand the Company's core competencies, we have also developed and customised our own Business Acumen training module. This programme walks an employee through the Company's core businesses, its commercial challenges in differing situations, the Company's expectations of the employees in terms of

accountability, commitment, behaviours and contributions, and what the employee can expect as the Company progresses into the future. The programme blends a good balance of the industry's outlook, financial and cost management, ethics and behaviours. We have progressively rolled out this programme in 2016 and this will continue to be a core programme that an employee has to enrol as part of our culture-building.

Diversity

The Company strives to build a competent, engaged and experienced workforce by recruiting, based on meritocracy and experience, irrespective of gender, ethnicity, religion, etc. UMW-OG's inclusive working environment is committed in promoting equal opportunity for all its employees.



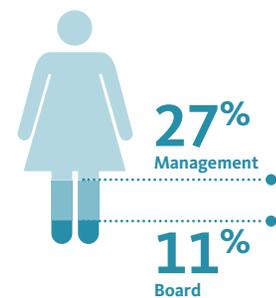
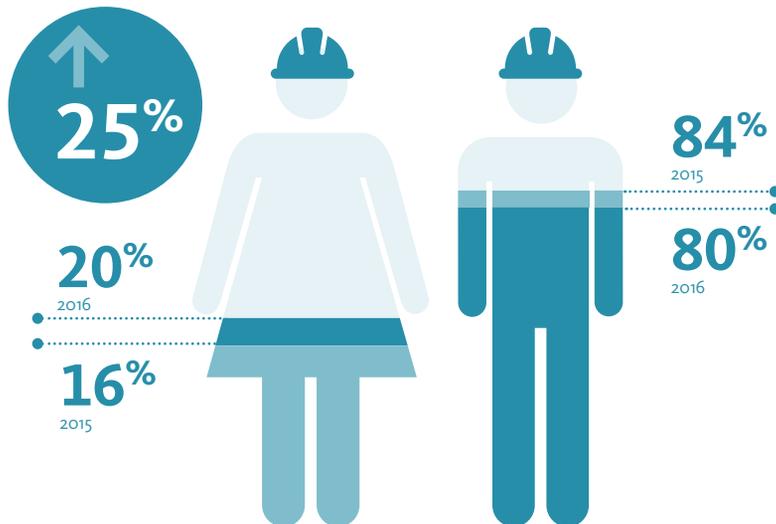
EMPLOYEE NATIONALITIES

25 nationalities
75%
Malaysians in 2016

UMW-OG provides job opportunities to individuals from Malaysia and the local communities where we have operations in the international arena. As part of supporting the local content policy, we exercise "local-where-we-operate" practice, offering employment opportunities to spur the socio-economic growth both at the home front and the host countries where we operate.

Our workforce is truly global, evidenced by the diverse pool of talent from 25 different nationalities serving its workforce. The majority of the workforce are Malaysians, representing 75% of the total workforce. Our senior management in our head office, in Malaysia, are 100% Malaysians.

Women comprise 20% of the total workforce of 574 as at December 2016, as compared to 16% in December 2015. Our commitment to gender diversity is also reflected at Board and Management Committee levels, where 11% and 27% of the members respectively are females.



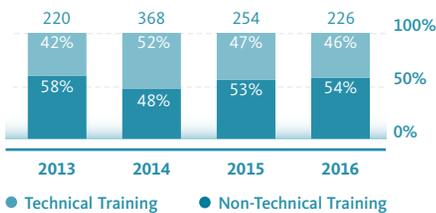
A diverse workforce will enable us to continue in promoting high-performance culture of efficiency, integrity and teamwork, where abundance of ideas and different perspectives are leveraged to enhance our people capability.

SOCIAL

People Development

UMW-OG strives to be a responsible employer, and we are committed to building an environment in which our people can be developed to achieve our aim to produce capable leaders and employees. Though 2016 was a challenging year, we found creative means to complete 226 training sessions attended by 2,417 participants mainly for both drilling and oilfield services sector. We have increased our average training man-days by 23% from 3.4 days in 2015 to 4.2 days in 2016.

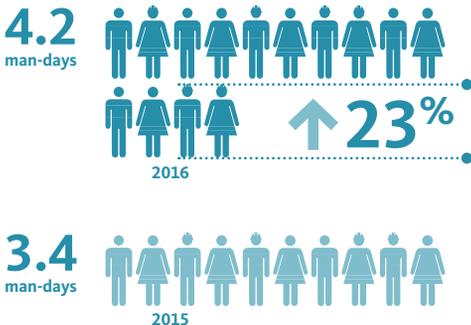
TRAINING SESSIONS (TECHNICAL VS NON-TECHNICAL)



TOTAL PARTICIPANTS



AVERAGE TRAINING MAN-DAYS



UMW Post Graduate Enhancement Programme: Skim Latihan 1Malaysia

We in UMW-OG have not forgotten our responsibility to the community. We continue to support the government scheme in assisting young graduates to gain real working life experience by actively participating in UMW Post Graduate Enhancement Programme: Skim Latihan 1Malaysia (“SL1M”) where we provide the required training platform to young and talented fresh graduates. This platform will enable them to gain as much experience and knowledge about working life. The trainees are monitored by supervisors and guided by our values, culture, processes and systems.

Community Investment

CSR has become intertwined into the DNA of UMW-OG as the organisation strives to stay committed in incorporating CSR practices into every facet of its business practice in ensuring a sustainable environment for all of its stakeholders.

Governed and guided by its three CSR pillars;



Safety



Education



Environment

the organisation stays true to its commitment of raising and improving awareness on safety culture, capacity building through education, and protecting and preserving the environment. While promoting principles of integrity and transparency, all initiatives are geared to be sustainable, yet impactful.



Safety

UMW-OG prides itself as a major player in an industry that revolves around the upstream section of the oil and gas industry. As such, wherever the Company has a presence, it takes the opportunity to connect with the local community through advocating and promoting safe-culture as a lifestyle.

Centred on the concept of learning by doing, 2016 was the second year running that witnessed the Company carrying out its now trademark Road Safety Awareness programme. Once again, collaborating with Perbadanan Putrajaya (“PPJ”), the one-day programme’s objective was to foster road safety awareness amongst primary school students through a fun and interactive learning environment.

The programme saw 60 participants from Sekolah Kebangsaan Jeram Batu 20 (“SK Jeram Batu 20”), between the ages of 10 years and 12 years old, experiencing real-world potential traffic hazards and dangers in a controlled safe environment. Aiming to keep the experience as close as possible to real-world events, students were kept under the watchful eyes of enforcement officers from PPJ who were also joined by officers from the Road Transport Department.





Summons were issued for offences such as jaywalking, failing to indicate when making a turn, and speeding, among others.

In the interest of continuity and sustainability of the programme, UMW-OG also contributed three bicycles to PPJ's existing fleet.

Back at SK Jeram Batu 20, UMW-OG via its Corporate Communications and QHSE teams conducted a safety audit of the school. Carried out as part of UMW-OG's Safe School Programme, this initiative complemented the previous year's safety signage installation in the school. A thorough report was prepared and tabled to the school management to highlight key areas which could and should be improved. As part of the remedial works, UMW-OG contributed drain covers, fire extinguisher cabinets, updated safety signages and also replaced an ageing pair of goal posts.



Education

Supporting the Government's vision of cultivating a fully-developed, knowledge-rich and skilled nation, the Company continues its relationship with the PINTAR Foundation through its PINTAR education programme. This is backed by the guiding principle in nurturing the local communities with the relevant knowledge, skills and capabilities.

PINTAR is a school adoption programme inspired by Khazanah Nasional and run by government-linked companies as well as some private corporations in Malaysia. The PINTAR Foundation aims to improve socio-economic standards through educational achievement. It redefines school adoption programmes in line with the Government's call under the Ninth Malaysia Plan ("9MP") and 2006 Budget for public-private partnerships to aid sustainable development.

In 2016, UMW-OG continues to organise its fully sponsored English tuition programme for selected SPM candidates of Sekolah Menengah Kebangsaan Jeram ("SMK Jeram"). In its inaugural year, the 120 participants from SMK Jeram witnessed an increase in their education performance, and was ultimately reflected in their SPM results. This improvement not only benefited the students but also the school in general as the improved performance contributed to the school's position in the district.

Apart from all the initiatives noted above, we also have our annual Academic Excellence Award. This award has been designed as part of our employee engagement initiatives. Under this initiative, employees' school-going children who excel in their UPSR, PT3 and SPM exams are given financial awards amounting between RM300 to RM500. The award is meant to encourage our employees to be very supportive of their children's

studies, and also as a recognition of the children's efforts.



Environment

The environment has always been something close to the Company's heart, where it aims to inculcate environmental awareness both internally as well as in the communities where it has presence. This year UMW-OG decided to drive that very message by organising an "appreciate-through-experience" type programme. Joined by 40 students from SMK Jeram (UMW-OG's adopted school under the PINTAR Foundation programme), participants from UMW-OG went on an environment themed excursion to Forest Research Institute Malaysia ("FRIM").

Guided by FRIM's experienced forest guides, the participants were taken for a trek along its famous Salleh Nature Trail where they were briefed on and introduced to the various unique flora and fauna which can be found in FRIM's compound.

A short break followed the trek, which then continued with an environment themed Treasure Hunt which took the participants almost all over FRIM, where they continued to enjoy and appreciate the beauty and wonders of nature.

SOCIAL



Community

Already in its second year running, UMW-OG once again participated in the ongoing Sahabat Maritim programme – a joint collaboration between Malaysian Maritime Enforcement Agency (“MMEA”) and PETRONAS – which hopes to give back to the community. While the main purpose is to promote safe fishing activities in areas where oil and gas facilities are located, MMEA also hopes to educate them on the roles that the fishermen play in maintaining the sovereignty of the country’s waters.

This time around, UMW-OG made its presence felt in the small fishing village of Kampung Merchang, Terengganu. Together with other oil and gas players, UMW-OG set the village abuzz where the Company’s volunteers took part in “gotong-royong” related activities to refurbish selected old buildings across the village such as the ‘surau’ and community hall, to name a few.

QUALITY, HEALTH, SAFETY AND ENVIRONMENT

At UMW-OG, our team fully recognises the responsibility that comes with operating offshore – managing risks in our operations, and always mindful of the gravity of potential consequence of failing to operate safely and responsibly.

Ensuring our people and assets are safe, and being good environmental stewards, are high priorities in operating our operations well.

Our motto: “Nobody Gets Hurt, No Damage to the Environment”

- 

Quality
Quality, integrity, innovation and excellence committed for continual improvement.
- 

Health
Towards sustainable and healthy working environment.
- 

Safety
Committed to the protection of people, assets and the environment.
- 

Environment
Maximising commitment to minimise environmental impact.

Quality, Health, Safety and Environmental (“QHSE”) Management System is an integral and essential part of the way we do our

business. It embodies the framework on how the Company safely manages its operations, emphasising occupational health, safety, risk management, emergency preparedness, environmental performance and also process safety. An effective QHSE management system aims to prevent accidents or incidents which could have an impact on people, our assets or the environment.

It is our responsibility to provide safe and healthy working conditions to our people and our contractors. The Zero Injuries and Zero Illness vision does not mean that another injury will never occur. Rather, it means a commitment to working as many hours as possible without an injury. Thus, various trainings, programmes and campaigns have been organised at our offices and other facilities, i.e. rigs, bases, and plants, in order to promote a good safety culture amongst our employees, reminding them to “Work safely, get home safely”.

Strong HSE Culture

HSE policies and procedures provide a good guidance and framework, but they are not sufficient to ensure our operations are conducted safely and responsibly. More importantly, a strong safety culture is vital to ensure safe operations. Employees must embrace the safety culture, by personally taking ownership and responsibility for performing their work safely.

To promote and instil a strong safety culture, employees are encouraged to recognise safety hazards, identify and report unsafe conditions, acts or risks via our hazard observation card (“HOC”).



HOC submission in 2016 was 50% lower than the previous year due to the lower activities for our drilling rigs. However, we are pleased to report that the HOC closure was maintained at 98% for both consecutive years.

In addition, various HSE-related activities, including training, advice and guidance, were organised to inculcate the safety culture amongst our team.

Management HSE Visits

As part of management’s commitment to building a strong HSE culture, our senior management team has visited our operations, both on the rigs and also our oilfield services plants. These HSE walkabouts demonstrate the strong commitment and engagement by the Company’s leadership team.

MANAGEMENT HSE VISITS



PRESIDENT



HEAD OF DIVISIONS

2015	5	26
2016	4	11

HSE Perception Survey

HSE Perception Survey was conducted on selected operating rigs with the entire crew participating in the survey. This survey serves as a tool in gauging the crews’ understanding of our Company’s safety requirements. The outcome of the survey will be used to determine the type of campaign and training required to increase their understanding on how the Company views the importance of safety requirements.

Safety Programme and Activities

One of UMW-OG’s primary goals is to ensure that all employees are provided a safe and healthy workplace. UMW-OG has environmental, health and safety policies and practices that comply with applicable laws and regulations. UMW-OG has been actively organising various impactful programmes and campaigns throughout the year, focusing on the promotion of safe, healthy and sustainable working environment.

In 2016, we continued to enhance our HSE culture:

1. Continued strengthening of emergency management capabilities; and
2. Continued improvements of training, documentation, communications and QHSE activities.

Various in-house seminars were organised where health experts educate employees on good health, wellness and also prevention of serious diseases. Our QHSE department regularly disseminates clippings and bulletins to remind employees on safety, good health and the implications of serious diseases.

QHSE Day 2016

Our QHSE Day 2016 motto: **“Towards Safe & Sustainable Business Practices”** reflects UMW-OG’s aim at creating a safe working environment for our employees and sustaining the pace of good safety implementations in our business practices.



The one-day event comprises a few beneficial activities such as Blood Donation Drive, Advance Eye Screening & Health Talk by Tun Hussien Onn National Eye Hospital, Safety Talk by Head of Drilling Division and Engagement Session with the President of UMW-OG.

QHSE e-Newsletter

Our quarterly QHSE e-Newsletter focuses on disseminating the Company’s message on safety. The contents include a special safety message from the President, Head of Drilling Division and selected Head of Divisions, Quarterly QHSE performance, QHSE-related information and practices in the offices and on board our rigs.

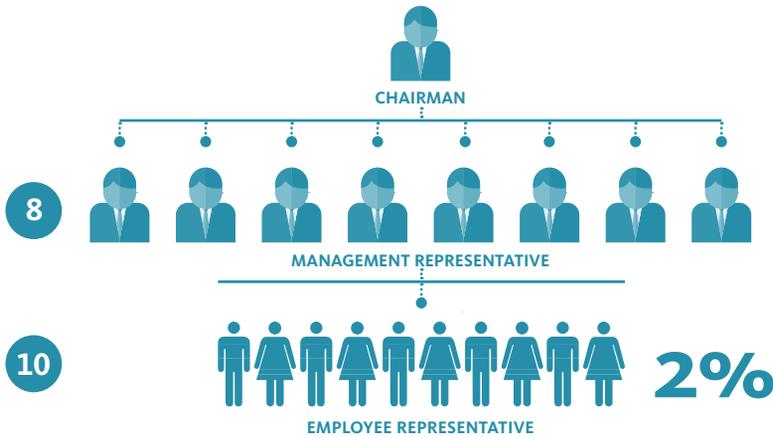
QHSE Infographic

Bi-monthly QHSE Infographic comprises of various QHSE-related information in a graphical presentation for ease of understanding. These infographics are disseminated to all employees via emails and also posters, placed at visible and strategic places.

Poster Campaign

Similar to the QHSE Infographic, offshore poster campaigns were also organised. These campaigns aim to focus on-the-rigs HSE-related issues for all our crew working on board offshore.

SOCIAL



Health & Safety Committee

Our Health & Safety Committee provides leadership on the HSE policies and procedures, enhancing and monitoring the overall HSE performances of all our business operations, both offshore and onshore. Significant HSE matters and issues will be deliberated and corrective actions taken to prevent similar incidents from occurring again. HSE performance updates are presented to the Management Committee and the Board for oversight.

Health & Safety Committee meets on a quarterly basis, and is chaired by the President of UMW-OG. The committee has representation from management and also employees, from both the operating divisions and corporate divisions. Total workforce representation is 2%.

Process Safety and Asset Integrity

Process safety and asset integrity play an important role in the prevention of major accidents. We continue to work to build a strong process safety culture in UMW-OG, learning from our own past experiences and

other oil and gas industry process safety events. By taking care of process safety and asset integrity, we strive to ensure incident-free activities and safe working environment for our clients, employees and contractors.

Process safety and asset integrity system/ programmes are integrated in our HSE-MS – maintenance and inspection programme. Recognised and certified by OHSAS 18001 -Safety Management System, our system is designed to ensure all operational activities are conducted in a safe and responsible manner, preventing major accidents from occurring and maximising equipment reliability.

Asset integrity assurance is the major component in preventing major accident event (“MAE”). To prevent any unplanned release, our maintenance system is used to record and monitor scheduled maintenance for all our assets across our fleet. Management of asset maintenance is guided by API, OEM and industry recommended practices. Our system is reviewed by our previous clients, and upon their satisfaction of its sufficiency in preventing MAE, is then reviewed by an independent consultant.

With a proven track record on safety, UMW-OG continues to enhance the existing system by developing asset management guidelines, asset tagging system implementation, working towards a proper SPS Project Planning (Project Execution Plan) as well as development and exposure of our people to asset management.

Emergency Preparedness and Response

Emergency preparedness and response are vital elements of risk management to minimise harm to our employees, contractors, clients and our environment via prompt and effective solutions in the event of accidents and incidents.

Emergency response for any crisis is managed from our Emergency Control Centre (“ECC”), located at Level 18, Block 3A, Plaza Sentral. UMW-OG’s ECC, upgraded from subsidiary to group level, forms an integral part of UMW-OG’s Business Continuity Plan. With the upgraded facilities and procedures, a more effective response is available in the event of any emergencies with the ECC providing centralised location where members of the Emergency Management Team are able to monitor, track and make decisions that are critical to the continuing operations of the business as well as life, health and safety of its employees.

The Company has also established a procedure which requires every facility to develop and implement an emergency plan for protecting employees, visitors, contractors or anyone, at any time when they are at the Company’s premises. Our Emergency Preparedness and Response Plan (“EPRP”) includes building evacuation (fire drills), Rig Abandon Drill, etc.

The requirement is to have at least one drill exercise per annum, and a weekly drill exercise to be conducted on the rigs. The establishment of Emergency Response Team (“ERT”) is part of the Company’s emergency preparedness initiative. The team is a group of in-house first responders identified by the Company to be competently trained in preventing any emergency from escalating into a major disaster. The ERT is capable of containing an incipient threat, by swiftly mitigating an emergency situation according to established plans and procedures transcribed inside the Company’s EPRP during an emergency.

Internal QHSE Audit

This compulsory annual audit was conducted across all of the Company’s facilities with the objective of improving and ensuring the correct implementation and maintenance of Integrated Management System throughout the organisation.

OHSAS 18001: 2007 In-House Training

This initiative was conducted by UMW Oilpipe Services Sdn Bhd (“UOS”), our oilfield services plant in Labuan, to provide a proper understanding of the OHSAS requirements to its employees. Ensuring the correct implementation of Occupational Health & Safety Management System is of great importance to the Company.

Firefighting Course

The one-day course was conducted at Labuan BOMBA Station and attended by selected UOS’ employees. This course plays a vital part in educating employees in regard to firefighting, prevention and how to respond to emergency situations.

Incident Investigation

Investigation of incidents and the ranking of incidents in terms of both severity and consequence, are key components to improve our HSE performance. Investigation of significant incidents through our Incident Investigation Management System Procedure brings immediate visibility to high-risk incidents, and enables timely and rigorous assessment to determine the root cause.

UMW-OG makes no distinction in the importance of reporting near incidents (near miss) or actual accidents because regardless of the actual damage, all incidents have root causes that need to be addressed to prevent future incidents which could be very damaging. All incidents must be reported and logged in the UMW Incident Management database for review and action tracking.

HSE Alert

Sharing experiences, lessons learned from near misses, incidents and accidents, and best practices are key HSE tools in UMW-OG. These ongoing initiatives are done via our HSE Alert or Incident Early Alert (“IEA”). These alerts are disseminated and communicated to our operations team, educating and raising awareness on areas where incidents have already occurred, and also where they could potentially occur.

HSE Alerts can be generated from a variety of sources; internally within the departments, on board the rigs or at any of the operations locations, and also externally, from our clients. Upon receiving HSE Alerts, the Offshore Installation Manager (“OIM”)/ Rig Superintendent/Project Manager or designate will ensure that a copy of the HSE Alert is distributed to each line Supervisor so that they may have the opportunity to discuss at their toolbox meetings or at the crew HSE meetings. A copy is posted on the HSE bulletin board and corrective actions are implemented as advised by the HSE Alert.

HSE Alerts are retained on notice boards for a minimum of two months and then filed in the worksite HSE file indefinitely. They are translated into the relevant languages spoken at the worksite.

Occupational Health and Wellness

QHSE management is given a high priority in all aspects of our business operations. Quality products and services must be achieved with a high standard of safety behaviour, while at the same time ensuring everyone remains healthy, and the environment is not negatively impacted. UMW-OG is committed to the safety of all its employees, as well as our extended team of contractors, suppliers and clients. Our proactive approach has shown results in improved health and safety performance over the year.

HSE Performance

Safety is FIRST, in everything that we do. Our target is to maintain zero recordable injuries. In 2016, there is one recordable injury, equating to a lost time injury frequency (“LTIF”) of 1.16 per million man hours. UMW-OG uses a number of indicators to monitor HSE performance.

Total Recordable Case Frequency Rate (“TRCF”) is one key metric for historical employee and contractor injuries which includes Lost Time Injuries (“LTI”), Restricted Work Cases (“RWC”) and Medical Treatment Injuries (“MTI”). Our TRCF continues to decrease in comparison to the previous year, which demonstrates an improvement in the safety of our operations. TRCF is used to compare performance across rigs and to assess UMW-OG’s performance against our industry competitors.

While we did not achieve our zero-injury target, we continue to improve the way we track injuries, hazards, near misses and high potential incidents to ensure the HSE risks are identified and mitigated.

SOCIAL

Integrated QHSE Management System

UMW-OG obtained certifications for its Integrated QHSE Management System, further cementing its commitment in upholding QHSE policies and ensuring a safe workplace – a prerequisite for a resilient and sustainable business.



Certifications

- ISO 9001:2008 Quality Management System
- ISO 14001:2004 Environmental Management System
- OHSAS 18001:2007 Occupational Health & Safety Management System
- ISO/TS 29001:2010 Quality Management System for Petroleum, Petrochemical and Natural Gas Industries

Compliance

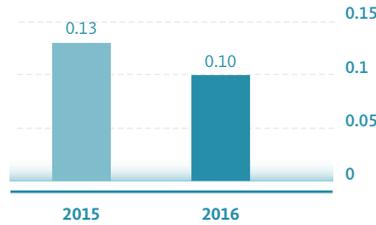
Clearly defined and documented lines and limits of authority, responsibilities and accountability have been established by the Group in the form of Financial Limit Authority Guidelines (“FLAG”). The FLAG outlines the authority of the Board and its Board Committees and that of management for all transactions to ensure 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.

With respect to significant fines and non-monetary sanctions for non-compliance with environmental as well as other laws and regulations, we have recorded none.

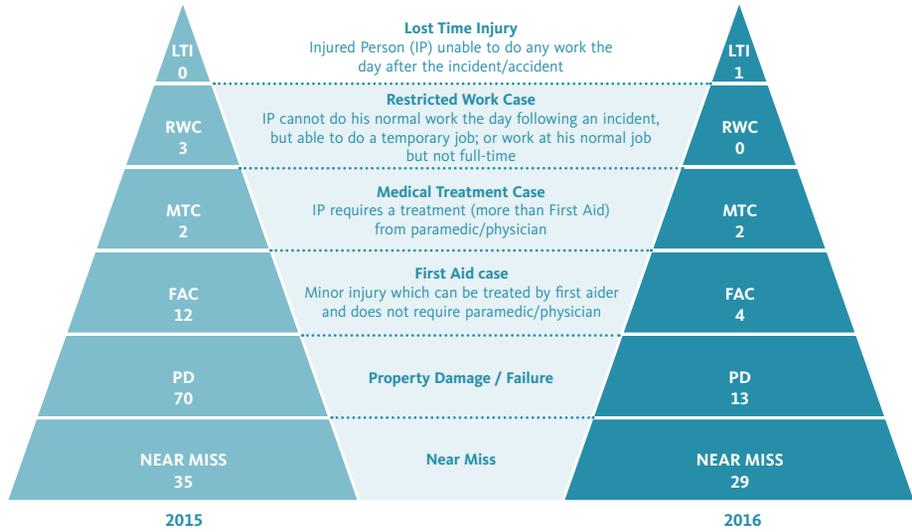
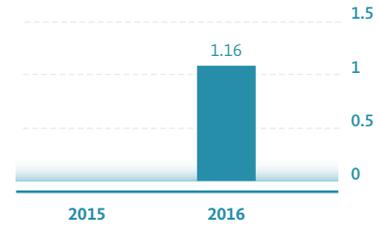
LOST TIME INJURY FREQUENCY & TOTAL RECORDABLE CASE FREQUENCY FOR THE GROUP

(Number of cases per one million man hours)

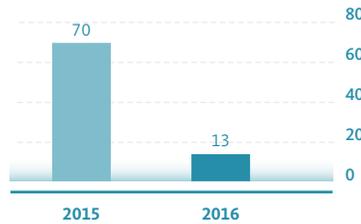
TRCF



LTIF



PROPERTY DAMAGE



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SPECIFIC STANDARD DISCLOSURES				
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SPECIFIC STANDARD DISCLOSURES				
DMA and indicators	Description	Page	Omission(s)	Reason(s) and Explanation(s) for Omission(s)
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STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors (“Board”) of UMW Oil & Gas Corporation Berhad (“UMW-OG” or “Company”) is committed to advocate the fundamental principles of corporate governance within UMW-OG Group.

This Corporate Governance statement provides an insight into corporate governance practices of the Group and to report the Group’s compliance with the Principles and Best Practices of Malaysian Code on Corporate Governance 2012 throughout the financial year ended 31 December 2016.

Notably, UMW-OG was listed No. 27 out of the top 100 Malaysian Public Listed Companies (“PLCs”) with good corporate governance disclosures at the Minority Shareholder Watchdog Group’s Malaysia-ASEAN Corporate Governance Transparency Index, Findings and Recognition Award Ceremony 2016 held on 15 December 2016.

The Group adopts the following recommendations, requirements and guidelines:

- Bursa Malaysia Securities Berhad’s (“Bursa Malaysia”) Main Market Listing Requirements (“MMLR”);
- Corporate Governance Guide (“CG Guide”);
- Malaysian Code on Corporate Governance 2012 (“Code”);
- The Green Book on Enhancing Board Effectiveness by the Putrajaya Committee on Government-Linked Companies (“GLCs”) High Performance (“PCG”); and
- International best practices and standards on corporate governance.

With the Group’s significant presence in the countries it operates, the Group also monitors and abides by the guidelines of the relevant regulators and authorities.

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

1.1 Clear functions of the Board and Management

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

STAKEHOLDERS					
BOARD OF DIRECTORS OF UMW OIL & GAS CORPORATION BERHAD					
BOARD EXECUTIVE COMMITTEE	BOARD AUDIT COMMITTEE	BOARD RISK MANAGEMENT COMMITTEE	BOARD NOMINATION COMMITTEE	BOARD REMUNERATION COMMITTEE	BOARD WHISTLE-BLOWING COMMITTEE
PRESIDENT					
MANAGEMENT COMMITTEE					
MANAGEMENT SUB-COMMITTEES					
Management Audit Committee					
Management Risk Management Committee					
Management Whistle-Blowing Committee					
Management Banking Committee					
Business Continuity Management Committee					
Management Sustainability Committee					
Management Tender Committee					
CORE BUSINESSES OF THE GROUP					
DRILLING SERVICES			OILFIELD SERVICES		

Setting the tone from the top, the Board is responsible for the oversight and sets the UMW-OG Group’s overall strategy, core values and adopts proper standards to ensure the UMW-OG Group operates with integrity and complies with the relevant rules and regulations. Specific responsibilities of the Board are delegated to the respective Board Committee in accordance with their respective Terms of Reference (“TOR”), while specific powers are delegated to respective Board Committee, the President and the Management.

STATEMENT ON CORPORATE GOVERNANCE

The Company's Corporate Governance Framework is supported by the Financial Limit Authority Guidelines ("FLAG") which sets out the respective authority limits including those reserved for the Board's approval and those which the Board may delegate to the Board Committees, the President, Management Committees and Management. The Board, as and when required, will continue to review, deliberate and enhance the Company's Corporate Governance Framework and FLAG to ensure its relevance and ability to meet future challenges.

Each of the subsidiaries within the UMW-OG Group has its functional Board chaired by the President providing direct oversight over the subsidiary company's business practices and activities. Aligned with UMW-OG, each subsidiary of the UMW-OG Group has adopted the Company's Corporate Governance Framework and FLAG.

The Management Committee chaired by the President met regularly to deliberate on the overall management of the Group with direct line of sight of operations and activities with reports from the following divisions and departments:

- Drilling Services
- Oilfield Services
- Finance and Accounts
- Quality Health Safety and Environment
- Supply Chain Management
- Corporate Development and Sustainability
- Business Development
- Human Capital
- Secretarial
- Legal
- Corporate Transformation Office
- Drilling Academy
- With two monthly alternating updates from Risk Management, Corporate Communications & Investor Relations and Compliance.

During the year ended 2016, the Management sub-committees met as and when required and as scheduled respectively to effectively discharge its functions in tandem with the requirement of the Group's activities and business practices.

1.2 Clear roles and responsibilities

In discharging the Board's fiduciary and leadership functions, the Board is charged with leading the Company in an effective and responsible manner.

Amongst the key responsibilities of the Board are:

- setting the corporate vision and mission, objectives and strategic direction of the Group;
- overseeing and evaluating the conduct of the Group's businesses;
- identifying principal risks and ensuring that risks are properly managed;
- reviewing the adequacy and integrity of the Group's internal controls; and
- human resource planning in particular succession plan.

The Board reserves full decision-making powers on the following matters:

- material acquisitions and disposal of assets;
- investments in major projects;
- authority levels;
- treasury policies;
- risk management policies;
- key human resource issues; and
- conflict of interest issues relating to a substantial shareholder or a Director.

The following describes how the Board discharged its key fiduciary and leadership functions in 2016:

Reviewing and adopting Company's strategic plan

The Board reviews, challenges and approves the strategic plan for UMW-OG Group and is responsible for monitoring the implementation of the strategic plan by the Management.

The Management presented to the Board its recommended strategy and Business Plan for the ensuing year at a dedicated session for the Board's review and approval. Together with the Management, the Board deliberated the Company's mission

and vision, considered an overview of the oil and gas industry outlook and the highlighted business strategy and direction of the UMW-OG Group, focusing on cost savings, stabilising revenue and people development. Key considerations by the Board were rigs utilisation, charter rates and financial analysis of Group's performance, key performance targets, budget, UMW-OG Group's activities highlights including performance by segments and by Drilling Services and Oilfield Services.

The Board and also Board Executive Committee consistently challenged the Management in the development of the UMW-OG Group's Business Plan that align with the Group's mission and sustainability strategy. The Board and the Board Committees actively monitored the Management's execution of approved strategic plans as well as the transparency and adequacy of internal and external communication of the strategy.

Overseeing the conduct of the Company's business

The President is responsible for the day-to-day management of the business activities and operations of the UMW-OG Group. He is supported by a Management Committee and Management Sub-Committees. The Board set the key performance targets of the President which is cascaded down to the Management.

During the year 2016, the Board approved the formation of the Board Executive Committee. Governed by its TOR, this Committee support an oversight role of reviewing, evaluating and recommending on matters pertaining to strategic direction and Project(s), including investment, divestment, merger, acquisition, disposal of asset(s) or business(es) that require approval of the Board.

On a monthly basis, execution of strategy and challenges were reported to the Board and were reported in ten sittings of the Board Executive Committee during the year 2016. Head of Divisions and Chief Financial Officer were invited to present on their respective reports to the Board and Board Executive Committee.

Board deliberated on Investor Relations Update noting the Company's share price movements and summary on analysts' and/or research houses. President and Chief Financial Officer presented quarterly for the Board's notation on the QHSE performance report of the Group and the financial performance of the Group respectively. At each scheduled Board meeting, the Board reviews the report from the President on the market outlook and progress of the business operations of the Group. The Board also reviews the report from the Chief Financial Officer on the financial performance of the Group.

The Risk Management and Insurance Division presents the Enterprise Risk Management Report and Regulatory Compliance Report to the Board Risk Management Committee on a quarterly basis and as part of the Group's commitment to deliver sustainable value, the Board reviews and approves the key risks faced by the Group, the potential impact and likelihood of risks occurring, the effectiveness of existing controls and the risk action plans being taken to manage the risks to the desired levels, on half-yearly basis. The Board also assesses the Group's performance in quality, health, safety and environment compliance on a quarterly basis.

The recommendations and significant issues deliberated by the Board Audit Committee, Board Nomination Committee, Board Remuneration Committee, Board Executive Committee, Board Risk Management Committee and Board Whistle-Blowing Committee are reported by the respective Chairman of the Committee to the Board for deliberation and approval. In addition, the minutes of these Board Committees are circulated and tabled to the Board for information.

Board Committee

The Board has delegated some of its responsibilities to Board Committees.

The Board has established six Board Committees, namely the Board Audit Committee, Board Nomination Committee, Board Remuneration Committee, Board Executive Committee, Board Risk Management Committee and the Board Whistle-Blowing Committee, (collectively referred to as "Board Committees"), the primary functions of which are to assist the Board in overseeing the affairs of the Group and these Board Committees have been entrusted with specific responsibilities and authority.

The authority and the functions of these Board Committees are clearly defined in their respective TOR, which are available on the Company's website at www.umw-oilgas.com

The abovementioned Board Committees are authorised to examine specific issues and report to the Board with their recommendations. The responsibility of decisions on all matters ultimately lies with the Board as a whole.

The Board receives regular reports on the respective Board Committees' proceedings and deliberations. On matters reserved for the Board and where Board Committees have no authority to make decisions, recommendations are highlighted in their respective reports for the Board's deliberation and endorsement.

- (i) Identifying principal risks and ensuring the implementation of appropriate systems to manage them

During the year 2016, the Board approved the change of name of the Board Investment & Risk Management Committee to Board Risk Management Committee ("BRMC") and revised its TOR.

On a quarterly basis, the Management Risk Management Committee considered the risk profiles and Top Risks of the UMW-OG Group, which were then tabled to the BRMC. Upon the recommendation of BRMC, the Top Risks and Risk Action Plans were tabled to the Board.

With the formation of the Compliance Department, the Board approved the Compliance Department framework and its activities. During the year 2016, UMW-OG Group conducted Internal Control Risk Assessment and Review which provided for periodic self-assessment on compliance, compliance testing mechanism and conducted internal surveys to assess control environment and tone at the top. The Group updated the centralised regulatory compliance register for tracking and monitoring.

- (ii) Succession planning

The Board Nomination Committee is responsible for identifying, evaluating and recommending to the Board, suitable candidates to fill board vacancies at UMW-OG level as well as within its group of companies. The Board Nomination Committee also reviews the appointment, dismissal, transfer and promotion of senior executives in UMW-OG Group. The recommendations of appointment of vacancies in the Board within UMW-OG Group made by the Board Nomination Committee are then tabled to the Board for approval.

In 2016, the Board Nomination Committee considered the appointment of directors of subsidiary companies within UMW-OG Group. In formulating its recommendations, the Board Nomination Committee considered the findings of the evaluation process, the current composition of the subsidiary company's Board, the attributes and qualifications that should be represented at the Board and whether the candidate can provide such additional attributes, capabilities and qualifications.

STATEMENT ON CORPORATE GOVERNANCE

- (iii) Overseeing the development and implementation of a communication policy for the Company

UMW-OG Group is committed to fulfil its obligation to provide accurate and timely information about UMW-OG Group, its performance, financial condition, operations, corporate developments and governance as well as current prospects to shareholders, stakeholders and the public in general. The Group believes in providing fair and accurate information on the Group so that investors and potential investors can make properly informed investment decisions and other can have a balanced understanding of the Company and its objectives.

During the year, the Board reviewed the Corporate Disclosure Procedures of the Group and approved the consolidated UMW-OG's Corporate Disclosure Policy which provides a framework of reference of the Group's corporate disclosure processes and procedures. All officers and employees of the Group are bound by the UMW-OG's Disclosure Policy and Procedures. In 2016, UMW-OG Group carried out its Corporate Communications and Investor Relations activities in accordance with the UMW-OG Disclosure Policy and Procedures.

Further details on activities undertaken in FY2016 is provided in page 77 of this Annual Report.

- (iv) Reviewing the adequacy and integrity of the management information and internal control of the Company

The Board has fiduciary responsibilities relating to corporate accounting, system of internal control and risk management processes and management and financial reporting practices of UMW-OG Group. Details pertaining to the Company's internal control system and its effectiveness are available in the Statement of Risk Management and Internal Control of this Annual Report.

1.3 Formalised ethical standards through code of conduct

The Company has in place a Code of Business Conduct and Ethics. This code consists of established specific rules and regulations to govern the conduct of its employees relating to his/her employment. Employees are expected to abide all laws in conducting business and to always act with honesty, integrity, loyalty, trustworthiness, fairness and responsibility.

Such code may be modified, added to, substituted for or otherwise amended from time to time as the Board deems fit. Infringement of this code may lead to disciplinary action.

Board Whistle-Blowing Committee ("BWBC")

In promoting the highest level of professionalism and ethics in the conduct of the Group's businesses, it is the Group's policy to 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 its staff and management.

The Whistle-Blowing Policy which was approved by the Board on 19 May 2014, provides employees with accessible avenue to report wrongdoings at the earliest opportunity, in an appropriate manner and without fear of reprisal.

The primary objectives of the BWBC include:

- (i) reviewing, investigating and disposing complaints (in consultation with the Chairman of the Board and the President) received against any member of the Board of the Group, senior-most executive personnel of the Group (holding job grade 20 and above) and all Heads of Divisions and Heads of Strategic Business Units.

- (ii) Reviewing and disposing all complaints received against all other employees of the Group, upon receiving recommendation or report from the Management Whistle-Blowing Committee ("MWBC").

The BWBC did not hold any meeting during the financial year.

The composition of the BWBC is as follows:

Name of Directors	Designation	Date of Appointment	Date of Resignation	Meeting Attendance
Fina Norhizah binti Hj. Baharu Zaman	Chairman Independent Non-Executive Director	21 July 2014	1 March 2017	Nil
Badrul Feisal bin Abdul Rahim	Non-Independent Non-Executive Director	1 October 2015	N/A	Nil
Razalee bin Amin	Independent Non-Executive Director	21 July 2014	N/A	Nil
Dato' Affuddin bin Abdul Kadir	Independent Non-Executive Director	21 July 2014	N/A	Nil

Whistle-Blowing Policy is available online at <http://umw-oilgas.com/wp-content/uploads/2014/10/umwog-tor-wbc.pdf>

1.4 Strategies that promote sustainability

The Board's commitment to achieve highest standards of corporate governance across the UMW-OG Group is also reflected in the Board's promotion of sustainability practices within the Group. A summary of the Group's strategies that promote sustainability is provided in the Sustainability Report of this Annual Report.

1.5 Access to information and advice

Directors have access to advice and support of the Company Secretary and the Secretarial Division to assist the Directors where required. The Directors may also interact and seek advice from the Management on issues that may require the Management's clarification or information. The Board may seek independent professional advice in discharging its duties for the UMW-OG at the Company's expense.

To effectively disseminate Board and Board Committee's papers to the Directors, the agenda and papers are circulated electronically via upload onto the Director's iPad for convenient reference by the Directors. In 2016, an average of five calendar days was recorded for the distribution of Board and Board Committee's papers save for Special Board Meetings for which

shorter time frame has been agreed with the Board.

Senior management and key personnel as well as professional and external advisors were from time to time invited to attend Board and Board Committee meetings to brief the Board or Board Committee to assist in clarifications of issues on the subject matter concerned.

The Group has in place a system of follow-up, review and reporting of actions taken by the Management on the decisions of the Board or the Board Committees after each respective meeting.

1.6 Qualified and competent Company Secretary

The Company Secretary, as the Head of Secretarial Division, has legal and secretarial qualifications and is qualified to act as Company Secretary under Section 235 of the Companies Act 2016 ("the Act"). The Board is supported by an experienced, competent and knowledgeable Company Secretary who works closely with the President and senior management to ensure effective information flow within the Board and the relevant Board Committees. The Company Secretary advises the Board in relation to the Company's Board Charter, Board Committees' TOR,

Board procedures and compliance with the Code, legislations and relevant regulatory requirements.

The Company Secretary is responsible to ensure deliberations and resolutions of the Board and relevant Board Committees are accurately minuted and thereafter communicated to the relevant Management for follow-up actions. The follow-up actions or progress of the Board or relevant Board Committees' recommendations or decisions are updated by the Company Secretary.

1.7 Board Charter

The Board oversees and sets the tone for, the Group's overall strategy, core values and adopts proper standards to ensure the Group operates with integrity and complies with the relevant rules and regulations.

In discharging its duties and responsibilities, the Board is guided by its Board Charter. The Board Charter which was adopted by the Board on 30 April 2014 sets out the roles and responsibilities of the Board in accordance with the principles outlined in the Code and ensures that all Board members acting on behalf of the Company are aware of their duties and responsibilities as Board members and

STATEMENT ON CORPORATE GOVERNANCE

the various legislations and regulations affecting their conduct and that the principles and practices of good corporate governance are applied in all their dealings. The Board Charter acts as a source of reference for Directors in relation to the Board's role, power, duties and functions. It also outlines the Board's rights to establish committees to assist in the discharge of its duties and responsibilities.

A copy of the Board Charter is available on the Company's official website at www.umw-oilgas.com

2. STRENGTHEN COMPOSITION

2.1 Nominating Committee

The Board Nomination Committee ("NOMCOM") is responsible for identifying, evaluating and recommending to the Board, suitable candidates to fill board vacancies at the Company level as well as within the Group. The NOMCOM is also responsible for the appointment,

dismissal, transfer and promotion for senior-most executives in the Group (for job grade CSM-22 and above). Apart from assisting the Board to carry out annual reviews on the mix of skills and experience and other qualities, including core competencies, which the Non-Executive Directors bring to the Board, the NOMCOM also carries out the process of evaluating the effectiveness of the Board as a whole, the performance and contribution of the Chairman and individual Directors, including Independent Non-Executive Directors, as well as the President of the Company, and identify areas for improvement.

Nominations may come from a wide variety of sources, including Directors, senior employees of the Group, customers, shareholders, industry associations, recruiting firms and others.

The NOMCOM is made up entirely of Non-Executive Directors. The composition of which is as per the table below.

The NOMCOM met six times during the financial year.

The composition of the NOMCOM and the respective attendance record of meetings for the financial year ended 31 December 2016 are as follows:

Name of Directors	Designation	Date of Appointment	Date of Resignation	Meeting Attendance
Dato' Affuddin bin Abdul Kadir	Chairman Independent Non-Executive Director	13 May 2013	N/A	6/6
Dr. Leong Chik Weng	Non-Independent Non-Executive Director	13 May 2013	24 February 2017	5/6
Razalee bin Amin	Independent Non-Executive Director	13 May 2013	N/A	6/6
Fina Norhizah binti Hj. Baharu Zaman	Independent Non-Executive Director	15 August 2013	1 March 2017	5/6

NOMCOM's TOR is available online at www.umw-oilgas.com

Summary of Activities

The NOMCOM carried out the following activities during the financial year ended 31 December 2016:

(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 reelection to the Board;
- Appointment of Director to Board and Board Committees;
- Appointment of Directors on the boards of companies within the Group;
- Proposal on Revised Questionnaires on Board Evaluation for UMW-OG Board and Board Committees, Board (self and peer assessment) and President;
- Setting Key Performance Indicators ("KPIs") for the President;
- Assessment of the performance of the President; and
- Annual assessment and review of effectiveness of Board, Board Committees, individual Director and the 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.

(iii) Considered appointment of Directors on the boards of companies outside the Group – time commitment and conflict of interest issues.

Appointment of Directors

The NOMCOM is responsible for identifying, evaluating and recommending to the Board, suitable candidates to fill board vacancies at the Company level as well as the Group. The NOMCOM considers the required mix of skills, experience and diversity, including gender, ethnicity and age, where

appropriate. The NOMCOM, also consider the Director's qualifications, the Director's contributions to the Group and the overall composition of the Board with the goal of creating a balance of knowledge, experience and diversity aligned with the long-term interest of its shareholders. Nominations may come from a wide variety of sources, including Directors, senior employees of the Group, customers, shareholders, industry associations, recruiting firms and others.

The Company Secretary has the responsibility of ensuring that relevant procedures relating to the appointment of new Directors are properly executed.

Newly-appointed Directors are required to undergo familiarisation programmes and briefings to get a better understanding of the Group's operations and the overall industry as well as the relevant regulations and governance requirements.

Reelection of Directors

All Directors including the Executive Director are subject to retirement by rotation at least once in every three years and are eligible for reelection. In accordance with Article 107 of the Articles of Association of the Company, at least 1/3 of the Directors shall retire from office at each annual general meeting, provided always that all Directors shall retire from office once at least in each three years as stipulated under Paragraph 7.26(2) of the MMLR. The retiring Directors being eligible for reelection, may offer themselves for reelection.

Any new Director appointed during the financial year to fill a casual vacancy or as an addition to the existing Directors shall only hold office until the next Annual General Meeting ("AGM") of the Company and shall then be eligible for reelection as stipulated under Article 113.

At the forthcoming AGM of the Company, the following Directors will retire and are eligible for reelection:

1. Pursuant to Article 107 of the Company's Articles of Association
 - Cheah Tek Kuang
 - Rohaizad bin Darus
2. Pursuant to Article 113 of the Company's Articles of Association
 - Dato' Abdul Rahman bin Ahmad

The abovenamed Directors who are due for reelection at the forthcoming AGM on 15 May 2017, have been evaluated by the NOMCOM and approved by the Board. Further, the abovenamed Directors have met the Board's expectations and continued to perform in an exemplary manner as demonstrated by their contributions to the Board's deliberations.

Diversity

The UMW-OG Group does not practice gender nor age or ethnicity discrimination, neither at the management level nor at the Board level. For the year ended 2016, there was woman representation on the Company's Board. The Group also has women representation on management and the Boards of subsidiary companies. The wide spectrum of skills, experiences and diversity in terms of gender, ethnicity and age has given an added strength in terms of leadership and management.

Senior Independent Non-Executive Director

Dato' Affuddin bin Abdul Kadir is the Senior Independent Director to whom concerns pertaining to the Group may be conveyed by the shareholders and the public. He has the role of supporting the Chairman and ensuring that all the Independent Directors have an opportunity to provide their views and comments on the affairs of the Group. All concerns relating to the Group can be conveyed to him via his email address at afi.abdulkadir@gmail.com

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2.2 Develop, maintain and review criteria for recruitment and annual assessment of directors

The Board had completed the annual performance evaluation for the financial year ended 31 December 2016 based on a set of updated questionnaires that evaluated on the Board and the Board Committees' performances, and the respective activities undertaken

including the performances and contributions of the Chairman, individual Directors and the President.

2.3 Remuneration policies

The Board Remuneration Committee ("REMCOM") on the other hand is responsible for developing the UMW-OG Group's remuneration policy framework and recommending the

remuneration package of Directors and members of the senior management to the Board.

The REMCOM met twice during the financial year.

The composition of the REMCOM and the respective attendance record of meetings for the financial year ended 31 December 2016 are as follows:

Name of Directors	Designation	Date of Appointment	Date of Resignation	Meeting Attendance
Dr. Leong Chik Weng	Chairman Non-Independent Non-Executive Director	13 May 2013	24 February 2017	2/2
Dato' Affuddin bin Abdul Kadir	Independent Non-Executive Director	13 May 2013	N/A	2/2
Cheah Tek Kuang	Independent Non-Executive Director	13 May 2013	N/A	2/2
Dato' Ibrahim bin Marsidi	Independent Non-Executive Director	13 May 2013	N/A	2/2

REMCOM's TOR is available on the Company's website at www.umw-oilgas.com

Directors' Remuneration

The Board as a whole, upon the recommendation of the REMCOM determines the remuneration package and reward structure of the Executive Director and Non-Executive Directors. Directors do not participate in any discussions or decisions concerning each individual's remuneration.

In the case of the President/Executive Director, the remuneration is structured to link rewards to corporate and individual performance through Key Performance

Indicators comprising fixed and performance-based rewards. The remuneration of the President/Executive Director includes salary, emoluments and benefits-in-kind.

The level of remuneration of the Non-Executive Directors reflects the experience and level of responsibilities undertaken by the Director concerned. The Non-Executive Directors are paid annual fees and attendance allowances (in accordance with the number of meetings attended).

In addition, the Non-Executive Directors are also provided with benefits-in-kind.

Non-Executive Directors' fees are determined by a fixed sum and approved through an ordinary resolution in a general meeting.

The REMCOM carries out reviews when appropriate and refers to remuneration surveys and consultants to assist in determining the appropriate level of reward, which is competitive and consistent with the corporate objectives. This is necessary in order to attract and retain professionals with the qualities needed to manage the Group successfully.

Details of the total remuneration of the Directors of UMW-OG for the financial year ended 31 December 2016 are provided in page 159 of the Annual Report.

Indemnification of Directors and Officers

Directors and Officers are indemnified under a Directors' and Officers' Liability Insurance, up to RM100 million for any one claim in aggregate, against any liability incurred by them in discharging their duties while holding office as Directors and Officers of the Company. However, the insurance does not provide coverage where there is negligence, default, breach of duty or breach of trust proven against the Directors or Officers.

3. REINFORCE INDEPENDENCE

3.1 Annual assessment of independence

The independence of UMW-OG's Directors is measured based on the test of independence prescribed under the MMLR that he/she is independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement or ability to act in the best interest of UMW-OG Group.

This test is carried out before the appointment of Directors and re-affirmed annually by Independent Non-Executive Directors by self-assessment of independence by completion of the Confirmation of Independence Form. Annually, the review of Directors' independence is also form part of the Director's performance evaluation.

3.2 Tenure of independent director

In line with the recommendations of the Code, the Board has implemented a nine-year tenure limit for Independent Directors, which has been incorporated in the Board Charter, whereupon the completion of a cumulative term of nine years, the Independent Director may

continue to serve the Board subject to the Director's redesignation as a Non-Independent Director or remain designated as an Independent Director with shareholders' approval.

3.3 Shareholders' approval for re-appointment as Independent Non-Executive Director after a tenure of nine years

At present, none of the Independent Directors has served more than nine years on the Board.

3.4 Independence and conflict of interest

There is sufficient independent element on the Board to ensure the Independent Directors take on a crucial role as far as corporate accountability is concerned by providing independent view, advice and judgement to ensure a balanced and unbiased decision-making process. The Non-Executive Directors are independent of management and are free from any business relationship which could materially interfere with the exercise of their independent judgement. None of the Directors are related to one another.

The Directors are required to declare potential or actual conflict of interest in any transaction prior to any deliberation on matters before the Board. Where issues involve conflict of interest, the interested Directors shall abstain from discussion or voting on the matter.

3.5 Trading of UMW-OG shares by Directors and principal officers

The Company has in place the process for preparation of announcements and dissemination of the announcements to Bursa Malaysia in relation to trading in Company's securities by UMW-OG's Directors and the principal officers outside the closed period to ensure compliance with the requirements of the relevant regulatory authorities. The Company Secretary serves advance

notices on quarterly basis to the Directors and principal officers on the applicable closed periods for trading in the Company's shares.

3.6 Separation of positions of the Chairman and CEO

The Board believes in and practises a separation of duties and responsibilities between the Chairman and the President to ensure a clear segregation of responsibility and accountability, proper balance of authority and greater capacity for independent decision-making.

The roles and responsibilities of the Chairman and the President are clearly defined in ensuring the smooth running of the Company's business and operations.

The Chairman's primary role is to lead the Board. He sets the tone for Board discussions and at the same time ensures high integrity and effectiveness of the Board as a whole. He conducts Board meetings and ensures that meetings proceed in an orderly manner. The Chairman encourages active participation of Board members in discussions and provides reasonable time for discussion of complex issues under review.

Decisions reached at meetings reflect the consensus of the whole Board and not the views of any individual or group.

The Chairman ensures and facilitates the flow of information between Management and the Board and that information relating to issues on the agenda is disseminated to all Directors well before deliberation at Board meetings.

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The President on the other hand is responsible for making and ensuring the implementation of broad policies as approved by the Board and reports to and discusses material matters including regulatory developments and strategic projects with the Board. The President is responsible for the day-to-day management of the business and operations of the Group. The President is supported by the Management Committee who meets regularly and other committees established under the Corporate Governance Framework.

There is therefore, a natural separation of management and governance leading to a balance of responsibility and authority. Though separated, their respective functions are mutually interdependent for efficient and effective execution of duties and responsibilities respectively.

3.7 Composition of the Board

In the FY2016, there were nine Directors, with the Chairman (being a Non-Independent Non-Executive Director), two Non-Independent Non-Executive Directors, five Independent Non-Executive Directors and one Executive Director, who is the President of the Company. In line with the recommendations of the Code's Best Practices relating to board membership, as the Chairman is a Non-Independent Director, the composition for the Board comprises a majority of Independent Directors. Five out of the nine or more than 55% of its composition comprised Independent Directors.

The Board composition reflects the balance of independent and non-independent directors, with due consideration given to diversity in terms of gender, ethnicity and age. Together, the Board comprises a mix of qualified and experienced Directors with diverse

skills, core competencies, background and commercial expertise including expertise in oil and gas industry, law, accountancy, business operations, financial, risk and investment management. The background of each director is set out on pages 18 to 23.

4. FOSTER COMMITMENT

4.1 Time commitment

The Board meets on a regular and scheduled basis throughout the year. Additional meetings or special Board meetings are convened whenever necessary when there are urgent and important decisions to be made.

The composition of the Board and the respective attendance record of meetings for the financial year ended 31 December 2016 are as follows:

Name of Directors	Designation	Date of Appointment	Date of Resignation	Meeting Attendance	Percentage
Tan Sri Asmat bin Kamaludin	Chairman Non-Independent Non-Executive Director	2 May 2013	N/A	10/12	83%
Rohaizad bin Darus	President Non-Independent Executive Director	31 January 2012	N/A	12/12	100%
Badrul Feisal bin Abdul Rahim	Non-Independent Non-Executive Director	1 October 2015	N/A	9/12	75%
Dr. Leong Chik Weng	Non-Independent Non-Executive Director	21 April 2011	24 February 2017	12/12	100%
Razalee bin Amin	Independent Non-Executive Director	2 May 2013	N/A	12/12	100%
Dato' Afifuddin bin Abdul Kadir	Independent Non-Executive Director	2 May 2013	N/A	10/12	83%
Cheah Tek Kuang	Independent Non-Executive Director	2 May 2013	N/A	11/12	92%
Dato' Ibrahim bin Marsidi	Independent Non-Executive Director	2 May 2013	N/A	12/12	100%
Fina Norhizah binti Hj. Baharu Zaman	Independent Non-Executive Director	15 August 2013	1 March 2017	11/12	92%

All the Directors have complied with the requirements of Bursa Malaysia in relation to attendance at Board meetings, in particular Paragraph 15.05(3) of the MMLR which states that the office of a Director will become vacant if the Director is absent for more than 50% of the total Board meetings held during a financial year.

At the start of the financial year, Board meetings and the various Board Committee meetings for the Group are planned and fixed for the whole year. The meetings calendar is circulated to all Board and Board Committees' members to enable members to plan ahead and ensure attendance at the respective meetings.

Directors who are also members of the Board Committees are expected to commit sufficient time to carry out his/her role as member of the Board Committees.

BOARD EXECUTIVE COMMITTEE

The BEC met ten times during the financial year.

The composition of the BEC and the respective attendance record of meetings for the financial year ended 31 December 2016 are as follows:

Name of Directors	Designation	Date of Appointment	Date of Resignation	Meeting Attendance
Dr. Leong Chik Weng	Chairman Non-Independent Non-Executive Director	25 April 2016	24 February 2017	10/10
Badrul Feisal bin Abdul Rahim	Non-Independent Non-Executive Director	25 April 2016	N/A	7/10
Razalee bin Amin	Independent Non-Executive Director	25 April 2016	N/A	10/10
Cheah Tek Kuang	Independent Non-Executive Director	25 April 2016	N/A	9/10
Dato' Ibrahim bin Marsidi	Independent Non-Executive Director	25 April 2016	N/A	8/10
Fina Norhizah binti Hj. Baharu Zaman	Independent Non-Executive Director	25 April 2016	1 March 2017	9/10

BOARD AUDIT COMMITTEE

The Board Audit Committee ("BAC") met eight times during the financial year.

Details on the report for the BAC can be found on pages 85 to 87 of the Annual Report.

BOARD RISK MANAGEMENT COMMITTEE

The Board Investment & Risk Management Committee was renamed as Board Risk Management Committee ("BRMC") on 25 April 2016. The BRMC is responsible for reviewing risk management and matters pertaining to quality, health, safety and

environment in detail with Management and shall support the Board in the review, evaluation and recommendation on matters pertaining thereto.

The BRMC met seven times during the financial year.

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The composition of the BRMC and the respective attendance record of meetings for the financial year ended 31 December 2016 are as follows:

Name of Directors	Designation	Date of Appointment	Date of Resignation	Meeting Attendance
Dr. Leong Chik Weng	Chairman Non-Independent Non-Executive Director	6 December 2013	24 February 2017	7/7
Badrul Feisal bin Abdul Rahim	Non-Independent Non-Executive Director	1 October 2015	N/A	3/7
Dato' Ibrahim bin Marsidi	Independent Non-Executive Director	6 December 2013	N/A	7/7
Cheah Tek Kuang	Independent Non-Executive Director	6 December 2013	N/A	6/7
Fina Norhizah binti Hj. Baharu Zaman	Independent Non-Executive Director	6 December 2013	1 March 2017	5/7
Rohaizad bin Darus	President Non-Independent Executive Director	6 December 2013	N/A	7/7

BOARD NOMINATION COMMITTEE AND BOARD REMUNERATION COMMITTEE

The composition of the NOMCOM and REMCOM, and the respective attendance record of meetings for the financial year ended 31 December 2016, refer to pages 66 and 68 respectively of this Annual Report.

Reports/Minutes

Minutes of the BEC, BRMC, BAC, NOMCOM and REMCOM meetings are kept by the Company Secretary as evidence that the respective committee has discharged its functions. The approved minutes of meetings are forwarded to the members for information and significant issues are discussed at Board meetings.

The full text of the TOR for the Board Committee is available on the Company's website at www.umw-oilgas.com

DIRECTORSHIPS OUTSIDE THE GROUP

To maintain good corporate governance and to avoid potential conflict of interest, the Board has set procedures with respect to accepting appointments as directors outside the Group.

When a Director is appointed a director of another company outside the Group, the Director is expected to immediately disclose the same to the Company via the Company Secretary, whereupon the NOMCOM will assess and determine whether the appointment would give rise to potential conflict of interest and to consider the nature of and time commitment of such appointment.

4.2 Continuing education programmes

All Directors, including newly-appointed Director, have successfully completed the Mandatory Accreditation Programme ("MAP") conducted by Bursatara Sdn. Bhd. as required by Bursa Malaysia.

In addition to the MAP, the Directors are also encouraged to attend training programmes conducted by highly competent professionals which are relevant to the Group's operations and business. The Company, generally, and the Directors specifically continue to identify and attend appropriate seminars and courses to keep abreast of changes in legislation and regulations affecting the Group.

Members of the Board have attended various training programmes, seminars and luncheon talks in areas of operations, governance, leadership, financial, legal and other programmes organised internally and externally.

The Company Secretary facilitates and organises internal training and coordinates Directors' attendance of external seminars and programmes. The records of the trainings received by the Directors are kept by the Secretarial Division.

Particulars of training programmes attended by the Directors as at 31 December 2016 are as follows:

Director	Training Programme Attended	Organiser
Tan Sri Asmat bin Kamaludin	Briefing on Trans-Pacific Partnership Agreement	Ministry of International Trade and Industry and UMW Holdings Berhad
	Learning from Leaders Session with Group Chairman	UMW Holdings Berhad
	Companies Bill 2015	UMW Holdings Berhad
	Talk by the Mayor of Hiroshima entitled "From Hiroshima to Our World Without Nuclear Weapons - Beyond Human Atrocities"	University of Malaya
	Awareness on Sustainability Reporting	UMW-OG
	Briefing on Companies Act 2016	UMW-OG
	Launch of the AGM Guide & CG Breakfast Series: "How To Leverage on AGMs for Better Engagement with Shareholders"	Bursa Malaysia Berhad ("Bursa Malaysia")
Badrul Feisal bin Abdul Rahim	Mandatory Accreditation Programme for Directors of Public Listed Companies (MAP)	Bursatru Sdn Bhd
	Briefing on Companies Act 2016	UMW-OG
Dr. Leong Chik Weng	Companies Bill 2015	Chemical Company of Malaysia Berhad
	Corporate Liability Act : What's Next?	Chemical Company of Malaysia Berhad
Razalee bin Amin	Awareness on Sustainability Reporting	UMW-OG
	Briefing on Companies Act 2016	UMW-OG
	MIA International Accountants Conference 2016	Malaysian Institute of Accountants
	Corporate Tax Issues For 2016 & 2017	Malaysian Institute of Accountants
Dato' Affuddin bin Abdul Kadir	Lion Group In-house Directors' Training on Finance for Non-Finance – "Finance Language in the Boardroom"	Lion Corporation Berhad
	Board Chairman Series Part 2: "Leadership Excellence from the Chair"	Bursa Malaysia
	Bursa Malaysia in collaboration with PwC Malaysia Consulting - Risk Management Programme: I Am Ready to Manage Risks!	Bursa Malaysia / PwC
	Awareness on Sustainability Reporting	UMW-OG
	Briefing on Companies Act 2016	UMW-OG
Cheah Tek Kuang	Directors' Remuneration Report	FIDE Forum
	Corporate Governance Breakfast Series: Improving Board Risk Oversight Effectiveness	Bursa Malaysia
	Dialogue on Directors' and Officers' Liability Insurance	FIDE Forum
	Invest Malaysia 2016	Bursa Malaysia
	2nd Distinguished Board Leadership Series - "Avoiding Financial Myopia" by Professor Jeffrey L. Sampler	FIDE Forum
	Board Chairman Series Part 2: "Leadership Excellence From The Chair"	ICLIF
	Sustainability Management on "Best Practices for Sustainability Reporting – What a Company Director Need to Know"	EcoWorld International
	Briefing on the new Companies Act 2016 by Lee Hishammuddin Allen & Gledhill	Bursa Malaysia

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Director	Training Programme Attended	Organiser	
Dato' Ibrahim bin Marsidi	Engagement Session on Trans-Pacific Partnership Agreement	TM/Khazanah Nasional Berhad	
	Northgate Capital	TM/TM Board Retreat	
	Akamai Foster Forward : Grand Challenges Facing The Internet	TM/TM Board Retreat	
	Corporate Directors Onboarding Programme (CDOP) 2016: Updates On Companies Bill 2015 and Its Implications to Directors	MINDA	
	Khazanah Megatrends Forum 2016	Khazanah Nasional Berhad	
	TM Customer Experience Summit 2016 – “Customer Experience in Digital Era”	CEMT, TM	
	Awareness on Sustainability Reporting	UMW-OG	
	Briefing on Companies Act 2016	UMW-OG	
	12 th Khazanah Global Lecture	Khazanah Nasional Berhad	
	Fina Norhizah binti Hj. Baharu Zaman	Ring The Bell for Gender Equality	Bursatira Sdn Bhd
		Business Risk Assessment New Template Workshop	Alam Maritim Resources Berhad
		Series 1 - Risk Oversight Practices Series 2 - Corporate Culture and ERM	Institute of Enterprise Risk Practitioners
Navigating Updates - An Essential Guide for Listed Issuers		Coalition for Business Integrity Berhad	
Corporate Governance, Director's Duties and Regulatory Updates Seminar 2016		Federation of Public Listed Companies Bhd	
Impact of the New Companies Act 2015 on Directors and Shareholders		Malaysian Institute of Accountants	
Awareness on Sustainability Reporting		UMW-OG	
Briefing on Companies Act 2016		UMW-OG	
Rohaizad bin Darus	Improving Board Risk Oversight Effectiveness	Bursa Malaysia	
	Sustainability Engagement Series	Bursa Malaysia	
	Advocacy Sessions on Management Discussion & Analysis (MD&A) for Chief Executive Officers (CEO) and Chief Financial Officers (CFO) of Listed Issuers	Bursa Malaysia	
	Awareness on Sustainability Reporting	UMW-OG	
	Briefing on Companies Act 2016	UMW-OG	

5. UPHOLD INTEGRITY IN FINANCIAL REPORTING

5.1 Compliance with applicable financial reporting standards

The Board is committed to providing a balanced, clear and meaningful assessment of the financial performance and prospects of the Group to shareholders, the investor community and the regulatory authorities. Shareholders and other stakeholders are kept abreast of the Group's performance through the timely announcement of the quarterly financial results and, uploaded on the Company's website.

The BAC assists the Board to oversee the financial reporting processes and the quality of its financial reporting. Quarterly financial results and annual financial statements are reviewed by the BAC to ensure adequacy and completeness of information prior to the Board's approval.

For the financial year under review, the President and the Chief Financial Officer have provided assurance to the Board that the financial records of the Group have been properly maintained and the financial statements give a true and fair view of the operations and finances and that an effective risk management and internal control system have been put in place.

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.

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.

5.2 Assessment of suitability and independence of external auditors

During the year 2016, the Board Audit Committee approved the external auditors' performance and independence questionnaires and the Board adopted the External Auditors' Assessment Policy Statement for the Group. BAC assessed the suitability and independence of external auditors for the Group and recommended their re-appointment as external auditors of the Group for the financial year 2017. On 27 March 2017, the Board approved the

proposal on the appointment of Messrs. Ernst & Young to be tabled for approval at the 7th Annual General Meeting of the Company.

6. RECOGNISE AND MANAGE RISKS

Sound framework to manage risks

Details on the framework is set out in the Statement on Risk Management and Internal Control on pages 78 to 84 of this Annual Report.

7. INTERNAL CONTROLS

The Board acknowledges its overall responsibility for maintaining a system of internal controls that provides assurance of effective and efficient operations and compliance with laws and regulations and also its internal procedures and guidelines. BAC reviews the effectiveness of the system of internal controls, which covers financial, operational and compliance controls, and also risk management.

In addition, the Board recognises that an internal control system can only provide reasonable and not absolute assurance against material misstatement, frauds or loss, and is designed to manage rather than eliminate the risk of failure to achieve the financial reporting objectives. The Board is cognisant of the importance of internal audit, and the Company has during 2016 planned and, supported by the internal audit function of its parent company, Group Internal Audit Division ("GIAD"), carried out internal audit activities, concluding with a report with specific recommendations for further improvements to be implemented for deliberation of BAC and thereafter

STATEMENT ON CORPORATE GOVERNANCE

the Board. The Head of GIAD attends all meetings of the BAC who presents directly the progress of the internal audit and the said report.

Details of the Company's internal control system and framework are set out in the Statement on Risk Management & Internal Control on pages 78 to 84 of this Annual Report.

Internal audit function

BAC maintains an appropriate transparent relationship with both the external auditors and internal auditors. The BAC undertakes an assessment of the suitability and independence of the external auditors.

The external auditors are invited to attend BAC meetings and present their audit findings when the Company's annual financial results are considered. The BAC meets with the external auditors twice a year without the presence of the President/Executive Director and Management.

Services provided by the external auditors include statutory audit and non-audit services. The terms of engagement for services of the external auditors are reviewed by the BAC and approved by the Board.

8. ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

8.1 Corporate disclosure policy

The Board recognises the importance of strengthening the relationship between the Group and its shareholders and maintaining dialogue with investors to disseminate the Group's performance.

The Group has in place Corporate Disclosure Policy that provides a framework of reference of Corporate Disclosure processes and procedures, ensuring the adoption of consistent disclosure practices throughout the Group.

8.2 Leverage on information technology for effective dissemination of information

Website for the Group

The Group has a website www.umw-oilgas.com which provides information on the Group for all shareholders and the general public. The Group's website stores annual reports, press releases, analyst briefings presentation slides, financial and corporate information such as quarterly announcements of the financial results of the Group, disclosures and announcements made on the Group.

9. STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

9.1 Encourage shareholder participation at general meetings

The Company's 7th Annual General Meeting will be held on Monday, 15 May 2017 at 10.00 am.

The AGM is the main forum for communication and dialogue with the shareholders. At the AGM, the Chairman through his opening statement provides an overview of the industry outlook and a concise review of the Group's performance and followed by the President's comprehensive review of the Group's financial performance. The Chairman then highlights administrative matters for the meeting.

Shareholders are encouraged to actively participate and interact through the 'questions and answers' session where they are accorded both opportunity and the time to raise questions on the Group's performance, future growth prospects and strategies and other matters on the agenda during the meeting. The Board and members of the senior management as well as the external auditors are on hand to provide explanations to any queries raised by the shareholders. A comprehensive report on the Group's operations and financial performance is made at every AGM. In addition, queries by Minority Shareholder Watchdog Group ('MSWG') raised prior to the AGM and the Company's responses are shared during the AGM.

The minutes of the AGM are made available on the Group's website.

9.2 Encourage poll voting

In line with the requirements of the MMLR, voting at the 7th AGM of the Company is to be conducted by poll, instead of a show of hands.

UMW-OG has appointed Securities Services Sdn. Bhd. as Poll Administrator to conduct the polling process and Commercial Quest Sdn. Bhd. as scrutineers to verify the poll results.

9.3 Effective communication and proactive engagements

The Board and management of the Group maintain effective and timely communications with its shareholders and stakeholders through the following channels, mediums and/or meetings:

(i) Bursa Malaysia Securities Berhad Announcements

The Board ensures timely announcements of financial results and corporate developments are made to Bursa Malaysia.

(ii) Analyst Briefing and/or Press Conference or Release

Analyst briefing was held on 24 February 2016 after the full year financial results for the financial year ended 31 December 2015 was released to Bursa Malaysia. Press conference was held after the 6th AGM on 17 May 2016, 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 Group and to provide clearer understanding of the Group's financial and operational performance.

(iii) One-on-One Meetings

The Group 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 Group's strategy and financial performance.

(iv) Contact for Investor Relations matters

Ms Maryam Salwaana Kamal
Manager,
Corporate Communications
+603-2096 8788
maryam.salwaana@umw-oilgas.com

(v) Annual Report

The Annual Report is an important medium of information to the shareholders where comprehensive information on the Group's financials, operations and activities is contained. The contents of the Annual Report is consistently enhanced to reflect transparency and accountability in line with the best corporate governance practices.

In accordance with Bursa Malaysia's MMLR and the Articles of Association of the Company, the notice of AGM together with the Annual Report are sent to the shareholders at least 21 days prior to the date of the meeting. All shareholders of the Company will receive the Annual Report of the Company and notice of AGM within the mandatory period. The Group distributes its Annual Report to its shareholders in abridged version together with a CD ROM. Full version of the Annual Report together with the notice of AGM are available in the Group's website. Upon request, full version of the Annual Report is distributed to the shareholders.

10. COMPLIANCE STATEMENT

The Board has deliberated, reviewed and approved this Statement on Corporate Governance. The Board is satisfied that the Group has fulfilled its obligations under the Code, the relevant chapters of the MMLR of Bursa Malaysia on corporate governance and applicable laws and regulations.

This Statement on Corporate Governance is made in accordance with the resolution of the Board duly passed on 27 March 2017.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL FOR THE YEAR ENDED 31 DECEMBER 2016

1. INTRODUCTION

Pursuant to the Main Market Listing Requirements (“MMLR”) of the Bursa Malaysia Securities Berhad (“Bursa Malaysia”) and the requirements of the Malaysian Code on Corporate Governance 2012, the Board of Directors (“Board”) is committed to maintaining sound systems of risk management and internal control in UMW-OG and its subsidiaries (“Group”) to manage risks and to report on internal controls and regulatory compliance so as to safeguard shareholders’ investment and the Group’s assets.

Set out below is the Board’s Statement on Risk Management and Internal Control for the financial year ended 31 December 2016 which was prepared in accordance with the Statement on Risk Management & Internal Control - Guidelines for Directors of Listed Issuers (“Guidelines”) issued by Bursa Malaysia pursuant to Paragraph 15.26(b) of the MMLR. This Statement outlines the nature and scope of risk management and internal control of the Group and covers all of the 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 the Group and as such, affirmed their commitment and responsibility for the Group’s risk management and internal control systems covering not only financial controls but also operational, organisational and compliance controls,

and for reviewing the adequacy and integrity of these systems.

The Board has delegated the responsibility of overseeing and reviewing the effectiveness of the Group’s Enterprise Risk Management (“ERM”) to the Board Risk Management Committee (“BRMC”). The BRMC provides half yearly report to the Board on ERM. In addition, the Board Audit Committee (“BAC”) assists the Board in discharging its responsibilities relating to system of internal controls and risk management processes. The Chairman of the 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 of Directors meetings.

Whilst the Board has overall responsibility for the Group’s risk management and internal control systems, it has delegated the implementation of these systems to the Management who regularly reports on risks identified and action or steps taken to mitigate and/or minimise the risks. The Management Audit Committee and the Risk Management Committee, comprising of Senior Management staff, report to the BAC and the BRMC, respectively on a quarterly basis.

The Group’s risk management and internal control systems are designed to meet the Group’s particular needs, to efficiently and effectively manage risks that may impede the achievement of the Group’s business objectives, provide information for accurate reporting and ensure compliances with regulatory and statutory requirements.

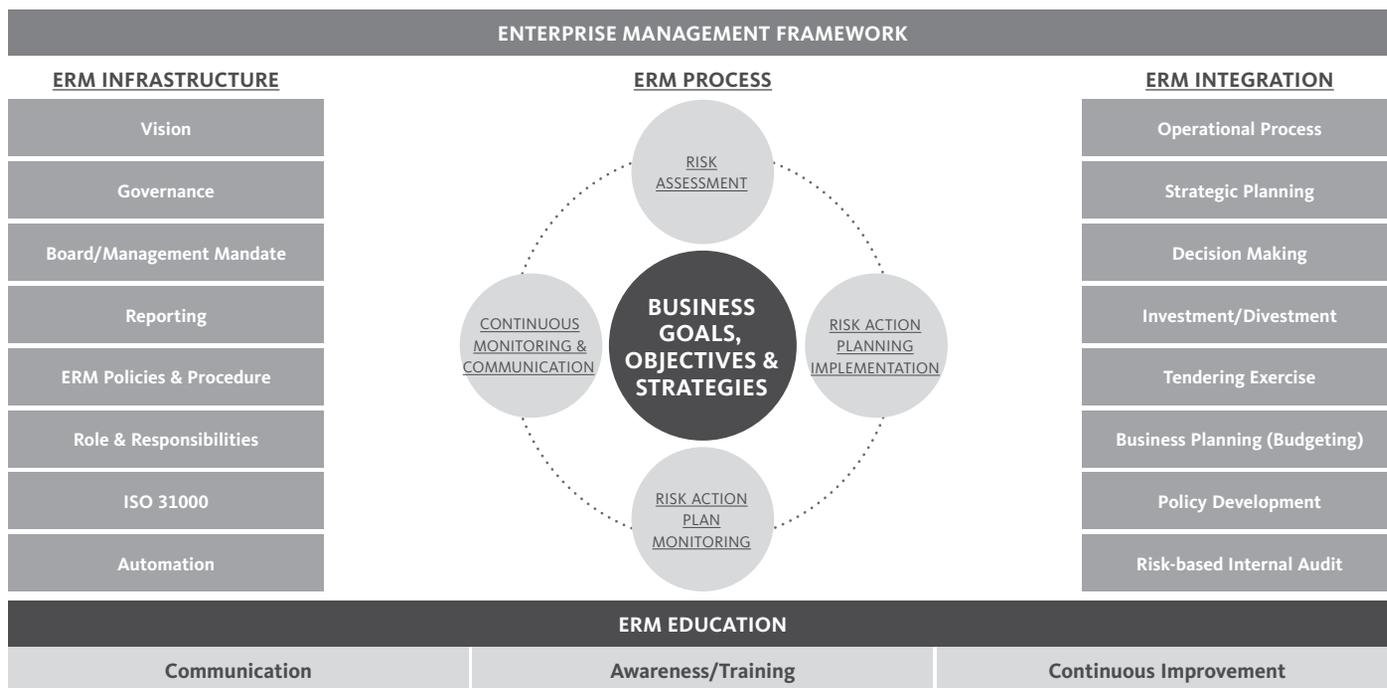
The processes for the identification, evaluation, monitoring and managing of significant risks that may materially affect the Group’s business objectives had been in place throughout the financial year under review and were regularly appraised by the Board.

However, in view of the limitations inherent in any system, it should be appreciated that these systems are designed to manage and reduce, rather than eliminate, the risks identified to acceptable levels of failure to achieve the Group’s business and corporate objectives. These systems can therefore only provide reasonable and not absolute assurance against material misstatement, fraud or loss. The Group’s concept of reasonable assurance also recognises that the cost of control procedures should not exceed the expected benefits.

3. RISK MANAGEMENT

The Group has established an Enterprise Risk Management Framework to proactively identify, evaluate and manage key risks to an optimal level. In line with the 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 Risk Management Committee (“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 that include, but are 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 diagram below:



STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL FOR THE YEAR ENDED 31 DECEMBER 2016

The RMC is assisted by Risk Management and Insurance Department (“RMID”) 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.

Risk Management Policies

The policies of the Board for risks management are:

- a. To integrate risks management into the culture, business activities and decision-making processes;
- b. To anticipate and respond to the changing operational, social, environmental and regulatory requirements proactively;
- c. To manage risks pragmatically, to acceptable levels given the particular circumstances of each situation;
- d. To include a detailed risk assessment report in all Board papers relating to strategy, key project approval, significant action or investment for Board’s deliberation and consideration; and
- e. To implement a robust and sustainable risk management framework that is aligned with the Group’s vision and missions and in accordance with best practices.

Risk Management Process

The Group’s ERM Framework has a structured process for Operating Companies and Corporate Divisions to identify, analyse, evaluate, treat, communicate and monitor their risks. The risks are identified based on the Group’s goals and objectives and assessed against the Group Risk Parameters. 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. A risk escalation procedure has also been established to escalate significant changes in risks or emerging risks for Management’s actions.

Management of Strategic and Operational Risks

The context within which the Group manages its risks and key focus of accountability is as follows:

Strategic risks are risks primarily caused by events that are external to the Group, but have a significant impact on its strategic decisions or activities such as declining global oil price. Accountability for managing strategic risks therefore rests with the Board and the President. The benefit of effectively managing strategic risks is that the Group can better pre-empt and adapt quickly to the changing demands that are placed upon the Group. It also means that the Group is able to react more timely to some external events that call for significant change.

Operational risks are inherent in the on-going activities within the different Strategic Business Units (“SBU”) of the Group. Typically, these are risks relating to foreign exchange, interest rates, fundings, trade debt collection, compliance, competency, technology, etc. Senior Management needs on-going assurance that operational risks are identified and managed. Accountability for managing operational risks rests specifically with the Heads of SBUs, operating companies and divisions.

Risk Reporting

The Group’s ERM Framework provides for regular review and reporting. The ERM reports include information on risk profiles, risk action plans (“RAPs”) and status updates. During the year under review, these reports were presented and deliberated four (4) times by the RMC, four (4) times by BRMC

and two (2) times by the Board.

Risk Management Activities

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

- a. 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 Group’s effort to communicate and ensure continuous application of ERM in day-to-day business operations.
- b. A total of four (4) ERM awareness sessions were conducted for all employees both for operating companies and corporate divisions.
- c. Held discussions with Heads of operating companies and corporate divisions to obtain endorsement of their key risks.
- d. Provided risk advisory and independent assessment as well as facilitated (63) risk assessment workshops across the Group.
- e. Refined the risk register template for purposes of risk registration and monitoring.
- f. Established Business Continuity Management (“BCM”) Framework, conducted BCM awareness sessions to Management. Set up BCM Committee at management level and is currently in the process of developing the Business Continuity Plan for both operating companies and corporate divisions.

4. INTERNAL AUDIT FUNCTION

The Internal Audit function of UMW-OG Group is outsourced to the Group Internal Audit Division (“GIAD”) of (“UMWH”). GIAD is independent of the UMW-OG Group’s business operations and has a mandate set out in its Internal Audit Charter. GIAD is a corporate member of the Institute of Internal Auditor Malaysia (“IIAM”) and subscribes to the standards issued by IIAM.

During the financial year, GIAD had carried out its functions in accordance with the 2016 internal audit plan approved by the BAC. The internal audit plan defined the scope of audit work and addressed resources needed to perform such work at a mutually agreed fee. The internal audit plan was designed using a risk-based approach, based on the risks identified and assessed by the Management. The GIAD had conducted internal audit on principal areas of operation within the Group. It also checked that the Group’s system of internal control remains effective, efficient, adequately monitored and is enhanced where required. The audit also covered the Group’s major information systems and applications. The reports of the GIAD were presented to the BAC at the 2016 quarterly meetings. The Head of GIAD or her representative attended all the quarterly BAC meetings held in 2016 where internal audit matters were tabled.

In addition, GIAD also monitored the implementation of action plans designed to improve on areas where control deficiencies were identified during the financial year. On a quarterly basis, GIAD submitted its reports on major findings and significant control issues observed during the audit reviews, together with management’s response and proposed action plans, to the BAC for its review and where

needed, to recommend appropriate actions to strengthen controls.

The BAC evaluates and monitors the performance of the internal audit function to assess its effectiveness in discharging its defined duties and responsibilities.

5. INTERNAL CONTROL FRAMEWORK

The Board confirms that there is an on-going process for identifying, evaluating, monitoring and managing the significant risks of the Group. Such process is applied consistently throughout the Group and is constantly reviewed by the Board with the assistance of GIAD. The key elements of the Group’s internal control structure and environment are described below:

a. Board Committees

The Board is the pillar of the Group’s risk management and internal control practices. The Board is committed in maintaining a sound system of internal control and continues to uphold and implement a strong culture and environment for the proper conduct of the Group’s business operations. The Board, in discharging its duties, has established several Committees namely the BAC, the Board Executive Committee (“BEC”), the Board Nomination Committee, the Board Remuneration Committee, BRMC, and the Board Whistle-Blowing Committee. The Board Committees operate within clearly defined terms of reference, 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.

The Board, BEC, BAC and BRMC meetings are held on a quarterly basis during the financial year. However, additional meetings may be convened as Special Meetings where situations require. The other Board Committees meet as and when required, to examine specific areas and issues and report to the Board on their deliberations together with recommendations.

b. Organisation Structure and Reporting Lines

The Board has established a well-defined organisation structure that is aligned to business requirements with clearly defined delegation of responsibilities by the Board to its Committees and Management that promotes accountability for appropriate risk management and control procedures. Apart from the Board Committees, the Board is supported operationally by the Management Committee and several management working committees including but not limited to Banking Committee, Tender Committee, Risk Management Committee, Management Audit Committee and Business Continuity Management Steering Committee which consist of the President and/or Senior Management staff.

The Management Committee convened a total of nine (9) meetings during the year to discuss its strategic business agendas that include review of the Group’s performance, thus channeling appropriate inputs to the Board for its oversight of the Group’s operations and maintenance of effective control over the entire operations. The organisation structure and delegation of responsibilities are communicated

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL FOR THE YEAR ENDED 31 DECEMBER 2016

throughout the Group which set out, amongst others, authorisation levels, segregation of duties and other risk and control procedures.

c. Management Audit Committee

The Management Audit Committee (“MAC”) is established by the BAC with the primary objective of assisting the BAC in fulfilling its fiduciary responsibilities relating to the adequacy and effectiveness of internal controls, risks management and governance processes for the Group. MAC’s functions are:

- To review internal audit reports with management of the company under audit and internal auditors;
- To assess the adequacy and effectiveness of internal controls, risks management and governance processes;
- To assess the level of compliance with approved company policies, procedures and legal requirements;
- To review effectiveness or appropriateness of action plans recommended to address control deficiencies identified;
- To agree on the corrective actions to be taken and its implementation;
- To follow-up on status of the implementation of the agreed action plans; and
- To report to BAC on meetings held, actions agreed upon and status of implementation on a quarterly basis.

The composition of the committee is:

- i. Chief Financial Officer (Chairperson);
- ii. Manager of RMID (permanent member);
- iii. Senior management of the company being audited; and
- iv. Representative(s) from GIAD headed by a Senior Manager and/or Head of GIAD.

During the year, the MAC held several meetings to carry out its functions. The MAC had its meeting(s) prior to the quarterly BAC meetings.

d. Comprehensive Budgeting and Forecasting System

For the development of its 2016 operating and capital budgets, the Group performed a comprehensive annual budgeting and forecasting exercise. The exercise included industry and market studies, formulation of business strategies and establishment of key performance indicators (“KPIs”) which were deliberated and approved by the Board in December 2015.

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. On a

monthly basis, a rolling forecast on the financial performance is prepared based on actual performance to date and forecast performance for the remaining period of the year. The rolling forecast takes into account changes in market conditions and the industry the Group is operating in.

During the year under review, the Group continued to be adversely impacted by the significantly lower levels of exploration, development and production activities in the oil and gas industry caused by supply glut that had weighed on prices for the last two years. As a result, the 2016 budgets were revised downward to take into account the above material changes. A total of 14 additional reporting to the BEC and the Board on the financial health of the Group were also made during the year to enable the Board to make appropriate strategic planning and decisions in view of the prolonged low oil price environment.

The Group employs a reward and recognition framework based on the achievement of KPIs that measures the goals and targets for each individual operating unit in alignment with the Group’s business objectives and strategies.

e. Policies and Procedures

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

i. Written Policies and Procedures

Clearly defined and documented internal policies and guidelines have been established through the relevant charters, terms of reference, organisational structures and appropriate authority limits. The Group's policies and guidelines have been communicated throughout the Group including via UMW-OG SharePoint for implementation and compliance. These policies and guidelines are 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 form of Financial Limits Authority Guidelines ("FLAG").

The FLAG outlines the authority of the Board and its Committees and that of 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.

f. **Monitoring, Reporting and Reviewing**

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 SBUs and Corporate Divisions and reported to the Management Committee. In addition to the monthly reporting, the Budget Review Committee chaired by the President performed post-mortem and mid-term business reviews on all operating units and initiate corrective measures where needed. Apart from that, regular internal visits are also made to the operating units by senior management to monitor compliance with policies and to assess performance. The Board is updated on the business performance on a quarterly basis. During the year under review, additional monthly reporting to the Board was made on 2016 forecast performance as a result of drastic changes in market conditions of the Oil & Gas industry.

In addition, these reviews are supplemented by a comprehensive review undertaken by GIAD on controls implemented at each individual business units and operations. Reports on the reviews carried out by GIAD are submitted on a regular basis to Management and the BAC. These reports assess the impact of control issues and recommend appropriate actions to be taken to strengthen controls.

The President and Chief Financial Officer report to the BAC on the status of management's action plans to address issues highlighted by the GIAD on a quarterly basis.

The Board does not regularly review the internal control systems of associated company, as the Board does not have any direct control over their operations. Notwithstanding the above, the Group's interests are served through representation on the Board of the associated company and receipt and review of management and audited financial statements, and enquiries thereon. Such representation also provides the Board with information for timely decision making on the continuity of the Group's investment based on the performance of the associated company. The representation also enables the Group to exercise influence over the financial and operating policies of the associated company.

The monitoring, reviewing and reporting arrangements in place give reasonable assurance that the structure of controls and its operations are appropriate to the Group's operations. Other than some weaknesses identified and addressed during the year, the Board believes that the system of internal controls is adequate and effective in achieving the Group's business objectives.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL FOR THE YEAR ENDED 31 DECEMBER 2016

5. ASSURANCE TO THE BOARD

In line with the Guidelines, the Board has received assurance from the President and Chief Financial Officer of UMW-OG 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 financial year ended 31 December 2016 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 respects, in accordance with the disclosures required by Paragraphs 41 and 42 of Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers, nor is the Statement factually inaccurate.

This Statement is made in accordance with the resolution of the Board dated 14 March 2017.

BOARD AUDIT COMMITTEE REPORT

The Board Audit Committee (“BAC”) assists the Board of Directors (“Board”) of the Company in fulfilling its oversight responsibilities in areas such as the integrity of financial reporting, the effectiveness of system of internal controls and risk management processes and related governance and compliance matters. This report provides insights into BAC’s work and the issues considered during the year ended 2016.

BAC was established on 13 May 2013 and its Terms of Reference (“TOR”) was approved by the Board of Directors of the Company on 13 May 2013.

The highlighted roles of the BAC are to review, evaluate and report to the Board on the following:

- Consider and recommend the appointment of the external auditors, the audit fee and any questions of resignation or dismissal;
- Review the quarterly and annual financial statements for recommendation to the Board for approval;
- Discuss reservations arising from interim and final audits;

- Review the adequacy and effectiveness of its risk management and internal control systems as well as financial reporting standards of the Group; and
- Consider any related party transactions that may arise within the Group.

Detailed TOR of the BAC can be found on the Company’s website at www.umw-oilgas.com.

Performance Review of the BAC

The Board Nomination Committee (“NOMCOM”) had conducted the annual performance evaluation of the BAC for the FY2016 and the report of which was reviewed by the Board. The Board is satisfied that the BAC has discharged its duties in accordance with its TOR.

The composition of the BAC and attendance of BAC Meetings for the financial year ended 31 December 2016:

Committee Member	Designation	Date of Appointment	Date of Resignation	Meeting Attendance
Razalee bin Amin	Chairman Independent Non-Executive Director	13 May 2013	N/A	8/8
Badrul Feisal bin Abdul Rahim	Non-Independent Non-Executive Director	1 October 2015	N/A	7/8
Cheah Tek Kuang	Independent Non-Executive Director	13 May 2013	N/A	8/8
Dato’ Ibrahim bin Marsidi	Independent Non-Executive Director	13 May 2013	N/A	7/8

Note: Please refer to pages 20 to 23 for the profiles of the BAC members.

The Chairman of the BAC, Razalee bin 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 Malaysia.

The BAC comprises of four Non-Executive Directors, with the majority being Independent Directors in compliance with the provisions of Paragraph 15.09(1) of the MMLR of Bursa Malaysia.

A total of eight meetings were held during the financial year ended 31 December 2016.

The President and Chief Financial Officer were invited and attended all BAC meetings to present the quarterly financials, facilitate deliberations and provide explanations on the audit issues, specific control lapse and issues arising from the relevant audit reports. The members of the BAC had two sessions with the external auditors without the presence of the Management.

BOARD AUDIT COMMITTEE REPORT

The external auditors were invited to discuss on external audit terms of engagement, the audit strategy and audit planning memorandum.

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's meetings.

Summary of Activities of the BAC

In accordance with its TOR, the BAC undertook the following key activities for the financial year ended 31 December 2016:

Financial Reporting

1. Assisted the Board in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the Company and the Group in accordance with Malaysian Financial Reporting Standards ("MFRS");
2. Reviewed the quarterly unaudited financial results including related disclosures for recommendation to the Board for approval;
3. Reviewed the annual audited financial statements of the Group and ensuring that statements comply with MFRS for recommendation to the Board for approval; and
4. Reviewed and examined the impairment assessments and the assumptions adopted in arriving at the recoverable amounts. The BAC considered the MFRS 136 on Impairment of Assets and the oil price developments during the deliberation prior to the recommendation to the Board for

approval. Please see Notes 2.2(r) and 4(c) to the Notes to Financial Statements;

Internal Audit

5. Reviewed the Annual Internal Audit Plan, methodology, functions and resources;
6. Received and reviewed quarterly reports by the Management Audit Committee on the findings of group audit, on significant findings and compliance issues as well as the Management's responses;
7. Reviewed audit fieldworks, audit performance ratings and any key observation notes;
8. Reviewed ongoing Audit Plan by Group Internal Audit Division ("GIAD");
9. Deliberated the performance and control gaps highlighted in the internal audit reports, audit recommendations and Management's responses to the control lapses; and
10. Reviewed and deliberated on special reviews conducted within the Group;

External Audit

11. Reviewed the external audit terms of engagement, the audit strategy and the achievement of the agreed upon reporting timeframes for the audit of the financial statements;
12. Reviewed the external audit reports and discussed findings and any reservations arising thereon;
13. Met with the external auditors twice during the year without the presence of the Management of the Company and/or the Group;

14. Obtained a written assurance from the external auditors confirming that they are, and have been independent throughout the conduct of the audit of the financial statements of the Company and the Group for the financial year ended 31 December 2016 in accordance with the By-laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants;
15. Reviewed the External Auditors' Assessment Policy to outline the guidelines and procedures for the BAC to assess and review the external auditors. The Board approved the External Auditors' Assessment Policy in November 2016;
16. Assessed the suitability and independence of the external auditors in accordance to the approved External Auditors' Assessment Policy. The assessment considered the following matters:
 - The external auditors' requisite skills and expertise, including industry knowledge to effectively audit the Group;
 - The independence and objectivity of the external auditors;
 - The planning and execution of audit plan approved by the BAC;
 - Key risks including fraud risks had been highlighted, discussed and factored in the audit plan; and
 - The effectiveness of communication between the external auditors and the BAC.
17. Evaluated the performance of the external auditors for FY2016 and BAC recommended to the Board that Messrs. Ernst & Young be appointed as external auditors for the year ending 31 December 2017 at the 7th AGM; and

18. Reviewed and considered the audit fees for the external auditors for recommendation to the Board for approval.

Related Party Transactions

19. Reviewed and assessed the internal control procedures on related party transactions entered into by the Group with related parties and having satisfied that the Group has in place adequate procedures and processes to monitor, track and identify such transactions in a timely and orderly, recommended to the Board for approval;
20. Reviewed the pricing of transactions with related parties on quarterly basis to ensure that the transactions are not at terms more favourable than the prevailing market practices; and
21. Reviewed the Circular to Shareholders with regard to the proposed renewal of shareholders' mandate for existing recurrent related party transactions for recommendation to the Board for approval.

Compliance Programmes

22. Reviewed the compliance framework as well as the regulatory and business requirements of the Group; and
23. Reviewed the Compliance Department's roles and focus, the Internal Control Risk Assessment ("ICRA") and ICRA timeline.

Annual Report

24. Reviewed the BAC Report, the Statement on Risk Management and Internal Control and the Statement on Corporate Governance prior to their inclusion in the Annual Report for the Board's approval.

Internal Audit Functions

The Group outsourced the function of internal audit to GIAD of UMW Holdings Berhad to accomplish its internal audit requirements. The GIAD audits internal control practices and reports significant findings to the BAC together with recommended corrective actions. Management is responsible for ensuring that corrective actions are undertaken within an appropriate time frame.

All findings by GIAD are treated in strictest confidence. GIAD is independent of the activities it audits and performs with impartiality and due professional care.

The BAC approves the internal audit plan of GIAD for the Group each year. The scope of the internal audit covers the audit of principal areas of operations within the Group.

During the year, the GIAD ensured that internal control measures were adequate and effective in mitigating key risks and that these are monitored. The monitoring process will form the basis for continually improving the risk management process in the context of the Group's overall goals.

The total cost incurred by the Group for internal audits on its business units for the financial year ended 31 December 2016 amounted to RM 1,059,600.

Further details on the internal audit functions are set out in the Statement on Risk Management and Internal Control on page 78 of this Annual Report.

ADDITIONAL COMPLIANCE INFORMATION

1. UTILISATION OF PROCEEDS

As at 31 March 2017, the total Initial Public Offering (“IPO”) proceeds of RM1,713.0 million raised on 1 November 2013 had been fully utilised in accordance with designated purposes within the time frame for utilisation. Refer to the table below:

Purpose	Proposed Utilisation	Actual Utilisation to date
	RM million	RM million
Acquisition of rigs & Hydraulic Workover Unit (“HWU”)	986.6	Fully utilised
Upgrading of rigs & HWU	20.1	
Acquisition / upgrading of machineries for oilfield services	10.4	
Mobilisation and demobilisation costs for drilling rigs	50.0	
Repayment to UMWH	597.4	
IPO / Listing expenses	48.5	
Total	1,713.0	

2. AUDIT AND NON-AUDIT FEES

The amount of audit and non-audit fees incurred by the Company and the Group for the financial year ended 31 December 2016 is set out on page 158 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 financial year ended 31 December 2016 or entered into since the end of the previous financial year.

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

Please refer to the information stated in the Circular to Shareholders dated 21 April 2017.



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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 2016.

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.

RESULTS

The results of the Group and of the Company for the financial year ended 31 December 2016 are as follows:

	Group RM'000	Company RM'000
Loss for the year	(1,183,447)	(287,462)
Attributable to:		
Equity holders of the Company	(1,177,379)	(287,462)
Non-controlling interests	(6,068)	-
	(1,183,447)	(287,462)

As at 31 December 2016, the Group had impaired its assets by RM780,265,000. Further details are disclosed in Note 4 to the financial statements.

Other than the above, there were no material transfers to or from reserves or provisions during the financial year 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

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

Tan Sri Asmat bin Kamaludin
Dato' Abdul Rahman bin Ahmad (appointed on 19 January 2017)
Badrul Feisal bin Abdul Rahim
Rohaizad bin Darus
Dr. Leong Chik Weng (resigned on 24 February 2017)
Razalee bin Amin
Dato' Affuddin bin Abdul Kadir
Cheah Tek Kuang
Dato' Ibrahim bin Marsidi
Fina Norhizah binti Hj Baharu Zaman (resigned on 1 March 2017)

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 24 and Note 26 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 35 to the financial statements.

DIRECTORS' REPORT

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 in the shares of the holding company, UMW Holdings Berhad or its related corporations except for the following:

	Number of Ordinary Shares of RM0.50 Each			
	1 January 2016	Bought	Sold	31 December 2016
The Company				
Direct interest				
Razalee bin Amin	203,000	-	-	203,000
Dato' Afifuddin bin Abdul Kadir	275,000	-	-	275,000
Cheah Tek Kuang	120,000	-	120,000	-
Dato' Ibrahim bin Marsidi	30,000	-	-	30,000
Fina Norhizah binti Hj Baharu Zaman	20,000	-	-	20,000
Rohaizad bin Darus	1,000,000	-	-	1,000,000
Indirect interest				
Tan Sri Asmat bin Kamaludin	304,000	-	304,000	-
Cheah Tek Kuang	6,000	20,000	-	26,000
The Holding Company				
Indirect interest				
Tan Sri Asmat bin Kamaludin	18,000	-	-	18,000

OTHER STATUTORY INFORMATION

- (a) Before the statements of financial position and statements of comprehensive income of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for impairment on receivables and satisfied themselves that all known bad debts had been written off and that adequate allowance for impairment on receivables 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) the amount written off for bad debts or the amount of the allowance for impairment on receivables in the financial statements of the Group and of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

OTHER STATUTORY INFORMATION (CONT'D.)

- (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.

SUBSEQUENT EVENTS

Details of subsequent events are disclosed in Note 39 to the financial statements.

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 10 April 2017.



TAN SRI ASMAT BIN KAMALUDIN



ROHAIZAD BIN DARUS

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, **TAN SRI ASMAT BIN KAMALUDIN** and **ROHAIZAD BIN DARUS**, being two of the directors of **UMW OIL & GAS CORPORATION BERHAD**, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 99 to 182 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 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 2016 and of their financial performance and cash flows for the year then ended.

The supplementary information set out in Note 40 on page 183 to the financial statements have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the directors dated 10 April 2017.



TAN SRI ASMAT BIN KAMALUDIN



ROHAIZAD BIN DARUS

STATUTORY DECLARATION

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, **WAI THUY FONG**, being the officer primarily responsible for the financial management of **UMW OIL & GAS CORPORATION BERHAD**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 99 to 183 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 **WAI THUY FONG**
at Kuala Lumpur in the Federal Territory
on 10 April 2017




WAI THUY FONG

Lot 350, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50200 Kuala Lumpur.

Before me,

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF UMW OIL & GAS CORPORATION BERHAD (INCORPORATED IN MALAYSIA)

REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of UMW Oil & Gas Corporation Berhad, which comprise the statements of financial position as at 31 December 2016 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 99 to 182.

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 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 1965 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.

Impairment of property, plant and equipment

As at 31 December 2016, the property, plant and equipment of the Group mainly consist of drilling rigs, hydraulic workover units and drilling-related equipment. The significant downturn in the oil and gas industry and the low utilisation of the drilling rigs and hydraulic workover units during the year are indication that the assets may be impaired. Management has performed an impairment assessment to estimate the value in use of the assets based on discounted future cash flows.

This area was important to our audit due to the significance of the carrying value of the drilling rigs, hydraulic workover units, and drilling-related equipment, as well as the significant judgment involved in formulating assumptions to the cash flow projections.

Our audit procedures included, amongst others, the review of the underlying assumptions used to prepare the projections, such as the assets' utilisation, operating day rates, and the duration of the current downturn in the industry. We corroborated the key assumptions with industry analysts' views, management's plans and existing contracts, where applicable.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF UMW OIL & GAS CORPORATION BERHAD (INCORPORATED IN MALAYSIA)

Key Audit Matters (Cont'd.)

Impairment of property, plant and equipment (cont'd.)

We have also reviewed the methodology of impairment assessment and assessed the reasonableness of the discount factor used, and performed sensitivity analysis of the changes in key assumptions. Furthermore, we focused on the adequacy of the disclosures on the assumptions and the outcome of the impairment test. The Board of Directors' conclusion on the impairment assessment and related disclosures are included in Note 4 of the financial statements.

Inventory-related controls and stock takes

As at 31 December 2016, 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.

We assessed through observation, interview and re-performance on a sample basis, the adequacy of group 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.

We attended and observed physical stock takes conducted by management for selected locations to verify adherence to stock take processes. We sought to understand and corroborate the reasons for significant or unusual movements in inventory quantities between the accounting records and the physical stock takes, and we reviewed and tested management's reconciliation between the book inventory balance and the physical count results. We evaluated the roll forward of inventory from the point of stock take to the year end to assess for potential misstatement.

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 annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the annual report, which is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Company and take appropriate action.

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 1965 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.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS (CONT'D.)

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance 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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF UMW OIL & GAS CORPORATION BERHAD (INCORPORATED IN MALAYSIA)

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D.)

From the matters communicated with those charged with governance, 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 the other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

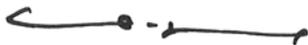
- a. In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- b. We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 33 to the financial statements, being financial statements that have been included in the consolidated financial statements.
- c. We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- d. The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 40 on page 183 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 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
10 April 2017



AHMAD ZAHIRUDIN BIN ABDUL RAHIM
No. 2607/12/18(J)
Chartered Accountant

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	5,298,125	6,081,634
Land use rights	5	2,514	2,631
Intangible assets	6	-	-
Investment in associate	8	2,571	2,073
Deferred tax assets	9	112	204
Derivative assets	10	5,071	2,636
Deposit at bank	15	336,450	-
		5,644,843	6,089,178
Current assets			
Inventories	11	211,916	204,508
Other investments	12	-	89,565
Receivables	13	132,276	283,331
Tax recoverable		2,948	2,696
Derivative assets	10	489	232
Due from related companies	14	2,547	3,666
Deposits, cash and bank balances	15	555,021	973,807
		905,197	1,557,805
TOTAL ASSETS		6,550,040	7,646,983

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
EQUITY AND LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	9	–	1,098
Due to holding company	14	308,000	–
Long term borrowings	16	2,272,773	1,746,965
		2,580,773	1,748,063
Current liabilities			
Taxation		634	1,143
Short term borrowings	18	1,499,745	2,257,330
Payables	19	205,397	294,235
Due to related companies	14	2,290	2,775
		1,708,066	2,555,483
Total liabilities		4,288,839	4,303,546
Equity			
Equity attributable to equity holders of the Company			
Share capital	20	1,081,000	1,081,000
Share premium	20	1,372,819	1,372,819
Other reserves	21	837,298	734,931
(Accumulated losses)/retained profits		(1,033,129)	144,250
		2,257,988	3,333,000
Non-controlling interests		3,213	10,437
Total equity		2,261,201	3,343,437
TOTAL EQUITY AND LIABILITIES		6,550,040	7,646,983

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 2016

	Note	2016 RM'000	2015 RM'000
Revenue	22	321,053	839,877
Other operating income	23	27,650	35,994
Changes in inventories		152	33
Finished goods purchased		(70)	(1,956)
Raw materials and consumables used		(54,425)	(77,670)
Employee benefits	24	(123,352)	(188,561)
Depreciation and amortisation		(291,191)	(246,119)
Impairment provisions	25	(781,200)	(347,722)
Other operating expenses	26	(178,966)	(324,230)
Loss from operations		(1,080,349)	(310,354)
Finance costs	27	(118,233)	(64,059)
Investment income	28	16,899	25,466
Share of results of associate		419	521
Loss before tax		(1,181,264)	(348,426)
Income tax expense	29	(2,183)	(20,005)
Loss for the year		(1,183,447)	(368,431)
Other comprehensive income:			
Foreign currency translation		98,520	501,174
Cash flow hedges:-			
Fair value gain		8,437	3,805
Reclassified to profit or loss		(5,746)	(937)
Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax):		101,211	504,042
Total comprehensive (loss)/income for the year		(1,082,236)	135,611
Loss attributable to:			
Equity holders of the Company		(1,177,379)	(369,277)
Non-controlling interests		(6,068)	846
		(1,183,447)	(368,431)
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		(1,075,012)	133,174
Non-controlling interests		(7,224)	2,437
		(1,082,236)	135,611
Basic/diluted loss per share attributable to equity holders of the Company (sen)	30	(54.46)	(17.08)

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 2016

	Non-distributable		Gain on		Distributable					
	of		of		of					
	Share capital	Share premium	Share options reserve	Capital reserve	derecognition intercompany financial liabilities	Foreign currency translation reserve	Hedging reserve	Retained profits/ losses	Non-controlling interests	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
	(Note 20)	(Note 20)	(Note 21)	(Note 21)	(Note 21)	(Note 21)	(Note 21)	(Note 21)		
At 1 January 2015	1,081,000	1,372,819	3,243	698	78,145	150,394	-	513,527	8,000	3,207,826
(Loss)/profit for the year	-	-	-	-	-	-	-	(369,277)	846	(368,431)
Other comprehensive income for the year	-	-	-	-	-	499,583	2,868	-	1,591	504,042
Total comprehensive income for the year	-	-	-	-	-	499,583	2,868	(369,277)	2,437	135,611
At 31 December 2015	1,081,000	1,372,819	3,243	698	78,145	649,977	2,868	144,250	10,437	3,343,437
At 1 January 2016	1,081,000	1,372,819	3,243	698	78,145	649,977	2,868	144,250	10,437	3,343,437
Loss for the year	-	-	-	-	-	-	-	(1,177,379)	(6,068)	(1,183,447)
Other comprehensive income for the year	-	-	-	-	-	99,676	2,691	-	(1,156)	101,211
Total comprehensive income/(loss) for the year	-	-	-	-	-	99,676	2,691	(1,177,379)	(7,224)	(1,082,236)
At 31 December 2016	1,081,000	1,372,819	3,243	698	78,145	749,653	5,559	(1,033,129)	3,213	2,261,201

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 2016

	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(1,181,264)	(348,426)
Adjustments for:		
Depreciation and amortisation	291,191	246,119
Impairment loss on goodwill (Note 6)	-	11,291
Impairment loss on property, plant and equipment (Note 4)	780,265	336,431
Interest expense	118,233	64,059
Investment income	(16,899)	(25,466)
Net loss on disposal of property, plant and equipment	625	69
Property, plant and equipment written off	6,826	14,054
Share of results of associate	(419)	(521)
Net fair value gain on derivatives	-	(604)
Net fair value loss/(gain) on investments in money market fund	52	(240)
Provision for impairment in amount due from fellow subsidiaries	935	-
Net unrealised foreign exchange loss	17,430	1,586
Operating profit before working capital changes	16,975	298,352
Decrease in receivables	157,198	198,294
Decrease/(increase) in inventories	666	(64,631)
(Decrease)/increase in payables	(119,093)	26,557
Net changes in related companies balances	(302)	(235)
Net cash generated from operations	55,444	458,337
Interest paid	(115,450)	(66,003)
Taxes paid	(3,947)	(17,035)
Net cash (used in)/generated from operating activities	(63,953)	375,299

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 RM'000	2015 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	16,288	24,389
Purchase of property, plant and equipment	(57,036)	(1,773,105)
Proceeds from disposal of property, plant and equipment	401	421
Proceeds from disposal of money market fund	90,864	210,013
Dividend received from an associate	321	669
Cash outflow on investment in money market fund	(1,351)	(299,338)
Net cash generated from/(used in) investing activities	49,487	(1,836,951)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on loan advances received from holding company	308,000	-
Repayment of long term borrowings	(259,614)	(184,340)
Drawdown of long term borrowings	646,644	730,660
Net movement in short term borrowings	(784,355)	686,355
Dividend paid	-	(21,620)
Placement of restricted cash deposits in licensed bank	(558,275)	-
Net cash (used in)/generated from financing activities	(647,600)	1,211,055
NET DECREASE IN CASH AND CASH EQUIVALENTS	(662,066)	(250,597)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	973,807	1,178,046
EFFECTS OF EXCHANGE RATE CHANGES	21,455	46,358
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	333,196	973,807
Cash and cash equivalents comprise:		
Deposits with licensed banks - Non-current (Note 15)	336,450	-
Deposits with licensed banks - Current (Note 15)	483,386	752,364
Cash and bank balances (Note 15)	71,635	221,443
Less: Restricted cash (Note 15)	(558,275)	-
	333,196	973,807

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	2,568	2,943
Investment in subsidiaries	7	2,248,700	2,336,729
Due from related companies	14	1,635,124	-
		3,886,392	2,339,672
Current assets			
Other investments	12	-	75,642
Receivables	13	1,221	1,793
Tax recoverable		175	-
Due from related companies	14	96,478	1,679,681
Deposits, cash and bank balances	15	421,588	726,067
		519,462	2,483,183
TOTAL ASSETS		4,405,854	4,822,855
EQUITY AND LIABILITIES			
Non-current liabilities			
Due to holding company	14	308,000	-
Long term borrowings	16	676,032	703,007
		984,032	703,007
Current liabilities			
Taxation		-	619
Short term borrowings	18	1,035,674	1,437,410
Payables	19	9,273	8,302
Due to related companies	14	2,077	11,257
		1,047,024	1,457,588
Total liabilities		2,031,056	2,160,595

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Equity			
Equity attributable to equity holders of the Company			
Share capital	20	1,081,000	1,081,000
Share premium	20	1,372,819	1,372,819
Other reserves		78,145	78,145
(Accumulated losses)/retained profits		(157,166)	130,296
Total equity		2,374,798	2,662,260
TOTAL EQUITY AND LIABILITIES		4,405,854	4,822,855

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 2016

	Note	2016 RM'000	2015 RM'000
Revenue	22	16,897	13,212
Other operating income	23	34,737	61,408
Employee benefits	24	(15,881)	(18,368)
Depreciation		(953)	(1,029)
Impairment provisions	25	(320,376)	-
Other operating expenses	26	(11,638)	(11,210)
<hr/>			
(Loss)/profit from operations		(297,214)	44,013
Finance costs	27	(57,857)	(28,034)
Investment income	28	69,297	62,999
<hr/>			
(Loss)/profit before tax		(285,774)	78,978
Income tax expense	29	(1,688)	(3,178)
<hr/>			
(Loss)/profit for the year, representing total comprehensive (loss)/income for the year		(287,462)	75,800

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 2016

	Share capital RM'000 (Note 20)	Share premium RM'000 (Note 20)	Non-distributable Gain on derecognition of financial liabilities RM'000 (Note 21)	Distributable Retained profits/ (Accumulated losses) RM'000	Total equity RM'000
At 1 January 2015	1,081,000	1,372,819	78,145	54,496	2,586,460
Total comprehensive income	-	-	-	75,800	75,800
At 31 December 2015	1,081,000	1,372,819	78,145	130,296	2,662,260
At 1 January 2016	1,081,000	1,372,819	78,145	130,296	2,662,260
Total comprehensive loss	-	-	-	(287,462)	(287,462)
At 31 December 2016	1,081,000	1,372,819	78,145	(157,166)	2,374,798

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 2016

	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	(285,774)	78,978
Adjustments for:		
Depreciation of plant and equipment	953	1,029
Interest expense	57,857	28,034
Investment income	(69,297)	(62,999)
Net unrealised foreign exchange loss/(gain)	10,246	(27,129)
Property, plant and equipment written off	-	1
Net fair value loss/(gain) on investments in money market fund	52	(234)
Dividend income	(6,592)	-
Loss on disposal of plant and equipment	34	26
Provision for impairment in investment in subsidiary	288,029	-
Provision for impairment in amount due from subsidiaries	32,347	-
Operating profit before working capital changes	27,855	17,706
Decrease/(increase) in other receivables	498	(428)
Decrease in other payables	(57)	(3,864)
Net changes in related companies balances	123,266	112,374
Cash generated from operating activities	151,562	125,788
Tax paid	(2,483)	(2,069)
Net cash generated from operating activities	149,079	123,719
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	14,018	25,239
Advances to subsidiaries	(285,409)	(1,406,305)
Purchase of plant and equipment	(761)	(1,608)
Proceeds from disposal of plant and equipment	149	102
Proceeds from disposal of money market fund	76,327	210,013
Cash outflow on investment in money market fund	(737)	(285,421)
Dividend received from a subsidiary	6,592	-
Net cash used in investing activities	(189,821)	(1,457,980)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 RM'000	2015 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	-	(21,620)
Repayment of long term borrowings	(28,863)	-
Drawdown of long term borrowings	-	730,646
Net movement in short term borrowings	(486,047)	434,313
Proceeds on loan advances received from holding company	308,000	-
Interest paid	(56,827)	(22,766)
Placement of restricted cash deposit in licensed bank	(221,825)	-
Net cash (used in)/generated from financing activities	(485,562)	1,120,573
NET DECREASE IN CASH AND CASH EQUIVALENTS	(526,304)	(213,688)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	726,067	939,755
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	199,763	726,067
Cash and cash equivalents comprise:		
Deposits with licensed banks (Note 15)	421,024	678,445
Cash and bank balances (Note 15)	564	47,622
Less: Restricted cash (Note 15)	(221,825)	-
	199,763	726,067

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

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

UMW Oil & Gas Corporation Berhad (“UMW-OG”) 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 UMW-OG is located at Level 18, Block 3A, Plaza Sentral, Jalan Stesen Sentral 5, 50470 Kuala Lumpur.

The holding company of the Company is UMW Holdings Berhad (“UMWH”), a public limited liability company incorporated and domiciled in Malaysia and is listed on the Bursa Malaysia.

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 33 and 34, 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 10 April 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements comply with Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”) and the requirements of the Companies Act, 1965 in Malaysia.

On 1 January 2016, 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 2016 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

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. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with MFRS 139 either in profit or loss or as a change in other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. The accounting policy for goodwill is set out in Note 2.2(h).

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

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

(i) Basis of consolidation (Cont'd.)

Business combinations under common control

Business combinations under common control are accounted for in the consolidated 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.

(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 statements 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.

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.)

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.

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 and the Group's subsidiaries, 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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

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

Periodic survey and drydocking costs are incurred in connection with obtaining regulatory certification to operate the rigs on an ongoing basis. Costs associated with the certification are deferred and amortised on a straight-line basis over the period between surveys and drydocking. All other repair and maintenance costs are recognised in profit or loss as incurred.

Assets-in-progress included in property, plant and equipment are not depreciated as these assets are not yet available for use. Depreciation of other property, plant and equipment is provided for on a straight-line basis over the estimated useful lives of the assets as follows:

Rigs and hydraulic workover units ("HWUs")	10 - 30 years
Drilling equipment	2 - 30 years
Buildings	10 - 20 years
Plant and machinery	2 - 30 years
Office equipment, furniture and fittings	3 - 12 years
Motor vehicles	5 years
Renovation and improvements	5 years

The residual value, useful life and depreciation method are reviewed at each financial year end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the period the asset is derecognised.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(r).

(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).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(d) Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and loans and receivables. The Group does not have any financial assets designated as available-for-sale or held-to-maturity investments.

(i) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other expenses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that are held primarily for trading purposes are presented as current whereas financial assets that are not held primarily for trading purposes are presented as current or non-current based on the settlement date.

(ii) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through amortisation process.

Loans and receivables are classified as current assets, except for those with maturity dates later than 12 months from the reporting date are classified as non-current.

Loans and receivables of the Group comprise of trade and other receivables (other than deferred expenses, accrued income and prepayments), due from related companies, deposits and cash and bank balances.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(d) Financial assets (Cont'd.)

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e. the date that the Group commits to purchase or sell the asset.

(e) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

Trade and other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has occurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio that passed the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(i) Foreign currencies (Cont'd.)

(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.

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

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability.

Financial liabilities, within the scope of MFRS 139, are recognised in the statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(j) Financial liabilities (Cont'd.)

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Group that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

The Group and the Company have not designated any financial liabilities as at fair value through profit or loss.

(ii) Other financial liabilities

The Group's other financial liabilities include trade payables, other payables (other than deferred income and provisions), loans and borrowings and amounts due to related companies.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. 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 a derecognition of the original liability and a recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(k) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

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.

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 reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(n) Income tax (Cont'd.)

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 recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

(i) Revenue from provision of drilling and workover services and related expenses

Revenue from the provision of drilling and workover services include 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 leases by the Group, are recognised over the period the service is rendered.

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 when it is probable that the economic benefits associated with the transaction will flow to the entity.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(o) Revenue recognition (Cont'd.)

(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

Revenue from sale of goods is recognised net of sales discounts when transfer of significant risks and rewards of ownership has been completed. Revenue is recognised net of sales tax, goods and service tax and includes excise duties.

(v) Rendering of services

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

(vi) Rental income

Rental income from operating leases are accounted for on a straight-line basis over the lease terms.

(vii) Dividend income

Dividend income is recognised when the shareholders' rights to receive payment is established.

(viii) Interest income

Interest income is recognised using the effective interest method.

(ix) Management fees

Management fees are recognised when services are rendered.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(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).

(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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(r) Impairment of non-financial assets

The carrying amounts of assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

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.

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 other than goodwill 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 32, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(t) Fair value measurement (Cont'd.)

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. Where fair value cannot be reliably estimated, assets are carried at cost less impairment losses, if any.

(u) Hedge accounting

The Group uses interest rate swaps to manage its exposures to interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedging relationship is classified as:

- (i) Fair value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- (ii) Cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- (iii) Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(u) Hedge accounting (Cont'd.)

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income into cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss as other operating expenses.

Amounts recognised in other comprehensive income previously are reclassified from equity to profit or loss when the hedged transaction affects profit or loss, such as when the hedged interest income or interest expense is recognised or when a forecast sale occurs. Where the hedged item is a non-financial asset or a non-financial liability, the amounts recognised previously in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remain in equity until the forecast transaction or firm commitment affects profit or loss.

(v) 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.

2.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2016, the Group and the Company adopted the following amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2016.

Description

Amendments to MFRS 7: Financial Instruments: Disclosures (Annual Improvements to 2012 – 2014 Cycle)
 Amendments to MFRS 119: Employee Benefits (Annual Improvements to 2012 - 2014 Cycle)
 Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation
 Amendments to MFRS 11: Accounting for Acquisitions of interests in Joint Operations
 Amendments to MFRS 127: Separate Financial Statements: Equity Method in Separate Financial Statements
 Amendments to MFRS 101: Presentation of Financial Statements: Disclosure Initiatives
 Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception
 MFRS 14 Regulatory Deferral Accounts

Adoption of the above pronouncements did not have any effect on the financial performance or position of the Group and the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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 12 Disclosure of Interests in Other Entities (Annual Improvements 2014 - 2016 Cycle)	1 January 2017
MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)	1 January 2017
MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
Amendments to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2014 - 2016 Cycle)	1 January 2018
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
Amendments to MFRS 15 Revenue from Contracts with Customers: Clarifications	1 January 2018
Amendments to MFRS 128 Investments in Associates and Joint Ventures (Annual Improvements 2014 - 2016 Cycle)	1 January 2018
Amendment to MFRS 140: Investment Property: Transfer of Investment Property	1 January 2018
IC Interpretation: Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 16 Leases	1 January 2019
Amendments to MFRS 10 and 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date yet to be confirmed

The adoption of the above pronouncements is not expected to have a material impact on the financial statements in the period of initial application except for those discussed below:

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step models that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group and the Company will assess the impact of these amendments and intend to adopt the new standard on the effective date.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective (Cont'd.)

MFRS 9 Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

The Group and the Company will assess the impact of these amendments and intend to adopt the new standard on the effective date.

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.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the 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. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

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 9.

(ii) Useful lives and residual values of rigs, HWUs, drilling equipment, and plant and machinery

The cost of rigs, HWUs, drilling equipment, and plant and machinery is depreciated on a straight-line basis over their estimated useful lives after allowing for residual values. Management estimates the useful lives and residual values by applying assumptions and estimates that reflect both historical experience and expectations regarding future operations, rig utilisation and asset performance, and also based on the common life expectancies applied in the respective industries. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amount of the Group's rigs, HWUs, drilling equipment, and plant and machinery at the reporting date is disclosed in Note 4.

During the financial year ended 31 December 2016, the Group has revised the residual value of its rigs at the end of useful life due to existing market conditions. The revision was accounted for prospectively as a change in accounting estimate and as a result, the annual depreciation charge in the current and future financial years has increased by RM12,492,000.

(iii) Impairment of property, plant and equipment

During the current financial year, the Group has recognised impairment losses in respect of property, plant and equipment.

The management carried out the impairment test based on value in use of the CGU to which the property, plant and equipment are allocated. Estimating the value in use requires the management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of the impairment losses recognised are disclosed in Note 4.

NOTES TO THE FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT

	Buildings RM'000	Rigs, HWUs and drilling equipment RM'000	Plant and machinery RM'000	Assets-in- progress RM'000	**Other assets RM'000	Total RM'000
Group						
Cost						
At 1 January 2015	30,440	4,043,178	65,312	314,842	20,487	4,474,259
Exchange differences	3,281	901,891	4,602	71,660	1,550	982,984
Additions	680	55,575	8,454	1,703,107	13,172	1,780,988
Write-offs	-	(16,656)	-	-	(161)	(16,817)
Disposals	-	(1,791)	(197)	-	(387)	(2,375)
Reclassification	-	2,029,456	-	(2,027,986)	(1,470)	-
At 31 December 2015/1 January 2016	34,401	7,011,653	78,171	61,623	33,191	7,219,039
Exchange differences	(467)	301,915	719	2,697	712	305,576
Additions	179	25,419	2,638	26,630	2,170	57,036
Write-offs	-	(8,886)	(1,251)	-	(463)	(10,600)
Disposals	(9)	(2,621)	(783)	-	(1,070)	(4,483)
Reclassification	-	52,056	946	(52,904)	(98)	-
At 31 December 2016	34,104	7,379,536	80,440	38,046	34,442	7,566,568
Accumulated depreciation						
At 1 January 2015	6,496	395,566	34,428	-	10,058	446,548
Exchange differences	154	103,905	2,274	-	946	107,279
Depreciation charge for the year	912	235,664	5,463	-	4,026	246,065
Write-offs	-	(2,640)	-	-	(123)	(2,763)
Disposals	-	(1,465)	(177)	-	(243)	(1,885)
Reclassification	-	868	-	-	(868)	-
At 31 December 2015/1 January 2016	7,562	731,898	41,988	-	13,796	795,244
Exchange differences	18	65,566	454	-	830	66,868
Depreciation charge for the year	954	274,007	5,895	-	10,280	291,136
Write-offs	-	(2,186)	(1,249)	-	(339)	(3,774)
Disposals	(9)	(2,282)	(717)	-	(449)	(3,457)
Reclassification	-	897	-	-	(897)	-
At 31 December 2016	8,525	1,067,900	46,371	-	23,221	1,146,017

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Buildings RM'000	Rigs, HWUs and drilling equipment RM'000	Plant and machinery RM'000	Assets-in- progress RM'000	**Other assets RM'000	Total RM'000
Group (Cont'd.)						
Accumulated impairment losses						
At 1 January 2015	-	5,730	-	-	-	5,730
Impairment losses (Note 25)	-	336,431	-	-	-	336,431
At 31 December 2015/1 January 2016	-	342,161	-	-	-	342,161
Impairment losses (Note 25)	3,081	753,767	21,666	-	1,751	780,265
At 31 December 2016	3,081	1,095,928	21,666	-	1,751	1,122,426
Net carrying amount						
At 31 December 2016	22,498	5,215,708	12,403	38,046	9,470	5,298,125
At 31 December 2015	26,839	5,937,594	36,183	61,623	19,395	6,081,634

NOTES TO THE FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	**Other assets RM'000	Assets-in- progress RM'000	Total RM'000
Company			
Cost			
At 1 January 2015	3,849	161	4,010
Additions	1,528	80	1,608
Write-off	(2)	-	(2)
Disposals	(128)	-	(128)
Reclassification	167	(167)	-
At 31 December 2015/1 January 2016	5,414	74	5,488
Additions	697	64	761
Disposals	(183)	-	(183)
Reclassification	69	(69)	-
At 31 December 2016	5,997	69	6,066
Accumulated depreciation			
At 1 January 2015	1,517	-	1,517
Depreciation charge for the year	1,029	-	1,029
Write-off	(1)	-	(1)
At 31 December 2015/1 January 2016	2,545	-	2,545
Depreciation charge for the year	953	-	953
At 31 December 2016	3,498	-	3,498
Net Carrying Amount			
At 31 December 2016	2,499	69	2,568
At 31 December 2015	2,869	74	2,943

** Included in the other assets are office equipment, furniture and fittings, renovation and improvements.

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

- (a) The net book values of property, plant and equipment held under finance lease arrangements as at 31 December 2016 for the Group and the Company was RM Nil (2015: RM3,000).
- (b) During the financial year, the Group had capitalised within property, plant and equipment:
 - (i) Finance cost of RM Nil (2015: RM7,883,000), as disclosed in Note 27.
 - (ii) Employee benefits of RM Nil (2015: RM10,337,000), as disclosed in Note 24.
- (c) 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 due to persistent depressed oil prices that had impacted demand for the Group's assets and services.

An impairment loss of RM780,265,000 (2015: RM336,431,000), representing write-down of the assets to the recoverable amount was recognised in "Impairment provisions" in the statement of comprehensive income for the financial year ended 31 December 2016, in respect of assets with recoverable amounts of RM5,194,005,185 (2015: RM1,548,100,000).

The recoverable amount of the rigs, HWUs and drilling equipment were determined based on value in use of each asset, based on their respective cash flow projections discounted at pre-tax discount rates up to 12.9% (2015: 16.9%).

The calculation of value in use for the rigs, HWUs and drilling equipment are most sensitive to the utilisation, time chartered rates and discount rate assumptions.

Typically, the utilisation and time chartered rates are affected by the levels of offshore exploration, development and production activity of, and the corresponding capital spending by, oil and gas companies, which in turn are primarily affected by the trends in and outlook of oil and natural gas prices. In addition, periodic surveys or inspections and major maintenance also affect the utilisation rates of the rigs and HWUs.

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.

Any adverse change in the key assumptions used in value in use calculations would result in further impairment.

The building and plant and machinery of a subsidiary in the oilfield services segment have also been impaired, based on the cash flows of the subsidiary discounted at a rate of 10.6% on a pre-tax basis.

NOTES TO THE FINANCIAL STATEMENTS

5. LAND USE RIGHTS

	Short term leasehold land RM'000
Group	
Cost	
At 1 January 2015	2,472
Exchange differences	429
At 31 December 2015/1 January 2016	2,901
Exchange differences	(66)
At 31 December 2016	2,835
Accumulated amortisation	
At 1 January 2015	181
Exchange differences	35
Depreciation charge for the year	54
At 31 December 2015/1 January 2016	270
Exchange differences	(4)
Depreciation charge for the year	55
At 31 December 2016	321
Net carrying amount	
At 31 December 2016	2,514
At 31 December 2015	2,631

6. INTANGIBLE ASSETS

	Group	
	2016	2015
	RM'000	RM'000
Goodwill on consolidation		
At 1 January	-	11,291
Less: Impairment losses (Note 25)	-	(11,291)
At 31 December	-	-

7. INVESTMENT IN SUBSIDIARIES

	Company	
	2016	2015
	RM'000	RM'000
Unquoted shares, at cost		
In Malaysia	2,513,827	2,313,827
Outside Malaysia	22,902	22,902
Less: Impairment losses (Note 25)	2,536,729 (288,029)	2,336,729 -
	2,248,700	2,336,729

Details of the subsidiaries are set out in Note 33.

8. INVESTMENT IN ASSOCIATE

	Group	
	2016	2015
	RM'000	RM'000
Unquoted shares, at cost	1,090	1,090
Share of post-acquisition reserves	1,481	983
	2,571	2,073

The Group's share of results of the associate is based on the management financial statements of the associate for the years ended 31 December 2016 and 2015.

Details of the associate are disclosed in Note 34.

The financial statements of the associate disclosed in Note 34 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 2016 and 2015 of the associate have been used.

NOTES TO THE FINANCIAL STATEMENTS

8. INVESTMENT IN ASSOCIATE (CONT'D)

The summarised financial information of the associate, not adjusted for the proportion of ownership interest held by the Group is as follows:

	2016 RM'000	2015 RM'000
Assets and liabilities:		
Current assets	13,442	11,332
Non-current assets	2,757	4,457
Total assets	16,199	15,789
Current liabilities, representing total liabilities	3,580	5,657
Results		
Revenue	11,767	17,840
Profit for the year, representing total comprehensive income	2,094	2,605

Reconciliation of the summarised financial information presented above to the carrying amount of the Group's interest in associate is as follows:

	2016 RM'000	2015 RM'000
Net assets at 1 January	10,132	9,515
Profit for the year	2,094	2,605
Dividend paid	(1,603)	(3,346)
Other comprehensive income	1,996	1,358
Net assets at 31 December	12,619	10,132
Share of net assets	2,524	2,026
Goodwill	47	47
Carrying value of the Group's interest in associate	2,571	2,073

9. DEFERRED TAXATION

	Group	
	2016 RM'000	2015 RM'000
At 1 January	894	2,822
Recognised in profit or loss (Note 29)	(1,003)	(1,826)
Exchange differences	(3)	(102)
At 31 December	(112)	894
Presented after appropriate offsetting as follows:		
Deferred tax assets	(112)	(204)
Deferred tax liabilities	-	1,098
	(112)	894

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	Others RM'000	Total RM'000
At 1 January 2016	5,996	241	6,237
Recognised in profit or loss	(5,300)	(251)	(5,551)
Exchange differences	5	10	15
At 31 December 2016	701	-	701
At 1 January 2015	8,907	187	9,094
Recognised in profit or loss	(2,940)	(11)	(2,951)
Exchange differences	29	65	94
At 31 December 2015	5,996	241	6,237

NOTES TO THE FINANCIAL STATEMENTS

9. 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 2016	(3,629)	(55)	(1,166)	(493)	(5,343)
Recognised in profit or loss	2,934	52	1,166	396	4,548
Exchange differences	(6)	-	-	(12)	(18)
At 31 December 2016	(701)	(3)	-	(109)	(813)
At 1 January 2015	(4,656)	(52)	-	(1,564)	(6,272)
Recognised in profit or loss	1,022	(3)	(1,166)	1,272	1,125
Exchange differences	5	-	-	(201)	(196)
At 31 December 2015	(3,629)	(55)	(1,166)	(493)	(5,343)

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Unutilised tax losses	178,926	75,880	43,358	44,069
Unabsorbed capital and reinvestment allowances	25,034	18,844	3,140	2,306
Others	27,756	10,618	610	-
	231,716	105,342	47,108	46,375

The unutilised tax losses, unabsorbed capital and reinvestment allowances of the Group are available indefinitely for offsetting against future taxable profits of the respective entities within the Group.

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.

10. DERIVATIVES

	Notional amount RM'000	Group Fair value Asset RM'000	Liability RM'000
Hedging derivatives:			
Interest rate swaps			
Current			
At 31 December 2016	58,121	489	-
At 31 December 2015	55,685	232	-
Non-current			
At 31 December 2016	602,788	5,071	-
At 31 December 2015	633,211	2,636	-

Interest rate swaps

Interest rate swaps are used to manage exposure to interest rate movements on bank borrowings, by swapping a proportion of those borrowings from floating rates to fixed rates.

Hedge accounting is applied for the interest rate swaps, the fair value movement on the hedging instrument is recognised directly in other comprehensive income into cash flow hedge reserve.

The method and assumptions applied in determining the fair values of derivatives are disclosed in Note 36.

11. INVENTORIES

	Group	
	2016 RM'000	2015 RM'000
At cost:		
Raw materials, spare parts and consumables	211,916	204,508

The cost of inventories recognised as an expense during the year amounted to RM54,343,000 (2015: RM79,593,000).

NOTES TO THE FINANCIAL STATEMENTS

12. OTHER INVESTMENTS

	Group	
	2016	2015
	RM'000	RM'000

Investment at fair value through profit or loss

Investment in money market fund, at fair value	–	89,565
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	Company	
	2016	2015
	RM'000	RM'000

Investment at fair value through profit or loss

Investment in money market fund, at fair value	–	75,642
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13. RECEIVABLES

	Group	
	2016	2015
	RM'000	RM'000

Trade receivables (Note (a))	116,960	265,389
Other receivables (Note (b))	15,316	17,942

Total trade and other receivables	132,276	283,331
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Total trade and other receivables	132,276	283,331
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Less:

Prepayments (Note (b))	(7,686)	(10,047)
Deferred expenses (Note (b))	(1,404)	(167)

	123,186	273,117
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Add:

Due from related companies (Note 14)	2,547	3,666
Deposits, cash and bank balances - Non-current (Note 15)	336,450	–
Deposits, cash and bank balances - Current (Note 15)	555,021	973,807

Total loans and receivables	1,017,204	1,250,590
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13. RECEIVABLES (CONT'D.)**(a) Trade receivables**

	Group	
	2016 RM'000	2015 RM'000
Trade receivables (Note (i))	79,702	97,424
Allowance for impairment (Note (ii))	(9)	(9)
	79,693	97,415
Accrued income	37,267	167,974
	116,960	265,389

The Group's normal trade credit terms for the financial year ended 31 December 2016 range from 30 days to 60 days (2015: 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 5 (2015: 5) debtors representing 86% (2015: 85%) of the total net trade receivables.

(i) Aged analysis of trade receivables

	Group	
	2016 RM'000	2015 RM'000
Not past due nor impaired	17,524	26,083
Past due but not impaired:		
1 - 60 days past due but not impaired	44,750	45,056
61 - 120 days past due but not impaired	2,550	9,334
121 - 180 days past due but not impaired	917	3,783
More than 180 days past due but not impaired	13,952	13,159
	62,169	71,332
Impaired	9	9
Total trade receivables	79,702	97,424

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records. None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

13. RECEIVABLES (CONT'D.)

(a) Trade receivables (Cont'd.)

(ii) Receivables that are impaired

	Group	
	2016 RM'000	2015 RM'000
Individually impaired		
Trade receivables	9	9
Less: Allowance for impairment	(9)	(9)
	-	-
Movement in allowance for impairment		
At 1 January/31 December	9	9

Trade receivables that are individually determined to be impaired at the reporting date relate to trade disputes. These receivables are not secured by any collateral or bank guarantee.

(b) Other receivables

	Group	
	2016 RM'000	2015 RM'000
Deposits	1,896	2,739
Prepayments	7,686	10,047
Deferred expenses	1,404	167
Sundry receivables	4,330	4,989
	15,316	17,942

Prepayments mainly comprise of 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.

13. RECEIVABLES (CONT'D.)**(b) Other receivables (Cont'd.)**

	Company	
	2016 RM'000	2015 RM'000
Deposits	340	387
Prepayments	166	658
Sundry receivables	715	748
Total other receivables	1,221	1,793
Total other receivables	1,221	1,793
Less:		
Prepayments	(166)	(658)
Add:		
Due from subsidiaries - Non-current (Note 14)	1,635,124	-
Due from subsidiaries - Current (Note 14)	95,695	1,678,612
Due from fellow subsidiaries (Note 14)	783	1,069
Deposits, cash and bank balances (Note 15)	421,588	726,067
Total loans and receivables	2,154,245	2,406,883

NOTES TO THE FINANCIAL STATEMENTS

14. DUE FROM/(TO) RELATED COMPANIES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Non-Current:				
Due from subsidiaries				
- interest bearing at 1.40% to 4.20% (2015: Nil) per annum	-	-	1,635,124	-
Current:				
Due from subsidiaries				
- interest bearing at 1.40% to 4.95% (2015: 1.15% to 4.50%) per annum	-	-	128,042	1,678,612
Due from fellow subsidiaries				
- interest bearing at 7.1% (2015: 7.1%) per annum	798	744	-	-
- non-interest bearing	2,684	2,922	783	1,069
	3,482	3,666	128,825	1,679,681
Less: Allowance for impairment losses (Note 25)	(935)	-	(32,347)	-
	2,547	3,666	96,478	1,679,681
Total amount due from related companies	2,547	3,666	1,731,602	1,679,681
Non-Current:				
Due to holding company				
- interest bearing at 5.53% to 5.54% (2015: Nil) per annum and repayable in 2021	(308,000)	-	(308,000)	-
Current:				
Due to holding company	(1,447)	-	(1,447)	-
Due to subsidiaries	-	-	(78)	(9,111)
Due to fellow subsidiaries	(843)	(2,775)	(552)	(2,146)
	(2,290)	(2,775)	(2,077)	(11,257)
Total amount due to related companies	(310,290)	(2,775)	(310,077)	(11,257)

Amounts due from subsidiaries that are not expected to be realised within twelve months after the reporting period are classified as non-current.

The amounts due from/(to) related companies are unsecured, non-interest bearing and repayable on demand unless otherwise disclosed.

15. DEPOSITS, CASH AND BANK BALANCES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Non-Current:				
Deposit with licensed bank	336,450	-	-	-
Current:				
Deposits with licensed banks	483,386	752,364	421,024	678,445
Cash and bank balances	71,635	221,443	564	47,622
	555,021	973,807	421,588	726,067

Included in deposits with licensed banks are deposits of RM221,825,000 (2015: RM Nil) which are not available for general use by the Group and the Company due to restrictions by the lender in respect of revolving credits of USD50,000,000 (RM224,300,000) (2015: RM Nil) obtained by the Group and the Company as disclosed in Note 18. These deposits are required to be maintained throughout the duration of the drawdown of the revolving credits, and approval from the licensed bank is required for any withdrawal request. The deposits have been excluded from the cash and cash equivalent balance in the statements of cash flows.

Non-current deposit with licensed bank relates to an amount of USD75,000,000 (RM336,450,000) (2015:RM Nil) in respect of secured term loan of USD165,000,000 (RM740,190,000) (2015:RM Nil) with maturity of 5 years obtained by the Group as disclosed in Note 16 which is to be placed with the lender until the loan is repaid. The deposit has been excluded from the cash and cash equivalent balance in the consolidated statement of cash flows.

Included in current deposits with licensed bank in the prior year are deposits of RM578,517,000 which are not available for general use by the Group and the Company due to restrictions by the lenders in respect of Murabahah term financing of RM575,502,000 obtained by the Group and the Company as disclosed in Note 18.

Also included in current deposits with licensed bank are deposits of RM61,000,000 (2015: RM Nil) of the Group and Company for the purpose of meeting the next quarterly repayment of unsecured term loan as disclosed in Note 16 and Note 18.

The range of interest rates per annum of deposits as at the reporting date was as follows:

	Group		Company	
	2016 %	2015 %	2016 %	2015 %
Deposits with licensed banks	0.13 - 3.50	0.01 - 3.40	0.17 - 3.50	0.01 - 3.40

NOTES TO THE FINANCIAL STATEMENTS

15. DEPOSITS, CASH AND BANK BALANCES (CONT'D.)

The range of maturities of deposits as at the reporting date was as follows:

	Group		Company	
	2016 Days	2015 Days	2016 Days	2015 Days
Deposits with licensed banks	1 - 90	1 - 90	1 - 30	1 - 30

16. LONG TERM BORROWINGS

	Group	
	2016 RM'000	2015 RM'000
Secured (Floating rate)		
Term loan	740,190	-
Less : Unamortised transaction costs	(18,831)	-
	721,359	-
Unsecured (Floating rate)		
Term loan	1,823,542	1,995,686
Less: Amount payable within one year (Note 18)	(272,128)	(248,721)
	1,551,414	1,746,965
Total long term borrowings	2,272,773	1,746,965

The secured term loan is fully repayable on 4 June 2021, and is secured by a charge over all existing and future assets of UMW Drilling 4 (L) Ltd., UMW Drilling 5 (L) Ltd. and UMW Drilling 7 (L) Ltd., and a charge over the Debt Service Reserve Account of the Group, where an amount of USD75,000,000 (RM336,450,000) is to be placed with the licensed bank until the loan is fully repaid, as disclosed in Note 15.

16. LONG TERM BORROWINGS (CONT'D.)

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 18)	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000	Total RM'000
31 December 2016					
Secured					
- Term loan	-	44,411	695,779	-	740,190
Unsecured					
- Term loan	272,128	226,945	879,341	445,128	1,823,542
- Revolving credit	1,227,617	-	-	-	1,227,617
	1,499,745	271,356	1,575,120	445,128	3,791,349
31 December 2015					
Secured					
- Finance lease liabilities	13	-	-	-	13
Unsecured					
- Term loan	248,721	260,568	953,041	533,356	1,995,686
- Revolving credit	734,669	-	-	-	734,669
- Murabahah term financing	575,502	-	-	-	575,502
- Short term financing	698,425	-	-	-	698,425
	2,257,330	260,568	953,041	533,356	4,004,295

The range of weighted average effective interest rates per annum at the reporting date for secured and unsecured borrowings were as follows:

	Group	
	2016 %	2015 %
Secured term loan	3.67 - 4.00	-
Unsecured term loan	2.60 - 3.97	2.10 - 3.07

NOTES TO THE FINANCIAL STATEMENTS

16. LONG TERM BORROWINGS (CONT'D.)

	Company	
	2016 RM'000	2015 RM'000
Unsecured (Floating rate)		
Term loan	733,758	730,660
Less: Amount payable within one year (Note 18)	(57,726)	(27,653)
Total long term borrowings	676,032	703,007

The maturity of the Company's total long term and short term borrowings as at the respective reporting dates are as follows:

	Within 1 year RM'000 (Note 18)	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000	Total RM'000
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31 December 2016

Unsecured					
- Term loan	57,726	57,726	173,178	445,128	733,758
- Revolving credit	977,948	-	-	-	977,948
	1,035,674	57,726	173,178	445,128	1,711,706

31 December 2015

Secured					
- Finance lease liabilities	13	-	-	-	13
Unsecured					
- Term loan	27,653	55,307	165,920	481,780	730,660
- Revolving credit	651,577	-	-	-	651,577
- Murabahah term financing	575,502	-	-	-	575,502
- Short term financing	182,665	-	-	-	182,665
	1,437,410	55,307	165,920	481,780	2,140,417

The range of weighted average effective interest rates per annum at the reporting date for secured and unsecured borrowings are disclosed in Note 17 and 18, respectively.

17. FINANCE LEASE LIABILITIES

	Group and Company	
	2016	2015
	RM'000	RM'000
Present value of minimum lease payments:		
Not later than 1 year	-	13
Present value of payments:		
Not later than 1 year	-	13
Analysed as:		
Due within 12 months (Note 18)	-	13

The interest rate as at 31 December 2016 for the finance lease liabilities was Nil (2015: 13.42% to 14.32% per annum).

18. SHORT TERM BORROWINGS

	Group	
	2016	2015
	RM'000	RM'000
Secured (Fixed rate)		
Finance lease liabilities (Note 17)	-	13
Unsecured (Floating rate)		
Revolving credits	1,227,617	734,669
Murabahah term financing	-	575,502
Short term financing	-	698,425
Term loans payable within one year (Note 16)	272,128	248,721
	1,499,745	2,257,317
Total short term borrowings	1,499,745	2,257,330

NOTES TO THE FINANCIAL STATEMENTS

18. 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	
	2016 %	2015 %
Revolving credits	1.35 - 4.30	0.92 - 4.22
Murabahah term financing	-	1.55 - 3.97
Short term financing	-	1.12 - 1.62
Term loans payable within one year	2.60 - 3.97	2.10 - 3.07

	Company	
	2016 RM'000	2015 RM'000
Secured - Fixed rate		
Finance lease liabilities (Note 17)	-	13
Unsecured - Floating rate		
Revolving credits	977,948	651,577
Murabahah term financing	-	575,502
Short term financing	-	182,665
Term loans payable within one year (Note 16)	57,726	27,653
	1,035,674	1,437,397
Total short term borrowings	1,035,674	1,437,410

The range of weighted average effective interest rates per annum at the reporting date for borrowings were as follows:

	Company	
	2016 %	2015 %
Revolving credits	1.35 - 3.06	0.92 - 1.75
Murabahah term financing	-	1.55 - 2.47
Short term financing	-	1.12 - 1.62
Term loan payable within one year (Note 16)	3.07 - 3.64	3.07

19. PAYABLES

	Group	
	2016	2015
	RM'000	RM'000
Trade payables:		
Trade payables	78,279	90,344
Accruals	69,408	146,252
	147,687	236,596
Other payables:		
Accruals	30,191	29,073
Provision for unutilised leave	640	899
Deferred income	1,994	395
Deposits received	137	49
Sundry payables	24,748	27,223
	57,710	57,639
Total trade and other payables	205,397	294,235
Total trade and other payables	205,397	294,235
Less:		
Deferred income	(1,994)	(395)
Provision for unutilised leave	(640)	(899)
Add:		
Due to holding company - Non-current (Note 14)	308,000	-
Due to holding company - Current (Note 14)	1,447	-
Due to fellow subsidiaries (Note 14)	843	2,775
Long term borrowings (Note 16)	2,272,773	1,746,965
Short term borrowings (Note 18)	1,499,745	2,257,330
Total financial liabilities carried at amortised costs	4,285,571	4,300,011

Trade payables are non-interest bearing and are normally settled within 30 days to 60 days (2015: 30 days to 60 days) terms.

Included in other payables are sundry payables which are non-interest bearing and are normally settled within 30 days to 90 days (2015: 30 days to 90 days) terms.

Deferred income relates to mobilisation fees received on drilling and workover contracts that are deferred and recognised on a straight-line basis over the term of the respective contracts.

NOTES TO THE FINANCIAL STATEMENTS

19. PAYABLES (CONT'D.)

	Company	
	2016 RM'000	2015 RM'000
Other payables:		
Accruals	7,815	7,138
Provision for unutilised leave	413	483
Sundry payables	1,045	681
Total other payables	9,273	8,302
Total other payables	9,273	8,302
Less:		
Provision for unutilised leave	(413)	(483)
Add:		
Due to holding company - Non-current (Note 14)	308,000	-
Due to holding company - Current (Note 14)	1,447	-
Due to subsidiaries (Note 14)	78	9,111
Due to fellow subsidiaries (Note 14)	552	2,146
Long term borrowings (Note 16)	676,032	703,007
Short term borrowings (Note 18)	1,035,674	1,437,410
Total financial liabilities carried at amortised costs	2,030,643	2,159,493

20. SHARE CAPITAL AND SHARE PREMIUM

	Group and Company	
	Number of ordinary shares '000	Amount RM'000
(a) Authorised:		
1 January 2015/31 December 2015/ 1 January 2016/31 December 2016 (@ RM0.50 each)	5,000,000	2,500,000

20. SHARE CAPITAL AND SHARE PREMIUM (CONT'D.)**(b) Issued and paid up:**

	Group and Company			
	Number of ordinary shares of RM0.50 each '000	Share capital RM'000	Share premium RM'000	Total share capital and share premium RM'000
At 1 January 2015/31 December 2015/ 1 January 2016/31 December 2016	2,162,000	1,081,000	1,372,819	2,453,819

21. OTHER RESERVES**(a) Share options reserve**

Share options reserve represents the equity-settled share options granted by the ultimate holding company to the employees of the Group.

(b) Capital reserve

Capital reserve relates to statutory reserves of an overseas subsidiary.

(c) Gain on derecognition of intercompany financial liabilities

The gain on derecognition of financial liabilities arose as part of the settlement of intercompany liabilities due to the holding company pursuant to a past internal reorganisation.

(d) 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.

(e) 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.

NOTES TO THE FINANCIAL STATEMENTS

22. REVENUE

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Drilling and workover services	266,362	755,720	-	-
Sale of goods	5,113	22,185	-	-
Rendering of services	49,281	61,078	-	-
Gross dividend income from subsidiaries	-	-	6,592	-
Management fees from subsidiaries	-	-	10,218	13,110
Management fees from fellow subsidiaries	87	102	87	102
Others	210	792	-	-
	321,053	839,877	16,897	13,212

23. OTHER OPERATING INCOME

Included in other operating income are:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Net foreign exchange gains	26,038	31,190	30,839	57,451
Net fair value gain on derivatives	-	604	-	-
Net fair value gain on money market fund	-	240	-	234
Gain on disposal of property, plant and equipment	68	57	-	-
Rental income	1,051	410	951	1,260

24. EMPLOYEE BENEFITS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Wages and salaries	89,464	157,591	12,207	14,232
Social security costs	369	478	73	69
(Reversal of)/provision for unutilised leave	(92)	108	(70)	11
Pension costs - defined contribution plan	6,471	8,418	1,878	2,258
Termination benefits	3,864	-	573	-
Other employee related expenses	23,276	32,303	1,220	1,798
	123,352	198,898	15,881	18,368
Less: Employee benefits capitalised				
- Property, plant and equipment (Note 4(b)(ii))	-	(10,337)	-	-
	123,352	188,561	15,881	18,368

Included in employee benefits is executive director's remuneration as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Salaries and other emoluments	1,161	1,283	1,161	1,274
Pension costs - defined contribution plan	171	188	171	188
Benefits-in-kind	182	176	173	176

25. IMPAIRMENT PROVISIONS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Property, plant and equipment (Note 4)	780,265	336,431	-	-
Goodwill (Note 6)	-	11,291	-	-
Investment in a subsidiary (Note 7)	-	-	288,029	-
Amount due from subsidiaries (Note 14)	-	-	32,347	-
Amount due from fellow subsidiaries (Note 14)	935	-	-	-
	781,200	347,722	320,376	-

NOTES TO THE FINANCIAL STATEMENTS

26. OTHER OPERATING EXPENSES

Included in other operating expenses are:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Non-executive directors' remuneration:				
- fees	648	640	648	640
- meeting allowances	277	182	277	182
- other emoluments	154	159	154	159
Rental of premises	9,149	10,773	3,279	3,380
Rental of equipment, barge and rig	16,446	49,223	548	553
Repair and maintenance of equipment and rigs	44,453	56,957	37	43
Auditors' remuneration:				
Statutory audit				
- auditors of the Company	675	767	146	176
- other auditors	53	51	-	-
Other services				
- auditors of the Company	156	376	10	129
Management fees payable to a related company	1,099	1,104	1,099	1,104
Net fair value loss on money market fund	52	-	52	-
Loss on disposal of property, plant and equipment	693	126	34	26
Property, plant and equipment written off	6,826	14,054	-	1

Non-executive directors' remuneration:

Group and Company	Directors' fees		**Other emoluments	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Tan Sri Asmat bin Kamaludin	144	160	144	152
Badrul Feisal Bin Abdul Rahim	72	-	30	-
Dr. Leong Chik Weng	72	80	54	33
Razalee bin Amin	72	80	51	37
Dato' Afifuddin bin Abdul Kadir	72	80	31	27
Cheah Tek Kuang	72	80	42	29
Dato' Ibrahim bin Marsidi	72	80	43	32
Fina Norhizah binti Hj Baharu Zaman	72	80	36	31
	648	640	431	341

** Included in the other emoluments are meeting fees allowance, per diem allowance, car, petrol, telephone expenses and leave passage.

26. OTHER OPERATING EXPENSES (CONT'D.)

The number of directors of the Company whose total remuneration falls within the respective bands are as follows:

	Group		Company	
	2016	2015	2016	2015
Executive director:				
RM1,500,001 - RM1,550,000	1	-	1	-
RM1,600,001 - RM1,650,000	-	1	-	1
Non-executive directors:				
RM100,001 - RM150,000	7	6	7	6
RM250,001 - RM300,000	1	-	1	-
RM300,001 - RM350,000	-	1	-	1

27. FINANCE COSTS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Interest expenses				
- Bank borrowings	107,764	71,210	47,940	28,031
- Due to holding company	9,917	-	9,917	-
- Others	552	732	-	3
	118,233	71,942	57,857	28,034
Less: Interest expenses capitalised				
- Property, plant and equipment (Note 4(b)(i))	-	(7,883)	-	-
Net interest expenses	118,233	64,059	57,857	28,034

28. INVESTMENT INCOME

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Distribution income from:				
- Money market fund	1,234	938	738	721
Interest income from:				
- Deposits with licensed banks	15,665	24,528	13,354	23,234
- Subsidiaries	-	-	55,205	39,044
	16,899	25,466	69,297	62,999

NOTES TO THE FINANCIAL STATEMENTS

29. INCOME TAX EXPENSE

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Income tax:				
Malaysian income taxes	1,702	4,300	1,551	3,291
Foreign income taxes	562	19,881	-	-
	2,264	24,181	1,551	3,291
Under/(over) provision in prior years:				
Malaysian income taxes	927	(2,206)	137	(113)
Foreign income taxes	(5)	(144)	-	-
	922	(2,350)	137	(113)
	3,186	21,831	1,688	3,178
Deferred taxation (Note 9):				
Relating to origination and reversal of temporary differences	(1,026)	(1,976)	-	-
Under provision in prior years	23	150	-	-
	(1,003)	(1,826)	-	-
Total income tax expense	2,183	20,005	1,688	3,178

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

29. INCOME TAX EXPENSE (CONT'D.)

Reconciliations between tax expense and the accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2016 and 2015 are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(Loss)/profit before tax	(1,181,264)	(348,426)	(285,774)	78,978
Taxation at Malaysian statutory rate of 24% (2015: 25%)	(283,503)	(87,107)	(68,586)	19,744
Effect of different tax rates in other jurisdictions	471	7,183	-	-
Income not subject to tax	(19,672)	(10,160)	(23,799)	(16,724)
Expenses not deductible for tax purposes	270,951	102,317	93,838	41
Utilisation of previously unrecognised deferred tax assets	(25)	-	(25)	-
Deferred tax assets not recognised	33,117	10,102	123	230
Under provision of deferred tax in prior years	23	150	-	-
Under/(over) provision of income tax in prior years	922	(2,350)	137	(113)
Share of results of associate	(101)	(130)	-	-
Tax expense for the year	2,183	20,005	1,688	3,178

30. LOSS PER SHARE**Basic/diluted**

	Group	
	2016	2015
Net loss attributable to equity holders (RM'000)	(1,177,379)	(369,277)
Weighted average number of ordinary shares of RM0.50 (2015: RM0.50) in issue ('000)	2,162,000	2,162,000
Basic/diluted loss per share (sen):	(54.46)	(17.08)

Basic/diluted 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.

The Company has no potential dilutive ordinary shares as at the end of the reporting date and as such diluted earnings per share is equal to the basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

31. CAPITAL COMMITMENTS

	Group	
	2016 RM'000	2015 RM'000
Approved and contracted for:		
- land and buildings	321	575
- equipment, plant and machinery	8,361	79,466
- others	38	2,086
	8,720	82,127
Approved but not contracted for:		
- land and buildings	4,353	5,324
- equipment, plant and machinery	33,877	98,520
- others	6,235	3,342
	44,465	107,186
Total capital commitments	53,185	189,313

32. 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.

32. SEGMENT REPORTING (CONT'D.)

(a) Business segments

2016	Drilling services RM'000	Oilfield services RM'000	Others RM'000	Adjustments and eliminations RM'000	Note	Per consolidated financial statements RM'000
Revenue:						
External customers	303,547	17,419	87	-		321,053
Inter-segment	-	-	10,145	(10,145)	I	-
Total revenue	303,547	17,419	10,232	(10,145)		321,053
Results:						
Depreciation and amortisation	(284,324)	(5,773)	(1,094)	-		(291,191)
Impairment of property, plant equipment	(764,485)	(15,780)	-	-		(780,265)
Finance costs	(118,142)	(91)	-	-		(118,233)
Investment income	2,028	239	14,632	-		16,899
Share of results of associate	-	419	-	-		419
Other material non-cash items	(5,678)	(57)	(19,198)	-	II	(24,933)
Segment (loss)/profit before tax	(1,155,764)	(34,131)	8,631	-		(1,181,264)
Income tax expense	(309)	(172)	(1,702)	-		(2,183)
Segment (loss)/profit after tax	(1,156,073)	(34,303)	6,929	-		(1,183,447)
Assets:						
Investment in associate	-	2,571	-	-		2,571
Additions to non-current assets	53,189	3,086	761	-	III	57,036
Segment assets	6,044,537	70,153	435,350	-		6,550,040
Liabilities:						
Segment liabilities	3,956,063	13,474	319,302	-		4,288,839

NOTES TO THE FINANCIAL STATEMENTS

32. SEGMENT REPORTING (CONT'D.)

(a) Business segments (Cont'd.)

2015	Drilling services RM'000	Oilfield services RM'000	Others RM'000	Adjustments and eliminations RM'000	Note	Per consolidated financial statements RM'000
Revenue:						
External customers	802,363	37,412	102	-		839,877
Inter-segment	-	-	13,024	(13,024)	I	-
Total revenue	802,363	37,412	13,126	(13,024)		839,877
Results:						
Depreciation and amortisation	(239,542)	(5,406)	(1,171)	-		(246,119)
Impairment of Rigs, HWU and goodwill	(341,504)	(6,218)	-	-		(347,722)
Finance costs	(60,864)	(94)	(3,101)	-		(64,059)
Investment income	934	143	24,389	-		25,466
Share of results of associate	-	521	-	-		521
Other material non-cash items	(17,484)	(14)	2,633	-	II	(14,865)
Segment (loss)/profit before tax	(385,329)	(5,030)	41,933	-		(348,426)
Income tax expense	(15,666)	(1,076)	(3,263)	-		(20,005)
Segment (loss)/profit after tax	(400,995)	(6,106)	38,670	-		(368,431)
Assets:						
Investment in associate	-	2,073	-	-		2,073
Additions to non-current assets	1,769,329	10,046	1,613	-	III	1,780,988
Segment assets	6,710,664	106,141	830,178	-		7,646,983
Liabilities:						
Segment liabilities	4,097,980	11,676	193,890	-		4,303,546

32. SEGMENT REPORTING (CONT'D.)**(a) Business segments (Cont'd.)**

The following are the nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements:

- I. Inter-segment revenue are eliminated on consolidation.
- II. Other material non-cash income/(expenses) consist of the following items as presented in the respective notes to the consolidated financial statements:

	Note	2016 RM'000	2015 RM'000
Net fair value gain on derivatives	23	-	604
Net loss on disposal of property, plant and equipment	23, 26	(625)	(69)
Net fair value (loss)/gain on money market fund	23, 26	(52)	240
Net unrealised foreign exchange loss	23	(17,430)	(1,586)
Property, plant and equipment written off	26	(6,826)	(14,054)
		(24,933)	(14,865)

- III. Additions to non-current assets consist of:

	Note	2016 RM'000	2015 RM'000
Property, plant and equipment	4	57,036	1,780,988

NOTES TO THE FINANCIAL STATEMENTS

32. 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	Indonesia RM'000	Singapore RM'000	Vietnam RM'000	Myanmar RM'000	Others RM'000	Total RM'000
31 December 2016							
Revenue from external customers	313,786	-	-	-	-	7,267	321,053
Non-current assets	4,669,309	586,980	13,837	-	-	30,513	5,300,639
31 December 2015							
Revenue from external customers	419,285	-	-	332,254	68,785	19,553	839,877
Non-current assets	3,781,263	2,240,337	24,768	-	-	37,897	6,084,265

Non-current assets information presented above consist of the following items as presented in the consolidated statements of financial position:

	2016 RM'000	2015 RM'000
Property, plant and equipment	5,298,125	6,081,634
Land use rights	2,514	2,631
	5,300,639	6,084,265

33. SUBSIDIARIES

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2016 %	2015 %
Subsidiaries of the Company:				
UMW JDC Drilling Sdn. Bhd.	Malaysia	Provision of drilling operations for the oil and gas industry.	85	85
UMW Malaysian Ventures Sdn. Bhd.	Malaysia	Investment holding.	100	100
UMW Singapore Ventures Pte. Ltd.*	Singapore	Investment holding.	100	100
UMW Rig Asset (L) Ltd.	Malaysia	Investment holding.	100	100
Subsidiaries of:				
UMW Malaysian Ventures Sdn. Bhd.				
UMW Singapore Ventures Pte. Ltd.				
UMW Rig Asset (L) Ltd.				
UMW Workover Sdn. Bhd.	Malaysia	Provision of workover operations for the oil and gas industry.	100	100
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
UMW Drilling Co. Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling 2 (L) Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling 3 (L) Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling 4 (L) Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling 5 (L) Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling 6 (L) Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling 7 (L) Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling 8 (L) Ltd.	Malaysia	Ownership and leasing of rig.	100	100

NOTES TO THE FINANCIAL STATEMENTS

33. SUBSIDIARIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2016 %	2015 %
UMW Drilling Academy Sdn. Bhd.	Malaysia	Provision of training and courses in relation to oil and gas drilling activities.	100	100
UMW Standard 1 Pte. Ltd.	Singapore	Ownership and leasing of rig.	100	100
UMW Standard 3 Pte. Ltd.	Singapore	Dormant.	100	100
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
UMW Oilpipe Services Sdn. Bhd.	Malaysia	Provision of threading, inspection, repair and maintenance services for OCTG.	100	100
UMW Oilpipe Services (Turkmenistan) Ltd.	Malaysia	Provision of threading, inspection, repair and maintenance services for OCTG.	51	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

* Audited by firms other than Ernst & Young.

33. SUBSIDIARIES (CONT'D.)

(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	
	2016 %	2015 %
UMW JDC Drilling Sdn. Bhd.	15	15
UMW Oilpipe Services (Turkmenistan) Ltd.	49	49
UOT (Thailand) Limited	41.2	41.2

(ii) Summarised statements of financial position

	2016 RM'000	2015 RM'000
Non-current assets	3,104	11,687
Current assets	22,222	44,540
Non-current liabilities	-	(277)
Current liabilities	(11,748)	(18,273)

(iii) Summarised statements of comprehensive income

	2016 RM'000	2015 RM'000
Revenue	63,901	125,442
(Loss)/profit for the year	(15,834)	2,899
Other comprehensive income	534	5,124
Total comprehensive (loss)/income	(15,300)	8,023
Dividends paid to non-controlling interests	(1,648)	-

NOTES TO THE FINANCIAL STATEMENTS

33. SUBSIDIARIES (CONT'D.)

(a) Subsidiaries with non-controlling interests (Cont'd.)

(iv) Summarised statements of cash flows

	2016 RM'000	2015 RM'000
Net cash (used in)/generated from operating activities	(9,302)	24,646
Net cash generated from/(used in) investing activities	121	(170)
Net cash used in financing activities	(9,396)	-
Net (decrease)/increase in cash and cash equivalents	(18,577)	24,477
Cash and cash equivalents at end of year	18,712	36,461

34. ASSOCIATE

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2016 %	2015 %
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.

35. SIGNIFICANT RELATED PARTY DISCLOSURES

- (a) In addition to the related party transaction information disclosed elsewhere, transactions by the Group with its related parties are as follows:

Companies	Transacting Parties	Nature of Transactions	2016 RM'000	2015 RM'000
UMW Offshore Drilling Sdn. Bhd.	UMW Pennzoil Distributors Sdn. Bhd., a subsidiary of UMWH	Purchase of goods	–	188
UMW Oil & Gas Corporation Berhad and its subsidiaries companies	U-TravelWide Sdn. Bhd., a subsidiary of UMWH	Purchase of services	513	501
UMW Oil & Gas Corporation Berhad	UMW Corporation Sdn. Bhd., a subsidiary of UMWH	Rental expense	2,595	2,545
		Management fees expense	1,099	1,104
UMW Oilpipe Services Sdn. Bhd.	UMW Industries (1985) Sdn. Bhd., a subsidiary of UMWH	Operating lease expense	224	300
UMW Oil & Gas Corporation Berhad	e-Lock Corporation Sdn. Bhd., an associate of UMWH in which Dr. Leong Chik Weng also has an interest	Purchase of services	54	63
UMW Oil & Gas Corporation Berhad	UMWH, holding company	Interest expense on advances from UMWH	9,917	–
UMW Oil & Gas Corporation Berhad and its subsidiaries companies	Toyota Capital Malaysia Sdn. Bhd., a related party of the Group	Operating lease expense	1,356	1,389
UMW JDC Drilling Sdn. Bhd. (“UJD”)	Japan Drilling Co. Ltd., a corporate shareholder of UJD, and its subsidiaries	Purchase of goods and services	16,359	19,366
		Bareboat charter expense	2,308	10,518

The above transactions were stated at contracted amount and were entered into in the normal course of business on a commercial basis.

NOTES TO THE FINANCIAL STATEMENTS

35. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

- (b) In addition to the related party transaction information disclosed elsewhere, transactions by the Company with its subsidiaries are as follows:

	2016 RM'000	2015 RM'000
Dividend income	(6,592)	–
Management fees income	(10,305)	(13,212)
Interest income	(55,205)	(39,044)
Rental income	(951)	(1,260)
Services rendered income	(2,923)	(2,458)

- (c) Compensation of key management personnel

The aggregate compensation of key management personnel, including the executive director of the Company is as follows:

	2016 RM'000	2015 RM'000
Salaries and wages	5,514	6,624
Social security cost	11	10
Pension costs - defined contribution plan	780	945
Other staff related costs	626	752
	6,931	8,331

36. 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	13
- Due from related companies	14
Borrowings	
- Fixed rate borrowings (current)	18
- Floating rate borrowings (non-current)	16
- Floating rate borrowings (current)	18
Payables	
- Trade and other payables	19
- Due to related companies	14

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 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.

Held for trading investments

The fair value of these financial instruments are determined by reference to their published net asset values as at the reporting date.

Finance lease liabilities

The fair value of these financial instruments 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.

Derivatives

Interest rate swap contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and interest rate curves.

NOTES TO THE FINANCIAL STATEMENTS

36. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

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).

	Level 1		Level 2	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000

Assets

Financial assets at fair value through profit or loss:

- Derivative assets - - 5,560 2,868

Held for trading investments

- Investments in money market fund - 89,565 - -

The Group does not have any financial instruments classified as Level 3 as at the reporting date. There were no material transfers between Level 1, Level 2 and Level 3 during the financial year.

37. CAPITAL MANAGEMENT

Capital management is defined as the process of managing the composition of the Group's debts 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 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 holding company and other investments, which consist of investments in money market fund, are included in deriving net debt of the Group and of the Company. The Group endeavours to maintain a healthy gearing ratio to enjoy reasonable costs of borrowings and sufficient debt headroom for future asset expansion.

37. CAPITAL MANAGEMENT (CONT'D.)

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Loans and borrowings	3,772,518	4,004,295	1,711,706	2,140,417
Due to holding company	309,447	-	309,447	-
Less: Deposits, cash and bank balances - Current	(555,021)	(973,807)	(421,588)	(726,067)
Deposit, cash and bank balances - Non-current	(336,450)	-	-	-
Other investments	-	(89,565)	-	(75,642)
Net debt	3,190,494	2,940,923	1,599,565	1,338,708
Total equity	2,261,201	3,343,437	2,374,798	2,662,260
Total capital	5,451,695	6,284,360	3,974,363	4,000,968
Gearing ratio	0.59	0.47	0.40	0.33

38. 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 financial risk management practices are in line with the Enterprise Risk Management Framework of its holding company, UMW Holdings Berhad, with modifications made to suit the industry the Group is in. The Group's risk governance structure comprise the following:

- (i) a Board Risk Management Committee of the Board of Directors; and
- (ii) a Risk Management Committee at corporate management level.

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.

NOTES TO THE FINANCIAL STATEMENTS

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

Financial risk management objectives of the Group are as follows:

- (i) to minimise exposure to all financial risks including interest, credit, liquidity and foreign currency exchange risks;
- (ii) to accept certain level of financial risks including price risk and credit risk that commensurate with the expected returns on the underlying operations and activities; and
- (iii) to minimise liquidity risk by proper cash flow planning, management and control.

The Group's financial risk management strategies include using:

- (i) derivatives to hedge its exposure to currency, interest and cash flow risks where appropriate. However, use of derivatives for speculation is specifically prohibited;
- (ii) credit controls that include evaluation, acceptance, monitoring and feedback to ensure that only reasonably creditworthy customers are accepted; and
- (iii) 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 2016, approximately 45% (2015: 21%) of the Group's trade receivables and approximately 54% (2015: 28%) 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 2016, the Group has such balances amounting to RM37,709,000 (2015: RM331,976,000).

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.

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Foreign Currency Risk (Cont'd.)

The table below demonstrates the sensitivity of the Group's and Company's profit after taxation as at year end to a reasonable possible change in the US Dollar exchange rates against RM with all other variables held constant:

	Group		Company	
	Effect on loss		Effect on	Effect on
	after		loss after	profit after
	taxation		taxation	taxation
	Increase/(decrease)		Increase/(decrease)	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
US Dollar/RM				
- strengthened 5% (2015: 5%)	(381)	(16,290)	(2,188)	(13,764)
- weakened 5% (2015: 5%)	381	16,290	2,188	13,764

(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.

NOTES TO THE FINANCIAL STATEMENTS

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Interest Rate Risk (Cont'd.)

Sensitivity analysis for interest rate risk

The table below demonstrates the sensitivity of the Group's and the Company's profit 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 Effect on profit after taxation Increase/(decrease)	
		2016	2015	2016	2015
		RM'000	RM'000	RM'000	RM'000
London Interbank Offered Rate	+ 50	9,355	7,371	4,241	(4,782)
	- 50	(9,355)	(7,371)	(4,241)	4,782
Cost of funds of lenders	+ 50	6,297	9,205	4,318	(5,920)
	- 50	(6,297)	(9,205)	(4,318)	5,920

(c) Credit Risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including investment securities, deposits, cash and bank balances and derivatives), 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.

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

(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.

As at 31 December 2016, the Group has an excess of current liabilities over its current assets by RM802,869,000 (2015: RM997,678,000).

As disclosed in Note 39, the Group is undertaking a Proposed Renounceable Rights Issue, out of which RM750,000,000 is intended for repayment of borrowings. In the meantime, the Group has sufficient unutilised credit facilities to meet its liabilities as they fall due.

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 2016				
	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)	202,763	-	-	-	202,763
Due to holding company	1,447	-	383,419	-	384,866
Due to fellow subsidiaries	843	-	-	-	843
Borrowings	1,588,133	336,867	1,727,849	475,552	4,128,401
Total undiscounted financial liabilities	1,793,186	336,867	2,111,268	475,552	4,716,873

NOTES TO THE FINANCIAL STATEMENTS

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

(d) Liquidity Risk (Cont'd.)

Group	----- 31 December 2015 -----				
	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)	292,941	-	-	-	292,941
Due to fellow subsidiaries	2,775	-	-	-	2,775
Borrowings	2,311,057	312,619	1,066,136	582,701	4,272,513
Total undiscounted financial liabilities	2,606,773	312,619	1,066,136	582,701	4,568,229

Company	----- 31 December 2016 -----				
	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:

Other payables (exclude provisions)	8,860	-	-	-	8,860
Due to holding company	1,447	-	383,419	-	384,866
Due to subsidiaries and fellow subsidiaries	630	-	-	-	630
Borrowings	1,059,813	79,881	227,741	475,552	1,842,987
Total undiscounted financial liabilities	1,070,750	79,881	611,160	475,552	2,237,343

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

(d) Liquidity Risk (Cont'd.)

Company	31 December 2015					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)	7,819	-	-	-		7,819
Due to subsidiaries and fellow subsidiaries	11,257	-	-	-		11,257
Borrowings	1,453,153	76,109	217,997	530,816		2,278,075
Total undiscounted financial liabilities	1,472,229	76,109	217,997	530,816		2,297,151

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 2016 and 31 December 2015.

39. SUBSEQUENT EVENTS

On 19 January 2017, the Group ("UMW-OG") announced the following corporate proposals:

- i. Proposed acquisition of 497,768,820 ordinary shares of RM0.50 each in Icon Offshore Berhad ("Icon") ("Icon Shares"), representing approximately 42.3% equity interest in Icon, for a purchase consideration of RM248,884,410 or RM0.50 per Icon share to be satisfied via the issuance of 311,105,513 new ordinary shares of RM0.50 each in UMW-OG ("UMW-OG shares") at an issue price of RM0.80 per UMW-OG share ("Proposed Icon Acquisition");
- ii. Proposed acquisition of 37,087,725 ordinary shares of RM1.00 each in Orkim Sdn Bhd ("Orkim"), representing approximately 95.5% equity interest in Orkim, for a cash consideration of RM472,725,000 ("Proposed Orkim Acquisition");
- iii. Proposed Mandatory General Offer ("MGO") for all the remaining Icon shares not already owned by UMW-OG and persons acting in concert with it after the Proposed Icon Acquisition including all new Icon shares that may be issued prior to the closing of the proposed MGO arising from the exercise of outstanding options granted pursuant to Icon's employees' share scheme;
- iv. Proposed Renounceable Rights Issue of new UMW-OG shares together with Free Detachable Warrants to raise gross proceeds of approximately RM1.8 billion;
- v. Proposed increase in Authorised Share Capital of UMW-OG from RM2,500,000,000 comprising 5,000,000,000 UMW-OG shares to RM5,000,000,000 comprising 10,000,000,000 UMW-OG shares; and
- vi. Proposed amendments to the Memorandum of UMW-OG.

NOTES TO THE FINANCIAL STATEMENTS

39. SUBSEQUENT EVENTS (CONT'D.)

Subsequently on 13 February 2017, UMW-OG announced that Wan Izani bin Wan Mahmood (“WIWM”) and Khoo Chin Yew (“KCY”), being the minority shareholders of Orkim, had accepted UMW-OG’s offers by entering into the following agreements:

- i. Conditional share purchase agreement for the purchase of 970,883 Orkim Shares held by WIWM, representing 2.5% equity interest in Orkim, for a cash consideration of RM12,375,000; and
- ii. Conditional share purchase agreement for the purchase of 776,706 Orkim Shares held by KCY, representing 2.0% equity interest in Orkim, for a cash consideration of RM9,900,000.

The completion of the above proposals are subject to certain conditions being fulfilled, waived or completed, which include the following:

- i. Approval from the shareholders of UMW-OG;
- ii. Consent of the lenders of UMW-OG;
- iii. Approval of the Securities Commission for the Proposed Orkim Acquisition, if required; and
- iv. Results of the due diligence being satisfactory to all parties involved.

40. SUPPLEMENTARY INFORMATION - BREAKDOWN OF (ACCUMULATED LOSSES)/RETAINED PROFITS INTO REALISED AND UNREALISED

The breakdown of the (accumulated losses)/retained profits of the Group and of the Company as at 31 December 2016 into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants, as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Total (accumulated losses)/retained profits of the Company and its subsidiaries:				
- Realised	(1,313,613)	846,786	(146,920)	103,167
- Unrealised	(17,318)	(2,480)	(10,246)	27,129
	(1,330,931)	844,306	(157,166)	130,296
Total share of retained profits from associate:				
- Realised	2,468	1,619	-	-
Total (accumulated losses)/retained profits	(1,328,463)	845,925	(157,166)	130,296
Add/(less):				
Consolidation adjustments	295,334	(701,675)	-	-
Total (accumulated losses)/retained profits as per financial statements	(1,033,129)	144,250	(157,166)	130,296

LIST OF PROPERTIES

PROPERTY OWNED BY THE GROUP

As at 31 December 2016

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
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	RMB3,886,643 (RM2,514,658) (Land) RMB30,899,424 (RM19,991,927) (Building) Refer to note ⁽³⁾
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						
No. 101, Central South Fourth Street, Tianjin Economic-Technological Development Area West Zone, 300462 Tianjin, People's Republic of China						
Leasehold for a period of 50 years, expiring on 2061						

Notes:

- (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 = RM0.647 as at 31 December 2016.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 7th Annual General Meeting (“AGM”) of 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 Monday, 15 May 2017 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 2016 and the Reports of the Directors and Auditors thereon.
Please refer to Explanatory Note A
2. To reelect the following Directors, each of whom retires by rotation in accordance with Article 107 of the Company’s Articles of Association and who being eligible offer themselves for reelection:
 - (i) Cheah Tek Kuang **Ordinary Resolution 1**
 - (ii) Rohaizad bin Darus **Ordinary Resolution 2**

Tan Sri Asmat bin Kamaludin retires as a Director at the conclusion of this 7th AGM.
Please refer to Explanatory Note B
3. To reelect Dato’ Abdul Rahman bin Ahmad who retires in accordance with Article 113 of the Company’s Articles of Association and who being eligible offers himself for reelection.
Please refer to Explanatory Note C **Ordinary Resolution 3**
4. (i) To approve the payment of Directors’ fees for the financial year ended 31 December 2016. **Ordinary Resolution 4**

(ii) To approve the payment of Non-Executive Directors’ fees from 1 January 2017 to the 8th AGM of the Company. **Ordinary Resolution 5**

(iii) To approve the payment of Directors’ remuneration (excluding Directors’ fees) to the Non-Executive Directors up to an amount of RM723,930 from 1 January 2017 until the 8th AGM of the Company.
Please refer to Explanatory Note D **Ordinary Resolution 6**
5. To reappoint Messrs. Ernst & Young as the Company’s Auditors for the year ending 31 December 2017 and to authorise the Board of Directors to determine their remuneration.
Please refer to Explanatory Note E **Ordinary Resolution 7**

AS SPECIAL BUSINESS

To consider, if thought fit, to pass the following motion as Ordinary Resolution with or without modifications:

6. Proposed Renewal of Shareholders’ Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature (“Proposed Renewal of Shareholders’ Mandate”).

NOTICE OF ANNUAL GENERAL MEETING

“THAT the mandate granted by the shareholders of the Company on 17 May 2016 pursuant to Paragraph 10.09 of the Main Market Listing Requirements (“MMLR”) of Bursa Malaysia Securities Berhad (“Bursa Malaysia”), authorising the Company, its subsidiaries or any of them (the “Group”) to enter into the recurrent transactions of a revenue or trading nature as set out in Section 1.3 of the Circular to Shareholders dated 21 April 2017 (“Circular”), with the Related Parties as described in the Circular, which are necessary for the day-to-day operations of the Group, be and are hereby renewed, provided that such transactions are carried out in the ordinary course of business, made on arm’s length basis and on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public and not detrimental to the minority shareholders of the Company.

Ordinary Resolution 8

AND THAT such authority conferred by such renewed mandate shall continue to be in force until:

- a. the conclusion of the 8th AGM of the Company following this AGM, at which time it will lapse, unless the authority is renewed by a resolution passed at the general meeting;
- b. the expiration of the period within which the next AGM is required to be held pursuant to Section 340 (2) of the Companies Act 2016 (“CA 2016”) but shall not extend to such extension as may be allowed pursuant to Section 340 (4) of the CA 2016; or
- c. revoked or varied by resolution passed by the shareholders of the Company in a general meeting of the Company,

whichever is the earlier.

AND THAT authority be and is hereby given to the Directors of the Company to complete and do all such acts and things (including executing such documents as may be required) as they may consider expedient or necessary to give effect to the Proposed Renewal of Shareholders’ Mandate.

AND FURTHER THAT the estimates given on the Recurrent Related Party Transactions specified in Section 1.3 of the Circular being provisional in nature, the Directors or any of them be and are hereby authorised to agree to the actual amount or amounts thereof, provided always that such amount or amounts comply with the review procedures set out in Section 1.5 of the Circular.”

Please refer to Explanatory Note F

7. To transact any other ordinary business for which due notice has been given in accordance with the CA 2016 and the Company’s Articles of Association.

By Order of the Board

LEE MI RYOUNG (MAICSA 7058423)

Company Secretary

Kuala Lumpur

21 April 2017

NOTES:

1. A member of the Company entitled to attend and vote at the meeting may appoint a proxy to attend and vote in his/her stead. A proxy may but need not be a member of the Company.
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. A member shall not be entitled to appoint more than one proxy.
4. 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.

Every appointment submitted by an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, must specify the CDS Account Number.

5. The instrument appointing the proxy, together with the duly registered Power of Attorney referred to in Note 2 above, if any, must be deposited at the office of the 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 24 hours before the time appointed for the taking of the poll, or any adjournment thereof.
6. For the purpose of determining a member who shall be entitled to attend the 7th AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Article 69(2)(b) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act 1991 to issue a General Meeting Record of Depositors as at 8 May 2017. Only a depositor whose name appears on the General Meeting Record of Depositors as at 8 May 2017 shall be entitled to attend the said meeting or appoint a proxy to attend and/or vote in his/her stead.

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY NOTES TO THE AGENDA:

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 and hence is not put forward for voting.

Explanatory Notes B and C

Article 107 of the Company's Articles of Association expressly states that in every subsequent AGM, one-third of the Directors for the time being or the number nearest to one-third with a minimum of one, shall retire from office and the retiring Directors shall be eligible to seek reelection thereof.

Article 113 of the Company's Articles of Association provides that any Director so appointed shall hold office only until the next AGM and shall be eligible for reelection.

Cheah Tek Kuang, Rohaizad bin Darus and Dato' Abdul Rahman bin Ahmad are standing for reelection as Directors of the Company and being eligible, had offered themselves for reelection at this AGM.

The Board agreed with the Board Nomination Committee's recommendation that the above Directors are eligible to stand for reelection respectively, based on the results of their individual assessment. Each Independent Non-Executive Director has provided his annual declaration of independence in the fourth quarter of 2016.

Tan Sri Asmat bin Kamaludin was reelected as Director of the Company at the 6th AGM of the Company held on 17 May 2016 to hold office until the conclusion of the 7th AGM of the Company. Tan Sri Asmat will not seek reelection as he retires as a Director of the Company at the conclusion of this 7th AGM. Hence, he will retain office until the close of the 7th AGM.

Explanatory Note D

Article 100 of the Company's Articles of Association 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. In this respect, the Board agreed that the shareholders' approval shall be sought at the 7th AGM in three separate resolutions as below:

- (i) Ordinary Resolution 4 - The Board is recommending that the shareholders approve the payment of Directors' fees for the financial year ended 31 December 2016 as disclosed in page 158 of the 2016 Annual Report.*
- (ii) Ordinary Resolution 5 - On 13 January 2016, the Board has approved a reduction of 10% of Non-Executive Director's fee (i.e. RM8,000) and reduction of the Chairman's fee by RM16,000 in view of the challenging oil and gas market for the year 2016. The Board is recommending that the shareholders approve the payment of Directors' fees based on the reduced fees structure as follows:*

Period	Chairman	Non-Executive Directors
1 January 2017 to 7 th AGM	RM12,000 per month	RM6,000 per month
7 th AGM to 8 th AGM	RM144,000 per annum	RM72,000 per annum

(iii) Ordinary Resolution 6 – The Directors' remuneration (excluding Directors' fees) comprise benefits-in-kind and other emoluments payable to the Non-Executive Directors, details of which are as follows:

Description	Chairman	Non-Executive Directors
Benefits-in-kind	Medical coverage, travel & communication leave passage and other claimable benefits	Medical coverage, travel & communication, and other claimable benefits
Other emoluments		
(i) Meeting Allowance (per meeting)		
- Board	RM1,500	RM1,000
- Board Committees		
(ii) Per Diem (per day)	RM500	RM500

Note: President/Executive Director does not receive any Directors' Remuneration.

Payment of Non-Executive Directors remuneration will be made by Company on a monthly basis and/or as and when incurred.

Explanatory Note E

Pursuant to Section 271(4)(a) of the CA 2016, shareholders are required to approve the reappointment of auditors who shall hold office until the conclusion of the next AGM and to authorise the directors to determine their remuneration thereof.

The present Auditors, Messrs. Ernst & Young has indicated their willingness to continue its services for another year.

The Board Audit Committee and the Board have considered the reappointment of Messrs. Ernst & Young as Auditors of the Company having undertaken an annual assessment of the suitability and independence of the external auditors and have collectively agreed that Messrs. Ernst & Young has met the relevant criteria prescribed by Paragraph 15.21 of the MMLR of Bursa Malaysia.

Explanatory Note F

In accordance with Paragraph 10.09 of the MMLR of Bursa Malaysia, a listed issuer may seek a mandate from its shareholders for Recurrent Related Party Transactions.

The Board proposes to renew the mandate granted by the shareholders of the Company at the previous AGM of the Company held on 17 May 2016.

The Proposed Renewal of Shareholders' Mandate will enable the Company and its subsidiaries to enter into any recurrent related party transactions of a revenue or trading in nature which are necessary for the day-to-day operations of the Company and its subsidiaries, involving related parties as detailed in the Circular to Shareholders dated 21 April 2017.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

Pursuant to Paragraph 8.27(2) of the MMLR of Bursa Malaysia.

Details of Directors seeking reelection/reappointment as mentioned in the Notice of AGM are set out in their respective profiles appearing on pages 18 to 22 of this Annual Report. Directors' interests in the securities of the Company are disclosed on page 9 of this Annual Report.

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FORM OF PROXY

I/We _____
 (NAME AS PER NRIC / PASSPORT / CERTIFICATE OF INCORPORATION IN CAPITAL LETTERS)
 with (New NRIC No.) _____ / (Old NRIC No.) _____ /
 (Passport No.) _____ / (Company No.) _____
 of _____
 (FULL ADDRESS IN CAPITAL LETTERS)

being a member of **UMW OIL & GAS CORPORATION BERHAD (878786-H)** ("Company") hereby appoint

* _____
 (NAME AS PER NRIC / PASSPORT IN CAPITAL LETTERS)
 with (New NRIC No.) _____ / (Old NRIC No.) _____ / (Passport No.) _____
 of _____
 (FULL ADDRESS IN CAPITAL LETTERS)

or

* the Chairman of the Meeting,

(*Please tick one box only)

as my/our proxy to vote for me/us and on my/our behalf at the 7th Annual General Meeting ("AGM") of the Company to be held at **Dewan Tun Abdul Razak, Menara Kembar Bank Rakyat, No. 33, Jalan Rakyat, 50470 Kuala Lumpur, Malaysia on Monday, 15 May 2017 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 reelect Cheah Tek Kuang in accordance with Article 107 of the Company's Articles of Association Ordinary Resolution 1		
To reelect Rohaizad bin Darus in accordance with Article 107 of the Company's Articles of Association Ordinary Resolution 2		
To reelect Dato' Abdul Rahman bin Ahmad in accordance with Article 113 of the Company's Articles of Association Ordinary Resolution 3		
To approve the payment of Directors' fees for the financial year ended 31 December 2016 Ordinary Resolution 4		
To approve the payment of Non-Executive Directors' fees from 1 January 2017 to the 8 th AGM Ordinary Resolution 5		
To approve the payment of Directors' remuneration (excluding Directors' fees) to the Non-Executive Directors up to an amount of RM723,930 from 1 January 2017 until the 8 th AGM Ordinary Resolution 6		
To reappoint Messrs. Ernst & Young as the Company's Auditors for the year ending 31 December 2017 and to authorise the Directors to fix their remuneration Ordinary Resolution 7		
SPECIAL BUSINESS	For	Against
Proposed renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature Ordinary Resolution 8		

Dated this _____ day of _____ 2017

 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.
No. of Ordinary Shares Held

Notes:

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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.
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5. 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 24 hours before the time appointed for the taking of the poll or any adjournment thereof.
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THE REGISTRAR OF
UMW OIL & GAS CORPORATION BERHAD
Company No. : 878786-H

AFFIX
STAMP

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



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 +603 – 2274 7787

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