VELESTO energy

PERFORMANCE DRIVEN, OPERATIONS FOCUSED

INTEGRATED
ANNUAL REPORT 2022

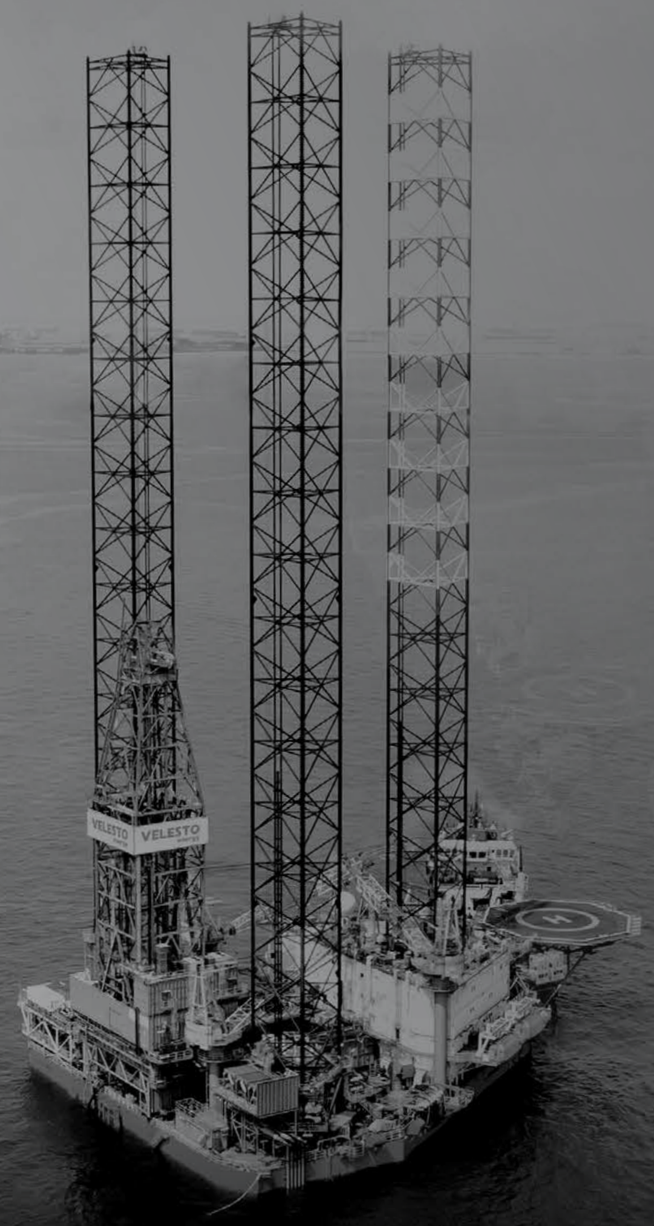
WHO WE ARE

Velesto Energy Berhad ("Velesto") is a Malaysia-based multinational provider of services for the upstream sector of the oil and gas industry.

Velesto owns and operates six premium jack-up drilling rigs, which are capable of operating in water depths of up to 400 feet - ideal for the shallow waters of South East Asia. We are also a provider of workover services through our fleet of hydraulic workover units. In addition, we provide integrated drilling and workover services to meet our clients' requirements.

Velesto ensures continuity and quality of skilled drilling personnel through Velesto-INSTEP Drilling Academy ("VIDA") - a successful collaboration between Velesto Drilling Academy Sdn Bhd and PETRONAS Technical Training Sdn Bhd.

Listed on the Main Board of Bursa Malaysia, we are a constituent of FTSE4Good Bursa Malaysia Index, a testament to our sustainability performance and Environmental, Social and Governance ("ESG") practices.



COVER RATIONALE

Velesto is increasing its momentum of scaling for dynamic progression to navigate its journey in the years ahead.

We foster a 'Performance Driven, Operations Focused' culture to further empower our people, build strong risk resilience, and adhere to ethical standards for the environment, society, safety, and corporate governance. Strengthening our foothold as the partner of choice in the drilling industry, we steer our moves strategically and ensure our shareholders benefit from sustainable returns.

Scan the QR code to download our Integrated Annual Report 2022.

OUR VISION

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

OUR MISSION

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

OUR ILEAP CORE VALUES

INTEGRITY

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

LEADERSHIP

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

EXCELLENCE

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

AGILITY

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

PEOPLE-FOCUSED

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

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ABOUT THIS REPORT

In providing a more comprehensive approach to its corporate reporting for financial year ended 31 December 2022 ("FY2022"), Velesto Energy Berhad ("Velesto" or "the Group") continues with its adoption of Integrated Reporting.

Velesto's adoption of integrated reporting is intended to provide readers with more comprehensive and connected disclosures that address the linkages between financial and non-financial aspects of the Group's business model. These include matters related to environmental, social and governance ("ESG") performance and how these impact financial, business and operational performance.

The Group also utilises the integrated reporting framework to provide disclosures on its consumption of capitals (resources) and its key dependencies, its emerging and existing risks factors, material factors that erode or enhance value creation and strategic prioritise and focus areas going forward. This is in addition to provision of information on financial performance and sustainability related disclosures.

APPROACH TO REPORT CONTENT

In developing content for its Integrated Annual Report 2022 ("IAR2022"), Velesto has used the following criteria in selecting information that would be relevant in conveying its value creation narrative:

- Information pertaining to the external environment i.e. trends and development that had / would have a material effect on financial and non-financial performance.
- Information pertaining to strategic plans in addressing risks and opportunities.
- Information that focusses on capital dependencies, the Group's business model.
- Information on ESG performance including achievement of key performance indicators ("KPIs) and targets.

SCOPE AND BOUNDARY

Unless otherwise indicated, IAR's disclosures are time bound to the financial year of FY2022 which commences from 1 January 2022 to 31 December 2022 with some exceptions, where data / information presented stretch up to 31 March 2023. Where available, in presenting performance trends, data is presented over a 3-5 year period on a rolling basis.

Information contained in IAR2022 has been scoped to Velesto as the holding company and listed entity as well as to all Group subsidiaries in which Velesto has a majority equity stake and has management control of operations.

The material scope of this report is regulated by existing standards of relevant and accurate data collection in a consistent manner which, unless otherwise specified, currently reflects the Group's business operations and undertakings.

Consistent with the guiding principle of comprehensiveness of information, Velesto has made all attempts to include all relevant strategic information towards providing as much as possible, a complete value creation narrative of the Group's performance in FY2022. IAR2022 disclosures may also include supply chain disclosures where relevant.

However, where information could not be substantiated or data was not comprehensive to provide meaningful disclosures, such information has been excluded. Velesto shall, going forward, address these areas towards further enhancing the comprehensiveness of information presented in future reports.

FRAMEWORKS APPLIED

The Integrated Reporting framework comprising the Six Capitals, Seven Guiding Principles and 8 Content Elements is a principles based framework. Hence, in guiding actual disclosures on performance data, structure, management approaches and more, Velesto has applied the following in the preparation of IAR2022:

- Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad
- Bursa Malaysia Sustainability Reporting Guide, 2nd Edition 2018
- FTSE4Good Index Disclosures (FTSE Russell's ESG Data Model)
- Companies Act 2016 ("Act")
- Malaysian Code on Corporate Governance 2017 ("MCCG 2017")
- Malaysian Financial Reporting Standards ("MFRS")
- International Financial Reporting Standards ("IFRS")
- ISO 31000 Risk Management Standard
- Taskforce on Climate Change Financial Disclosures

RELATED INFORMATION

This report is accompanied with additional online disclosures for our valued stakeholders including consolidated and quarterly financial statements, policies, corporate governance documents, and other associated data instituted since the Group's establishment. This information is referred to in this report and additionally disclosed on Velesto's company website under the Investor Relations online portal at https://velesto.com/investor-relation-information.

The Group's latest corporate presentations and Bursa announcements can also be found under the Investor Relations online portal (see "Presentations" and "Bursa Announcement" tabs respectively) at https://velesto.com/investor-relation-information/. News and media press releases on the Group are also available on our corporate website at https://www.velesto.com/media-centre/.

FORWARD-LOOKING STATEMENTS

IAR2022 contains, where relevant data, disclosures or Management's opinion on future strategies and performance. Such information has been presented to the best of the Group's knowledge and is based on available data, market intelligence and forecast models as at 31 December 2022.

While every care has been taken to ensure such information is accurate to the best knowledge of Management, readers are advised to undertake their own due diligence prior to relying on such information in making any investment decisions (or any other decisions). This is because Velesto operates in a highly dynamic market environment where externalities may rapidly change and such developments are beyond the control of the Group. Changes in the political, economic, social, technological, legal and environmental ("PESTLE") landscape may necessitate changes in strategic priorities and future focus areas going forward.

As such, forward-looking statements are not conclusive and do not serve as guarantees of future operational or financial results or any other kind of outcome.

ASSURANCE

This report covers financial data audited by Ernst & Young PLT. Adhering to their reporting standards and process, the financial data depicts a fair and factual portrayal of the Group's financial standing. The report was prepared in accordance with Malaysian Financial Reporting Standards, IFRS and the requirements of the Companies Act 2016 in Malaysia.

Non-financial performance data covered in this report has not undergone formal auditing but the Group's Senior Management has rendered an accurate and fair judgement on all material matters contained including the disclosure of our top line strategic plans for the short, medium and long-term so as not to place Velesto at a competitive disadvantage.

FEEDBACK AND INQUIRIES

The Group is open to receiving due feedback and additional inquiries on the information presented in this report which can be channelled towards our Investors Relations unit at the below details:

Tel : +603-2096 8788
Email : communications@velesto.com

OUR ASSETS

JACK-UP DRILLING RIGS

NAGA 2

DESIGN
GustoMSC-CJ46- X100D

DELIVERY
October 2009

CONSTRUCTION YARD
PT. Drydocks World Graha, Batam, Indonesia

JACK-UP TYPE
Independent Leg Jack- Up Drilling Rig

CLASSIFICATION
ABS

WATER DEPTH
350 feet

CLASS NOTATIONS
A1 Self-Elevating Drilling Unit

NAGA 3

DESIGN
GustoMSC-CJ46- X100D

DELIVERY
September 2010

CONSTRUCTION YARD
PT. Drydocks World Graha, Batam, Indonesia

JACK-UP TYPE
Independent Leg Jack- Up Drilling Rig

CLASSIFICATION
ABS

WATER DEPTH
350 feet

CLASS NOTATIONS
A1 Self-Elevating Drilling Unit

NAGA 4

DESIGN
Keppel FELS B Class

DELIVERY
March 2013

CONSTRUCTION YARD
Keppel FELS Yard, Singapore

JACK-UP TYPE
Independent Leg Jack- Up Drilling Rig

CLASSIFICATION
ABS

WATER DEPTH
400 feet

CLASS NOTATIONS
A1 Self-Elevating Drilling Unit

NAGA 5

DESIGN
Keppel FELS B Class

DELIVERY
April 2014

CONSTRUCTION YARD
Keppel FELS Yard, Singapore

JACK-UP TYPE
Independent Leg Jack- Up Drilling Rig

CLASSIFICATION
ABS

WATER DEPTH
400 feet

CLASS NOTATIONS
A1 Self-Elevating Drilling Unit

NAGA 6

DESIGN
GustoMSC-CJ46- X100D

DELIVERY
September 2014

CONSTRUCTION YARD
China Merchants Heavy Ind. (Shenzhen) Co., Ltd. China

JACK-UP TYPE
Independent Leg Jack- Up Drilling Rig

CLASSIFICATION
ABS

WATER DEPTH
375 feet

CLASS NOTATIONS
A1 Self-Elevating Drilling Unit

NAGA 8

DESIGN
Keppel FELS B Class

DELIVERY
August 2015

CONSTRUCTION YARD
Keppel FELS Yard, Singapore

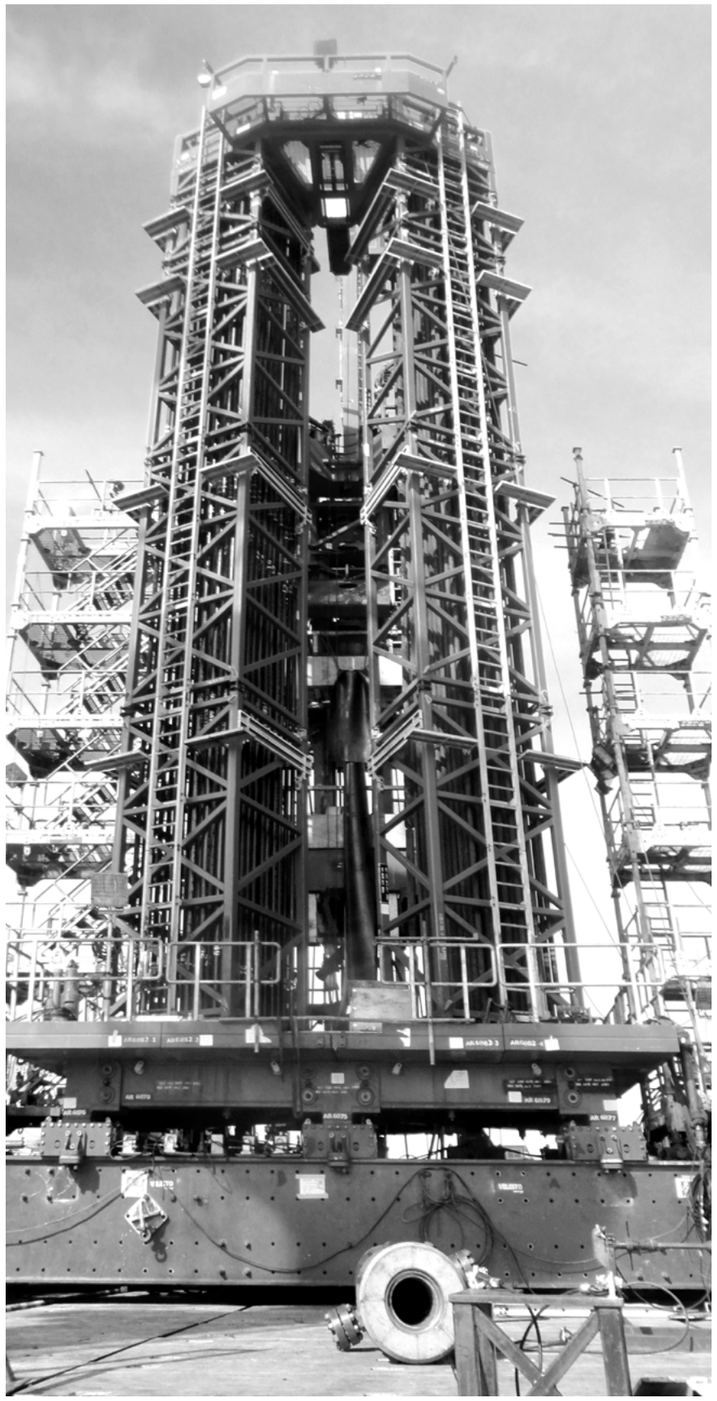
JACK-UP TYPE
Independent Leg Jack- Up Drilling Rig

CLASSIFICATION
ABS

WATER DEPTH
400 feet

CLASS NOTATIONS
A1 Self-Elevating Drilling Unit

HYDRAULIC WORKOVER UNITS



GAIT 1

YEAR BUILT
2001

MAX. PULLING CAPACITY
340,000 lbs

MAX. SNUBBING CAPACITY
150,000 lbs

GAIT 2

YEAR BUILT
2003

MAX. PULLING CAPACITY
460,000 lbs

MAX. SNUBBING CAPACITY
225,000 lbs

Note: To be decommissioned in 2023

GAIT 5

YEAR BUILT
2010

MAX. PULLING CAPACITY
460,000 lbs

MAX. SNUBBING CAPACITY
225,000 lbs

GAIT 6

YEAR BUILT
2014

MAX. PULLING CAPACITY
460,000 lbs

MAX. SNUBBING CAPACITY
225,000 lbs

OILFIELD SERVICES

6

JACK-UP DRILLING RIGS

4

HYDRAULIC WORKOVER UNITS

1

OILFIELD SERVICES

SCAN THIS QR CODE FOR MORE DETAILS ON OUR ASSETS.

CORPORATE INFORMATION

BOARD OF DIRECTORS

MOHD RASHID MOHD YUSOF
Chairman / Non-Independent Non-Executive Director
Date of appointment: 23 June 2017

DATUK TONG POH KEOW
Independent Non-Executive Director
Date of appointment: 29 August 2019

DATUK GEORGE LING KIEN SING
Independent Non-Executive Director
Date of appointment: 29 November 2021

RAZALEE AMIN
Senior Independent Non-Executive Director
Date of resignation: 2 May 2022

IR. DR. MOHD SHAHREEN ZAINOOREEN MADROS
Senior Independent Non-Executive Director
Date of appointment: 25 August 2021

HAIDA SHENNY HAZRI
Non-Independent Non-Executive Director
Date of appointment: 23 June 2017

AR. AHILA GANESAN
Independent Non-Executive Director
Date of appointment: 12 August 2022

ROHAIZAD DARUS
President / Executive Director
Date of retirement: 25 February 2022

ROWINA GHAZALI SETH
Independent Non-Executive Director
Date of appointment: 23 June 2017

MOHD IRWAN AHMAD MUSTAFA
Non-Independent Non-Executive Director
Date of appointment: 25 August 2021

MEGAT ZARIMAN ABDUL RAHIM
President / Executive Director
Date of appointment: 25 February 2022

BOARD AUDIT COMMITTEE

- Datuk Tong Poh Keow ***(Chairperson)***
- Ir. Dr. Mohd Shahreen Zainooreen Madros
- Datuk George Ling Kien Sing
  – appointed on 29 August 2022
- Ar. Ahila Ganesan
  – appointed on 29 August 2022
- Haida Shenny Hazri
  – resigned on 2 May 2022
- Razalee Amin
  – resigned on 2 May 2022

BOARD NOMINATION AND REMUNERATION COMMITTEE

- Ir. Dr. Mohd Shahreen Zainooreen Madros ***(Chairman)***
- Rowina Ghazali Seth
- Datuk Tong Poh Keow
- Mohd Irwan Ahmad Mustafa
- Haida Shenny Hazri
  – appointed on 29 August 2022

BOARD RISK MANAGEMENT COMMITTEE

- Rowina Ghazali Seth ***(Chairperson)***
- Datuk George Ling Kien Sing
- Mohd Irwan Ahmad Mustafa
  – appointed on 29 August 2022
- Ar. Ahila Ganesan
  – appointed on 29 August 2022
- Haida Shenny Hazri
  – resigned on 29 August 2022
- Razalee Amin
  – resigned on 2 May 2022

BOARD WHISTLE-BLOWING COMMITTEE

- Haida Shenny Hazri ***(Chairperson)***
  – appointed on 29 August 2022
- Ir. Dr. Mohd Shahreen Zainooreen Madros
  – appointed on 29 August 2022
- Rowina Ghazali Seth
  – appointed on 29 August 2022
- Datuk Tong Poh Keow
  – resigned on 29 August 2022
- Datuk George Ling Kien Sing
  – resigned on 29 August 2022
- Razalee Amin
  – resigned on 2 May 2022

COMPANY SECRETARIES

- Lee Mi Ryoung
  (MAICSA 7058423)
  (SSM PC No. 201908002222)
- Sazlyna Sapiee
  (MIA 19254)
  (SSM PC No. 202108000032)

REGISTRAR

Securities Services (Holdings) Sdn Bhd

Registration No. 197701005827 (36869-T)
Level 7, Menara Milenium,
Jalan Damanlela,
Pusat Bandar Damansara,
Damansara Heights,
50490 Kuala Lumpur, Malaysia

Telephone: +603-2084 9000
Facsimile: +603-2094 9940

AUDITORS

Ernst & Young PLT

Registration No. 202006000003 (LLP0022760-LCA) & AF 0039
Level 23A, Menara Milenium,
Jalan Damanlela,
Pusat Bandar Damansara,
50490 Kuala Lumpur, Malaysia

Telephone: +603-7495 8000
Facsimile: +603-2095 5332

PRINCIPAL BANKERS

- Affin Bank Berhad Group
- CIMB Bank Berhad Group
- Malayan Banking Berhad Group

REGISTERED OFFICE

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

Telephone: +603-2096 8788
Facsimile: +603-2274 7787

STOCK EXCHANGE LIST

Main Market of BURSA

Stock Name: Velesto
Stock Code: 5243

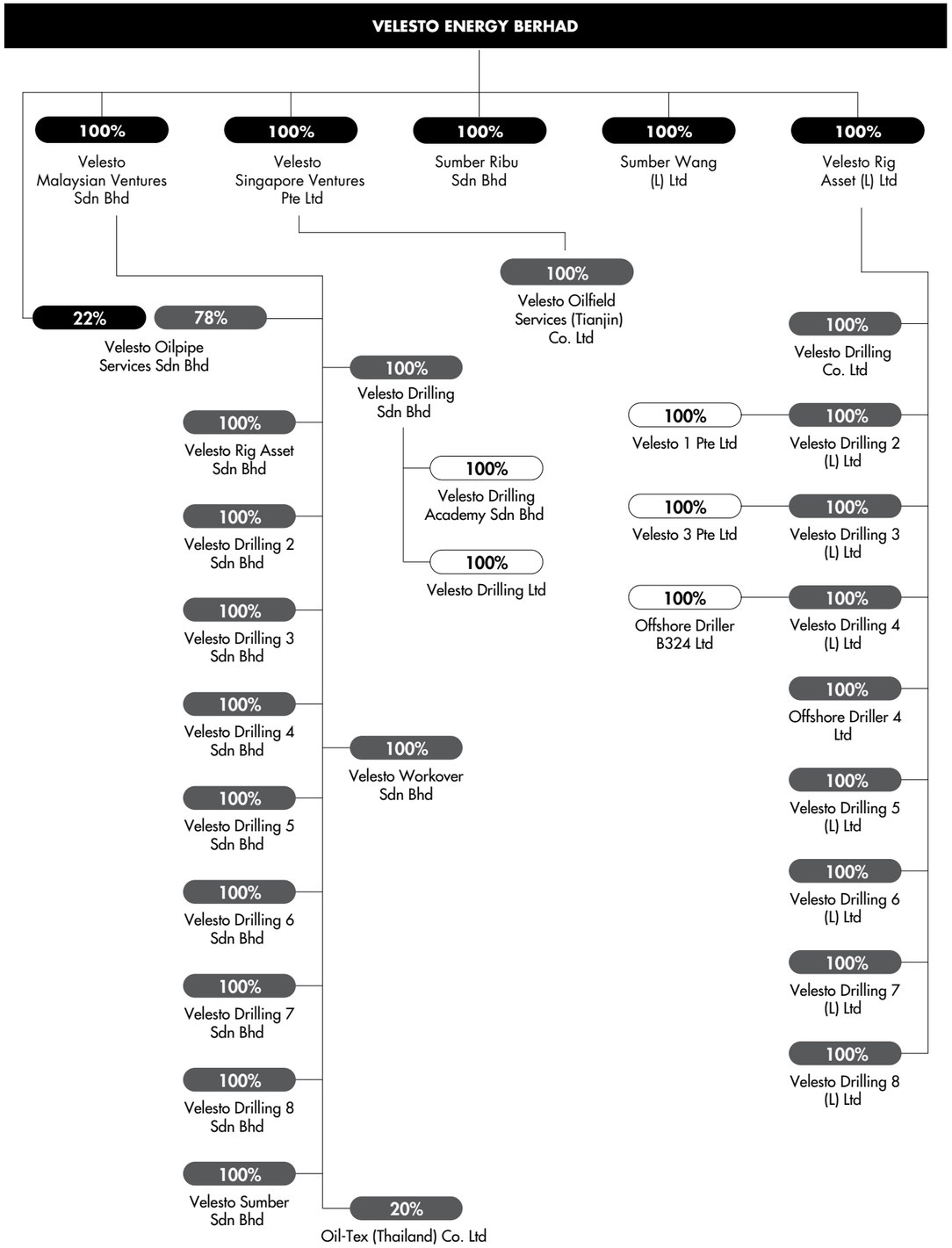
WEBSITE

www.velesto.com

E-MAIL ADDRESS

communications@velesto.com

GROUP CORPORATE STRUCTURE



CALENDAR OF EVENTS

JUNE

12TH ANNUAL GENERAL MEETING (VIRTUAL)

MARCH

AWARDED SCHOLARSHIPS WORTH RM126,000

to Universiti Teknologi Petronas ("UTP") students enrolled in the MSc in Drilling Engineering program for January 2022 intake

MAR

MARCH

AWARDED TWO-YEAR CONTRACT

for the provision of jack-up drilling rigs for Petronas Carigali Sdn Bhd ("PCSB")

MARCH

PNB'S GLC OPEN DAY

11 to 13 March 2022 at KL Convention Centre, Kuala Lumpur

JUN

JUNE

CORAL REEF RESTORATION

Collaboration with the Faculty of Science and Marine Environment, Universiti Malaysia Terengganu ("UMT") and Alunan Coral Project to support efforts carried out at Perhentian Island, Terengganu

AUG

AUGUST

COMPLETION OF OFFLINE CAPABILITIES UPGRADE

for NAGA 5 and NAGA 6

SEP

SEPTEMBER

OGA x MOGSEC 2022

at KL Convention Centre, Kuala Lumpur

OCT

OCTOBER

GAIT-6

- Awarded ExxonMobil Global Recognition on Safety Card Catch of the Week for Crews Safe Mechanical Lifting
- Rated 4/4 Star under Security/ Environmental/Health category for ExxonMobil 2H 2022 Star Award

NOV

NOVEMBER

CONTRACT AWARD

for the Provision of Integrated Rig, Drilling and Completion Services ("i-RDC") for HESS Exploration and Production Malaysia B.V. ("Hess") 2022 to 2024 North Malay Basin Full Field Development Campaign

NOVEMBER

NAGA 4 achieved

180 GOALS ZERO DAYS

for Shell Award

NOVEMBER

Awarded

'INDUSTRY EXCELLENCE'

for MSWG-ASEAN Corporate Governance Award 2021

DEC

DECEMBER

AWARDED OSH GOLD CLASS 1 AWARD WINNER 2022

for Malaysia Society of Occupational Safety and Health ("MSOSH") Award

CHAIRMAN'S STATEMENT

"We are optimistic about our prospects in 2023, given the robust industry outlook and the improvements we have undertaken, which puts us in a favourable position going forward."

MOHD RASHID MOHD YUSOF
Chairman

Dear Shareholders,

On behalf of the Board of Directors of Velesto Energy Berhad ("Velesto" or "the Group"), I hereby present the annual report and audited financial statements for financial year ended 31 December 2022 ("FY2022").

In retrospect, FY2022 proved to be a year of two contrasting halves. The first six months was a period of adjustment for the oil and gas industry, especially the upstream segment as exploration and production ("E&P") activities began to pick-up as the global economy gained further momentum in its recovery after more than two COVID-19 pandemic affected years.

In March 2022, the Russia-Ukraine conflict erupted which sent shockwaves across energy markets and global supply chains. Sanctions imposed on Russian oil had significantly disrupted supply side dynamics, leading to an acute shortage in global supply of crude.

Amidst rising consumption demand, the situation contributed to global oil prices touching an annual high of USD123 per barrel (Brent Crude) and averaging USD101 per barrel for FY2022. This led to a scramble by oil and gas majors to replan their budgeted E&P investments towards averting an energy crisis. Initial drilling activities were ramped up and expedited to compensate for the shortfall of Russian oil. This provided an ideal backdrop for the oil and gas sector to rebound strongly in the second half of FY2022.

It must be said that while crude oil prices had reached new highs in FY2022, there is a gestation period required for tenders to be called, contracts awarded and assets to be mobilised. Hence, the full knock-on effect of higher crude oil prices, recovering consumption demand and increased E&P activities were only truly felt in the second half of FY2022.

In the second half of FY2022, oil and gas majors as well as the upstream segment of the value chain had adjusted well to the prevailing scenario. With this, more tenders were called including large, longer-term contracts. Velesto had aggressively participated in tenders, both locally and abroad and I am pleased to say that the Group was successful in securing contracts for both its Jack-Up ("JU") drilling rigs and its Hydraulic Workover Units ("HWU").

The Group's asset utilisation rate from a low average of 48% in FY2021 had improved to 62% by end FY2022. On the strength of RM1.6 billion in contracts secured during the financial year, Velesto's order book was rebuilt to the tune of RM1.6 billion. The details of these secured contracts are provided in the Management Discussion and Analysis ("MD&A") section of this report. Group revenue improved by 54% year-on-year to stand at RM581 million and EBITDA increased to RM122 million. Loss after tax however increased to RM100 million without the one-off net gain from insurance compensation for NAGA 7.

HIGHLIGHTS AND ACHIEVEMENTS

I wish to highlight that one of the contracts secured was an Integrated Rig Drilling and Completion ("i-RDC") contract. This is the USD135 million Hess i-RDC services contract, Malaysia's first JU rig drilling contract awarded through an i-RDC arrangement.

Our investments in upgrading two of our rigs with offline capabilities has proven to be strategic as Velesto is presently the only Malaysian rig operator with offline capable JUs which is prerequisite for undertaking i-RDC contracts. We intend to leverage this competitive advantage as PETRONAS continues to push for more drilling contracts to be undertaken via an integrated approach.

The transition to offline capabilities for our JUs requires significant financial investments in the short-term and the rig is unable to be offered to clients during the 3-month refurbishment period. However, once the process is completed, it emerges as a much more market-oriented asset that strengthens Velesto's value proposition when bidding for contracts.

Importantly, our integrated contract enables Velesto to collaborate closely with global oil and gas companies. The Hess i-RDC contracts will see Velesto working in close partnership with Halliburton. We welcome this as it paves the way for greater sharing of best practices, industry know-how and technology transfer. Beyond just developing a track record for i-RDC type contracts, our involvement in the Hess i-RDC further hones our capabilities as a drilling rig operator, elevating our benchmarks and performance to world class levels.

In essence, our transition to offline capabilities, beginning with NAGA 6 and NAGA 5 personifies our strategic approach and the progress achieved during the year in review. I wish to emphasise, that irrespective of market conditions, be it a downturn or an upswing in the oil and gas sector, Velesto has always taken the necessary measures to ensure operational and cost competitiveness; to be resilient and to create value.

CHAIRMAN'S STATEMENT

Annual high of

USD123

PER BARREL (Brent Crude)

for FY2022

FY2022 Order book of

RM1.6 BILLION

HIGHEST

since FY2020

Revenue increased

54%

to

RM581 MILLION

RAMPING UP OPERATIONAL CAPABILITIES, CREATING VALUE

Beyond short-term revenues and earnings, the Board and Management have constantly looked to ensure the relevance of our business model amidst a dynamic and rapidly evolving energy environment.

The present energy landscape, which is seeing considerable shifts necessitates even established and proven oil and gas players to adopt new approaches and strategies. This includes leveraging collaboration and acquiring new technologies. Continuing to innovate and enhancing speed and agility is vital to maintaining pace with the requirements of the oil and gas majors.

Hence, as a Group, we continue to balance shorter-term financial-based perspectives together with medium to longer-term perspectives on how best to optimise resources, and strengthen all aspects of our business operations. These include (but are not limited to) technology, talent, operational capabilities, asset readiness as well as sustainability. The latter is driven by the three pillars of Environmental, Social, and Governance ("ESG") performance.

FY2022 has seen Velesto continue to invest in its workforce; not just in ensuring sufficient headcounts, but also in developing the professional competencies and leadership capabilities of our people. Again, the value of focusing on employee professional development, beyond boosting employee morale and satisfaction goes towards improving employee retention and equipping our talent pool with the knowledge and competencies that will support operational excellence and world-class performance. Investing in talent also reduces brain drain – the loss of unique experience and skillsets which is hard to replace and also incurs significant costs in time and finances spent on rehiring.

It is often perceived that our business model is less dependent on human capital and is more centered on manufacturing capital, the quality of our assets. This paradigm continues to change as the requirement to be people and skills focussed – brought by increasing complexity and new technologies necessitates putting the workforce at the heart of the business model together with asset strength and capabilities as well as environmental and social performance.

Similarly, investments in technology that enhance our ability to work efficiently, are vital in meeting the increasingly demanding and complex requirements of clients. The investments into technology may erode short-term financial values, but digitalisation and automation are game changers whose positive impacts are pervasive across the Group. Technology improves strategic visibility of all facets of operations and ultimately ensures we are able to maintain and upscale our operating performance standards.

It is managing these various trade-offs, balancing between the present and the future that we have focussed on throughout FY2022. I am happy to say that the strategic approach has led to Velesto growing its order book, successfully upgrading two rigs with offline capabilities, achieving a higher rig utilisation rate, and on the back of these achievements, registering two consecutive quarters of growth. Our full-year financial performance sees increased revenues and the Group is well on track towards registering positive earnings going forward, barring any unforeseen circumstances such as a resurgence of the COVID-19 pandemic due to new virulent strains.

COMMITMENT TO SOCIETY AND OCCUPATIONAL HEALTH AND SAFETY

The year in review has seen Velesto Group establish tangible ESG Key Performance Indicators ("KPI") to provide firm milestones for our sustainability strategies. Performance targets have been set in tandem with the KPIs to measure the progress achieved over time. Further details are provided in the Sustainability Statement of this report.

Occupational Safety and Health ("OSH") remained a focus area, given the serious ramifications even a single incident can have on operations, revenues, branding, and of course employee morale and also the environment. We have continued to emphasise the need for everyone to have a safety-first mindset and to adhere to all OSH requirements. This was cascaded also to all contractors and the entire supply chain.

Velesto in FY2022, spent RM3.3 million to upgrade the Personal Protection Equipment ("PPE") for offshore crew. Our commitment to keeping all of our people safe, all of the time is total and resolute. For our efforts, Velesto's own operations achieved zero Loss Time Incidents ("LTI") including major injuries in FY2022. It is most unfortunate however, that there was one contractor LTI.

A thorough investigation was conducted jointly by Velesto, the regulatory authorities, and the contractor to identify the root cause of the incident and to implement necessary preventive measures. The lessons learned have been well applied and Velesto has increased its OSH focus on its supply chain – reinforcing among 3rd party contractors to adhere to all OSH-related Standard Operating Procedures ("SOP") at all times, even during what is perceived to be lower risks work situations. Refresher courses have been held for contractors with additional safeguards implemented.

As always, we have continued to focus on delivering positive impacts to local communities. Some of our initiatives for FY2022 were on biodiversity conservation (coral planting), community upliftment, and development through corporate investment programs as well as focussing on the safety and wellbeing of our staff, especially offshore crews. The full details are provided in the Sustainability Statement of this IAR2022.

CHAIRMAN'S STATEMENT

Velesto had
UPGRADED THE PERSONAL PROTECTION EQUIPMENT
for offshore crew in FY2022

A total of
RM1.6 BILLION CONTRACT SECURED
during FY2022

OUTLOOK AND PROSPECTS

"Through collaboration, technological acquisition, cultivating our operational capabilities and emphasising a world-class, high-performance organisational culture, we will **ACHIEVE CONTINUED RELEVANCE AMIDST A DYNAMIC MARKETPLACE**"

Our strategy is to expand our order book by aggressively bidding for more drilling jobs, locally and abroad. We also see opportunities emerging for Plug and Abandonment ("P&A") works. Our plans are consistent with the PETRONAS Activity Outlook ("PAO") which states that while the landscape of the energy sector is undergoing rapid changes; moving towards more sustainable energy alternatives, in the interim of this evolution, oil and gas will continue to be vital in meeting the world's energy needs and in many instances, fuelling the transition towards renewable and cleaner energy sources.

Hydrocarbon fuels are very much required as part of the global energy mix. The world remains energy hungry as it looks to power its recovery going forward.

While the prolonged Russia-Ukraine conflict may provide support for higher crude prices throughout FY2022, the war has led to global supply disruptions, supply shortages and other effects, which have not been fully mitigated despite efforts in FY2022 to address these. These have led to inflationary pressures and together with increasing tensions between US and China as well as the slower than expected recovery of the China economy (post COVID lockdowns in FY2022), the post pandemic economic recovery remains vulnerable to recessionary risks.

Yet, we draw positivity rather than pessimism that present prices provide a conducive environment for a continued upturn in E&P activities. While prices have declined from the highs of USD100 per barrel, they remain within commercially attractive ranges that will continue to stimulate recovery in consumption demand and encourage continued drilling. Barring any black swan events, the upstream segment is expected to remain robust going into FY2023.

As we undertake our book building exercise, Velesto will continue to focus on creating values. This in essence, is a continued focus on human capitals, on asset integrity and capability and enhancing technological capabilities towards delivering more integrated and innovative solutions for clients. We shall also emphasise ESG performance, which has emerged as the new license to operate within the oil and gas sector.

We will be driven by our WAWASAN 2030 roadmap comprising the following six pillars:

BUSINESS GROWTH	**BUSINESS PROCESS**
TECHNOLOGY AND CAPABILITIES	**STAKEHOLDER MANAGEMENT**
PEOPLE	**ESG**

We look to FY2023 with a sense of optimism, though we are cognisant of the challenges that persist as well as risks. Yet, the improvements that we have invested in and undertaken will hold us in good stead going forward. We remain Malaysia's largest drilling operator, with a proven asset base equipped with offline capabilities. We possess exceptional human capital and through technology are enabling our workforce to perform better and to deliver value across our business process.

Through collaboration, technological acquisition, cultivating our operational capabilities and emphasising a world-class, high-performance organisational culture, we will achieve continued relevance amidst a dynamic marketplace and while firmly establishing Velesto in an advantageous position going forward.

A NOTE OF THANKS

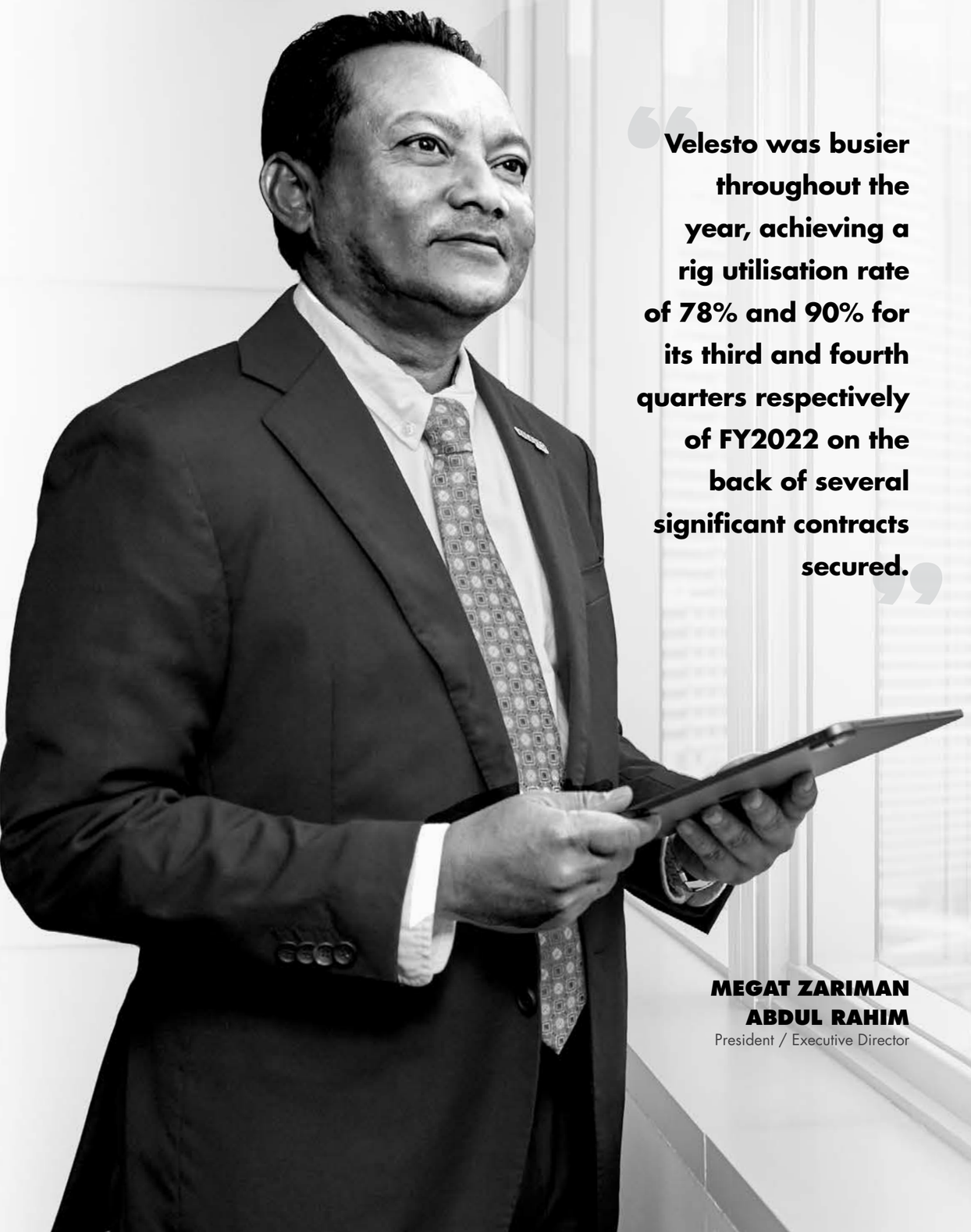
On behalf of the Board, I wish to say thank you to the Management and staffs of Velesto, for their professional contributions and exemplary performance during the year in review. Similarly, I express appreciation to our clients, financiers, shareholders, regulatory authorities and other stakeholders, including our supply chain for being part of our FY2022 story of progress and growth.

I wish to take this opportunity to welcome our newly appointed Independent Non-Executive Director, Ar. Ahila Ganesan, who was appointed to the Board on 12 August 2022. She brings a wealth of related corporate experience and professional expertise, which will serve the Board and Velesto well as we continue to chart our path of recovery, growth and progress. We look forward to her contributions in the coming financial year.

Journeying together, we have come far and we look forward to your continued support as we embark on a new chapter of value creation in FY2023.

MOHD RASHID MOHD YUSOF
Chairman

MANAGEMENT DISCUSSION & ANALYSIS



> **"Velesto was busier throughout the year, achieving a rig utilisation rate of 78% and 90% for its third and fourth quarters respectively of FY2022 on the back of several significant contracts secured."**

MEGAT ZARIMAN ABDUL RAHIM
President / Executive Director

REVIEW OF THE OPERATING BACKDROP

The financial year ended 31 December 2022 ("FY2022") saw the oil and gas sector achieve a robust recovery underpinned by increased consumption demand as well as supply constrictions caused by geo-political developments, namely the Russia-Ukraine conflict, which erupted in early March 2022.

As the world continued to shrug off the debilitating effects of the COVID-19 pandemic, the global economy returned to positive growth of 3.2%, albeit lower than initially forecasts of 5.5%-6.5%. In Malaysia, gross domestic product ("GDP") growth for 2022 was 8.7%.

As the world continued its recovery – underpinned by a resumption to near-normal industrial and commercial activities, the oil and gas sector experienced an upswing with crude oil prices touching a high of USD123 (Brent Crude) per barrel and averaging USD101 (Brent Crude) per barrel for FY2022. The shock disruptions to global oil supply caused by the Russia-Ukraine conflict, provided the impetus for a sudden surge in the price of global crude.

In addition, the two pandemic stricken years had seen a significant decline in exploration and production ("E&P") activity. Consequently, as consumption demand began to increase rapidly (on the back of strong recoveries of most countries and major economies), production activities and supply chains were rapidly outpaced while the ongoing Russia-Ukraine conflict placed further strains on pressured supply chains.

In Malaysia, consistent with the recovery in the global oil market, the domestic oil and gas sector also experienced a significant pick-up in activities, notably in the second half of FY2022.

The first six months of the year was a period of transition and adjustment to the changed market dynamics, as oil and gas majors replanned their capital expenditures for E&P activities and called for contracts. The period was also characteristic of the upstream value chain focussing on ensuring asset readiness, and sufficiency in crew and other capacity-building activities.

As the industry acclimatised to operating conditions, the latter half of FY2022, (underpinned by higher crude oil prices and increasing consumption demand), saw significant uptake in drilling and associated upstream activities year-on-year.

In 2022, the jackup rig count in Malaysia remained at 10 rigs. However, according to PETRONAS Activity Outlook 2023, it is expected to increase to 12 rigs in 2023 and 14 rigs in 2024. More tenders were called and Velesto Energy Berhad ("Velesto" or "the Group") was busier in the second half ot the year, achieving a rig utilisation rate of 78% and 90% for its third and fourth quarters respectively of FY2022 (full year rig utilisation rate 62%) on the back of several significant contracts secured.

Of these, several are long-term contracts over periods of more than months. The Group's financial performance had also improved for FY2022 as Velesto posted 54% higher revenues year-on-year, while post-tax losses were increased by 11% year-on-year.

Group revenue was also supported by a successful renegotiation with PETRONAS for higher day charter rates for Velesto's Jack-Up ("JU") rigs.

GDP

Gross Domestic Product
↑8.7%
in Malaysia for FY2022

JACKUP RIG COUNT
expected to increase significantly to
12 RIGS
in FY2023

[1] *Source: https://www.theedgemarkets.com/article/ambank-sees-malaysias-2022-gdp-growth-859-and-45-2023*

CONTRACTS SECURED

In FY2022, Velesto has replenished its order book to the tune of RM1.6 billion on the back of RM1.6 billion in new contracts secured. The present order book size keep the Group's assets well utilised up till the 4th quarter of FY2023. It also provides visibility on revenues and earnings for the coming financial year.

Date	Client	Contract Details	Rig	Contract Value
11th March 2022	PETRONAS Carigali Sdn. Bhd. **("PCSB")**	Provision of JU drilling rigs for PCSB, on a call out basis with a firm contract duration of two (2) years, with one (1) year plus one (1) year extension option, Velesto will provide its suite of NAGA rigs on a call out basis subject to the rig availability and suitability based on PCSB's requirements.	NAGA 2, NAGA 3, NAGA 4, NAGA 5, NAGA 6, NAGA 8	
7th November 2022	Hess	Provision of Integrated Rig, Drilling and Completion ("i-RDC") Services for Hess' 2022 to 2024 North Malay Basin Full Field Development Campaign. Specifically, to provide i-RDC services covering 14 wells.	NAGA 5	USD135 million
1st February 2023	Roc Oil (Sarawak) Sdn Bhd **("ROC Oil")**	Provision of JU drilling rig services to drill three (3) firm wells with an estimated commencement date between 25 January 2023 to 25 February 2023.	NAGA 2	USD14 million

Date	Client	Contract Details	HWU	Contract Value
22nd February 2022	ExxonMobil Exploration and Production Malaysia Inc. **("EMEPMI")**	Provision of one (1) hydraulic workover unit and services until the completion of EMEPMI's selected wells program.	GAIT 6	
25th August 2022	PCSB	Provision of Plug and Abandonment Integrated Services comprising integrated project management and hydraulic workover unit services for Tembungo A & B over a 21-month period with an extension option of 12 months for Tembungo-B tentatively from January 2024 until December 2024.	GAIT 5	RM60 million

PRIORITISING HUMAN CAPITAL

The financial year continued to pose various business and especially operational challenges for Velesto and effectively all players within the upstream segment of the oil and gas value chain. Among these included addressing manpower requirements to ensure sufficient crews on all assets.

The two pandemic-stricken years had impacted the overall talent pool, not just in Malaysia, but within the region. Hence, with the onset of recovery in FY2022, there were initial difficulties faced in securing and retaining manpower, which would affect mobilisation of assets. Asset mobilisation was also affected as some of the Group's assets which have been idle had to be readied within a short span of time.

However, the strong branding of Velesto as a preferred employer in the oil and gas sector, and the Group's steadfast commitment to pay competitive wages and benefits, even during the pandemic affected financial years and in providing conducive work environments and clear career pathways for upward mobility has paid off.

Progressively in FY2022, the Group was able to not just recruit talent as required, but to retain its existing onshore and offshore workforce. The retention of experienced and proficient personnel was a significant factor in the Group's high level of operational performance for FY2022. The financial year saw manageable operational issues on all JU rigs and HWUs while challenges on asset mobilisation and asset integrity were able to be overcome. Consequently, Velesto was able to commence operations on all contracts secured in FY2022 within the financial year.

In FY2022, the Group's total workforce count grew by 16% to stand at 722. Management is of the view that its focus on human capitals in FY2022 and in prior financial years have had a positive profound effect on the improved business and operational performance achieved during the year in review.

Management also wishes to extend its appreciation to the relevant authorities, especially those in Sarawak for their co-operation and support in the expediting of work permits and other necessary approvals that facilitated a swifter mobilisation of staff and crews throughout FY2022.

RIG UTILISATION increased from

QUARTER 3 **78%**

QUARTER 4 **90%**

ENHANCING ASSET READINESS AND CAPABILITIES

In FY2022, Velesto focussed on the following aspects of its business and operational performance: service quality, technology, safety performance and sustainability performance as reflected through the key pillars of Environmental, Social and Governance ("ESG").

In FY2022, Velesto successfully upgraded two of its JU rigs – NAGA 5 and NAGA 6 to have offline capabilities. Both JUs are now equipped with additional capabilities that better cater to clients' requirements.

The upgrade to offline capabilities was financed by utilising internally generated funds. While the upgrading exercise requires significant upfront capital expenditure, it improves drilling efficiency and enables Velesto to deliver greater operational and cost efficiencies to clients. This will ultimately enhance Velesto's competitive positioning when bidding for contracts. It is also aligned with improved asset integrity and readiness as per PETRONAS' aspiration for drilling players to be capable to undertake Integrated Rig Drilling and Completion ("i-RDC") contracts.

The upgrading to offline capabilities was instrumental in Velesto securing the USD135 million Hess E&P Malaysia contract. It is notable that the award was made to Velesto, post the upgrading of NAGA 5 with offline capabilities.

INTEGRATED RIG DRILLING AND COMPLETION ("i-RDC")

i-RDC is a novel approach whereby drilling rig services, equipment and, in some cases, procurement of materials are integrated and provided by a single service provider, known as the i-RDC contractor.

Velesto's USD135 million HESS i-RDC services contract is Malaysia's first JU rig drilling contract awarded through an i-RDC arrangement. The contract see Velesto's utilising NAGA 5 (which has been upgraded with offline capabilities) for the provision of integrated rig, drilling and completion (i-RDC) services from 2022 to 2024 for Hess' North Malay Basin full field development campaign. In undertaking the contract, Velesto will be partnering with Halliburton to undertake the drilling of 14 offshore wells.

Velesto's securing of the aforementioned drilling contract is significant as it is a swift return on investment from the Group's decision to upgrade its rigs with offline capabilities. In effect, the Group is now in an improved competitive positioning to tender for similar contracts, which are expected to increase progressively over time. It also firmly demonstrates the group's unique value proposition that paves the way for closer collaboration among customers, prime contractors, and service partners.

PAO plans to drill up to

96

NEW WELLS

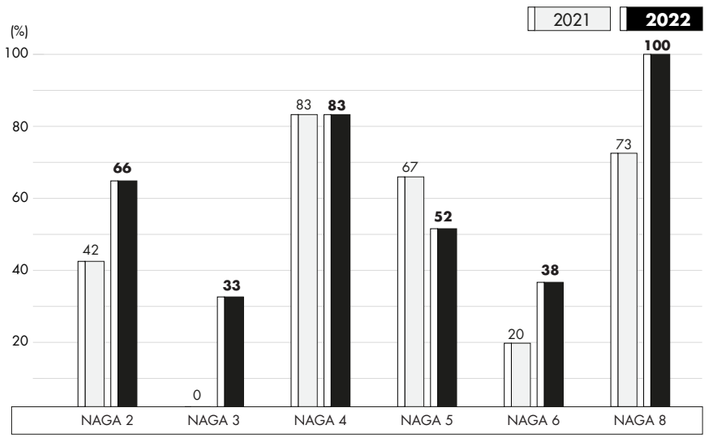
in FY2023 under

PETRONAS' DRILLING PROGRAM

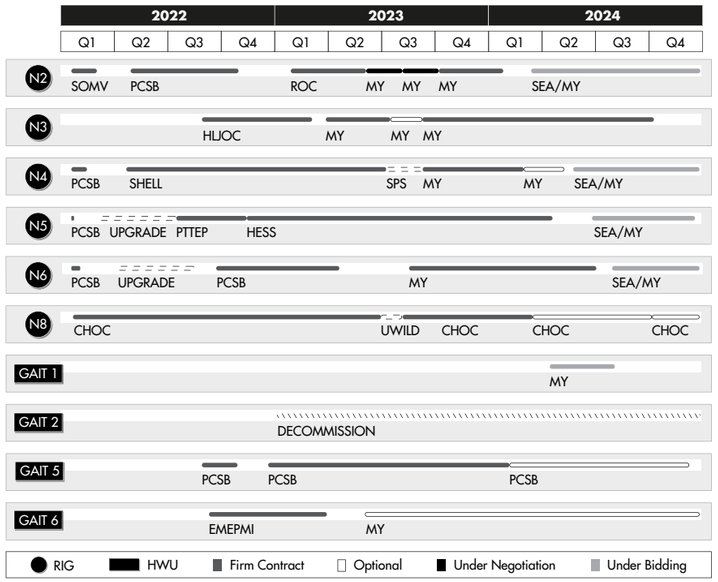
ASSET PERFORMANCE

With two out of six JUs operating on long-term contracts, asset utilisation saw a notable improvement in FY2022. In particular, rig utilisation rates for the 3rd and 4th quarters of the financial year had risen to 78% and 90% respectively.

Rig Utilisation Rate 2021 vs 2022



Rig & Hydraulic Workover Unit Schedule (as at March 2023)



In FY2022, two out of four HWUs were operating on the back of secured contracts. As part of its asset rationalisation exercise, Management has chosen to scrap one idle HWU. The Group still maintains sufficient HWU capacity and is in a position to reactivate additional assets should the need arise.

In FY2022, Velesto achieved a 97% uptime (FY2021:98%) for its JUs.

EMPHASISING HEALTH AND SAFETY PERFORMANCE

Velesto has always emphasised health and safety as being a fundamental aspect of its approach to value creation and operational excellence. While health and safety is a prerequisite in the oil and gas sector, Velesto has looked consistently to not just be an emulator of benchmarks, but to establish itself as an industry leader by effectively setting new standards for excellent health and safety performance.

The Group's position with regard to health and safety has been optimum productivity and efficiency while ensuring everyone is able to go home safe and well to their families. The detailed account of the Group's health and safety performance, especially on Occupational Safety and Health ("OSH") is provided in the Sustainability Report section of IAR2022.

Among the highlights include the focus on Personal Protection Equipment ("PPE") for all onshore personnel. The initiative was aimed at ensuring all staff were fully equipped with the latest PPE which would afford them increased protection. The investments into ensuring the safety of crews and related staff is a priority for the Group. Beyond PPEs, constant efforts were focussed on engaging staff towards further inculcating a safety first mindset and to practice constant vigilance through regular Unsafe Act, Unsafe Condition ("UAUC") campaigns. Throughout the year, the various UAUC initiatives led to potential incidents being identified and eliminated, which contributes to a safer offshore working environment.

The Group also launched its Safety Leadership Program ("SLP"), towards strengthening personal accountability and responsibility for HSE among all staff. The campaign has been effective in developing a personal sense of leadership among employees, transitioning their perspective from being followers of rules, towards driving the health and safety agenda.

The campaign has enabled a much-desired mindset shift in personnel from being focussed on compliance towards going beyond for operational teams to "own" their workspaces and to identify areas for improvements, to guide and support each other in ensuring the highest level of health and safety and to suggest improvements where possible.

Importantly, FY2022 sees the health and safety cascaded to suppliers and 3rd party workers in greater length, towards achieving consistency in mindset and values with regard to health and safety across the value chain.

MANAGEMENT VISITS TO RIGS

In FY2022, Velesto's management including the President himself undertook 47 visits to rigs as part of Management's commitment to drive the health and safety focus. These visits included joint client-Velesto visits. These visits enable Management to experience first-hand operating conditions on rigs and to engage crews towards better understanding their concerns, challenges and also to receive feedback on areas for improvement.

DIGITALISATION AND TECHNOLOGY

With the implementation of the Enterprise Resource Planning ("ERP") system, management is now better positioned to develop the necessary strategic visibility of operations Group-wide.

The ERP integrates multiple information points and data systems into a single repository and is able to provide strategic analysis of real-time information. The system enables a comprehensive, bird's eye view of both offshore and onshore operations as well as value chains, covering entire business processes and key strategic information pertaining to operations and performance.

This in effect empowers faster and more accurate decision-making by management on a wide range of aspects of operations, both onshore and offshore.

The aforementioned adoption of ERP has marked a strong pivot by Velesto towards utilising digitalisation and other forms of technology to deliver cost and operational efficiencies, to improve productivity and strengthen the value proposition.

The effectiveness of the ERP implementation has enabled further digitalisation of Velesto's operations. These include the digitalisation of the Group's Human Resources and Quality, Health, Safety and Environment ("QHSE") systems as well as operational crew management.

Beyond faster decision-making, digitalisation enables process efficiency, improved data collection, cost reduction, and many more benefits, notably in the medium and long term. Digitalisation is consistent with Velesto's focus on streamlining internal processes – reducing redundancies, bureaucracy and inefficiencies to enhance speed to market as well as business agility.

The focus on digitalisation will remain a strategic priority for Management going forward towards strengthening the resilience and competitive ability of Velesto's business model.

MANAGEMENT DISCUSSION & ANALYSIS

AWARDS AND ACCOLADES

In FY2022, Velesto secured several awards from oil and gas clients as well as from the industry at large, including regulators. Among the accolades were:

- **Malaysia Society for Occupational Safety & Health Gold Class 1 Award**
- **Minority Shareholder Watch Group-ASEAN Corporate Governance Award 2021: Industry Excellence Award for CG Disclosure – Energy**
- **PETRONAS Carigali Award of the best performance rig in Q1 2022**
- **SHELL HSE award for 180 days of accident-free in November 2022**

These awards attests to the operational excellence of the Group and the high level of professionalism and corporate integrity that Velesto has exemplified throughout the financial year. These awards are a resounding recognition of the high performance benchmarks that Velesto continues to set, and our constant commitment to continue earning the trust and confidence of our clients, the industry and other stakeholders.

Velesto achieved
54%
HIGHER REVENUES
in FY2022

FINANCIAL PERFORMANCE

GROUP REVENUES

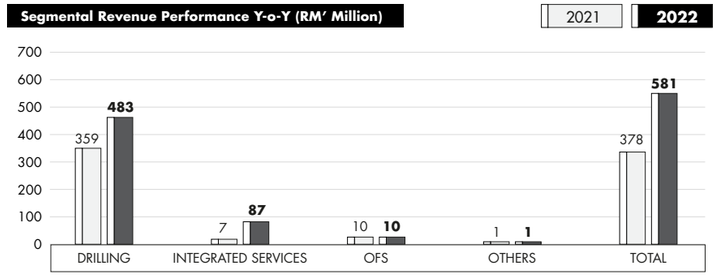
In FY2022, Group revenues had increased by 54% year-on-year to reach RM580.9 million (FY2021: RM377.5 million). Revenue was higher year-on-year on the back of due to higher revenue contribution from the Drilling Services and Integrated Services segments during the financial year.

Also contributing to revenue was increased day charter rates. In FY2022, Velesto has secured 13% higher day charter rates for operating rigs.

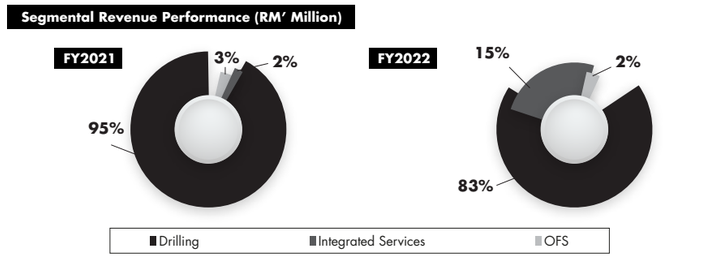
In terms of segmental contribution to revenues, our Drilling Services segment remained the largest contributor to revenues, accounting for 83.2% of Group topline performance. Drilling segment revenues had risen by 34.5% year-on-year to post RM483.1 million in FY2022, attributed to higher average jack-up rig utilisation of 62% as compared to 48% in FY2021.

The Integrated Services segment recorded higher revenue of RM86.7 million in the current year as compared to RM6.6 million in the corresponding year mainly due to higher utilisation as well as i-RDC contributions in FY2022. The Oilfield Services Segment ("OFS'), which mainly consists of overseas operations in Tianjin, China, contributed RM10.1 million in revenues, marginally lower year-on-year (FY2021: RM10.4 million).

Segmental Revenue Performance Y-o-Y (RM' Million)



Segmental Revenue Performance (RM' Million)



GROUP EARNINGS

Velesto reported higher Loss After Tax ("LAT") position of RM100.4 million in FY2022 against the previous financial year's loss after tax of RM90.8 million.

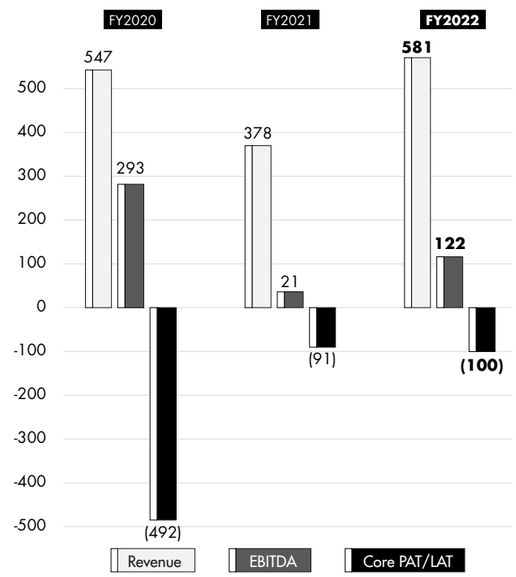
The drilling segment registered a lower LAT of RM44.1 million compared to FY2021's LAT of RM48.7 million (with adjusted LAT of RM105.8 million). In the corresponding year, the loss after tax was mitigated by a one-off net gain from insurance compensation for NAGA 7 of RM57.1 million.

The Integrated Services segment posted LAT of RM16.1 million against RM8.2 million loss reported in the corresponding year. The loss is mainly due to the following reasons: a one-off RM15.1 million reactivation costs in mobilising an idle HWU unit for a secured contract, unanticipated changes to the work program of RM11.7 million, as well as additional costs of RM1.9 million incurred due to a forced prolonged waiting period due caused by inclement weather during the demobilisation and adjustment of inventories.

The Oilfield Services segment posted a reduced profit after tax ("PAT") of RM2.3 million, 36% lower year-on-year (FY2021: RM3.6 million) due to an escalation in operating costs.

Other segments which include corporate expenses recorded higher LAT of RM42.5 million for FY2022 (FY2021: RM37.5 million) mainly due to a higher net foreign exchange loss by RM4.0 million recognised in the current financial year.

Revenue and Earnings (RM' Million)



BALANCE SHEET

Velesto's total assets increased by RM83.4 million to reach RM3.1 billion (FY2021: RM3.0 billion), primarily attributed to an increase in property, plant and equipment from foreign currency translation and offset with lower deposits, cash & bank balances.

Total equity increased by RM23.6 million to stand RM2.28 billion (FY2021:RM2.26 billion) mainly due to higher reserves from the foreign currency translation and offset with loss recognised for the year.

The Group's assets far exceed its liabilities and it continues to maintain sufficient liquidity and capital to discharge its commitments accordingly and to meet working capital requirements.

DEBT AND BORROWINGS

The various prepayments of principal and interests made in previous years has enabled the Group to maintain a comparatively low gearing level with its next payment only due in FY2025. This has provided a measure of cover for the Group as interest rates increased progressively in FY2022.

As at 31 December 2022, Velesto's borrowings stood at RM561.2 million, 4% lower year-on-year. Since FY2016, Velesto has successfully pared down its total debt by 86% from a high of RM4 billion to just RM561.2 million. The Group's gross and net gearing ratio presently stands at just 0.25 times and 0.19 times respectively.

CASH AND CASH EQUIVALENTS

As at 31 December 2022, Velesto's cash position stood at RM120.0 million. This is more than sufficient to meet operational cash flow requirements.

Should there be requirements for additional cash, beyond internally generated funds, Velesto maintains USD and RM denominated lines of credit in order to meet our working capital requirements. Management shall reassess the cash position of the Group in tandem with changes in the operating environment, in particular, the progress of the ongoing recovery of the domestic and regional oil and gas sector.

Velesto focussed on the following aspects of its business and operational performance: service quality, technology, safety performance and sustainability performance as reflected through the

KEY PILLARS OF ESG.

- **Environmental**
- **Social**
- **Governance**

OUTLOOK AND PROSPECTS

As E&P capacity continues to catch up with demand, improved parity should be achieved between supply and demand dynamics. OPEC+ has maintained its oil production targets while Russia's output is declining. Major oil producers continue to be unable to respond adequately to the tight market conditions due to prolonged lack of investment in the past. With this, crude oil prices are expected to hover in the range of USD75 - USD85 per barrel (Brent Crude).

While the price range is comparatively lower to FY2022, such prices remain commercially viable for oil and gas majors to maintain or even increase their existing production. Given that the global economy has yet to make a complete turnaround from the pandemic, there is still headroom for demand expansion and with that, increased pricing support going forward.

Despite the ongoing transition to renewable energy and "greener" fuels, the world remains dependent on fossil fuels for economic growth, more so immediately after the COVID-19 pandemic as countries and economies look to accelerate their growth trajectory after two years of COVID-19 afflicted negative growth.

However, there are potential downsides. Ongoing geopolitical tensions may impact the supply-demand balance and the looming possibility of recessionary risks that could slow down the ongoing recovery in the global and domestic oil and gas sector. However, a complete reversal in the upward momentum is unlikely.

Given this operating environment, the outlook and prospects for the oil and gas sector, particularly the upstream segment of E&P is expected to be positive, underpinned by oil and gas majors announcing new drilling contracts to meet increasing consumption demand and to continue replenishing inventory. The EIA is forecasting global oil demand in FY2023 to increase by 2 million barrels per day to 102 million barrels per day. Increase in consumption is expected to be driven by China's reopening of its economy after implementing a total zero COVID, economic shutdown.

According to the PETRONAS Activity Outlook 2023 - 2025 ("PAO"), demand for drilling, integrated and workover services in Malaysia is expected to increase going forward, driven by increased requirements for well drilling and Plug and Abandonment ("P&A") jobs.

For FY2023, the PAO mentions that up to 96 new wells have been planned for drilling under PETRONAS' Development, Appraisal and Exploration drilling program.

Another 21 producing wells have been planned for workover activities. There are also opportunities given the large number of assets that have reached their end of life stage not forgetting brownfields / marginal fields. These should provide opportunities for companies with HWU capabilities. It is possible that up to 28 wells may be identified as being suitable for P&A.

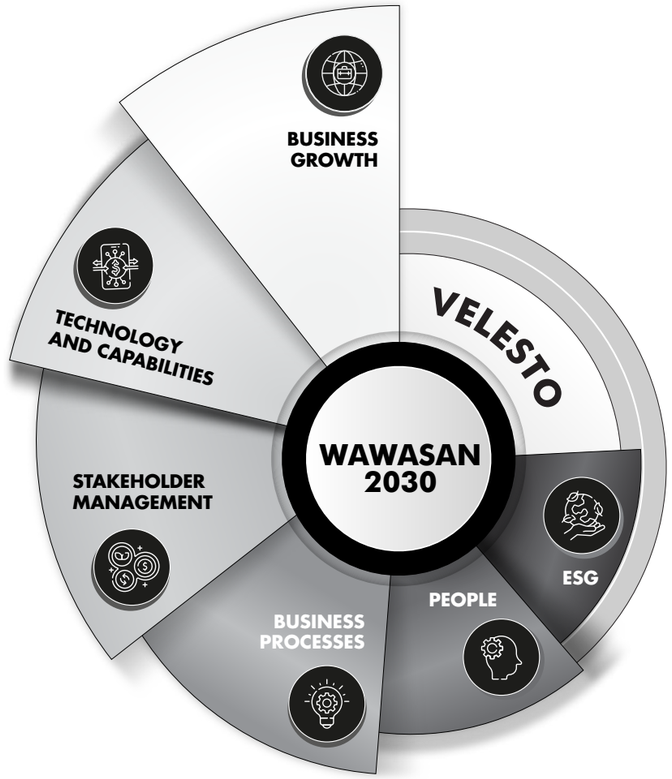
Though risks persists amidst an uncertain operating environment, positive prospects remain strong for the upstream segment provided such companies continue to offer enhanced value proposition that comprise not just cost efficiency, but also integrated capabilities, innovative solutions and a digitalised, approach.

On the back of secured contracts, a continued upward momentum in E&P activities and ongoing cost rationalisation, the Group is well positioned to deliver improved financial and operational performance barring any unforeseen or uncontrollable circumstances.

Presently, five out of six of the Group's available JU rigs have been contracted out. NAGA 3, which had just completed Velesto's Vietnam contract is expected to commence work on a new contract in Malaysian waters in March 2023.

Velesto IN FY2023 – WAWASAN 2030 (VISION 2030)

Velesto has developed a clear pathway for sustained and enhanced value creation. This is the Group's WAWASAN 2030 (Vision 2030) strategy roadmap centred on six pillars:



Cumulatively, the six pillars will accelerate the ongoing transformation of Velesto towards becoming a future ready organisation with robust business and operating fundamentals, underpinned by a reliable, modern asset base and driven by high-performing, competent and motivated industry talent.

The pillars will not just improve cost competitiveness of the Group, but also enhance its entire value proposition including operational ability, speed to market, innovative capability and business agility. Technology serves as an enabler that will offer new potentials to streamline operations and reshape Velesto from a typical brick and mortar business approach to that which is value driven and client oriented.

Specifically, the focus centres on incorporating new technological capabilities into assets. These may include real-time drilling capabilities and semi-automatic and robotic systems. Other potentials identified include adopting red-zone management systems and also energy storage management. The latter two have been identified as reducing environmental footprint.

In realising the above, strategic collaborations with client and technical partners paves the way for the required technology acquisition and knowledge transfer.

The focus on sustainability is vital in driving a balanced strategic focus on the pursuit of financial and non-financial values. The long-term ability of Velesto to sustain itself amidst a fast-changing operating environment is to prioritise environmental and social performance, while also emphasising good governance, both across internal operations and the larger supply chain.

Tangible financial aspects of the Group's operations, such as access to financing, brand reputation employee retention and morale, and even ability to bid for contracts now hinges on good ESG performance. Hence, it is imperative that Velesto continues to prioritise its ESG agenda.

STRATEGIC PRIORITIES FOR FY2023

With regard to immediate priorities for FY2023, Velesto shall continue to aggressively bid for contracts, both locally and abroad.

Given its position as the largest local drilling rig player, a proven track record, and its expanding capabilities, including offline and other technological capabilities, the Group is well placed to meet the more complex technical requirements of oil and gas majors.

NAGA 5 and NAGA 8 are both serving long-term contracts and as such, there will continue to be a supply scarcity for JUs in Malaysia (and in the region) as compared to increased demand for drilling rigs. Together with improved day charter rates, the outlook is more positive.

The industry is currently entering a very busy period. As such, our focus has to be on Performance Driven, Operations Focused. We need to ensure we start-up our rigs on time, reduce operational downtime and ensure we continue to ensure we perform well in terms of HSE.

Given the continued emphasis on i-RDC contracts, Velesto shall consider equipping more of its rigs which such capabilities. However, the 3-month upgrading period presents a trade-off as it would mean rigs being unable to bid for contracts during refurbishment.

Management will continue to consider all factors including the rate of increasing demand for offline capabilities, the Group's fiscal position, the availability of berths at upgrading facilities and its corresponding strategies to create financial and non-financial values. Management shall continue to assess market activity as well as its internal asset position and financial capacity in making a decision on future asset upgrades.

In the event it is beneficial to upgrade more rigs with offline capabilities, Velesto has the financial strength to fund the exercise by leveraging internally generated funds as well as external borrowings. The Group's low gearing levels support access to financing if required.

CHALLENGES AND RISKS

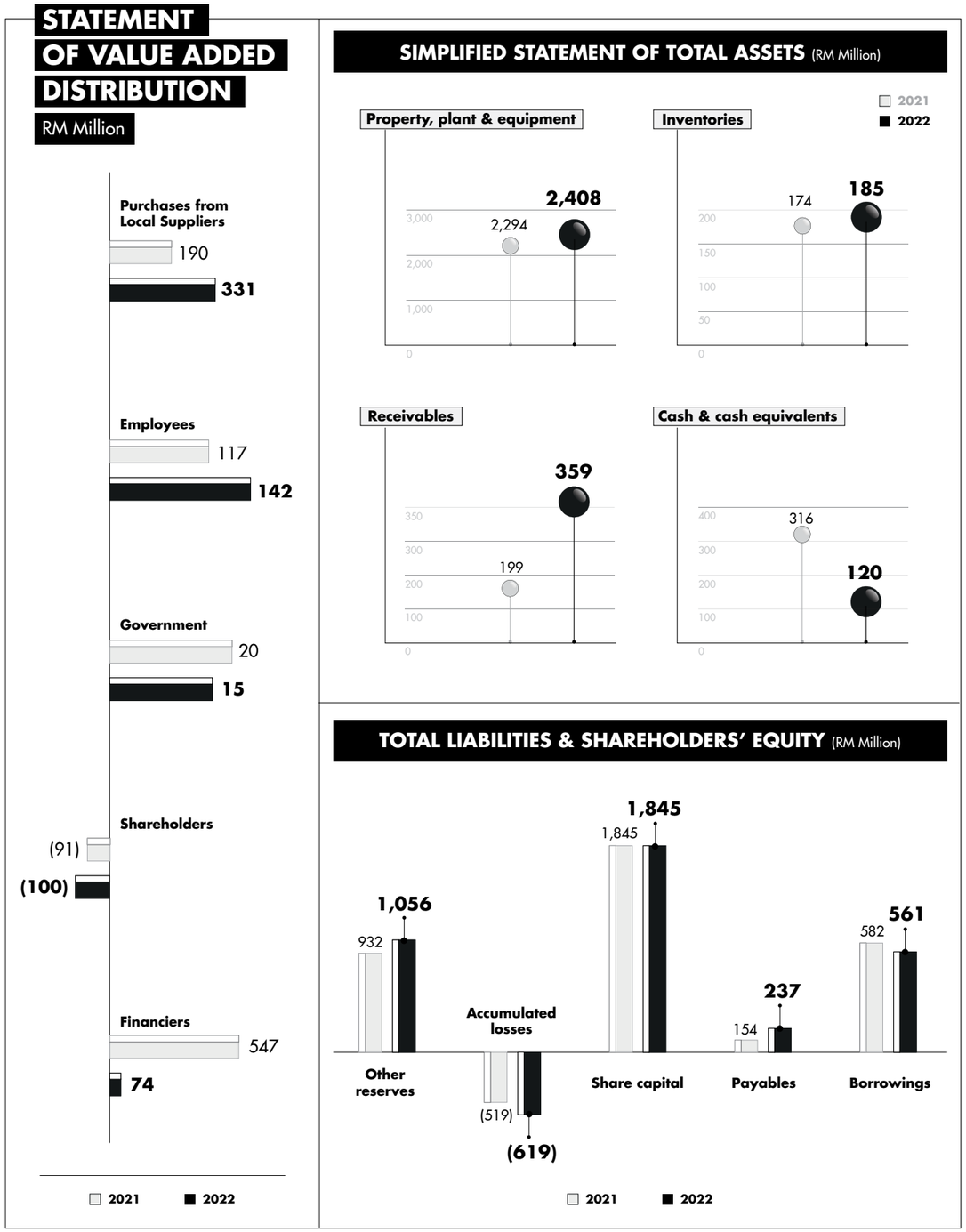
The upstream segment of the oil and gas sector has inherent risks and is increasingly facing new and emerging risks, notably ESG related risks. These risks include a plummet in crude oil prices due to uncontrollable external developments, escalation in operating costs; OSH incidents, manpower and project execution risks as well as risks arising from poor governance in particular environmental and social governance within the supply chain.

Specific information on these risks including impacts and mitigation strategies are provided in the Strategy section, page 47 of this annual report.

MEGAT ZARIMAN ABDUL RAHIM
President / Executive Director

STATEMENT OF VALUE ADDED DISTRIBUTION & SIMPLIFIED FINANCIAL STATEMENT

Beyond direct financial values such as revenues and earnings, Velesto continues to focus on the creation of indirect financial values. These comprise financial rewards or returns to a wide range of stakeholders as given in the following chart:



FINANCIAL REVIEW

5-YEAR GROUP SUMMARY RESULT

Financial Year Ended 31 December	Units	2018	2019	2020	2021	**2022**
Revenue	RM mil	574	671	547	378	**581**
(Loss)/Profit Before Taxation	RM mil	(18)	42	(477)	(83)	**(82)**
(Loss)/Profit Attributable to Equity Holders of the Company	RM mil	(20)	33	(492)	(91)	**(100)**
Shareholders' Funds	RM mil	2,797	2,802	2,270	2,258	**2,282**
Return on Shareholders' Funds	%	(1)	1	(22)	(4)	**(4)**
Return on Total Assets	%	(0.4)	1.0	(13.8)	(2.8)	**(2.6)**
Basic Earnings/(Loss) Per Share	Sen	(0.2)	0.4	6.0	(1.1)	**(1.2)**
Share Price At Year End	RM	0.18	0.38	0.14	0.12	**0.15**
Market Capitalisation At Year End	RM mil	1,479	3,122	1,150	986	**1,232**

SUMMARY OF GROUP RESULT

Financial Year Ended 31 December	Units	2021	**2022**
Revenue	RM mil	378	**581**
Loss Before Taxation	RM mil	(83)	**(82)**
Loss After Taxation	RM mil	(91)	**(100)**
Share Capital	RM mil	1,845	**1,845**
Reserves	RM mil	413	**437**
Basic Loss Per Share	Sen	(1.1)	**(1.2)**
Net Assets Per Share	Sen	27.5	**27.8**

FINANCIAL CALENDAR

Notice on 13th Annual General Meeting & Issuance of Annual Report 2022	28 April 2023
13th Annual General Meeting	29 May 2023
Financial Year Ended	31 December 2022

Approval of Quarterly Unaudited Financial Results:	
Quarter 1, 2022	25 May 2022
Quarter 2, 2022	29 August 2022
Quarter 3, 2022	29 November 2022
Quarter 4, 2022	27 February 2023

FINANCIAL PERFORMANCE HIGHLIGHTS

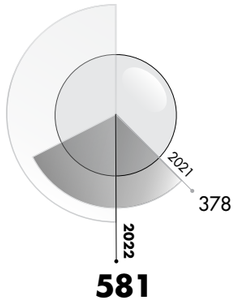
Utilisation Rate **62%**

Average Daily Charter Rate **USD77K**

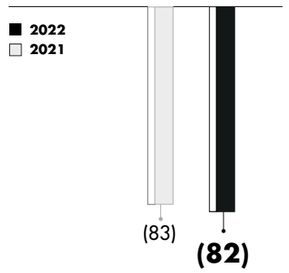
Remaining Order Book **RM1,608 mil** (as at January 2023)

Financial Performance

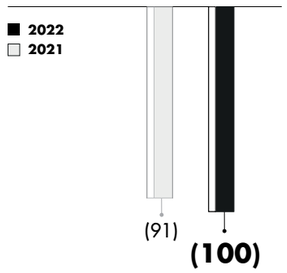
REVENUE
RM Million



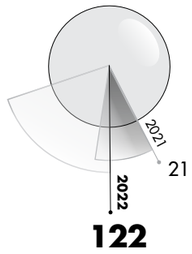
LOSS BEFORE TAX
RM Million



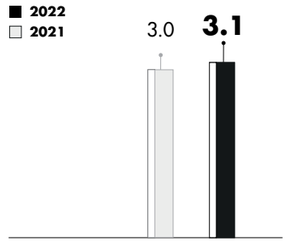
LOSS AFTER TAX
RM Million



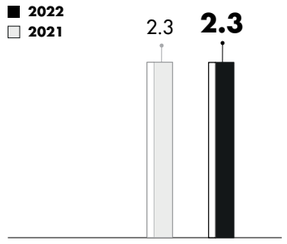
EBITDA
RM Million



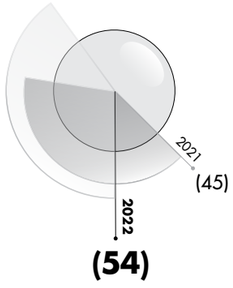
TOTAL ASSETS
RM Billion



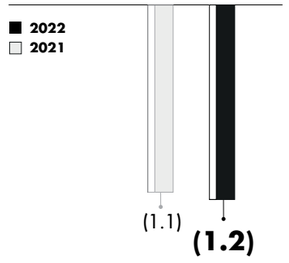
SHAREHOLDERS' FUND
RM Billion



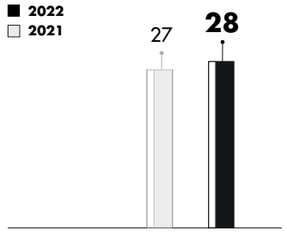
OPERATING LOSS
RM Million



LOSS PER SHARE
Sen



NET ASSETS PER SHARE
Sen



OUR VALUE CHAIN

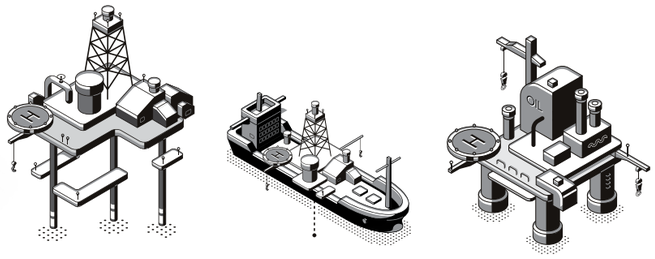
Drilling rigs are used in the upstream segment of the oil and gas value chain, which mainly comprises exploration and production activities. The entire oil and gas value chain can be categorised into three broad segments:

VELESTO WITHIN THE UPSTREAM VALUE CHAIN

1

UPSTREAM:
Production operations and field production

All activities related to the sourcing and extraction of oil and gas resources, which is performed at sea (offshore) or on land (onshore).



Exploration
Data gathering, well exploration

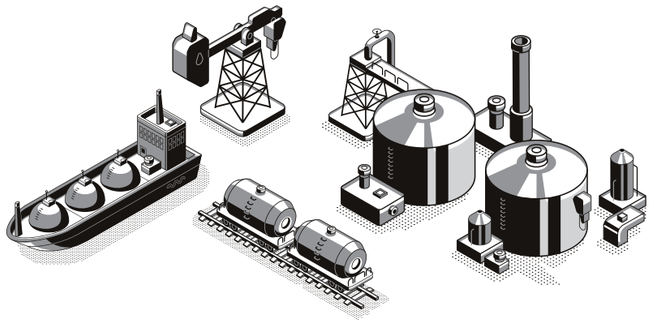
Development
Well development, facilities commissioning

Production and Decommissioning
Production of oil and gas and cessation at the end of field life

2

MIDSTREAM:
Pipeline, Transportation and Storage

The processing and storage of crude oil and natural gas as well as transportation of the same.



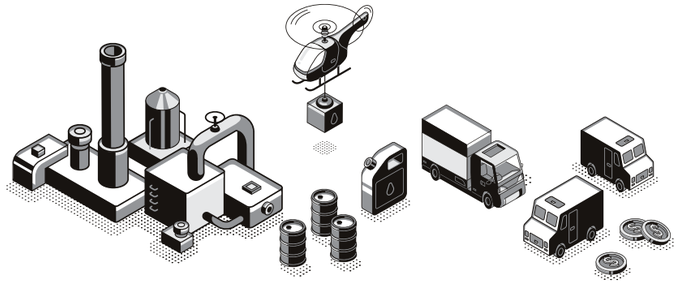
Storage
Storage of oil and gas for trading or use

Transportation
Transportation of oil and gas from field to refineries/storage

3

DOWNSTREAM:
Refining and Petrochemical Manufacturing

Crude oil is developed into a wide range of commercial, industrial or retail products such as jet or automotive fuel, petrochemicals, olefins, glycols, polymers, methanol, ammonia and fertilisers.



Refining
Refining of petroleum to end products

Distribution
Distribution of products to end-user

Marketing
Selling of products to end-user

UPSTREAM BUSINESS PROCESSES	CHALLENGES & CONSIDERATIONS
Exploration: data gathering and well exploration	Exploration activities must be strategically undertaken towards ensuring the highest possibility of finding oil and gas deposits. Issues such as the physical environment, the location of the deposits and other factors may impede the success of exploration activities.
Well development facilities and commissioning	Offshore drilling is more challenging than onshore drilling due to the lack of stability (particularly for floaters), the corrosive water environment, space constraints and the need for more complex logistics and support.
Production of oil and gas	
Well plugging and abandonment	Cost effective and safe plugging of wells is necessary to prevent crude oil contaminating the ocean environment. Decommissioning is a requirement and must be performed in accordance to industry standards. Given Malaysia's maturing oil and gas industry, there is an increasing number of less productive or economically viable oil wells that require plugging and abandonment.

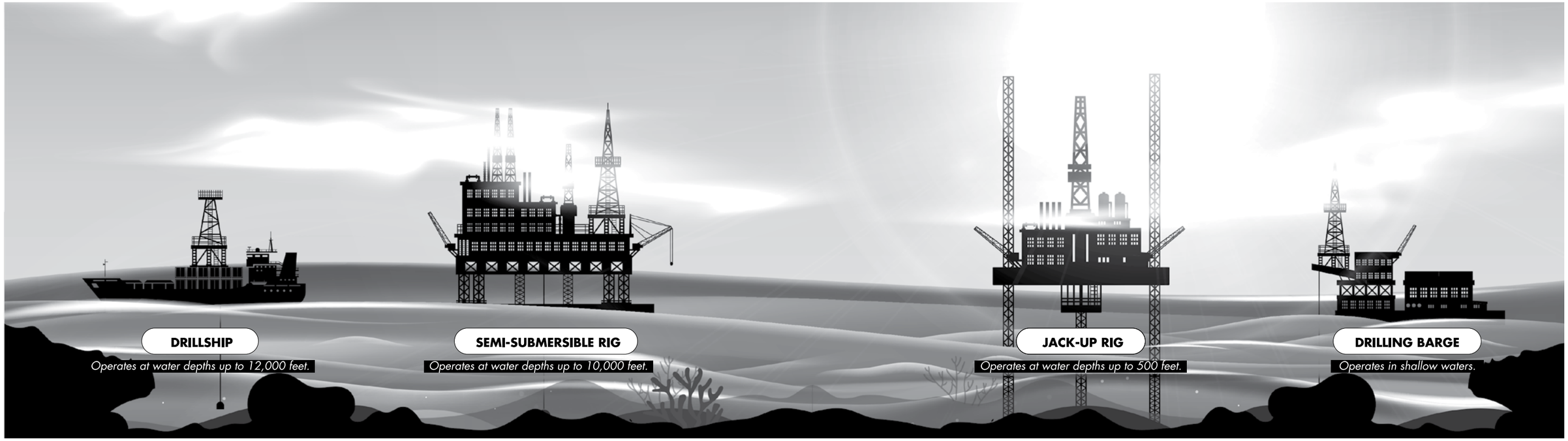
Velesto provides a start-to-end solution from well exploration to plug and abandonment. Following is the business model broken down by key processes or phases.

Surveying	Preliminary activities include geological surveys, gravity surveys, magnetic surveys and seismic surveys. If a location with potentially high oil and gas deposits is identified, said location is earmarked for exploration drilling.
Exploration drilling commences	Velesto's JU rigs are towed to the exploration site / field. Exploratory wells are drilled down into the seabed to locate oil and gas deposits. Multiple oil wells may be drilled to ascertain flow rates and reservoir dynamics as well as to determine commercial viability of the site / field. The duration of the drilling process may vary, from days to weeks or months based on soil conditions, weather and equipment quality and crew competency.
Hydrocarbons found (production drilling commences)	When exploration is successful, activities transition to the production phase. Velesto installs production equipment using its rigs to facilitate extraction of the oil and gas resources. Hydrocarbons are extracted from the seabed and is transported to an onshore refining facility through underwater pipelines.
Further drilling to increase production	Clients leverage on data sourced from the ongoing drilling process, to refine ongoing drilling activities. More production wells may be drilled or injection wells used to undertake well rejuvenation or repair activities to improve the flow rate of crude oil or gas. This may entail the requirement of a smaller workover rig to repair wells, enhance production or provide other forms of well treatment.
Decommissioning	Once the well has been exhausted or drilling is unproductive, at the client's instruction, Velesto plugs the well to prevent environmental impacts. The drilling rig is transported to a new exploration and / or new production location and the process is repeated.

OUR ASSETS

Out of 10 JU rigs available in Malaysia, Velesto owns and operates six with all JUs equipped with the latest in drilling technology. This effectively makes Velesto, the largest Malaysian-owned JU rig operator.

Velesto also provides hydraulic workover services, well intervention and rejuvenation, plug and abandonment and decommissioning activities.



Aside from rated water depth, the different types of rigs have different characteristics in terms of drilling depth, leg length (for JUs), accommodation, lifting capacity, top drive system and other performance specifications.

JACK-UP	TENDER-ASSISTED	SEMI-SUBMERSIBLE	DRILLSHIP	HWU
ACTIVITY PHASE				
• Exploration • Development • Abandonment	• Development • Production • Abandonment	• Exploration	• Exploration	• Production • Abandonment
APPLICATION				
The most common type of offshore rig due to its flexibility. Typically used for drilling in shallow waters.	More common in shallow waters. Allows drilling from smaller platforms.	The most stable type of rig, typically used for drilling in deepwater and/or harsh environments.	Typically used for drilling in deepwater / ultra deepwater. Can also be used for well maintenance, completion and capping works.	Typically used for workover operations e.g. well casings and casing levels repair, sand cleanout, etc.
ASSOCIATED SERVICES				
Supporting vessels, Oil Country Tubular Goods ("OCTG"), third party drilling services e.g. drilling fluids, Directional Drilling ("DD")/ Measurement While Drilling ("MWD")/ Logging While Drilling ("LWD"), wellheads, drill bits, cementing, fishing, slickline, etc.				Supporting vessels, slickline, cementing, etc.

JU rigs are floated out to the drilling location, and have retractable legs that are lowered down to the seafloor. When drilling is completed, the legs are raised out of the water, and the rig becomes a floating barge that can be towed away ('wet tow') or placed on a large transport ship ('dry tow').

THE THREE MOST COMMON TYPES OF JU RIGS AREW:

1

Standard:

Old rigs that generally have a low hook-load capacity and relies mostly on mechanically operated drilling equipment with little automation. These rigs operate at water depths less than 300 feet. However, standard rigs can do almost the same job as high- specification rigs at a much lower rate.

2

High-Specification Rigs:

Robust rigs that can typically drill to up to 400 feet due to their modern automation systems and drilling equipment.

Note: Velesto's current fleet of JU rigs are of this classification

3

Harsh-Environment Rigs:

Mainly used in the North Sea and are able to cope with harsh weather and rough sea conditions. Typically can drill up to 490 feet.

MATTERS IMPACTING THE BUSINESS MODEL AND VALUE CREATION

The six identified strategic pillars under WAWASAN 2030 are intended towards enabling an effective business response to the focus areas identified as follows:

GLOBAL SUPPLY AND DEMAND DYNAMICS FOR CRUDE OIL AND GAS

The level of Exploration and Production ("E&P") activities within the upstream segment of the oil and gas value chain (the segment in which Velesto operates in) is dependent on the global demand and supply dynamics for crude oil and gas. During the COVID-19 pandemic affected years, when consumption demand was lower, the level of activities were also comparatively lower.

However, in FY2022, on the back of a recovering global economy as the effects of the pandemic began to recede, together with supply chain disruptions brought on by the ongoing Russia-Ukraine conflict (and other geopolitical developments), crude oil prices reached a high of USD123 per barrel (Brent Crude) and averaged USD101 for the year. Underpinned by high crude oil prices and a strong recovery in demand, E&P activities including drilling activities were increased significantly globally. This resulted in more opportunities for drilling players, both locally and abroad. As the largest Malaysian owned drilling operator in the country and given its exemplary track record for operational excellence and a compelling value proposition, Velesto was successful in securing contracts. With this, the Group's rig utilisation rate increased significantly, notably in the second half of FY2022.

STRATEGIC MEASURES IMPLEMENTED

Amidst a robust recovery in the oil and gas sector, Velesto was active in tendering for drilling contracts both in Malaysia and within the region. At the same time, Velesto focused on ensuring asset readiness and mobilisation of offshore crews and personnel to ensure effective capacity to undertake secured contracts.

CAPITALS CONSUMED

The Group specifically invested in upgrading the capabilities of its rigs, spending USD10-15 million on equipping two of its JUs, NAGA 5 and NAGA 6 with offline capabilities, which enables both JUs to undertake Integrated Rig, Drilling and Completion ("i-RDC") contract.

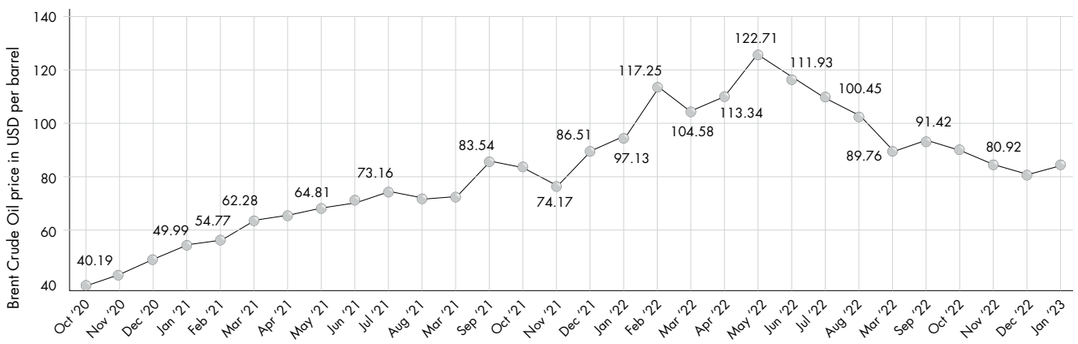
The expenditure of financial capitals was necessary to ensure assets (manufactured capitals) and personnel (human capitals) were mobilised, equipped and ready to undertake secured contracts.

A three-months upgrading period was required for the exercise which was an opportunity cost as the rig could not service contracts during that time. However, the trade-off has led to the creation of both financial and non-financial values for Velesto.

VALUES CREATED

A direct result of the strategic efforts undertaken by Velesto was a rise in its utilisation rate to 78% and 90% by the 3rd and 4th quarters of FY2022. With the exception of one contract which was delayed due to bad weather, all other contracts were successfully commenced on time. At the same time, revenues of RM417 million were achieved cumulatively in the 3rd and 4th quarters of FY2022.

CRUDE OIL PRICES AVERAGED
USD101
per barrel

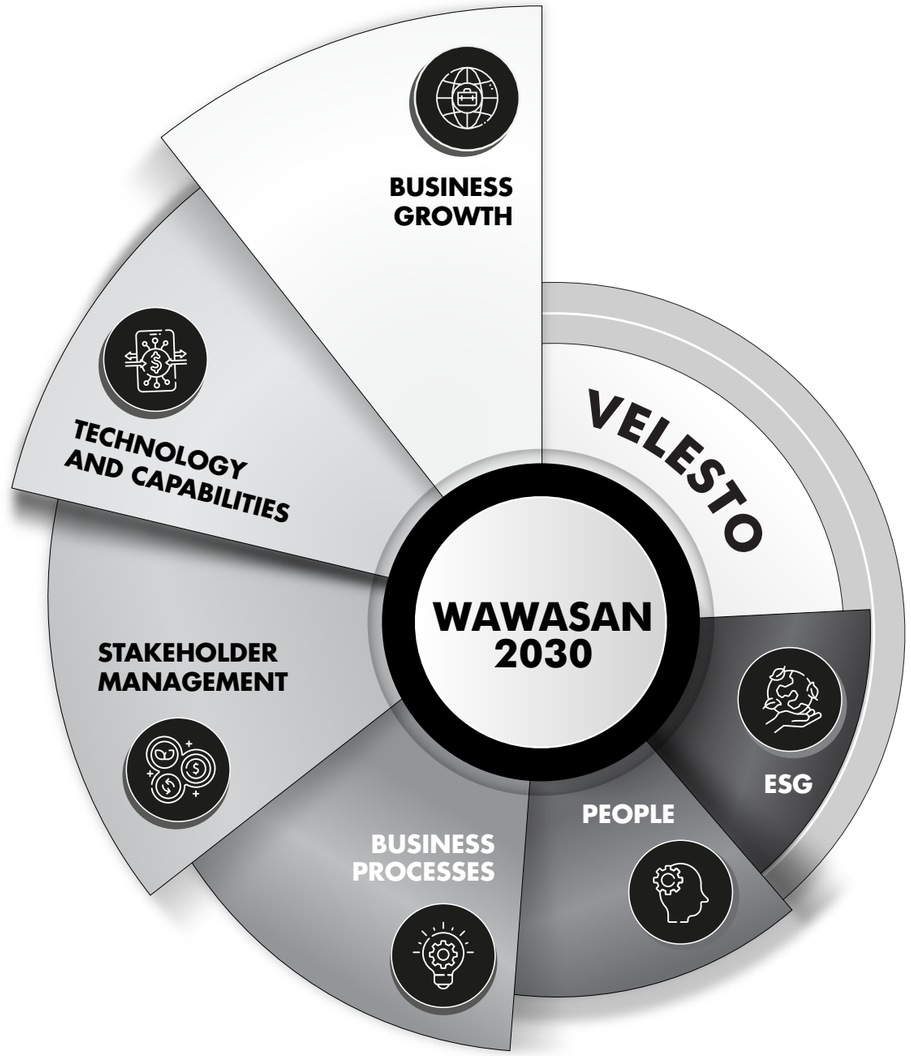


WAWASAN 2030

Velesto's identification on matters material to value creation is based on the external operating environment, where trends and developments are largely beyond the Group's control.

The external perspectives are considered in tandem with the Group's strategic aspirations; its Vision and Mission as well as strategic priorities in sustaining the robustness of the business model and ensuring a distinctive competitive edge.

Velesto's approach to sustaining value creation based on its WAWASAN 2030 strategic plan:



WAWASAN 2030

STRATEGIC MEASURES IMPLEMENTED

A brief description of the six strategic pillars under Wawasan 2030:

Business Growth identifies growth levers within Velesto's existing business, such as expanding our expanding our scope of services, entry into new markets, as well as potential new businesses that increases our resilience.

Technology focuses on incorporating new technology and capabilities into our assets. These include real-time drilling capabilities, semi-aoutomatic robotic systems, red-zone management systems and energy storage systems.

People encompasses optimum workforce, efficiency, culture and competitive rewards.

Business Process looks at having efficient processes to support the business.

Stakeholder Management looks at being a good partner to our existing stakeholders, including Government and regulators.

The focus on **ESG** is vital in driving a balanced strategic focus on the pursuit of financial and non-financial values. It includes prioritising reducing the environmental of our operations, having a positive social impact, while also emphasising strong corporate governance.

Target to increase Revenue to

RM2 BILLION
BY 2030

MATTERS IMPACTING THE BUSINESS MODEL
AND VALUE CREATION

ESG CONSIDERATIONS

Increasingly, regulators, financiers, investors (and also other stakeholders) are scrutinising the ESG performance of companies. In particular, public listed companies are required to make comprehensive and transparent disclosure on resource and energy consumption, waste generated from operations including emissions and various other environmental as well as social disclosures. Such disclosures (which invariably reflect ESG performance) are now becoming prerequisites for access to financing, investors and capital markets as well as criteria for participating in major contract tenders.

Comprehensive and accurate ESG disclosures is also increasingly being considered as a criterion by potential joint venture partners, notably with regard to the company's performance and position on climate change as well as supply chain issues including human and labour rights compliance.

While Velesto has continuously operated as a force for good – delivering a wide range of positive outputs and outcomes for local communities and society, the Group has looked to match its strong community focus with increased strategic oversight on energy consumption and carbon emissions, as well as waste and pollution. This includes integrating ESG consideration within its business strategies.

CAPITALS CONSUMED

- Direct energy consumption data
- Indirect energy consumption data
- Water consumption

VALUES CREATED

In FY2022, Velesto has established carbon emissions targets, both in terms of reduction in absolute emission and reduction in emissions intensity over revenue, year-on-year. The Group has also established a long-term target of zero carbon by 2050.

The Group has continued to retain its status as a constituent of the FTSE4GOOD Bursa Malaysia Index constituent – an elite index of Bursa Malaysia listed companies.

Kindly refer to SR2022 for further details on the Group's ESG performance.

TARGET TO REDUCE EMISSIONS INTENSITY BY
2030

10%
BY OPERATING DAYS

30%
BY REVENUE

ADDRESSING WEATHER CONDITIONS AND THE EFFECTS OF CLIMATE CHANGE

Velesto's rigs and HWUs operate offshore and hence are exposed to inclement weather conditions, such as tropical storms brought on during the monsoon periods. Beyond a deluge of rainfall, such weather conditions can lead to high waves and rough seas, which may disrupt ongoing operations or present OSH risks to crews. Assets may also suffer damage when exposed to rough weather conditions.

For example, NAGA 2 experienced a delay in mobilisation in Q4, 2022 and GAIT 5 had to delay demobilisation in Q3, 2022. This notably had a financial and operational impact on the Group

CAPITALS CONSUMED

- Delay in commencement of contract by resulting in loss of revenue recognition and higher cost during the financial year.

VALUES CREATED

By placing the safety of its people and assets first, Velesto has continued to maintain a strong OSH track record while also strengthening its reputation among clients.

CONTINUED EMPHASIS ON OCCUPATIONAL SAFETY AND HEALTH

Given that Occupational Safety and Health ("OSH") is a fundamental aspect of oil and gas operations, especially in the upstream segment, Velesto has continued to focus on ensuring the health, safety and wellbeing of its offshore and onshore workforce, as well as that of contractors and its supply chain, where relevant.

Primarily, the added costs was used to procure new Personal Protection Equipment ("PPE") for offshore crews as well as for an increased OSH training budget. In FY2022, an OSH highlight was the various visits made by Senior Management including the President on rigs operating offshore.

CAPITALS CONSUMED

- 11 President's HSE visits and 38 management HSE visits to rigs were conducted and associated cost.
- Initiation of enhance Unsafe Act, Unsafe Conditions ("UAUC") program.
- Four Hazard Identification, Risk Assessment and Risk Control ("HIRARC") issues were discussed and addressed.

VALUES CREATED

- Improved PPE has reduced worker risks exposure.
- OSH vigilance has contributed to high rig / asset uptime / productivity.
- Velesto secured a string of awards for OSH performance.

Full disclosure on the Group's OSH performance is provided in the Sustainability Report.

ENHANCING PEOPLE CAPABILITY

While one of Velesto's key capital dependencies is the strength of its physical assets – the operational capability and readiness of its JUs and HWUs, increasingly, as the industry evolves, intangible aspects of operations such as talent continues to grow in significance, more so as technology and digitalisation continues to proliferate across the oil and gas industry.

Hence, as the Group continues to focus on asset integrity, capabilities and readiness, strategic focus continues to be emphasised on talent management. The recruitment, retention and continued development of staff is essential toward ensuring operational excellence.

CAPITALS CONSUMED

- RM0.2 million invested in the training and development of staff.

VALUES CREATED

- 96% increase in average training hours per employee.
- Direct contribution to employee satisfaction scores.

ORGANIC AND INORGANIC GROWTH

While all of its six rigs operating, Velesto continues to aggressively bid for contracts both locally and abroad. The goal is to further ramp up its orderbook towards reducing idle asset time and time between contracts towards keeping its asset utilisation rate high.

Coupled with higher day charter rates, high asset utilisation drives financial performance, avoiding asset impairments and ensuring stronger revenue recognition. The Group also intends to leverage on strategic partners to acquire technology as well as access to markets.

In particular, drilling exploration programs are likely to be on the uptrend going forward with increased activity coming from the domestic sector as well as Southeast Asia, namely the Malaysia-Thailand Joint Development Authority (MTJDA) area located in the Gulf of Thailand.

Given that the current daily charter rates in Southeast Asia range between USD70,000 - 131,000 per day in Q4 2022 and is still on an increasing trend, there is room for upside in rates.

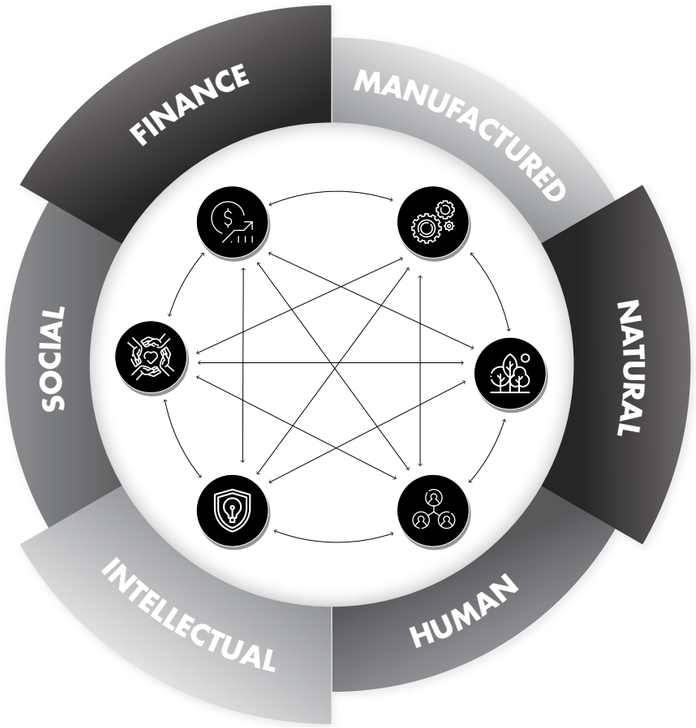
Through its inaugural i-RDC contracts, Velesto is collaborating with global oil and gas player, Halliburton. The Group intends to continue establishing mutually beneficial partnerships that will potentially pave the way for expansion in Southeast Asia and other regions.

CAPITALS CONSUMED / VALUES CREATED

- On the back of tenders submitted, the Group's tender book stands at RM1.6 billion as at end FY2022.

OUR CAPITALS

Velesto, in the execution of its business model, consumes several resources or capitals. Beyond just providing the types of capitals, the Group remains focussed on identifying the trade-off between capitals and how said trade-offs may impact financial and non-financial value creation going forward. Trade-offs are approached based on present and future perspectives.



Following are Velesto's principal capitals utilised:

FINANCIAL CAPITAL

Strategic allocation of the Group's earnings, cash, equity and debt towards driving the business model and value creation.

MANUFACTURED CAPITAL

The Group's principal tangible assets comprising its 6 jack-up rigs and 4 HWU units.

NATURAL CAPITAL

The consumption of diesel, water and other natural resources.

HUMAN CAPITAL

The Group's 722 strong workforce and the experience, professional competence, experience and capabilities of its people.

INTELLECTUAL CAPITAL

The Group's business strategies, and processes as well as the business acumen of the leadership team and the prevailing organisational culture and corporate values.

SOCIAL CAPITAL

Strategic relationships with diverse stakeholders such as regulatory authorities, clients, the community, media industry peers and others.

BUSINESS STRENGTHS AND COMPETITIVE ADVANTAGES

Following is a review of Velesto's business strengths, which supports its business model and value creation approach.

These identified business strengths or competitive advantages enable the Group to effectively execute its business model and to operate amidst a competitive industry and to navigate the various challenges and opportunities that arise from the external macro environment. Hence, business strengths and by extension, factors that augment or erode these competitive advantages are crucial to value creation.

The Group's choice of strategies are geared towards leveraging its inherent strengths towards optimising value creation and strengthening its business model.

BUSINESS STRENGTHS	DESCRIPTION	STRATEGIES TO LEVERAGE ON STRENGTH
Largest Malaysian-owned JU rig operator	Out of ten jack-up ("JU") rigs available in Malaysia, Velesto owns and operates six which offer the latest in drilling technologies. Given the inherent industry preference for local contractors, Velesto is well positioned to bid and secure Malaysia-based contracts. The operations are supported by competent and experienced crews.	Maximise utilisation Order book growth Organic expansion Project execution
Proven expertise and track record	Velesto has experience operating in the region such as in Indonesia, Thailand, Vietnam and Philippines. Beyond drilling, Velesto's drilling fleet can install Light Weight Structures and undertake well workover as well as decommissioning services. Thus, Velesto can provide more comprehensive solutions for clients while tapping more opportunities across the upstream segment of the oil and gas value chain.	
Outstanding order book	Velesto' has capitalised on the upswing in industry activity to shore up its order book to the tune of RM1.6 billion with over RM1.6 billion in new contracts secured in FY2022. This provides visibility on revenue and will keep the Group busy well into FY2023 and possibly FY2024.	

BUSINESS STRENGTHS	DESCRIPTION	STRATEGIES TO LEVERAGE ON STRENGTH
Regional presence	Through its two supply bases in Peninsular and East Malaysia, Velesto is well positioned to operate anywhere within the South China Sea. Leveraging its strategic geographic positioning, Velesto is actively pursuing tenders within the region and where feasible beyond.	Order book growth Organic expansion New business development
Modern jack-up rigs	Velestos six JU rigs feature the latest in drilling rig technology. Two rigs are equipped with High Pressure High Temperature ("HPHT") capabilities, and another two with Offline capabilities. All rigs are manned by competent and experienced crews, many of whom graduated from the Velesto - INSTEP Drilling Academy ("VIDA").	Maximise utilisation Cost containment Efficiency improvement Risk management Minimise additional scope and risks Future planning
Proven track record for excellent Health, Safety and Environmental ("HSE") performance.	Velesto continues to maintain an industry leading HSE track record. Velesto's HSE performance provides the Group with a competitive advantage when bidding for contracts.	
Low operating cost base	Having rationalised its business model and operations, Velesto has now achieved a low operating cost base that facilitates greater flexibility and competitive ability when bidding for contracts.	
Efficient supply chain and strong stakeholder relationships	Velesto is well supported by a professional network of vendors and suppliers that enables the Group to achieve operational efficiencies and quicker market response.	
Strong institutional support via our major shareholders	Velesto is more than 50%-owned by Permodalan Nasional Berhad and funds under its management. The Group's relationships with regulatory bodies and government agencies has enabled it to achieve strong socio-economic compliance.	Stakeholder engagement strategies
Strong client relationships	Through its track record for operational performance and its position as the largest Malaysian owned rig operator, Velesto has developed a unique position among industry and other stakeholders. This enables the Group to play a leading role in advancing industry interests and creating stronger awareness for industry issues and challenges, especially issues affecting Malaysian upstream companies.	
A consistent talent pipeline	VIDA has enabled Velesto to ensure a sufficient and well trained talent pool. Aside from supporting efficiency operational efficiency and productivity. VIDA also contributes to excellence and sustainable talent pipeline strategies and succession planning.	Cost Containment Efficiency Improvement Risk Management Future Planning

RISKS AND MITIGATION STRATEGIES

In managing inherent and emerging risks and opportunities, Velesto has developed a robust Enterprise Risk Management framework based on the international best practice ISO 31000 Risk Management Principles and Guidelines standard.

Through the Group's system of Enterprise Risk Management and Internal Control, significant risks which impact the Group's objectives and strategies are monitored and mitigated within levels appropriate to the Group's business. Ensuring this, the Group's Risk Register is updated on a quarterly basis taking into account elements of ESG related risks such as climate change, supply chain, human rights and labour issues.

Risk ultimately comes under the purview of Velesto's Board of Directors through its Board Risk Management Committee ("BRMC"). for further details on the Group's Risk Management Framework, its processes and systems, kindly refer to Velesto's Statement of Risk Management and Internal Control within this annual report.

Following are Velesto's top risks for FY2022 and mitigation plans:

VELESTO GROUP TOP RISKS OVERVIEW

RISK OVERVIEW	RESPONSE
Technology Risk	The Group continued to keep abreast with changes in new technology and ensuring clients requirements are met and delivered. For FY2022, VELESTO successfully upgraded two rigs, NAGA 5 and NAGA 6 to have offline capabilities. For more details, please refer page 23 of this Integrated Annual Report ("IAR") on the Enhancing Asset Readiness and Capabilities.
Human Capital Risk	The Group was actively involved in addressing this risk to ensure operations continuity through proactive talents sourcing and retention. For FY2022, the Group launched career progression and mentoring program for employees with fast tracked career path for high potential ("HiPOTS") talents and salaries adjustment to ensure talent retention.
Execution Risk	Implementation of services improvements aligned with the Group's maxim of 'performance driven, operations focused' with emphasis on continuous clients' engagements and operational excellence. For more details, please refer page 25 of this IAR on Management Visits to Rigs.
Process Efficiency Risk	Continued focus on proactive planning, refining processes, speeding workflows and digitisation of existing processes. For the year under review, with the implementation of Enterprise Resource Planning ("ERP") System, management is better positioned to develop the necessary strategic visibility of operations Group wide. For more details, please refer to page 25 of this IAR on digitalisation and technology.
Strategic Risk	Managing strategic risks by continued monitoring of industry outlook, market drivers, business model, anticipating external triggers and imported risks and long-term outlook through the Group Wawasan 2030 (Vision 2030) strategy roadmap. For more details, please refer page 29 of this IAR.
ESG Risk	Increased focus on the ESG requirements and regulations to develop in-house capacity for ESG compliance. For more details, please refer to page 58 of this IAR on Sustainability Statement.
Market Risk	Exploring business opportunities with new clients in neighbouring ASEAN countries such as Indonesia, Vietnam and Thailand.

OUR VALUE CREATION MODEL

CAPITAL RESOURCES	INPUTS	OUTPUTS	OUTCOMES
FINANCIAL			
The strategic allocation of the Group's retained profits, cash, equity and debt towards driving business development and growth. The focus remains on balancing short-term financial perspectives with the long-term sustainability and value creation capability of Velesto. This includes striving for optimum balance between rewarding shareholders while ensuring sufficient funds for capital and operational expenditure to fuel business growth. The impact of financial capitals is pervasive across all other capitals and vice versa.	• Equity: RM2.3 bil • Borrowings: RM561 mil • Cash and Investments: RM120 mil • Assets: RM3.1 bil • Share capital: RM1.8 bil • Market capitalisation: RM1.2 bil	• Revenue: RM581 mil • EBITDA: RM122 mil • Net loss: RM100 mil • Interest expense: RM32 mil • Investment income: RM3 mil	• RM15 mil paid income tax • RM100 mil loss attributable to equity holders • Loss per share: 1.22 sen per share • RM142 million paid in wages and benefits • RM74 mil paid to financiers in interest, repayment of term loans and revolving credit
MANUFACTURED			
Ensuring optimum productivity of all physical assets towards generating optimum output while meeting clients' requirements. We continue to focus on strengthening optimum capability and this may result in potential trade-offs between manufactured and financial capitals.	• 6 premium JU rigs • 4 HWUs • 2 onshore supply bases • 1 oilfield services plant • KL Headquarters	• Available JU days: 2,190 days • Utilisation x DCR: 62% x USD77k • Operating efficiency: 97% • Available HWU days: 1,460 days • Threaded units: 11,290 units	• 10 Exploration wells • 12 Development wells • 7 Production/Workover wells • 12 Decomissioning/P&A wells
NATURAL			
Essentially, our consumption of environmental resources and impacts on air, water and land through our business activities and produced outputs. Velesto strives for progressive sustainability in natural resource consumption while seeking to minimise its impact on the environment.	• Diesel: 16,426 MT • Water: 75,556 L	• 53,537 TCO2e emissions • Zero major environmental spills	• 1% higher emissions • Reduced environmental impact • Continued improvement in our Sustainability performance
HUMAN			
The acquisition, retention and development of competent talent to support Group operations as well as to expand Malaysia's oil and gas talent pool, particularly in the drilling segment of the industry value chain. Talent remains a core business focus and may lead to short-term capital trade-offs with financial capital but support long-term financial returns to improved productivity and higher employee retention rates.	• 722-strong workforce, 73% Malaysian • 824 trainings attended • RM0.2 mil training and development expenditure • 60 VTS trainees • Velesto-INSTEP Drilling Academy	• No layoffs • 6 VTS trainees absorbed into the Group • 503 VIDA participants trained	• Overall employee engagement score of 79%
INTELLECTUAL			
Our innate industry experience, technical expertise and know-how as well as systems and processes that have distinguished Velesto as Malaysia's leading drilling rig operator. This collective reservoir of competence, ability and knowledge provides the Group with a competitive edge when bidding for contracts and setting the industry benchmark for operational excellence in drilling activities.	• High performance organisational culture • Best practice, globally recognised management systems: - ISO 9001:2015 - ISO 14001:2015 - ISO 45001:2018 - ISO 29001:2020 • Group business model and business strategies • Annual business plan • Policies and procedures • Vendor and local supply chain development	• Excellent and improving QHSE track record • 97% operating efficiency • Zero fatalities • Zero LTI • RM331 mil local procurement spend	• Various industry recognition awards continued strengthening of brand profile and credibility • Improved perception with investors and stakeholders • 56% local procurement rate • 68% Local Suppliers
SOCIAL			
The network of strong, strategic relationships that we have developed with key stakeholders. These include shareholders, customers, suppliers, environment, employees, government, industry affiliations and communities. These relationships are business focused as well as driven by Sustainability and CSR motives.	• Investor Relations activities • Stakeholder engagement • Dialogue and discussion with government and regulatory bodies • Proactive customer engagements • Community and CSR engagements	• 7 schools and 89 teachers as beneficiaries • 5966kg fabric recycled • 4 quarterly analysts briefings • Participation in Minggu Saham Digital and MOGSEC Virtual • Sharing of industry expertise via advisory to MOGSC, MPRC and UTP.	• Development of stronger stakeholder relationships • Realisation of CSR objectives and fulfilling of Velesto's role as a good corporate citizen • Aligned sustainability goals • Reduced traffic accidents among employees • Contribution to the development of Malaysia's oil and gas (drilling) talent pool • Development of industry conducive policies by the Malaysian government

BUSINESS MODEL

OUR APPROACH TO VALUE CREATION

1. Industry Trends and Developments and the Value Chain
2. Macro Operating Environment
3. Availability of Resources, Capitals Talent and Assets
4. Inherent business strengths and competitive advantages
5. Risks and Mitigation

6 JACK-UP DRILLING RIGS

4 HYDRAULIC WORKOVER UNITS

1 OILFIELD SERVICES

BUSINESS STRATEGIES

- Business Growth
- Technology & Capabilities
- People
- Business Processes
- Stakeholder Management
- Sustainability

FINANCIAL VALUES

Direct values: Revenue, earnings, share price and market capitalisation.

Indirect values: Shareholder dividends, repayment to financiers, payments to employees including salaries and benefits, payments to suppliers and income tax.

NON-FINANCIAL VALUES

Development of the local oil and gas sector and supporting value chains, job and enterpreneurship creation, transfer of technology and knowledge, socio-economic prosperity and nation-building.

STAKEHOLDERS' NEEDS

OUR MATERIALITY MATTERS

ENVIRONMENT
- Energy & Emission Management
- Climate Change
- Water
- Biodiversity

SOCIAL
- Health & Safety
- Human Rights
- Employment Practices
- Diversity, Equity & Inclusion
- Talent Management
- Community Impact

GOVERNANCE
- Economic Performance*
- Anti Bribery & Corruption
- Supply Chain
- Data Privacy & Security

RISK OVERVIEW

- Technology Risk
- Human Capital Risk
- Execution Risk
- Process Efficiency Risk
- Strategic Risk
- ESG Risk
- Market Risk

SUSTAINABILITY STATEMENT

STRENGTHENING A SUSTAINABLE TOMORROW

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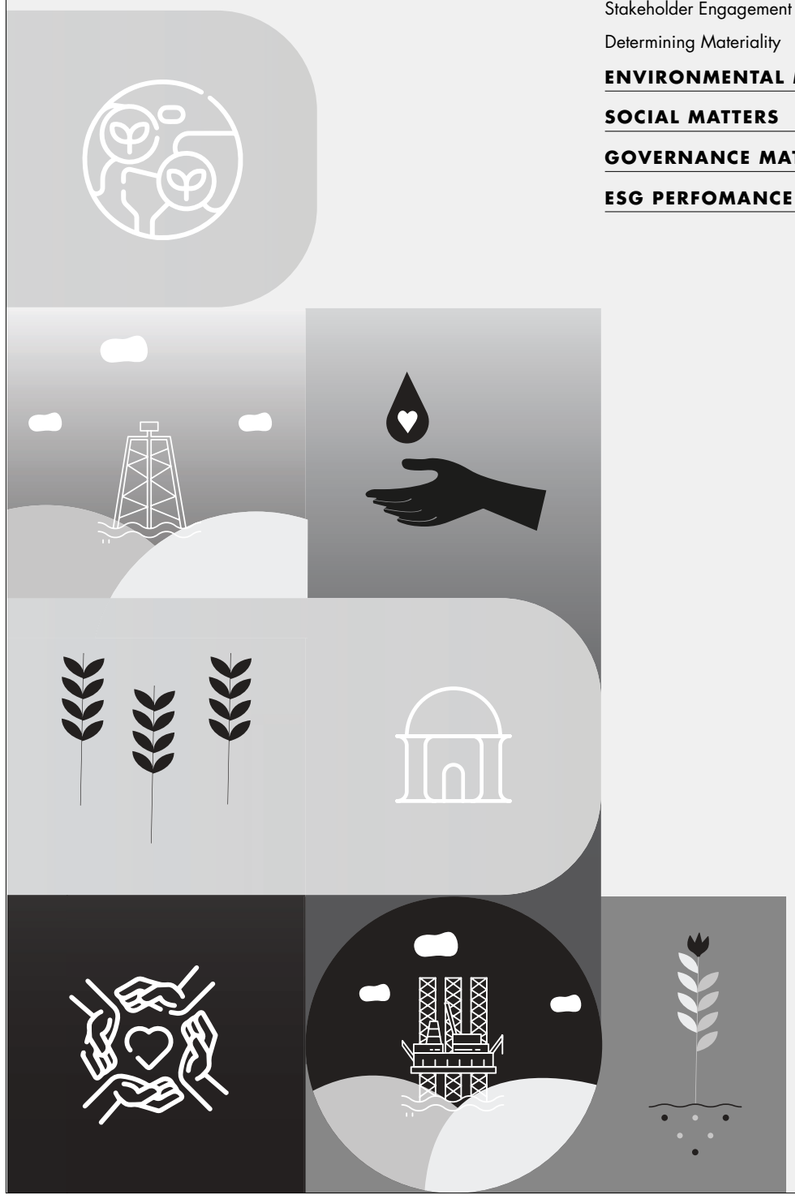


Refers readers to more details online
https://www.velesto.com/

SUSTAINABILITY STATEMENT

ABOUT THIS STATEMENT

STATEMENT OF USE

Velesto Energy Berhad ("Velesto" or the "Group")'s Sustainability Report for the period from 1 January 2022 to 31 December 2022 ("SR2022") has been prepared in accordance with the GRI Standards.

The SR2022 marks the Group's 7th annual publication of its Environmental, Social and Governance ("ESG") disclosures to meet our Listing Requirements. It is intended to communicate Velesto's efforts and achievements in its ongoing journey to embed sustainable practices into the Group's operations, and provide a measure of the positive and negative impacts of Velesto's business activities on its stakeholders, the environment and the prospects of the organisation.

LINKAGE TO INTEGRATED REPORTING

To obtain a more comprehensive understanding of the relationship between Velesto's financial and sustainability performance, it is recommended to read SR2022 together with Velesto's Integrated Annual Report ("IAR2022"), which offers a detailed view of the company's business strategy, external operating environment, business model, and other strategic information.

PRECAUTIONARY APPROACH

Velesto views sustainability as integral to our risk management strategy, serving to reinforce the Group's business model while also providing a catalyst for change through the identification of growth opportunities. The Group applies a precautionary approach in the management of its ESG matters by integrating risk mitigation strategies and in its ESG management framework to prevent Occupational Safety and Health ("OSH") incidents, and reduce any negative social and environmental impacts that may arise from its operations.

APPLIED FRAMEWORKS

Velesto's SR2022 is prepared in accordance with the following frameworks:

- **Bursa Malaysia Sustainability Reporting Guide 3rd Edition**
- **Global Reporting Initiative ("GRI") Standards 2021: Core Option***
- **FTSE4Good Bursa Malaysia Index ("FTSE4Good")***
- **United Nations Sustainable Development Goals ("UNSDG")**
- **Task Force on Climate-related Financial Disclosures ("TCFD")**

** Bursa Malaysia, GRI, FTSE4Good and TCFD content indices are provided at the end of this report.*

MATERIALITY AND CONTENT DETERMINATION

SR2022 is prepared on the basis of double materiality to include:

- ESG matters' outward impact on the environment and society
- ESG matters' inward impact on Velesto's enterprise value creation ability

In an effort to provide readers with a better understanding of the company's sustainability performance within its operating context, content for inclusion has been further determined based on the GRI principles of materiality, stakeholder inclusiveness, sustainability context, and completeness, as well as GRI's report quality principles of balance, comparability, accuracy, timeliness, reliability, and clarity.

SR2022 also contains restatements of information from the previous year's reporting, where information remains largely unchanged yet remain relevant for inclusion, and have been identified accordingly.

SCOPE, BOUNDARY AND EXCLUSIONS

Velesto exercises a "local where-we-operate" practice in the management of its operations. The SR2022 reporting scope and boundary encompass Velesto Energy Berhad ("Velesto" or "the Group"), including all subsidiaries and primary business operations of drilling services and integrated services. This includes all data and information related to the group's six jack-up rigs ("JU") and four hydraulic workover units ("HWUs").

Where possible, the report presents statistical data for three consecutive years to facilitate meaningful comparisons with past performance and to identify trends.

However, ESG impacts arising from oil and gas resources owned, consumed or discovered or produced by Velesto's clients and entities upstream of the Group's value chain are excluded from this report as Velesto is a drilling services contractor and does not own the resources it extracts for its clients.

Impacts of associate companies which Velesto have no direct managerial control are also excluded from this report.

DATA QUALITY AND ASSURANCE

The information we have disclosed in this SR is guided by our appetite for disclosure and collected from Velesto's official internal documents and records.

We have obtained independent third-party assurance from our external auditors, Ernst & Young and DNV-GL, who provide assurance on Velesto's audited financial statements and HSE Management System respectively.

The Velesto internal team, Management, and to a certain extent, the Board Committee, have maintained continuous oversight in the preparation of this SR.

Where relevant, computational and analysis of data have been carried out according to industry standards and widely accepted calculation methodologies such as:

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

The SR2022 has been reviewed and was approved by the Board of Directors on 14 April 2023.

FORWARD-LOOKING DISCLAIMER

Future-oriented statements discussing the Group's intentions, plans, targets and expectations have been made in good faith based on reasonable current assumptions and are subject to risks and uncertainties beyond the Group's control. Readers are advised not to place undue reliance on such statements.

FEEDBACK CHANNEL

Velesto values stakeholder engagement as a crucial part of the Group's sustainability process. Comments and inquiries on this report and its contents can be directed to:

Velesto Energy Berhad
Sustainability
Level 18, Block 3A, Plaza Sentral
Jalan Stesen Sentral 5
50470 Kuala Lumpur, Malaysia
Tel : +603-2096 8788
Email : sustainability@velesto.com

2022 ESG PERFORMANCE HIGHLIGHTS

FTSE4Good Bursa Malaysia Index Constituent
(ESG 3-STAR RATING)

Winner of the
MSWG-ASEAN Corporate Governance Award 2021
and
MSOSH Gold Class 1 Award 2022

BEST HSE and Operational Performance HWU Gait VI
for Workover and P&A campaign 2022

↓15% in emissions intensity by operating days
and
↓32% in revenue intensity.

ZERO Major Spill

↓2% Total Water Consumption Volume
despite increase in business activity levels

↓29% Total Waste Generated
(from 194 tonnes in FY2021 to 137 tonnes in FY2022)

722 Employees
(73% Malaysians)

ZERO Lost Time Incident ("LTI")
for Velesto employee
ONE LTI
from contractor

WOMEN
Representation in Leadership Positions:
44% of Directors
36% of Senior Management

RM331 mil Procurement Spend on Local Suppliers
(56% Malaysian)

ZERO Incidence of Customer Data Breaches

ZERO Incidence of Corruption

Undertaken Desktop
Materiality Assessment
for FY2022 Reporting

Undertaken
Coral Reef Restoration
Community investment initiative
at Perhentian Island

503 Participants Trained
at VELESTO Instep Drilling Academy ("VIDA")

SUSTAINABILITY STATEMENT

MESSAGE FROM THE GROUP PRESIDENT

"Through our pursuit of value creation and profit-making, we have learned to tread lightly along the path of stewardship. In FY2022, we reaffirmed our commitment to reduce emissions by 2030 to support Malaysia's sustainability aspirations and our strategic stakeholders' net-zero aspirations."

Dear Stakeholders,

It is with great pleasure that I present to you Velesto Energy Berhad's FY2022 Sustainability Report ("SR2022"). This report provides an in-depth look at our sustainability performance throughout the past year, highlighting our achievements, challenges, and ongoing journey to progressively integrate sustainability into our core business operations and strengthen decision-making processes.

The SR2022 comes on the heels of a new sustainability reporting guide released by Bursa Malaysia in September 2022, urging Malaysian PLCs to conform more closely to global sustainability reporting standards and include disclosures of common and sector-specific ESG indicators to address stakeholder requirements. Velesto has quickly set about to meet and is committed to exceed the prescribed disclosures for compliance.

Given the increasing significance of Environmental, Social, and Governance ("ESG") and climate change concerns, the Board and Management of Velesto have increased our focus on managing these risks on the business and will continue to formulate ESG strategies to ensure resilience and long-term sustainability. We have aligned with Bursa's requirement including GRI & TCFD disclosure requirements. TCFD context index has been outlined on page 237. Furthermore, we have committed to undertake a comprehensive materiality assessment to re-evaluate the Group's ESG risks in FY2023, considering the changes in regulatory requirements. In the interim, a desktop materiality assessment of our ESG matters was conducted for the purpose of determining relevant disclosures for SR2022 and has been outlined on page 66.

As a responsible rig operator in the oil and gas sector, Velesto recognises that though our operations inevitably generate climate-change inducing greenhouse gasses ("GHG"), fossil fuels still play a crucial role in meeting the energy needs of today while the transition to cleaner energy sources is in progress. We are committed to undertaking the process of hydrocarbon extraction responsibly, taking a precautionary approach to lower our emissions wherever possible to reduce our environmental footprint and minimise any harm that may arise from our business activities.

This commitment was formalised in FY2022, and the Group has set a target to achieve a 10% reduction in emissions intensity measured by operating days, and a 30% reduction in revenue emissions intensity by 2030, from our 2021 emissions baseline, which will go a long way to support the achievement of Malaysia's emissions reduction aspirations and our strategic stakeholder PETRONAS' Net Zero pathway.

On this, we have already achieved 15% reduction in emissions intensity by operating days, and a 32% reduction in revenue intensity in FY2022. While the progress made is encouraging, we are mindful of the need for continuous improvement in our emisisons management strategy to maintain this downward trend for the coming years amid an ever evolving operating environment. We are actively exploring new technologies and best practices to enhance our energy efficiency and support the achievement of these goals. We have also intensified our collaboration and engagements with peers through participation in industry associations and trade events to promote climate action and other ESG commitments, the details of which are disclosed on page 65 of this report.

Additionally, our environmental stewardship efforts have been expanded to biodiversity conservation in FY2022. Although Velesto does not operate in or near biodiversity-sensitive sites as evidenced by the Environmental Impact Assessment ("EIA") reports received from the Group's project clients, we remain committed to creating a net-positive impact on the marine ecology. Our commitment to this is reflected in our partnership with the faculty of Science and Marine Environment of Universiti Malaysia Terengganu ("UMT") and Alunan Coral Project NGO in FY2022, to support coral reef restoration efforts carried out at Perhentian Island in Terengganu. Perhentian Island is known for its rich marine biodiversity and stunning coral reefs, which provide a habitat for various marine species and support the livelihoods of local communities.

Velesto is currently the sole oil and gas company involved in the restoration of the fragile coral reefs surrounding this renowned tourist destination, which is known for its rich marine biodiversity. We will be monitoring the impact of this restoration efforts on the marine environment and supporting public education on coral reefs.

Other Community Investment activities undertaken by Velesto in FY2022 were likewise geared towards furthering education while supporting community outreach. This includes the SMART's Cool Program that focused on improving education quality, particularly in assisting to increase teachers' competency in using English in Teaching & Learning (PDP) Maths and Science Dual Language Program. We have also initiated the first phase of our Community Outreach program – Striking a Balance in Education for All, targeting students from the "Less Students" school category in remote areas of Miri, Sarawak. Our goal is to reduce educational inequality and empower underprivileged students to reach their full potential.

Meanwhile, the Group's long-standing Velesto-INSTEP Drilling Academy ("VIDA"), now in its ninth year, remains committed to developing top-notch drilling professionals to fulfil the industry's demand for skilled talent. Through VIDA, we strive to equip our students with the knowledge and expertise needed to excel in their careers and contribute to the growth of the industry. Against the backdrop of the recovering industry and improved COVID-19 situation, we saw a continued enrolment of 503 participants in FY2022, up from 487 in FY2021.

Skills training and development continues to be a priority for Velesto as we recognise the importance of cultivating the competencies and expertise of our employees. We have implemented comprehensive talent training programs that encompass technical training, leadership development, and continuous learning opportunities, with a total of 4,612 training hours recorded in total for the Company in FY2022. Our comprehensive safety programs, employee training initiatives, and workplace wellness strategies ensure that our workforce remains safe, healthy, and engaged, and were key to the achievement of zero fatalities and 0.50 in Lost Time Injury ("LTI") rate in FY2022 with a total of 2,002,687 manhours worked.

By investing in the growth of our employees, we not only enhance their individual capabilities but also strengthen our organisation's ability to adapt and innovate in an increasingly competitive and dynamic industry with a future-ready workforce. This is complemented by a continued emphasis on championing diversity, equity, and inclusion to foster a workplace culture that values the unique contributions of all individuals in line with the principles of good governance and ethical conduct that form the foundation of Velesto's business. We are pleased to note that the Group's robust corporate governance structure, anti-corruption efforts and internal control measures have continued to ensure transparency, accountability, and compliance with all applicable laws, regulations, and industry standards.

Looking ahead, our focus remains on delivering enduring value for all our stakeholders. We believe responsible ESG management is key to achieving our business targets in the short, medium, and long term. We acknowledge that our journey towards creating value and sustainability is a continuous process and we will persist in our efforts to innovate, collaborate, and explore new opportunities that drive sustainable value creation, all with the aim of building a better future for everyone. I would like to express my heartfelt appreciation to our employees, partners, and stakeholders for their invaluable contributions and support. Together, we will continue to work towards a sustainable and prosperous future by charting a path that leverages our collective strengths and resources.

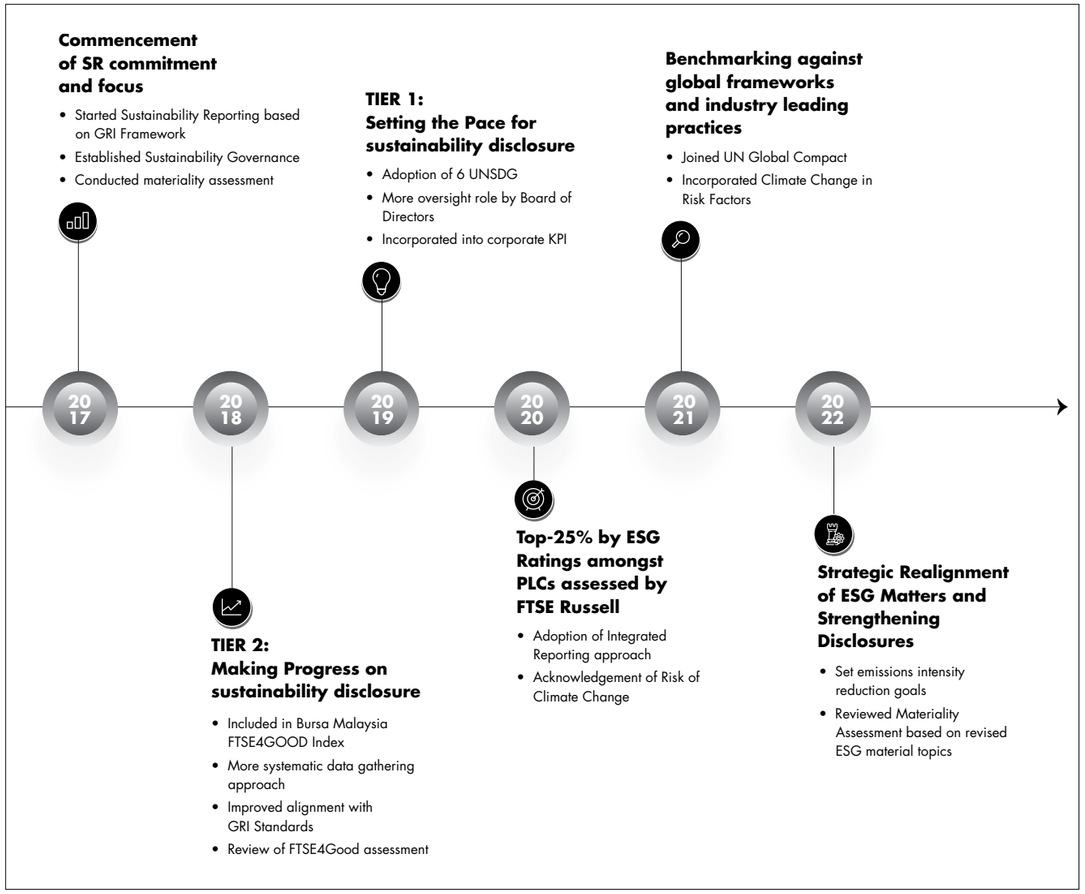
Sincerely,

Megat Zariman Abdul Rahim
President, Velesto Energy Berhad

2022 PERFORMANCE SCORECARD

2022 Performance Highlights	Future Plans/ Commitments, Targets And Pledges
PROTECTION OF HEALTH AND SAFETY	
• Zero fatalities • 0 LTI from Velesto,1 LTI from contractor • 0.51Total Recordable Case Frequency (TRCF)	• Zero fatalities • Zero LTI • TRCF less than 1.0 • Continued protection of staff from COVID-19 impacts
DECENT WORK AND ECONOMIC GROWTH	
• 722 jobs (73% Malaysian) • RM142 million in employees salaries and benefit • RM331 million purchase from local suppliers (56%) • RM74 million net debt repayment to financiers • RM15 million taxes paid to Government • Track record of zero infringements in human rights	• Job and staff retention • Development of more high-skilled jobs for Malaysians • Continuous prioritisation of local procurement and engagement across supply chain • Improved financial and business performance • Continued support of government initiatives • Support for UN Global Compact 10 Principles
GENDER DIVERSITY	
• 36% of Senior Management and 44% of Directors comprised of women	• Continued support for gender diversity
PRESERVATION OF THE ENVIRONMENT	
• Zero major spills • No material impact to biodiversity • Collaboration with a total of 26 students and 6 lecturers from the Faculty of Marine Science & Environment, UMT and Alunan Coral Project NGO on coral restoration efforts at Perhentian Island, Terengganu	• Avoid major spills • Energy and water consumption savings • Collaboration with government agencies on expanding Velesto's coral nursery at Perhentian Island, Terengganu, and data monitoring of the transplanted corals to assess the effectiveness of the restoration efforts
ENHANCEMENT OF PEOPLE'S LIVES	
• A total of four secondary schools, three primary schools (including two Less Students schools), and 89 teachers in Miri, Sarawak to promote greater equality, equity in education, and safety awareness • Benefited youth and young graduates in participation and hiring in support of government and stakeholders' initiatives e.g. MySTEP and Velesto Trainee Scheme ("VTS") • Supported the development of future professional workforce through Velesto's internship program	• Increase support for government initiatives as well as expend and ensure quality beneficiaries/recipients in the areas of education, safety awareness, employment opportunities e.g., SMART's Cool, EduSafety and MyStep and internship program • Continued to work with key stakeholders, both offshore and onshore, towards ensuring mutual value creation.

SUSTAINABILITY MILESTONES



SUSTAINABILITY BLUEPRINT

In view of Bursa Malaysia's new sustainability reporting framework, Velesto is reviewing the gaps in our current sustainability disclosures. The Group aims to close these gaps within the next 1 to 3 years to remain ahead of compliance requirements.

At the same time, we are implementing initiatives to further integrate sustainability into our strategy and operations. These include strengthening our fundamentals, operationalising emissions reduction initiatives, and increasing sustainability awareness and capabilities internally.

SUSTAINABILITY STATEMENT

SUSTAINABILITY GOVERNANCE AT VELESTO

BOARD AND SENIOR MANAGEMENT RESPONSIBILITY ON ESG

The sustainability agenda at Velesto is driven by the tone from the top. The Board of Directors acknowledges ultimate responsibility for all ESG matters, including setting the company's sustainability strategies and priorities, while the Group's ESG goals and targets fall under the purview of Velesto's senior management.

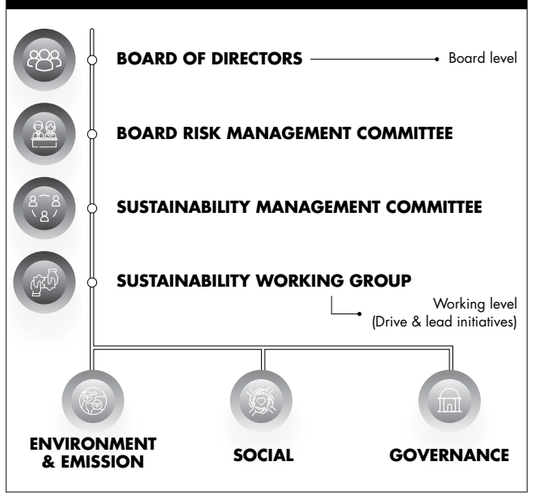
In 2022, the Board and senior management identified sustainability as one of the focus pillars under the Group strategy roadmap, i.e. WAWASAN 2030. The sustainability agenda was developed in tandem with the business strategy to provide clear perspectives of our sustainability priorities, aligning these goals with Velesto's long-term value creation plan.

The Board provides oversight on all environmental and climate-related matters such as energy and emissions management, biodiversity, resource consumption, pollution and waste management, as well as socio-economic issues like talent management, Occupational Safety and Health, labour and human rights practices, and local community impact, in addition to corporate governance, anti-corruption, regulatory compliance and supply chain management.

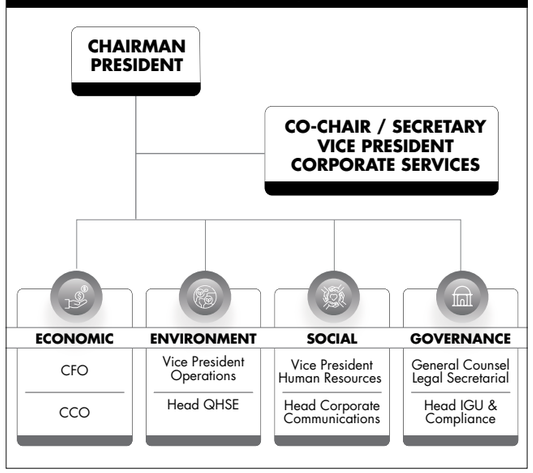
Velesto has established a sustainability governance structure comprising the Board Risk Management Committee ("BRMC"), the Sustainability Management Committee ("SMC") and the Sustainability Working Group ("SWG"), to facilitate communication between the highest decision-making bodies and working levels, with Velesto's President tasked with the strategic management of ESG and climate change matters, and the operationalisation of the Group's sustainability strategy as the chair of the Sustainability Management Committee ("SMC"). This robust structure ensures that the Board and Senior Management stay updated on all ESG matters as they are emerging, while serving to bridge communication across the hierarchy to convey aspirations and directives, receive feedback, and make adjustments to sustainability strategies that are realistic and aligned with the company's capacity and capabilities to reach our goals and objectives. In keeping abreast of the dynamic sustainability landscape, the Board and the senior management will continue to attend sustainability training programs, including those arranged by the market regulator and professional associations.

The structure was bolstered in FY2022 to include the composition of the SWG, which serves to strengthen ESG functions at the working level while providing greater clarity on their respective roles and responsibilities.

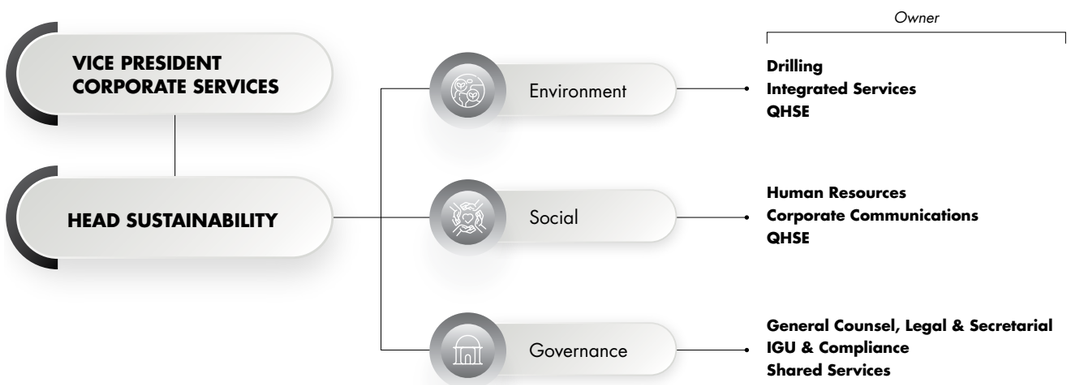
SUSTAINABILITY GOVERNANCE STRUCTURE



SUSTAINABILITY MANAGEMENT COMMITTEE ("SMC")



SUSTAINABILITY WORKING GROUP ("SWG")



Roles	Responsibilities	Composition
Board of Directors ("Board")	• Maintains oversight on all material ESG topics • Oversees the company's sustainability agenda • Ultimately accountable for integrating ESG considerations into corporate strategies, governance, and decision-making	• Independent Non-Executive Directors and Executive Directors
Board Risk Management Committee ("BRMC")	• Works closely with the Sustainability Management Committee to develop an integrated approach for effective risk management through the identification, assessment and management of material ESG matters, taking into account ESG and climate-related risks and opportunities • Ensures the potential impacts of ESG matters are progressively included within the Group's risk matrix and risk register • Provides half-yearly reports to the Board	• Independent Non-Executive Directors and Executive Directors. *(refer to page 122 of IAR2022)*
Sustainability Management Committee ("SMC")	• Ensures the Sustainability strategy is aligned with the Group's vision and mission • Reviews and recommends Sustainability Statement to the Board • Reviews and recommends Sustainability strategies, policies and other related matters such as management systems, performance monitoring, policies, commitments and regulations • Continuously monitors stakeholders' expectations on Velesto's Sustainability activities through effective communication strategies • Meets / reports to BRMC quarterly	• Senior Management of Velesto *(refer to SMC structure)*
Sustainability Working Group ("SWG")	• Responsible for the implementation of Sustainability strategies and projects • Tracks data to ensure that all outlined activities achieve defined targets	• Representatives from Corporate and Operations *(refer to SWG structure)*

For more details on the Board's roles and responsibilities, composition, independence, and performance, please refer to Velesto's FY2022 Corporate Governance Report. Velesto's adherence to Practices 4.1 to 4.5 of the MCCG 2021 on Sustainability Leadership is also detailed therein.

SUSTAINABILITY STATEMENT

SUSTAINABILITY GOVERNANCE AT VELESTO

EMBEDDING ESG CONSIDERATIONS INTO RISK MANAGEMENT

In recent years, ESG matters are increasingly being raised during Board level discussions in recognition of their impacts on the Group's value creation ability. Velesto has progressively incorporated more ESG topics into its risk management framework to better track the potential impact of these sustainability matters and the likelihood of such events occurring, with these ESG considerations given greater emphasis in guiding Board and Senior Management's decisions on Velesto's strategic plans and priorities.

These risks are identified systematically across Velesto's operations in adherence to the Group's Enterprise Risk Management policy. Reference is also made to external risk management frameworks and corporate reporting standards listed below to identify ESG risks relevant to Velesto's business sector and operating environment through our annual materiality assessment undertaken during the preparation of the SR2022.

- ISO 31000 Risk Management Standard
- Integrated Reporting Principles Based Framework
- Global Reporting Initiative ("GRI") Standards 2021
- FTSE Russell's ESG Data Model
- Task Force on Climate-related Financial Disclosures ("TCFD")

Upon identification of relevant risks, risk owners provide the categorisation of the risks' impact severity and likelihood, and works with the BRMC in managing these risks. The BRMC is responsible for providing guidance on the Group's risk parameters and risk appetites, and notifies the Board when a particular ESG matter is in danger of exceeding the risk tolerance of the Group.

Going forward, the Group's focus is on extending the scope of the risk management framework to cover more ESG risk factors, while working to establish clear linkages on the financial and operational impacts that may arise from these sustainability matters.

For more information on Velesto's risk management framework, approach to risk identification and mitigation, and other details, please refer to the Statement of Risk Management and Internal Control ("SORMIC") section of the IAR2022.

Going forward, the Group's focus is on extending the scope of the risk management framework

TO COVER MORE OTHER ESG RELATED RISK FACTORS

LINKING REMUNERATION WITH ESG PERFORMANCE

Velesto supports Bursa Malaysia's recommendation for listed companies to link Board and Senior Management remuneration to the achievement of ESG goals and targets.

At present, two ESG performance goals i.e. Zero LTI and Zero Major Spills are linked with the remuneration of Senior Management. Velesto is focusing on establishing baselines upon which other realistic and tangible ESG targets and KPIs can be formulated, such as emissions reduction, that can be applied across various parts of the Group.

More details on remuneration can be found in Velesto's Remuneration Policy and Procedures for Non-Executive Directors on the Group's website.

DIVERSE POLICIES FOR GOOD GOVERNANCE

- Board Charter
- TOR BNRC
- TOR BRMC
- TOR BWBC
- TOR BAC
- Constitution
- Fit & Proper Policy
- Quality Policy
- No Smoking Policy
- Stop Work Policy
- Substance Misuse Policy
- Marine Operations Policy
- Anti-Bribery and Corruption Policy
- Whistle Blowing Policy
- Health, Safety and Environment Policy
- Human Rights and Labour Standards Policy
- Remuneration Policy and Procedures for Non-Executive Directors

Velesto's sustainability governance is backed by a dynamic set of policies, codes, charters, and Terms of References ("TOR"), which sets out the principles, procedures and appropriate behaviour covering various aspects of the Group's operations to guide the conduct of our Board of Directors, employees and stakeholders. These documents can be accessed at the Group's Governance portal, located at https://www.velesto.com/.

The Group's policies, including its Code of Business Conduct and Ethics ("CoBE"), are reviewed and amended periodically to ensure their continued effectiveness. Compliance with these established codes are monitored by Velesto's Integrity Governance Unit and Compliance, which has established a Group-wide approach to identify and investigate any incidence of non-compliance.

OPERATIONAL SITE CERTIFICATION AND ACCREDITATION

Velesto also ensures sustainability governance through operational site certification, with all its JU rigs, HWUs, Kuala Lumpur Headquarters, and operating bases in Kemaman and Labuan, certified to globally recognised management system standards.

Velesto has migrated from OHSAS 18001:2007 Occupational Health and Safety Management System to ISO 45001:2018. Velesto has also recently upgraded from ISO/TS 29001:2010 to ISO 29001:2020, with certification achieved on 14 March 2022.

ASSETS/ LOCATIONS	SCOPE	CERTIFICATIONS/ ACCREDITATIONS
Velesto Energy Bhd: KL Headquarters	Provision of Offshore Drilling and Hydraulic Workover Services for the Oil & Gas Industry.	ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, ISO 29001:2020
Velesto Drilling: Labuan Warehouse, NAGA 4, NAGA 6, NAGA 8	Provision of Offshore Drilling Services for the Oil & Gas Industry	ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, ISO 29001:2020
Velesto Workover: Kemaman Warehouse	Provision of Hydraulic Workover Services for the Oil & Gas Industry	ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, ISO 29001:2020

Note: The certificates for these accreditations can be found at https://www.velesto.com/quality/.

SUSTAINABILITY STATEMENT

STAKEHOLDER ENGAGEMENT

Velesto defines stakeholders as individuals or groups who are impacted or have the potential to impact the Group's operations, financial performance, and reputation. Maintaining a consistent and effective two-way engagement is crucial to ensure that the Group is in alignment with the evolving needs, expectations and concerns of its diverse stakeholder groups when developing and implementing the Group's strategies and business plans.

The Group leverages a range of engagement channels to monitor, measure and manage stakeholders' concerns and ensure the development of an inclusive ESG sustainability agenda that remains relevant to its stakeholders. A summary of Velesto's stakeholder management strategy is presented below, which has remained largely the same as the previous year's disclosure.

METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES/ OUTCOMES
GOVERNMENT/ REGULATORS/ AGENCIES		
• Annual/ periodical compliance as per relevant laws and regulations • Management engagement • Formal and informal meetings • Written and email communications	• Compliance to regulatory requirements • Feedback on impact of policies • Explore areas of mutual support from government initiatives	• Mutual understanding on compliance requirements and adherence • Participation in initiatives/ programs • Clarification on regulations • Appeal or concession, if required
SHAREHOLDERS AND INVESTORS		
• Analyst Briefing • Annual General Meeting • Annual Report • Investor Briefing • Announcements of corporate developments to Bursa Malaysia • Quarterly announcements of financial results to Bursa Malaysia • One-on-one meeting • Updates on Investor Relations page on Velesto's website • Press Releases	• Quarterly updates by the President on the position and status of the Group to analysts from various financial/ research houses • A yearly update to shareholders on the strength and position of the Group, while also sharing the current health of their investment • Regulatory matters • Ad-hoc (as and when required) briefings to investors on the strength and position of the Group • Quarterly announcements/ discussions on the financial results • Ad-hoc (as and when required) updates to analysts and fund managers • Ad-hoc (as and when required) updates via Press Releases distributed to the media	• More positive coverage by analysts and media • Maintained share price performance • Compliance with MMLR
PETRONAS AND OTHER OIL COMPANIES		
• Management engagement • Customer feedback exercises • Frequent rig/ office visits • Formal meetings • Workshops • Email queries • Trade shows and exhibitions	• Discussions and clarifications on technical, operational and commercial matters • Operational and safety issues • Rig operating schedules • Rig/ office visits by existing and potential clients • Quarterly management engagement and frequent operational meetings to discuss technical, operational and commercial matters • Continuous effort in promoting Velesto • Various emails with regards to commercial and technical clarifications from clients • Various marketing emails to existing and potential clients • Abu Dhabi International Petroleum Exhibition and Conference ("ADIPEC"), Malaysian Oil & Gas Services Council ("MOGSEC"), Malaysia External Trade Development Corporation ("MATRADE"), etc.	• Ensure all clarifications are responded to and appropriate actions are undertaken • Managing issues with various teams • Visits jointly organised by Business Development and Operations teams • Frequent engagements with clients and authorities on respective matters • Frequent marketing meetings held between Velesto and new/ existing clients to promote and/ or introduce Velesto's capabilities and rig schedules • Participated in various tradeshows and exhibitions when deemed necessary, local and overseas for marketing and branding purposes
EMPLOYEES		
• Townhall sessions • Festive celebrations • Internal communications emails • Employee excursions/ events • Management Health, Satety, and the Environment ("HSE") walkabouts • Lunch with President sessions • Talent Managment • Roadshows & Workshops • Reskilling & Upskilling Roadshows • HR-RIG Engagement Sessions	• Quarterly updates by the President on the position and status at the Group to Velesto employees in townhall sessions • Provide updates on Velesto's SharePoint on the latest happenings, events, etc. Some internal emails also discuss topics related to work-lite balance • HSE Observation Card ("HOC") winner	• Updated awareness on the Group • Internal communications help ensure that all members at the organisation are kept up-to-date on the on-goings at Velesto • Promote satety awareness at the workplace
FINANCIAL INSTITUTIONS		
• Annual Report • Analyst Briefings • Annual General Meeting • Regular engagement, conference calls and periodic updates • Site/rig visits	• Liquidity and investment management • Financial risk management • Regulatory and debt covenants compliances	• Effective communications on business and operational updates • Updated release of Group's financial results and operational performances • Compliance and continuous engagements to improve the debt covenants

SUSTAINABILITY STATEMENT

STAKEHOLDER ENGAGEMENT

METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES/ OUTCOMES
VENDORS		
• Management engagement • Vendor feedback exercise • Office/ site visits • Site audits • Document audits • Formal meetings • Email queries • Trade shows and exhibitions • Appointment of Vendor Development Program ("VDPx") vendors	• Introduction meetings • Discussions and clarifications on technical and operational requirements • Commercial negotiations • Solicitation/ clarification of quotations • Operational and safety issues • Rig operating schedules • Continuous effort in promoting Velesto's core values (iLEAP) • Various marketing emails from vendors • Robustness of HSE management systems • Financial capability • Technical capability • Outstanding issues (payment, delivery, quality, etc.) • MOGSC, MATRADE etc.	• Familiarising with vendor's capabilities • Ensure Velesto's requirements on HSE and CoBE are understood and delivered as required • Negotiated for competitive rates for materials/ services procured • Ensure materials/ services are procured at the right quality and delivered to the right location at the right time • Ensured safety standards were upheld to prevent incidents at work site • Ensured business dealings were dealt with according to Velesto's core value • Ensured vendors are technically sound and have robust HSE management systems and financial stability to carry out work seamlessly • Ensured issues were resolved at the shortest possible time • Continuous networking to promote local participation in Velesto's procurement activities • Actively promoted local vendors to upskill and be more competitive in the international arena via VDPx initiative
COMMUNITIES		
• Communities Investment	• Implementation of Velesto's three main communities investment pillars (safety, education and environment) at selected partners/ schools/ communities	• Improvement/ betterment of the participating stakeholders' understanding on safety, improved education experiences and results, and improved understanding of the environment as well as helping to conserve the environment

INDUSTRY ASSOCIATION MEMBERSHIPS AND EXTERNAL INITIATIVES

Velesto has been a member and active participant in various associations, professional bodies and trade events in the oil and gas sector. These marketplace engagements allow the Group to stay up to date on industry developments and contribute to discussions and collaborations to tackle some of the most pressing and emerging challenges and raise the bar on sustainability practices.

Trade Associations & External Initiatives		Velesto's Participation & Contribution
	The Malaysian Oil & Gas Services Council ("MOGSC")	Velesto has been a member of this non-profit industry association promoting the interests of Malaysian oilfield service providers in Malaysia.
	Malaysian Gas Association ("MGA")	As a member of MGA, Velesto actively supports the organisation in promoting a vibrant and sustainable gas industry to fuel Malaysia's socio-economic growth through regular participation in MGA events.
	Energy Industry Council ("EIC")	The EIC is a not-for-profit organisation with a membership of over 800 companies who deliver goods and services to the energy industries. Through our membership in EIC, Velesto gains insights and market intelligence into energy projects as well as advancements and best practices in the energy sector that support a sustainable energy future.
	International Association of Drilling Contractors ("IADC")	IADC is a non-profit trade association that is the global leader in advancing the drilling industry and is recognised worldwide for its accreditation programs, conferences, advocacy efforts, and industry news. Velesto works collaboratively with IADC members to improve operational safety, efficiency, reliability, and environmental stewardship for the future of the industry.
	United Nations Global Compact ("UNGC")	Velesto became a member of UNGC on 2 June 2021 and subscribes to the 10 Principles on human rights and labour best practices across its organisation.
	30% Club	The 30% Club is a special interest group formed to promote increased inclusion of women in the Boards and Senior Management of public listed companies. Velesto has been an active participant of the Malaysian Chapter of the 30% Club in supporting the development of future female leaders. In FY2022, women made up 44% of Velesto's Board and 36% of the Senior Management.
	Malaysia Petroleum Resources Corporation ("MPRC")	MPRC is an agency of the Ministry of Economy tasked with advancing Malaysia's Oil and Gas Services and Equipment ("OGSE") sector towards cleaner and sustainable renewable energy as new areas for business growth. Former President En. Rohaizad Darus previously served as a panellist on its Industry Advisory Panel and spoke at several MPRC events in FY2021.
	Universiti Teknologi Petronas ("UTP")	Velesto is proud to contribute to the academic development of UTP by providing MSc Drilling Engineering students with the opportunity to enrol in VIDA's hands-on courses and professional course. In addition, UTP has appointed Velesto's subject matter experts as visiting lecturers.
	Universiti Malaysia Terengganu ("UMT")	Since 2018, Velesto has been collaborating with UMT on communities investment initiatives and career sharing sessions. In FY2022, Velesto collaborated with UMT's Faculty of Science and Marine Environment and Alunan Coral Project NGO to support the coral reef restoration efforts at Perhentian Island, Terengganu. This conservation effort will be carried out throughout the next few years to observe the restoration process and how it benefits the surrounding area.

DETERMINING MATERIALITY

Materiality assessments remain an important facet of Velesto's sustainability and risk management strategy, which are crucial for identifying and prioritising the management of ESG topics' inward impact on Velesto's enterprise value creation ability and outward impact on our stakeholders and the environment.

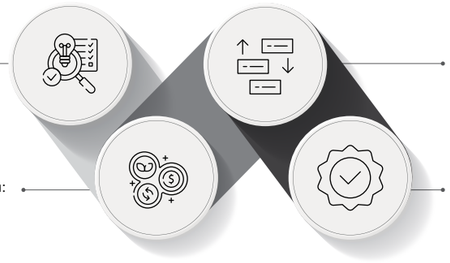
These assessments ensure that the Group's decision-making process incorporates the needs, concerns and expectations of our stakeholders, the risks and opportunities of our operating environment, and emerging ESG issues to accurately prioritise the matters that are most material to the Group's continued sustainability.

Velesto has in place a four-step materiality process which we use to determine and categorise our Material Matters:

Our Appoarch to Materiality

IDENTIFICATION
Conducted analysis & benchmarking of material matters from key industry issues, regulators, peers, etc.; grouped into Environment, Social, & Governance categories

STAKEHOLDER ENGAGEMENT
Engaged internal & external stakeholders via:
- Interviews and surveys
- Focus groups session approach internally



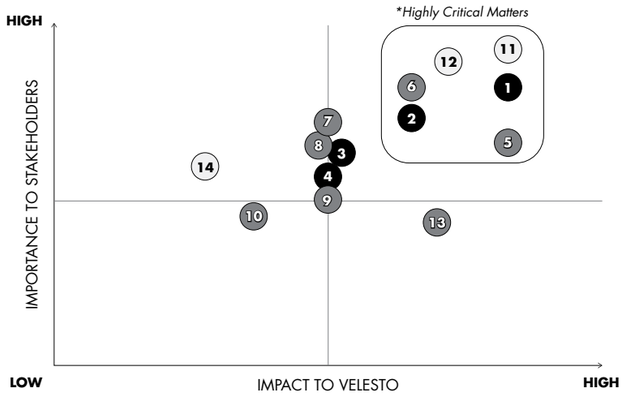
PRIORITISATION
Mapped matrix based on 2 key areas to Velesto:
- Importance to stakeholders
- Impact on our business

ENDORSE & APPROVE
Validation and acceptance of Materiality Matrix by Sustainability Committee, top management & relevant committee of the Boards.

In 2022, we conducted a desktop review of our material matters in consideration of the revised Environmental, Social, and Governance ("ESG") disclosure guidelines released by Bursa Malaysia in September 2022. Velesto has undertaken the assessment internally, excluding interviews and surveys with external stakeholders, to identify and prioritise the ESG topics deemed most material to the Group, taking into consideration:

1. Our regulatory compliance requirements;
2. The needs and concerns of our stakeholders (including the priorities of our strategic shareholders, i.e. PNB and PETRONAS); and
3. Industry best practices and recommendations from other ESG frameworks.

FY2022 Materiality Matrix



ENVIRONMENT
1. **Energy & Emission Management***
2. **Climate Change***
3. Water
4. Biodiversity

SOCIAL
5. **Health & Safety***
6. **Human Rights***
7. Employment Practices
8. Diversity, Equity & Inclusion
9. Talent Management
10. Community Impact

GOVERNANCE
11. **Economic Performance***
12. **Anti Bribery & Corruption***
13. Supply Chain
14. Data Privacy & Security

These findings form the basis of our disclosures for the SR2022 as we progress towards more robust and balanced ESG disclosures. Our material topics are reviewed annually and validated by various levels of our sustainability governance framework. As a continuous improvement practice and based on feedback, the Group plans to undertake a comprehensive materiality assessment in FY2023.

ENVIRONMENTAL MATTERS

GRI 301, 302, 303, 304, 305, 306

As a responsible rig operator within the fossil fuel industry, Velesto recognises the impact of our operations on climate change. The Group is of the view that oil and gas development and production will continue to have a role to play in the current energy transmission, and is committed to taking a precautionary approach to lower our emissions, reduce our environmental footprint and minimise any harm that may arise from our business activities.

VELESTO ENVIRONMENT TARGET

To achieve a 10% reduction in emissions intensity measured by operating days, and a 30% reduction in revenue emissions intensity by 2030, from our 2021 emissions baseline.

ZERO
major spills

VELESTO ACHIEVEMENT IN 2022

Business Intensity reduction by 2030

15%
by operating days

32%
by revenue

ZERO
major spills

In FY2022, the Group stepped up its environmental performance tracking to include additional indicators for monitoring and disclosure in this report, drawing from best practices and recommendations from various reporting and sustainability frameworks such as GRI, FTSE, IIRC, UNSDG, as well as regulatory requirements from Bursa Malaysia, MARPOL and PETRONAS. The SR2022 also marks the first year Velesto is benchmarking its climate-related disclosures to the recommendations of TCFD. In addition, we have also started disclosure of Scope 3 Business Travel (by air) emissions, initially on a one-year basis.

These efforts will go a long way in driving progressive improvements in Velesto's environmental performance to support a climate-resilient business model that is conducive for long-term value creation, particularly in meeting regulatory compliance, maintenance of our asset and site accreditations, deriving cost savings from resource efficiency, and the preservation of our brand reputation and goodwill with our stakeholders.

All of Velesto's subsidiaries have adopted the ISO 14001:2015 certification to demonstrate their commitment to environmental responsibility. The Board and Senior Management of Velesto acknowledges their responsibility in overseeing and managing material environmental topics such as climate change and Greenhouse Gas ("GHG") emissions, energy, water and other resource consumption, waste and effluent management, and biodiversity.

ENVIRONMENTAL MATTERS

ENERGY CONSUMPTION AND EMISSIONS

The principal energy and emissions sources of the Group are from the consumption of fuels and electricity used to power the company's drilling and exploration activities, particularly in the following assets under our control to indicate our boundaries are based on assets under control method.

DIESEL

- **Rig Operations**
  NAGA 2, NAGA 3, NAGA 4, NAGA 5, NAGA 6, NAGA 8
- **Hydraulic Workover Units ("HWUs")**
  GAIT 1, GAIT 2, GAIT 5, GAIT 6

ELECTRICITY

- Office (KL HQ)
- Warehouse (Kemaman and Labuan)
- Oilfield Services (Tianjin)

The fuel consumed for power generation to support our operations releases harmful GHG and particulates such as carbon dioxide ("CO2"), methane and other emissions into the atmosphere, which traps heat and leads to changes in the global climate.

CLIMATE CHANGE RESILIENCE

Velesto is committed to strengthen its resilience against ESG risk including climate change impacts. The Group has put in place various energy and emissions management initiatives to reduce the emissions intensity of our rig operations and mitigate our environmental impacts.

Although the use of oil and gas is a major source of carbon and GHG emissions, the exploration and drilling process itself is not necessarily a high emitter of carbon. Most drilling rig operators, including Velesto, comply with MARPOL standards that mandate efficient production methods and energy usage, no environment spills, environmentally friendly waste disposal and zero contamination of the environment. Beyond compliance with MARPOL standards, Velesto is continuously seeking ways to further reduce its environmental footprint and improve operational efficiency to enhance our resilience to actual and potential impacts of climate change and other ESG matters.

The Group's Board and Senior Management acknowledges ESG risks including climate change and they are being incorporated into our strategic planning for all future capital expenditures, particularly in terms of the Group's investments for new businesses and technological and systems adoption.

BOARD OVERSIGHT & MANAGEMENT'S ROLE ON BUSINESS RESILIENCE

The Board and Senior Management of Velesto acknowledge the potential risks of ESG matters including climate change. These risks and opportunities have been integrated into the Group's overall risk management framework, with mitigation measures formulated to address their impacts on Velesto's business.

The Board, through the BRMC, has oversight on these and other risks in the Group's risk management framework, and will continue to closely monitor, assess and manage or mitigate their impacts on the Group's business. The Group's President, as the Chair of the Sustainability Management Committee and a Board member, is responsible for the overall management of Velesto's climate-related and other ESG strategies, and leads the Senior Management in the implementation of the Group's action plans to reduce our energy consumption and GHG emissions, as well as other ESG initiatives.

The Board is satisfied that the Group's business strategies remain robust and resilient in addressing the identified climate-related and other ESG risks in the short and medium term, and continues to plan for the eventualities identified for the longer term horizons. This includes exploring new business opportunities in other segments to ensure Velesto's business resilience to ESG risks including climate-related risk.

APPROACHES FOR REDUCING CLIMATE IMPACTS

Velesto is committed to reduce the emissions footprint of our operations and has implemented several measures related to energy management.

Energy Efficiency and Emissions Reduction

Velesto's existing approach involves measuring our Scope 1 and Scope 2 emissions, improving our energy efficiency, and reducing emissions through our existing operations' technological systems and procedures, such as:

1. **Rig Power Management System ("RPMS")**
   This computer-based Power Management System optimises the diesel engine usage to reduce fuel consumption. Velesto has adopted the RPMS at NAGA 4, 5, and 8. The RPMS provides each rig with five diesel powered generators with the biggest power consumer being the mud pumps followed by the Top Drive System (TDS) and the Draw works. The RPMS can detect when the rig equipment requires a lower power load and with that, automatically shuts/ revs the engine(s) down. This enables more efficient use of energy for drilling activities.

2. **Daily engine generator load**
   Manual monitoring of diesel engine usage at our rigs are carried out from town to reduce fuel consumption.

3. **Variable frequency drive**
   All of our rigs are built-in with this new technology for energy saving compared to earlier conventional drilling rigs (20/30-year-old rig).

4. **Condition-based monitoring of engines**
   This is to improve the engine performance, which in turn, saves fuel.

Velesto has developed an Energy Efficiency target that outlines the company's commitment to improving energy efficiency across its operations. The company is in the process of operationalising emissions reduction initiatives, which includes measures such as increasing energy efficiency and reducing energy consumption, and increasing awareness amongst crew and employees.

ACTION AND ALLOCATION TO ADDRESS ENVIRONMENTAL CHALLENGE

As a service provider in the oil and gas industry, Velesto takes all practicable measures to reduce the carbon emissions from the diesel engines used on our rigs, and other environmental impacts of our operations. This commitment aligns with the Paris Agreement and the Kyoto Protocol of the United Nations Framework on Climate Change ("UNFCG"), which encourage CO2 emissions reduction. As a Non-Annex 1 party, Malaysia has been urged by the UNFCCC to reduce CO2 emissions, and Velesto is committed to play its part to support the achievement of this goal.

Velesto's primary contribution to carbon emissions is through the consumption of fuel (Scope 1 emissions), particularly diesel, to operate its rigs and HWUs. Electricity sourced from the grid (Scope 2 emissions) is also consumed to power the Oilfield Services (Tianjin) plant, Kemaman and Labuan supply bases and Velesto's Headquarters in Kuala Lumpur. The Group is in the process of identifying and quantifying the various other indirect sources of emissions from its operations and third-party sources of emission from our supply chain (Scope 3 emissions) with the intention to begin disclosing more aspects of Scope 3 emissions in the future, in addition to FY2022's disclosure of emissions from Business Travel (by air).

The Group manages our GHG emissions by complying with the GHG Protocol and Annex VI of MARPOL 73/78, focusing on air pollution prevention, controlling greenhouse gas emissions, and improving the quality of fuel oil used by diesel engines.

Some of the key resources that the Group has allocated to drive this agenda include:

- Continuous assessment and capital allocation for acquisition of energy-efficient technologies. This includes investments in energy-efficient lighting and renewable energy sources such as solar panel onshore, and is considering new drilling technologies that can reduce energy consumption and GHG.

- Promoting employee engagement to develop emissions reduction strategies, achieve behavioural changes and increase participation in sustainability initiatives.

- Established partnerships and collaborations with other organisations and stakeholders to drive our environmental sustainability agenda. This includes collaboration with UMT and Alunan Coral Project NGO in coral restoration, and supporting PETRONAS and MPRC to encourage adoption of Sustainability for the oil and gas services and equipment sector.

ENERGY CONSUMPTION AND EMISSIONS

ENERGY AND EMISSIONS METRICS

One of the ways Velesto assesses the effectiveness of our climate change mitigation efforts is through the tracking of energy and emissions performance indicators to gauge our performance against the Group's set targets. Indicators used to quantify climate change and other environmental impacts include the volume of energy and water consumed and the volume of emissions, effluent and waste generated, measured in total and in terms of intensity against revenue or manhours worked. Metrics used include Gigajoules ("GJ") and Terajoules ("TJ") for fuel and energy, kWh for electricity, metric tonnes for waste, litres or m3 for water and effluents, and CO2e for emissions.

All GHG data and calculations are based on the World Resources Institute's GHG Protocol, Intergovernmental Panel on Climate Change's Emission Factors and ISO1 4064-1.

The table below outlines our carbon emissions in FY2022.

Carbon Emissions (TCO2e)	Scope 1		Scope 2			Scope 3	Total
Sources	VED	HWUs*	OFS Tianjin	HQ KL	Warehouse	Business Travel (by Air)	
Operating Emissions	40,469	1,851	195	200	57	32,798	
Idle/ Rig preparation	12,616	0					
Total carbon emissions	53,085	1,851	195	200	57	32,798	88, 186

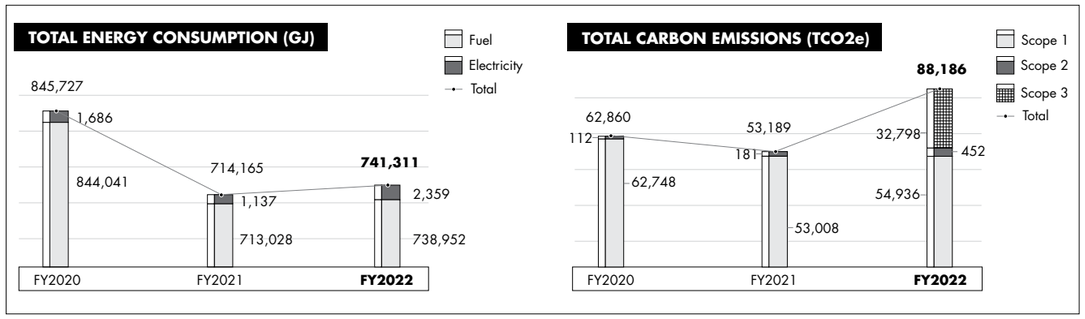
Note:
**Estimate*

In addition to the previous years' reporting, the Group has expanded its boundary for reporting to also cover emissions from the newly consolidated Integrated Services division, which includes our HWUs operations for Scope 1 and the Oilfield Services (Tianjin) operations for Scope 2. These were previously excluded as their impact to the Group's overall emissions were low and immaterial.

However, as activities for HWUs restarted in 2022, our data has been incomplete. As such, their carbon emission has been calculated on an estimate basis. As part of our commitment to continuous improvement, Velesto will measure actual emissions for our HWUs operations from 2023 onwards.

Velesto has also started its Scope 3 disclosure in FY2022 amid the new requirements under Bursa Malaysia's enhanced sustainability reporting framework to disclose business travel as one of the common indicators for Scope 3 emission from FY2024's reporting onwards. For SR2022, the Group in good practices disclosed it business travel by air emission as stated in the table above.

More details on the Group's emissions and energy consumption for the past three years is provided below for comparison:



In term of emissions intensity, the table below outlines our performance against our 2030 goal.

EMISSIONS INTENSITY LEVELS

FINANCIAL YEAR	2020	2021	2022	2030 GOAL
Revenue (RM mil)	547	378	581	-
Utilisation (%)	66	48	62	-
Operating Days	1,683	1,110	1,354	-
Carbon Emissions (tCO2e)*	62,860	53,189	55,388	-
Carbon emissions intensity (tC02e/ Operating Days)*	37	48	41 (15% Reduction)	43 (10% Reduction from FY2021)
Carbon emissions intensity (tC02e/ Revenue – RM mil)*	115	141	95 (32% Reduction)	99 (30% Reduction from FY2021)

Note:
** Excludes Scope 3 Emissions*

Energy and emissions performance highlights achieved by the Group in FY2022 are detailed below:

- *Diesel consumption increased 3.6%, despite number of operating days increasing by 22%*
- *Emissions per operating day has decreased by 6% (drilling operating day emissions, not including rig being idle/prep)*

The above performances are achieved due to the increase in utilisation, which led to lower number of idle/ prep days and its emissions apportioned to operating days.

Additionally, operational behavioural change aligned to our four Energy Efficiency and Emissions Reduction initiatives mentioned on page 69 also contributed to the improvement in result in FY2022.

Despite the positive results, we will continue to develop strategies to reduce our emissions intensity per operating day.

POLLUTION AND WASTE MANAGEMENT

Due to the nature of Velesto's operations in and around the marine environment, pollution prevention and responsible waste management is integral to the Group's sustainability agenda. Oil spills and other forms of pollution, such as irresponsible waste disposal and effluent discharge, can have devastating impacts on ocean biodiversity, and can also contaminate water supplies, impacting human health and the livelihoods of coastal communities.

Velesto is committed to safeguarding the integrity of the marine environments where it operates and have established responsible water consumption and management, wastewater and waste management, and environmental spill prevention practices to mitigate and minimise any negative impact on the environment.

There were no major spills in 2022.

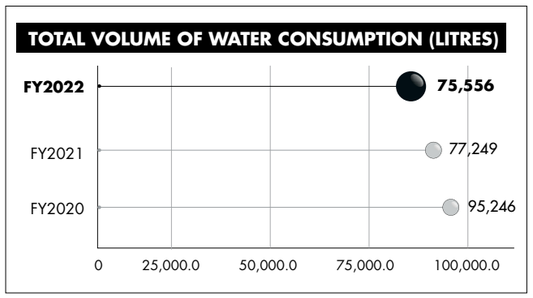
RESPONSIBLE WATER CONSUMPTION

Velesto utilises mostly seawater for its rig operations and does not operate in close proximity to fresh water sources or water catchment areas. Furthermore, the abundance of seawater and the location of our rigs far out in the sea means that water is not being sourced from a water stressed location, and coastal communities and fishing villages are not affected by our withdrawal of seawater.

Hence, the Group does not have a material impact on the issue of water security. Nevertheless, Velesto remains committed to managing our water consumption efficiently and responsibly.

Non-potable seawater is mainly used for drilling and cleaning, accounting for 60% to 70% of seawater withdrawn. The remaining seawater is filtered and distilled via reverse osmosis for potable consumption by the crew. In some rigs, rainwater and recycled water sourced onshore are also used. Potable water is also consumed at the Group's onshore operational sites.

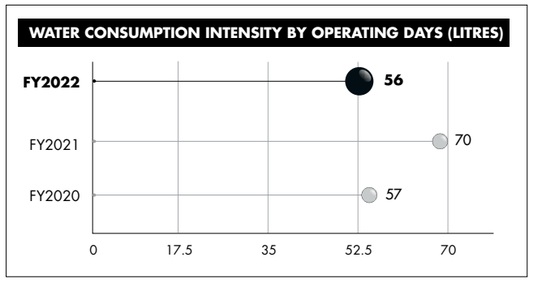
The Group's volume of water consumption is determined by rig utilisation levels, which in turn is determined by the level of exploration and production activity for the financial year. The chart below showcases Velesto's water consumption performance.



POLLUTION AND WASTE MANAGEMENT

WATER EFFICIENCY INITIATIVES

The use of reverse osmosis to process seawater effectively means that Velesto has a practical water source. However, this process requires energy consumption, leading to increased fuel consumption and emissions. Thus, the company makes an effort to consume water efficiently on all rigs.



WASTEWATER, EFFLUENTS AND PREVENTION OF ENVIRONMENTAL SPILLS

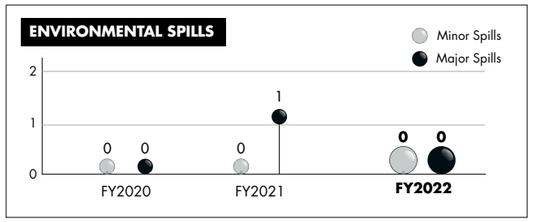
The main water-related risk for Velesto pertains to the disposal of wastewater. Velesto is committed to preventing the accidental spillage of untreated effluents into seawater.

In line with Annex 1 of the International Convention for the Prevention of Pollution for Ships (MARPOL 73/78), all Velesto rigs are equipped with internationally approved oily water separator facilities to treat water with oil content and bring the said oil content to permissible levels (below 15 parts per million or "ppm") prior to being discharged overboard. MARPOL 73/78 also requires all rigs to have adequate storage capacity for manure and a dedicated, self-contained Sewage Treatment System. As a result, waste is treated on-board and the treated effluent, considered safe by the Department of Environment ("DOE"), is stored until it has fully decomposed before being discharged into the sea.

In addition, our fleet is certified by regulatory bodies such as the American Bureau of Shipping and Det Norske Veritas ("DNV"). The Group's rigs have been designed with spill containment systems as part of the overall management approach to effective environmental protection, especially direct environmental pollution.

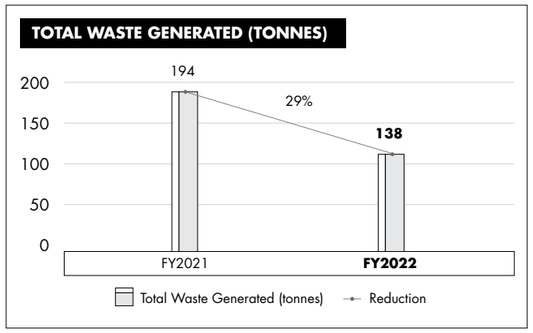
Velesto includes environmental incident monitoring in its monthly HSE performance reporting system and has set an annual target of Zero Major Spills. The company categorises environmental spills into minor and major spills, with minor spills defined as spills involving 800 litres or less. Any spills exceeding that is considered a major spill.

In the year under review, Velesto has continued to comply with all regulatory requirements for effluents and wastewater. There were zero incidents of major environmental spills for Velesto in FY2022. The Group also did not receive any fines, warnings or censures for non-compliance for wastewater discharge.



WASTE MANAGEMENT

Velesto's SR2022 waste management disclosures are scoped to our rig operations. Velesto is committed to ensuring that the Group's waste is managed in accordance with stringent processes and procedures that comply with the DOE's regulatory standards and industry best practices, and engages DOE-approved licensed third-party contractors to carry out its waste disposal.



In FY2022, Velesto has continued to record reductions in the total waste produced by its operations.

The Group's offshore drilling platforms adhere to a dedicated waste management plan to ensure all types of waste are disposed of in an environmentally friendly manner in compliance with MARPOL 73/78. Waste produced from oilfield services is disposed of according to the standards set by the DOE's Environmental, Quality (Schedule Waste) Regulation 2005.

At our warehouses in Kemaman and Labuan, solid waste is segregated based on usable and disposable materials. Solid and chemical wastes are transported and disposed of via licensed local contractors without any incidents of spillage.

Aside from responsible waste management at operational sites, Velesto's waste reduction initiatives include a successful partnership with Kloth Cares, a local NGO that recycles textile waste. The company installed a dedicated recycling bin outside its headquarters in Plaza Sentral to collect unwanted fabric items from the public. Through this initiative, Velesto collected 5,965.8kg of textile waste as of FY2022.

MARINE BIODIVERSITY

The Group recognises the importance of preserving biodiversity as it is linked to food security, tourism, traditional livelihoods, and the health of our planet's ecosystems. Velesto is committed to do our part to address biodiversity concerns, focusing on reducing and avoiding any negative impacts on biodiversity that may arise from our business activities.

The Group implements measures to ensure all effluents discharged are within permissible limits and does not harm the physical environment. Our rigs do not operate in biodiversity-sensitive areas to avoid disrupting aquatic habitats, while our JUs are situated away from traditional fishing areas to avoid disturbance to fish populations.

Prior to commencement of new projects, Velesto's clients conduct Environmental Impact Assessments ("EIAs") to determine each site's biodiversity risk. Velesto will then engage with the client to ensure that any proposed project does not take place in or near areas of significant biodiversity value or habitats for rare and endangered species listed on the IUCN Red List. This process is part of our due diligence process for new operational sites.

Seabed survey reports in client's EIAs also play a crucial role in determining the appropriate position of rigs to ensure that our operations do not disrupt existing marine habitats or obstruct the migratory routes of various species. All current and previous projects have been confirmed to not be located at sites deemed to be biodiverse.

BIODIVERSITY INITIATIVES

Velesto recognises the influence of its business activities on the preservation of biodiversity and acknowledges the impact of its business operations on the preservation of biodiversity. Consequently, it has focused on its carbon footprint mitigation initiatives as well as accident and pollution prevention to a certain extent, allocating investment into net positive biodiversity impact initiatives.

In FY2022, Velesto collaborated with the Faculty of Science and Marine Environment of UMT and the Alunan Coral Project NGO to support coral reef restoration efforts at Perhentian Island in Terengganu – a popular tourist site famed for its rich marine biodiversity. The pilot initiative seeks to educate the public on the delicate condition of coral reefs, while systematically ensuring marine environment protection and biodiversity conservation through the restoration of coral reefs.

Velesto, being the only oil and gas company at the moment which carries out coral reef restoration project in Perhentian Island, targets to carry out the conservation program for the next few years.

DECOMMISSIONING COMPLIANCE

Velesto recognises the significant environmental impact that decommissioning activities can cause, particularly when not managed appropriately. These potential impacts include oil spillages that can pollute marine environments, physical disturbance to the seafloor and the ecosystem in and around the artificial habitat created by the rig, and the possible introduction of invasive, non-native or diseased species at new rig sites if marine organisms are still attached to the rig.

In 2022, Velesto decommissioned a total of 11 wells via plug and abandonment projects at Guntong and Larut fields. The group is committed to perform the plug and abandonment projects safely and in compliance with both local and international regulations. Frequent engagement with regulators, government agencies and industry peers enable the group to stay current on regulatory changes and best practices for proper decommissioning process to reduce biodiversity loss.

Velesto strictly adheres to guidelines set out by relevant authorities and requires contractors to do the same. These guidelines include ASCOPE Decommissioning Guidelines for Oil and Gas Facilities, DOE Environmental Impact Assessment Guidelines for Petroleum Industries, Guidelines on Radiological Monitoring for Oil and Gas Facilities Operators Associated to TENORM, AELB 1996, Guidelines for Decommissioning with Radioactive Materials, AELB 2009, Guidelines on Mercury Management in Oil and Gas Industry, DOSH 2011, and DOE Environmental Guidelines for Decommissioning of Oil and Gas Facilities in Malaysia.

SOCIAL MATTERS

GRI 201, 202, 203, 401, 402, 403, 404, 405, 406, 407, 408, 409, 413

Velesto's material social topics aims to address the needs, concerns and expectations of our workforce and the local community.

Employees, as the human capital of the Group, are critical to Velesto's ability to operate and achieve our organisational goals and aspirations, supporting the Group's value creation through excellent job performance.

Employees are also a key source of our intellectual capital, contributing to the development and implementation of innovative strategies, processes, and technologies that enhance our competitive edge.

As such, Velesto considers all aspects of talent management, including recruitment, retention, training and development, and remuneration to be critical to maintaining a motivated and satisfied workforce that can drive operational efficiency, productivity, and business development. The Group is committed to protect the rights of our employees and contractors, and is committed to uphold Occupational Safety and Health best practices to ensure their wellbeing.

In addition to its workforce, Velesto recognises its responsibility as a corporate organisation to create positive value for local communities and society as a whole. The company prioritises support for local communities and their development as part of its broader efforts to promote robust social performance and stakeholder value creation.

LABOUR PRACTICES AND HUMAN RIGHTS

Velesto operates according to the principles of basic human rights and complies with all applicable Malaysian labour laws, including the Malaysian Employment Act 1995, and other laws applicable where it operates. In addition to compliance, Velesto also strives to implement labour best practices across the Group, and has expressed support for the human rights practices and guidelines outlined in the following:

Universal Declaration of Human Rights ("UDHR")

International Labour Organisation ("ILO")'s Declaration on Fundamental Principles and Rights at Work

UN Guiding Principles on Business and Human Rights ("UNGPs")

10 Principles of the United Nations Global Compact ("UNGC")

Other labour practices and commitments adopted by the Group include:

- Ensuring **equal opportunity and non-discrimination** of Race, Religion, Gender, Age, and Marital Status
- Upholding employees' right to **freedom of association**
- Recognition of **children's rights** and prohibition and **prevention of child labour**
- Respecting workers' right to **dignity at work**
- Respecting workers' right to **collective bargaining**
- Respecting employees' right to **Wellness and Mental Health**
- Supporting a **harassment-free and violence-free workplace**
- Ensuring compliance with **Minimum Wage Order** 2022 and laws governing working hours and fair compensation
- Respecting people's right to their own **culture**, to practice their religion and to speak their language
- **Prohibiting retaliation** or any form of physical and mental disciplinary practice
- Prohibition and prevention of forced labour, debt bondage, human trafficking and all forms of **modern slavery**
- Upholding the right to **safe working conditions**

These human rights commitments have been incorporated into the Group's practice and have been clearly communicated to all stakeholders globally including business partners and employees, via Velesto's employee induction process, availability of our Policy Statement on Human Rights and Labour Standards and CoBE on the company intranet, and our annual Sustainability Reports disclosures.

PREVENTING AND MITIGATING HUMAN RIGHTS ISSUES

Consistent with the aforementioned commitments, Velesto has put in place the following policies and procedures to support the achievement of labour rights best practices:

- Fatigue management and flexible working hours for the elimination of excessive work hours
- Commitment to exceed minimum wage requirement
- Policy Statement on Human Rights and Labour Standards
- Policy on Sexual Harassment and manager training through the Anti-sexual Harassment Roadshow
- Policy on Gender Equality
- Policy Statement on Recruitment Management System Procedure ("MSP") and CoBE for both employees and vendors
- HSE Policy, Stop Work Policy, No Smoking Policy and Substance Misuse Policy to ensure safe worksite practices
- Establishment of Grievance and General Resolution procedures
- Other written policies that address non-discrimination, diversity, and the creation of an equal opportunity workplace

HUMAN RIGHTS DUE DILIGENCE ON THE SUPPLY CHAIN

Velesto is against any form of human rights violations, whether directly in our operations, or in our supply chain. The day-to-day responsibilities of prevention and monitoring of the Group's human rights risks is managed collectively by Velesto's procurement/ contract and human resources functions.

All workers, including those employed by third-party contractors or sub-contractors must ensure their labour force are treated with dignity and work in safe conditions, and provide written affirmation of their commitment to comply with the laws of Malaysia with regards to matters on human and labour rights, worker welfare, child labour and human trafficking. Failure to do so would lead to serious censures by Velesto including termination of the supplier's services and reporting said party to the relevant authorities for legal action.

Additionally, Velesto proactively assesses our labour risk issues and human rights impacts on an on-going basis as part of core business processes. The Group is committed to taking the necessary steps to prevent and remedy any suspected or identified instances of exploitation or forced labour.

In FY2022, Velesto successfully maintained its track record of having no reported incidents of labour standards non-compliance or human rights violations, or for any instances of child labour, human trafficking, or forced or compulsory labour throughout the fiscal year. There have been no human rights breaches involving the rights of indigenous people at any point in Velesto's history.

GRIEVANCE MECHANISM

Safe channels are provided for employees and stakeholders to raise misconducts, grievances or express their concerns on regulatory or policy non-compliance, harassment and human rights exploitation incidences and other issues anonymously and without fear of reprisal. This can be done through reports directly to employees' managers, human resource representatives, or through the confidential whistleblowing channel available to internal and external stakeholders. Velesto is committed to investigate all grievances and concerns raised in a timely manner, and commits to remedy affected parties where it has been identified that the organisation has caused or contributed to negative impacts.

MINIMUM NOTICE PERIOD

Velesto aims to minimise the impact of major operational changes to employees by providing a minimum notice period for changes in terms of duties or work location. The specific notice period varies depending on the nature and extent of the change, while changes to employee benefits or employment conditions are communicated one month prior to implementation. The Group is committed to providing sufficient time for employees to seek clarification about the change and to express any concerns or grievances to their immediate supervisor or Group Human Resources.

In FY2022, no complaints were received regarding operational changes.

SOCIAL MATTERS

TALENT RETENTION AND DEVELOPMENT

At Velesto, we recognise that retaining and developing top talent across all levels of the organisation is crucial to ensure our continued success. The Group's talent management strategy focuses on providing ongoing learning and development opportunities, clear career paths, competitive compensation and benefits, and a supportive and inclusive work environment. We believe that by investing in our employees, we can foster a culture of excellence and innovation that drives our business forward.

BOARD OVERSIGHT AND SENIOR MANAGEMENT'S ROLE ON TALENT MANAGEMENT

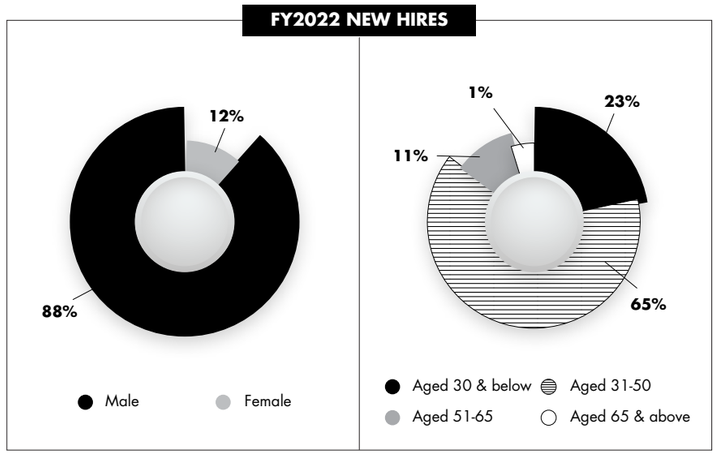
The Board of Directors plays a crucial role in overseeing our talent retention and development initiatives. They are responsible for ensuring that our human resources policies and practices are aligned with our business strategy and values, and that we are attracting, retaining, and developing the right talent to achieve our goals, and providing them with the tools and resources they need to succeed. The Board also monitors key performance indicators related to employee engagement, retention, and development, and provides guidance and support to the executive team to ensure that our talent strategy remains effective and up-to-date.

The Velesto Talent Council ("VTC") was established in FY2021 to support these efforts. The VTC comprises members of Senior Management, and provides strategic management on this matter. The VTC has been working closely with Group Human Resources to establish broad goals and strategies for talent management, and is driving the effort to address talent gaps and challenges within the Group to support the achievement of Velesto's business objectives. The effectiveness of the Group's overall talent management approach is measured against employee and business productivity through monthly reports on employment data pertaining to hiring, attrition, training and diversity indicators.

TALENT RECRUITMENT STRATEGIES

At Velesto, we are committed to promoting equal opportunity, diversity, and merit in all aspects of our talent management process, including recruitment. The Group does not discriminate on the basis of race or ethnicity, gender, age, marital status, sexual orientation, disability, political affiliation, membership in associations or unions, or other socio-demographic factors. While locals are given priority, foreigners are also welcome to apply for all advertised vacancies.

To ensure a wide pool of candidates, Velesto's recruitment strategy includes budget allocation for advertisement placements on a variety of channels, which is utilised for most vacant positions. Successful hires are provided with a contract that clearly stipulates their roles, responsibilities, and remuneration. This helps to ensure that both parties have a shared understanding of expectations and obligations, and that employees are fairly compensated for their work.



ONBOARDING FOR NEW HIRES

New hires undergo an induction or onboarding process to familiarise them with their rights and entitlements as provided for in the laws of the country, and the various policies of the Group including matters of human rights and corruption, as well as the Group's expectations on ethical conduct and behaviour aligned with good governance practices. The induction process also serves to help new hires familiarise with organisational processes, available channels of engagement, and other areas to provide them with as much support and assistance as possible to help them adjust with their new work environment and Velesto's organisational culture.

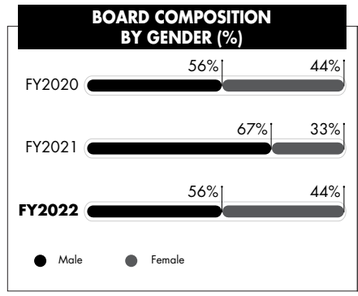
This includes programs on HSE Induction, Core Values and Core Competencies, Management Development, Risk Management, as well as familiarisation with any mandatory industry or government requirements, and other critical programs developed from time to time as deemed necessary by the company. Employees are expected to attend these programs as nominated, with the company onboarding and HSE induction programs being compulsory for any new hires.

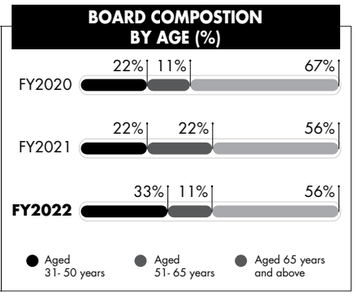
COMMITMENT TO DIVERSITY AND EQUAL OPPORTUNITY

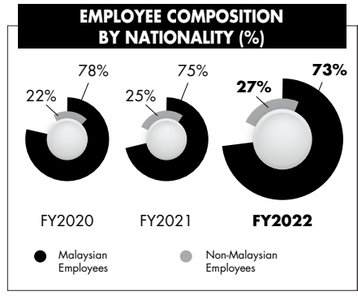
Velesto's commitment to promoting diversity, equal opportunity, and merit is central to our organisational culture and our ongoing success.

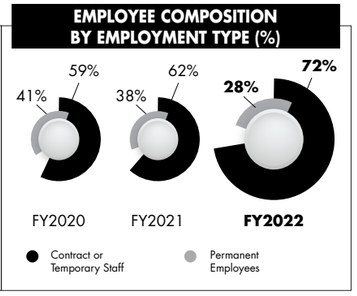
The Group's workforce comprises individuals from diverse backgrounds, reflecting a multi-ethnic and multi-national composition. This diversity brings a broad range of professional expertise, experience, and capabilities to the Group, enabling us to cultivate a high-performance culture based on meritorious performance. Diversity also supports innovative thinking and creativity, contributing diverse perspectives to strengthen the Group's understanding of socio-economic dynamics and improve business decision-making.

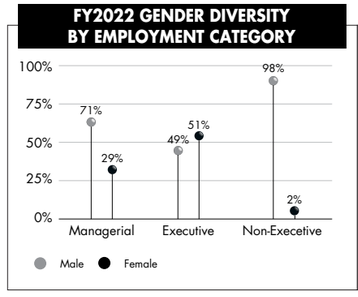
Hence, the Group actively supports diversity as far as practicable, and has put in place measures to ensure the creation of an inclusive workplace. Velesto strictly forbids any discrimination based on race, gender, religious background, or any other socio-cultural and demographic factors. All employees and candidates for employment, promotion and development are judged on merit, including their qualifications, experience, and professional contributions and results achieved. The only exception is our Group-wide preference for hiring local talents, provided they match the required job scope.

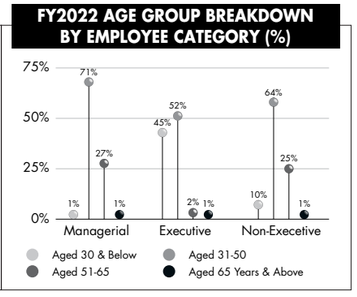












EMPOWERING THE UNDERREPRESENTED

Although Velesto's talent management approach is primarily based on merit, the Group recognises the need and is actively seeking ways to empower underrepresented, underprivileged, or vulnerable groups. These groups include minorities, persons with disabilities, asylum seekers and refugees, long-term unemployed individuals, and those who are socioeconomically disadvantaged.

To that end, Velesto has embarked on a special recruitment drive which prioritises the hiring of suitable candidates within the B40 Income Group to fill up available vacancies. Velesto has also added a new diversity indicator to track the composition of staff with disabilities in the Group.

INCLUSIVE CULTURE SUPPORTING DIVERSITY AND EQUALITY

Velesto fosters an organisational culture that welcomes the different beliefs, values, culture, attitudes, priorities of our employees, taking into consideration the way these factors influence employees' experience and behaviour in the workplace to support the purposes of our businesses, as well as employee recruitment and retention. Employees are encouraged to practice their respective cultures and religions without fear of discrimination or harassment, and integrates gender considerations in every aspect of the organisation. We approach organisational culture through our periodic employee engagement activities to identify and cultivate shared values and mutual respect to create a positive and respectful workplace culture that values equality and diversity.

SOCIAL MATTERS

TALENT RETENTION AND DEVELOPMENT

SUPPORTING GENDER EQUALITY

Velesto and its subsidiaries are dedicated to achieving gender equality by promoting and protecting the rights of all employees, regardless of gender. This is achieved by providing both men and women with equal opportunities to apply for any available job position or training opportunities, and providing appropriate recognition, remuneration and rewards that commensurate with their contributions.

This commitment has been embedded in all aspects of the Group's HR practices including hiring, training, pay and promotion, which are carried out based solely on merit, without gender-based discrimination. The Group has also established a Gender Equality Policy which outlines Velesto's commitment to provide equal opportunities for male and female employees to access employment-related benefits and participate and contribute at all levels of the company. The company aims to overcome gender-based barriers, including biases and stereotypes, and ensure that all employees understand the policy objectives.

We do not set targets for gender diversity, instead preferring to focus on ensuring a fair talent recruitment process that enables qualified candidates to have an equal opportunity to apply for jobs. At the senior management levels, women make up 36% of our workforce, and we are proud to have four women directors, 44% at the Board level, exceeding the Bursa Malaysia target of 30% women directorship on public listed companies by 2020. We remain committed to promoting diversity and equal opportunity in all aspects of our talent management process, and managers are educated on the importance of this matter to the success of the Group.

Despite the oil and gas industry traditionally having fewer female employees, Velesto remains committed to creating an equal opportunity environment and providing support to women interested in pursuing jobs in the industry, particularly technical, offshore, or field-related roles.

As a result of its efforts, the company has successfully developed several talented women in recent years. Additionally, a significant portion of the workforce in office-related jobs comprises women.

SUPPORTING GENDER DIVERSITY VIA PARTICIPATION IN THE 30% CLUB

Velesto supports the promotion of gender diversity in leadership positions through its participation in the Malaysian Chapter of the 30% Club. This special interest group was established to advocate for greater diversity, equity, and inclusion ("DEI"), with a specific focus on increasing the representation of women in the Boards and Senior Management of publicly listed companies.

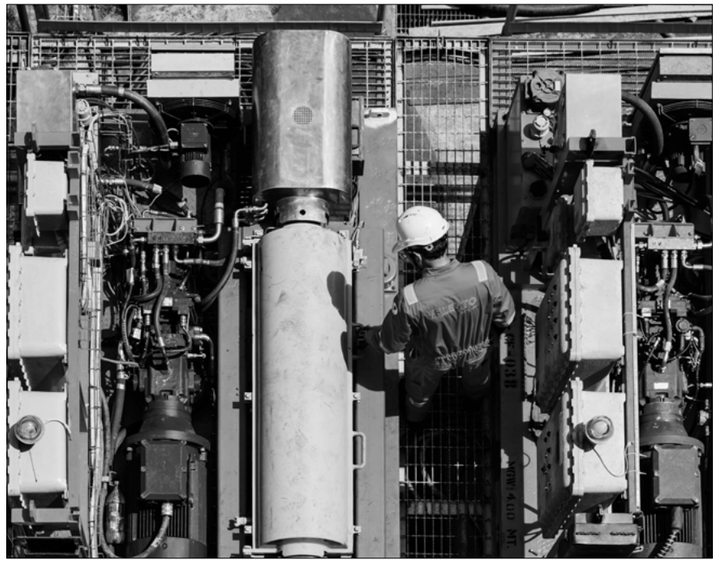
The Group's Management is as a vocal proponent of the DEI agenda, and has participated in a wide range of 30% Club initiatives, demonstrating Velesto's commitment to promoting greater participation of women in the highest levels of Corporate Malaysia and the oil and gas sector. In FY2022, the Chief Financial Officer participated in the Mentee Program designed to develop future leaders.

DEVELOPING NEXT-GEN LEADERS THROUGH SUCCESSION PLANNING

Velesto has made significant progress in talent management and succession planning since the launch of its Talent Management Program in FY2020.

The High Potentials ("HiPots") program was launched virtually under the theme of HiPOTs ARISE in December 2021 with initiatives launched to empower this pool of talent. In total, 33 HiPots have been identified as high-calibre talents with the potential for fast-tracked career progression within the organisation, consisting of 19 Senior Leaders and 14 Future Leaders being groomed for critical positions across the Group.

Senior Leaders are being developed for succession planning of 64 critical positions, with career development plans ("CDP"s) already drawn up for each HiPot in FY2021. Meanwhile, the mySTAR program has been implemented to develop potential junior employees into Future Leaders, preparing them to assume higher leadership roles as Senior Leaders progress up the organisational hierarchy.



TRAINING AND DEVELOPMENT

Velesto places great emphasis on training and development as it recognises that equipping staff with the necessary knowledge and skills is vital to achieving operational excellence and productivity.

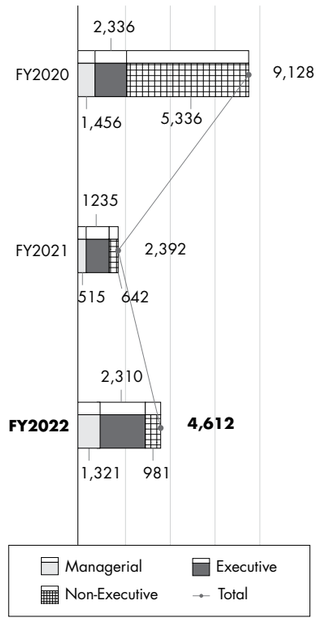
The company has made substantial investments in employee training, with most courses and programs delivered online through electronic communication mediums. Velesto covers all job-related training costs for employees through its contribution to the Human Resources Development Fund ("HRDF").

Training and development programs are tailored to address the competency gaps and unique needs of each individual. Competency gaps are assessed during the annual appraisal process, and a comprehensive personal development plan is developed for each employee in collaboration with Human Resources, the individual employee, and their superiors. Training Key Performance Indicators ("KPIs") are then established for the employee to meet before their next appraisal. All employees receive annual appraisals.

Velesto covers the cost of professional courses, seminars, and training programs for its employees in most instances, providing fully sponsored participation. The following provides a comprehensive view of Velesto's employee training activities carried out in FY2022.

- Kecerdasan Emosi & Kemahiran Komunikasi
- 2022 Marim International Conference: Adaptive Risk Management Building Resilience In Disruptive Times
- Behaviour- Based Training
- Bursa Anti-bribery Training Virtual
- Bursa Malaysia Mandatory Accreditation Program ("MAP")
- Business Writing Skills
- Certified Integrity Officer Program For GIC: Module 1,2,3,4
- CFO Conference 2022
- CFO Innovation Malaysia Forum 2022
- Classroom/ Workshop Drilling For Non-driller
- Complimentary Webinar - Implementing Mandatory Vaccination Policies: Enforceable Or A Shot In The Dark?
- Drilling For Non-drillers
- Effective Managerial Skills Training
- EY - Get Ready For The 2022 Form EA
- How Does Coca-Cola Save Time On Employee Requests?
- How To Request For Contract Review
- HR Rewards Strategy
- HRDC Workshop
- IMS Awareness Training (VTS)
- Integrated Management System (MS) Process Internal Auditor
- Internal SME Training: Kecerdasan Emosi & Kemahiran Komunikasi
- International Directors Summit (ICDM)
- Kube V3 On Premise Workshop & Kube 365 Cloud Introduction
- Legal Aspects Of Contract Management (Drilling)
- MBRS For Preparers - Financial Statements
- MIA International Accountant Conference
- MIA Webinar Series : Mastering The Principles Of Deferred Taxation – From Fundamental To Complex Transactions And Events
- Microsoft PowerPoint 2019 (Intermediate & Advanced)
- Microsoft Excel 2019 (Intermediate & Advanced)
- MSOSH National Seminar
- MyWiE Program
- Pengurusan Masa Training (Offshore Crew & Base)
- Project Management Fundamentals
- Reviewing Your HR Policies & Procedures (In Compliance With Malaysia's Amended Employment Act And Laws)
- Seminar Pengoperasian Perkastaman Pangkalan Bekalan Petroleum Kemaman: Advance Course (Issues & Updates)
- SSM National Conference 2022
- Supervisory Development Program
- Sustainability And Its Impact On Organisations: What Directors Need To Know
- Technical Report Preparation Workshop For EIMAS CEPSWAM Competency Certificate 2022
- Webinar Series : Financial Knowledge And Skill For Non-financial Personnel

TOTAL TRAINING HOURS BY EMPLOYEE CATEGORY



EVALUATING TRAINING EFFECTIVENESS

Velesto evaluates the effectiveness of every training program through the distribution of Training Evaluation Forms to participants at the end of the training sessions. These forms assess various aspects of the training, including employee satisfaction, learning objectives and outcomes achieved, and the ability to apply the acquired knowledge and skills to their job. By evaluating the effectiveness of its training programs, Velesto can identify areas for improvement and ensure that its training programs are meeting the needs of its employees.

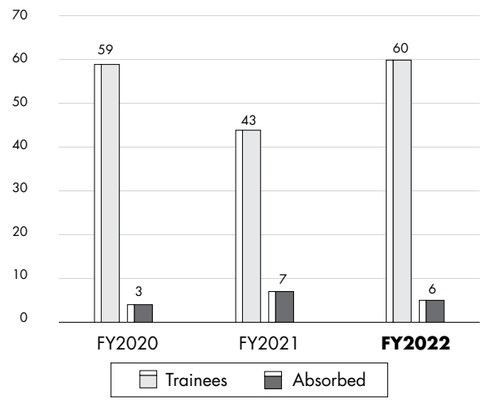
TALENT RETENTION AND DEVELOPMENT

YOUTH EMPLOYMENT, INTERNSHIP AND APPRENTICESHIP

Velesto has taken significant steps to enhance youth employability by continuing the 12-month contract basis of employment under the Velesto Trainee Scheme ("VTS") and internship programs, which aim to provide on-the-job learning opportunities for selected graduates. The scheme is especially beneficial for unemployed youths, particularly local undergraduates, as it provides them with first-hand exposure to work in their chosen fields of study, thereby improving their employment prospects in the future while supporting the government's initiative to enhance the employability of unemployed graduates in Malaysia. Moreover, VTS participants who exhibit good aptitude and potential are offered full-time employment opportunities with Velesto.

Velesto's VTS also serves as one of the company's Communities Investment initiatives, demonstrating its commitment to promoting youth employment and supporting the local community. The Group is committed to improving the socio-economic factors of Malaysia through its Velesto Vision 2030 initiative, which focuses on four pillars, including Sarawak, where the company has recruited VTS participants to support business functions and create more job opportunities for B40 Malaysians in the region.

VELESTO TRAINEE SCHEME ("VTS")



As at FY2022, the VTS program has allocated 60 placements for young undergraduates and unemployed Malaysians, with 6 of them being absorbed during the year itself

OFFSHORE DEVELOPMENT PROGRAMS

Velesto Energy Berhad has launched an Offshore Development Program that includes the Velesto Drilling Engineer ("VDE") and Velesto Electronic Engineer ("VEE") programs. These initiatives aim to develop local talent in the oil and gas industry, with a particular focus on producing young graduates who are highly skilled and technically proficient in oil and gas activities. The programs provide participants with hands-on experience, equipping them with the necessary skills and knowledge to succeed in the industry.

IMPACT OF VELESTO'S TRAINING PROGRAMS

Overall, Velesto's training programmes have had a positive impact on its employees and have contributed to sustainable development, responsible waste management, and promoting gender equality in line with our ESG and human rights commitments as outlined below.

In 2020, the company's "Agility: Developing a Resilient Workforce" training programme encouraged short-cycle iterations, leading teams to focus on critical activities, streamline processes, and eliminate unnecessary tasks. Velesto's "Certified Environmental Professional in Scheduled Waste Management ("CEPSWAM")" training programme, the only one of its kind in Malaysia, equipped competent persons to manage scheduled waste in compliance with legal requirements through a hands-on approach to support environmental stewardship and sustainable development.

In 2021, Velesto's "Women's Empowerment Principles Activator Awareness Session" focused on empowering and promoting the autonomy of women, which is crucial for promoting gender equality and human rights, particularly in developing the next generation of female leaders.

In 2022, the company's "Sustainability and its Impact on Organisations: What Directors Need to Know" training programme emphasised the importance of developing a strategic plan that addresses market opportunities and material risks to improve long-term value. The programme aimed to equip directors with the necessary skills to oversee the implementation of such plans effectively.

COMPETITIVE REMUNERATIONS AND BENEFITS

Velesto upholds the principle of providing equal pay for equal work in compliance with applicable local laws. The company determines remuneration, including bonuses and salary increments, based on merit, which is evaluated through employee work performance in achieving personal, group, and company Key Performance Indicators ("KPIs"), as well as seniority or tenure. Employee skills and professional qualifications are also considered when determining remuneration.

The company is continuously benchmarking and reviewing the competitiveness of its remunerations and benefits vis-à-vis our peers and subject to affordability. During the year, we have made certain adjustments to the payscale of our crew and employees and we will continue to do so periodically.

By adhering to the principle of equal pay for equal work and taking various factors into account when determining remuneration, Velesto aims to create a fair and competitive compensation structure that values employee contributions and encourages continued professional development.

Velesto provides a range of benefits to its full-time employees, including both mandatory benefits as stipulated in Malaysia's Employment Act 1955 and additional benefits provided at the company's discretion to ensure our employee remunerations remain competitive to attract and retain the best talents.

• *16% EPF contribution by company* • *Group Personal Accident ("GPA")* • *Group Term Life ("GTL") insurance for all employees* • *Group Hospitalisation & Surgical* • *Statutory sick pay leave without hospitalisation ranging from 14 days to 28 days depending on the employee's job grade and period of service* • *A period of up to 60 days is granted if hospitalisation is necessary* • *Company supported/ subsidised health/ medical insurance plan for offshore crew* • *Annual medical check-up for all employees aged 40 years and above* • *Overtime payments (where applicable)* • *Employee's newborn benefits* • *Employee's bereavement wreath* • *Employee Education Assistance Program* • *Long Service Award & Recognition*	Employees are entitled to various types of paid and unpaid leave, which include: • *Marriage leave (3 days)* • *Pilgrimage leave (20 days)* • *Examination leave (10 days)* • *Compassionate and congratulatory leave (7 days)* • *Parental leave*

Please refer to the ESG Performance Data table at the end of this report for more details on the remunerations and benefits provided to employees in FY2022.

PERFORMANCE APPRAISALS

Velesto conducts formal appraisals for all employees, which are essential for identifying individual training requirements and determining annual compensation packages, including staff bonuses. The company's performance-driven approach to appraisals is designed to be a constructive, two-way process that allows employees to provide their own perspectives on their performance. Employees have the right to accept or reject their appraisal, and those who disagree with their appraisal review scores can raise their grievances with HR through a formal employee grievance mechanism system.

MINIMUM WAGE COMPLIANCE

Velesto subscribes to the Malaysian government's minimum wage policy, with all employees earning monthly wages equal to or exceeding the set minimum wage of RM1,500 per month, from 1 May 2022 onwards.

We aspire to exceed the minimum wage requirement. We have started to do so by raising the wages for fresh-graduates and entry-level employees from 2023 onwards.

PARENTAL LEAVE ENTITLEMENT

Velesto provides parental leave to its employees, with female employees entitled to paid maternity leave of 60 consecutive days for each confinement period, and male employees granted paternity leave of four days. In 2023 onwards, we will also comply with the new regulations to increase parental leave entitlement to 98 days and 7 days respectively for new mothers and fathers.

EMPLOYEE COMMUNICATION AND ENGAGEMENT

Velesto places a high value on transparent and timely communication with all staff, which is facilitated through a range of physical and virtual communication channels. These channels enable the dissemination of information and allow management to gauge employee sentiments and satisfaction.

As part of its employee engagement strategy, Velesto conducts an Employee Engagement Survey biennially, with a score of 79% recorded in FY2021. In FY2022, the company addressed a range of issues highlighted during the previous employee engagement survey.

SOCIAL MATTERS

TALENT RETENTION AND DEVELOPMENT

ENGAGEMENT SESSION WITH SENIOR MANAGEMENT

Velesto recognises the importance of Management engagement with its employees. One of the key channels for communication with Senior Management is our quarterly town hall meetings, which are attended by all employees.

ADOPTING DIGITAL TOOLS TO ENHANCE EMPLOYEE ENGAGEMENT

Velesto is committed to enhancing employee engagement through the adoption of digitalisation, as demonstrated by its ongoing efforts to promote digital adaptation among employees. One of these efforts is the digital magazine Velesto Inspires Me ("VIME"), a one-stop digital platform that aims to promote human development through various engagement activities focused on topics of interest, such as self-management, culture and sustainability, new hires, employee engagement, upskilling, and special moments.

SHOWING APPRECIATION FOR VELESTO'S EMPLOYEES

Velesto values and recognises the contributions of its employees, and regularly implements initiatives to show appreciation and support for their well-being. Here are some recent examples of the company's efforts.

- Velesto conducted a Staff Flood Donation Drive and made a donation to support employees affected by floods in December 2022.
- The Human Rights and Labour Standard Policy was published in NEST on 6 December 2022.
- HR organised a small high tea to celebrate 23 recipients of the 2022 Long Service Awards ("LSA") on 19 December 2022.
- Payment for ERP tokens was released on 30 December 2022.
- A performance incentive for BOKOR (NAGA 6) was given by PCSB on 30 December 2022, and a token of appreciation was given to the selected employees involved in the campaign.
- The hybrid working arrangement has had a positive impact on employees, with remote working increasing adaptation to digital and remote working culture without risking productivity.

FY2022 Employee Engagement Events

myHEALTHCARE Program

Velesto sponsored Executive Medical Examination ("EME") 2022 health screenings for eligible executive employees as a standard precaution to support the detection of any medical conditions early and improve employees' health.

Virtual QHSE Week 2022

Velesto Energy Berhad conducted a Virtual QHSE Week in 2022 to enhance the health, safety, environmental, and quality culture among its employees. The week-long event provided a platform for employees to participate in various interactive activities and virtual segments, including webinars, quizzes, and games, aimed at promoting awareness and compliance with the company's QHSE policies and procedures. The Virtual QHSE Week also served as a forum for employees to share their QHSE-related experiences and best practices, reinforcing Velesto's commitment to maintaining a safe and sustainable work environment.

Career Fairs

In FY2022, Velesto held several career fairs to attract and recruit talented individuals who were seeking a challenging and rewarding career in the oil and gas industry.

These career fairs provided an opportunity for job seekers to learn more about Velesto's operations, work culture, and career prospects. They also enabled Velesto to showcase the various career paths available within the company. The career fairs were well received by participants, with many expressing interest in pursuing career opportunities with Velesto.

Blood Donation Drive

Velesto organised a successful blood donation drive in 2022 as part of the Group's corporate social responsibility initiatives. The event was held in collaboration with the National Blood Centre of Malaysia and aimed to raise awareness of the importance of blood donation. Many Velesto employees and their families participated in the event, which helped to contribute to the national blood bank and save lives in need.

Basic Occupational First Aid ("BOFA"), CPR & AED Training

Velesto places high importance on the health and safety of its employees. As part of its commitment to providing a safe work environment, the company organised a Basic Occupational First Aid ("BOFA"), CPR & AED training in 2022.

The training program aimed to equip employees with essential first aid skills to respond to medical emergencies in the workplace. It also covered CPR and AED training to ensure that employees are prepared to respond effectively in the event of a cardiac emergency.

SOCIAL MATTERS

OCCUPATIONAL SAFETY AND HEALTH

In Velesto, maintaining an excellent Occupational Safety and Health ("OSH") track record is crucial for the Group's license to operate, particularly as a service provider in the oil and gas sector where an impeccable OSH track record is a prerequisite to bid for jobs.

Aside from job prospects, OSH incident could also significantly disrupt business operations, impact revenues and require rectification costs. Strong OSH management system can reduce compliance costs and mitigate risks, translating into higher productivity, increased employee morale, stronger brand reputation, enhanced competitiveness in contract bidding, faster project completion, and reduced equipment replacement costs.

More importantly, any injury or fatality resulting from poor OSH practices would be a tragedy that affects the well-being of our employees, their families and also society. Velesto believes that everyone has the right to work in a safe and secure environment, and we are committed to providing a safe and conducive workplace for employees to produce their best quality work and go home to their families and loved ones without any injury.

MANAGEMENT'S APPROACH TO OSH

Velesto utilises globally recognised best practices such as ISO 9001:2015, ISO1 4001:2015, ISO /TS29001:2020, and ISO 45001:2018 (migrated from OHSAS 18001:2007) as the foundation for its QHSE management approach. The Group has created a comprehensive OSH Policy that meets current regulatory requirements and aims to achieve operational excellence in OSH and the safest possible working conditions for employees and workers. The OSH policy applies to all of the Group's business activities and premises, all employees and stakeholder including third-party contractors, and is in compliance with Malaysia's Occupational Safety and Health Act 1994.

To further enhance its OSH management approach, Velesto has implemented a Group-wide Integrated Management System ("IMS"), which encompasses risk management, emergency preparedness, process safety and environmental performance as part of the Group's structured approach to OSH.

BOARD AND SENIOR MANAGEMENT'S OVERSIGHT ON OSH

Velesto has established a dedicated OSH Committee that comprises management and employee representatives to ensure effective oversight. Velesto's President, is the primary champion for Health, Safety and Environment ("HSE"). He chairs the OSH Committee and is supported by the Board as well as Senior Management.

The Board and the BRMC discuss Quality, Health, Safety and Environment ("QHSE") matters during full Board and quarterly meetings, respectively. The Quality Department manages the Quality performance, while the HSE Division and HSE Committee monitor and enhance the overall HSE performance for all business operations.

Velesto's HSE Division conducts monthly HSE Operations Meetings to update and monitor any HSE issues. The meeting is chaired by the Chief Operating Officer and attended by the respective Rig Managers, HSE Head, and HSE Manager to discuss and highlight any HSE incidents and lessons learned.

The Sustainability governance structure also plays a significant role in driving oversight and bringing key risks and trends to the Board's attention.

EMPLOYEE REPRESENTATION ON HSE COMMITTEE

The HSE Committee meets quarterly and comprises representatives from Management and employees, both from the Operations and Corporate Divisions.

Velesto ensures that its employees have a direct role in determining their work conditions by maintaining formal joint management and employee health and safety committees. This approach enables employees who work in frontline operations and are more exposed to QHSE risks to actively participate and share their feedback, concerns, and suggestions with management. This two-way engagement allows employees to take responsibility for their working environment, guided by established systems, processes, and procedures.

The committees are empowered to implement necessary QHSE measures to ensure a safe working environment. In addition, Velesto conducts monthly HSE Operations Meetings to address prevailing HSE issues promptly and facilitate immediate rectification.

Velesto retained 100% employee representation on its HSE Committee in FY2022.

MAINTAINING ASSET INTEGRITY

Velesto ensures asset integrity through regular maintenance based on industry recommended practices such as API and OEM references. The system undergoes periodic reviews by independent consultants and clients to ensure its continued effectiveness.

The company places immense emphasis on enhancing its asset management guidelines, asset-tagging systems, and the planning of Special Periodical Survey Projects. Velesto also prioritises educating its staff on the critical role of asset management in preventing major OSH incidents.

IMS INTERNAL AUDIT & INTERNAL AUDITOR TRAINING

Velesto conducts an annual internal audit of its facilities in accordance with IMS requirements. In FY2022, audits were carried out at the following locations:

DATE	ASSET / OPERATIONAL SITE
17 - 18 February	Rig NAGA 6
21 - 25 February	Rig NAGA 4
23 - 24 March	KSB
31 - 31 March	ASB
25 July - 16 September	KL Office
28 September - 2 October	Rig NAGA 8

To ensure the quality of these audits, Velesto regularly sends staff for training. The training sessions were designed to provide a thorough understanding of IMS standards and their application during the audit process.

IDENTIFICATION OF RISKS AND RELATED ACTION PLANS

Velesto maintains a vigilant approach in identifying potential QHSE risks across all its worksites and value chain. This includes occupational activities that are susceptible to high incidence or risk of QHSE incidents. The assessments not only consider the impact on productivity and work operations but also the health and safety of employees, and cover a range of potential risks, such as exposure to chemical health risks, noise pollution, near miss incidents, potential hazards, and more. Once identified, appropriate action plans are developed and implemented to mitigate and prevent potential incidents from occurring.

OSH risk assessments are carried out on all potential new projects and operations prior to commencement, and is reassessed on existing operations as and when necessary, for example, in the event of weather changes, process changes, or incident identification or report.

HAZARD IDENTIFICATION, RISK ASSESSMENT AND RISK CONTROL

Velesto considers Hazard Identification, Risk Assessment and Risk Control ("HIRARC") as a critical component of its commitment to maintaining excellent OSH performance. The HIRARC system allows for the identification, analysis, and mitigation of hazards and risks through the implementation of suitable control measures. In FY2022 the HSE Committee discussed and addressed the following significant HSE issues.

- Emphasised on the importance of identifying the root cause of incidences, even for minor incidents, as it could lead to a major incident.
- Reinforced the message that learning from HSE incidences is very crucial to avoid a repeat in the future.
- Reminder for everyone to stay alert and vigilant as the numbers of activities increase and most of the rigs are currently operating.
- Importance of making the crew feel comfortable to stop the work at any point if they feel the situation is unsafe and to raise any concern on any safety-related issues.

STOP WORK POLICY

Velesto has put in place a Stop Work Policy to empower employees to prioritise safe work practices. The procedure outlines when and how an employee can halt work in the face of a potentially unsafe situation, allowing them to take charge of their personal safety and that of the work environment. This also enables a prompt response to prevent escalation of potentially catastrophic OSH incidents.

A total of 20,515 Time Out For Safety ("TOFS") stop-work orders were issued in FY2022.

HSE INCIDENT INVESTIGATION

Velesto follows a strict protocol of reporting HSE incidents to Management within 24 hours. A Root Cause Analysis is immediately initiated to identify the underlying factors contributing to the incident. All incidents, no matter how minor or non-disruptive to business operations, are thoroughly investigated and reported to the respective authorities.

The investigation is conducted in accordance with the Velesto Investigation Management System Procedure, utilising incident investigation software such as Tripod Beta and Systematic Cost Analysis Technique. These tools enable the investigation team to rigorously track down the causation path, identify weak points in current safety measures, develop barrier-based improvement plans and provide immediate visibility of the incidents.

To prevent a reoccurrence, key insights from the incident are shared with all relevant teams and employees through a lesson learned approach. All root causes are logged into Velesto's Incident Management database for review and action tracking.

SOCIAL MATTERS

OCCUPATIONAL SAFETY AND HEALTH

EMERGENCY RESPONSE & CRISIS PREPAREDNESS

The Group has established an Emergency Control Centre ("ECC") at its Plaza Sentral location and regularly conducts mock simulations to ensure preparedness for any major business disruptions.

Other emergency measures include the development of an Emergency Response Plan ("ERP") for all Velesto facilities, the establishment of an Emergency Response Team ("ERT") to swiftly mitigate emergencies, weekly emergency drills on rigs, and annual fire drills on other facilities.

HSE PERFORMANCE			
Years	**2020**	**2021**	**2022**
Total manhours worked (Average overall total number of days worked by workers)	2,308,792	1,839,629	2,002,687
Fatalities	0	0	0
No. of work-related fatalities (as per Bursa's requirement)	0	0	0
No. of recordable work-related injuries	0	2	1
Total no. of lost days	0	7	7
No. of LTIs	0	1	1
***Unsafe Act Unsafe Condition ("UAUC")**	49,047	44,953	40,773
Occupational diseases rate	0.00	0.00	0.00
****Absenteeism rate - days**	0.00%	0.05%	0.05%
****Absenteeism rate - headcount**	0.00%	0.10%	0.10%
Injury Rate (including fatalities)	0.00	1.09	0.50
Rate of high-consequence work-related injuries	0.00	0.00	0.00
Lost Day Rate	0.00	1.92%	1.92%
Fatality Rate	0.00	0.00	0.00
Lost Time Incident Rate ("LTI") (as per Bursa's requirement)	0.00	0.54	0.50

The following discloses Velesto's key HSE performance achievements against our set annual targets.

HSE PERFORMANCE BY COMPANY AND CONTRACTOR										
	FAT	**LTIF**	**TRCF**	**LTI**	**MTC**	**RWC**	**FAC**	**ENV**	**PS**	**NM**
Velesto										
2020	0	0.00	0.00	0	0	0	2	0	0	14
2021	0	0.54	1.09	1	0	1	3	1	0	4
2022	0	0.00	0.00	0	0	0	3	0	0	26
Contractor										
2020	0	0.00	0.00	0	0	0	0	0	0	0
2021	0	0.00	0.00	0	0	0	1	0	1	1
2022	0	0.50	0.50	1	0	0	0	0	0	0

FAT	Fatalities	**TRCF**	Total Recordable Case Frequency	**MTC**	Medical Treatment Case	**FAC**	First Aid Case	**PS**	Process Safety
LTIF	Lost Time Injury Frequency	**LTI**	Lost Time Injury	**RWC**	Restricted Work Case	**ENV**	Environment	**NM**	Near Miss

Annual HSE Target	FY2022 Performance	
Zero fatalities	Zero fatalities	Achieved
Zero LTI	1 LTI	Not Achieved
TRCF below 1.0 TRCF rate	TRCF rate 0.51	Achieved

These data have been verified by DNV-GL during both the surveillance audit and recertification audit, and by Velesto's respective clients, MSOSH, DOSH, KKM and the DOE where applicable.

For HSE incidents reported in FY2022, there was an upward trend of Near Miss cases followed by Property Damage Incidents. Despite recording zero LTI of our employees, we acknowledged 1 LTI of our contractor within our operations. Investigation revealed that the significant immediate direct causes of the accident were due to failure to identify hazards and assess risks, contributed by a lack of knowledge and inadequate leadership and supervision. In response to this accident, control measures have been implemented to provide regular refresher and awareness training to offshore crew on hazard identification and risk assessment, and by emphasising Behavioural In Focus ("BIF") to improve hazard identification and risk assessment processes. A total of 9 lessons learnt have been issued to the fleet including the clients and service partners.

The Group has also made significant progress on the implementation of identified HSE improvement plans and initiatives, as outlined below:

No	Element	Progress (as at FY2022)
1	**Promote Healthy, Injury Free and Environment Friendly Workplace**	100%
2	**Visibility and leadership amongst top management**	100%
3	**Addressing prevailing HSE issues within operations**	100%
4	**Compliance Assessment**	100%
5	**Incident Prevention**	100%
6	**HSE Management System Review** - IMS Certification External Audit completed in December 2022	100%
7	**HSE Communication** - QHSE & Operations Excellence Conference	100%
8	**Emergency Preparedness and Crisis Management** - Emergency drill by rig	100%

HSE COMMUNICATION AND ENGAGEMENT ACTIVITIES

Velesto continuously reinforces the importance of maintaining high levels of HSE through various communication channels and staff engagement activities. HSE is regularly included on the agenda of official communication engagements such as town hall meetings and newsletters. The following lists the HSE campaigns carried out by the Group in FY2022.

HSE campaigns:

- Virtual QHSE Week 2022
- Virtual Management HSE Engagement 2022
- Quarterly HSE Campaign
- Mental Health Campaign
- Monsoon Campaign 2022
- Behavioural In Focus ("BIF") Campaign
- Virtual QHSE Advisor & Medic Engagement

HSE ALERT

To communicate and implement the lessons learned, Velesto has an ongoing initiative called HSE Alert. In FY2022, 17 HSE Alerts were registered in the Velesto Safety and Maintenance Action Tracking ("SMAT") System. Once received, the OIM/Rig Superintendent/ Project Manager or their representative ensures that the HSE Alert is distributed to all line supervisors for discussion during toolbox or HSE meetings.

A copy of the HSE Alert is also posted on the HSE bulletin board for reading and reference at the respective sites. The HSE Alert is retained on the HSE bulletin board for a minimum of two months and compiled at the worksite by the HSE Advisor. To ensure clear communications to our diverse workforce on site, HSE Alerts are translated into multiple languages.

EMPLOYEE SAFETY TRAINING

In FY2022, Velesto provided a range of OSH training to employees, covering various topics such:

- Authorised Entrant & Standby Person For Confined Space ("AESP")
- Bosiet With CA-EBS
- Lifting & Rigging Training
- Lifting And Rigging
- Loss Prevention System With SSHE Induction
- OSH Train The Trainer Competency-Based Program
- Training Ert And Floor Warden For Block 1A1B With Bomba
- Scheduled Waste Training for Base
- Lifting and Rigging Training for Base

MANAGEMENT HSE VISITS

Velesto remains committed to conducting HSE visits as a crucial aspect of its management approach to OSH. These visits are conducted by both the President and Senior Management, with the aim of reinforcing their understanding of on-ground HSE matters and demonstrating their concern for the safety and well-being of all employees, including those working offshore, to foster a strong safety culture and boost employee morale.

In 2022, a total of 47 Management HSE Visits were conducted of which were 13 President's HSE visits and 34 visits by other management.

SOCIAL MATTERS

LOCAL COMMUNITY IMPACT

As a socially responsible organisation, Velesto is committed to making a positive impact on the local communities where we operate, helping to foster socio-economic growth directly through our business activities, and by giving back to the community through targeted community-needs-focused corporate social responsibility programs.

The Group is dedicated to the proactive creation of socio-economic development opportunities for the local community and promoting education as a means of fostering a thriving and prosperous community.

ECONOMIC VALUE DISTRIBUTION

FY2022 ECONOMIC VALUE GENERATED

As a public listed company, Velesto acknowledges its responsibility to generate business profits and deliver sustainable returns for its shareholders. This is balanced also by our commitment to creating shared value for all stakeholders, including the communities where we operate.

Velesto strives to distribute the economic value generated by its business in an equitable manner to its stakeholders and the community. This includes providing employment opportunities for locals, paying taxes and royalties to local governments, supporting local suppliers, and investing in local communities through various corporate social responsibility initiatives and community development programs. At the same time, Velesto is also mindful of our fiduciary responsibility on loan repayments and delivering returns on shareholders' equity, while retaining sufficient funds to sustain and grow the business in the long term.

Despite continued operational challenges, Velesto has continued to generate and distribute a wide range of economic values for its stakeholders as disclosed below:

Economic Value Distributed (RM mil)	FY2021	FY2022
Total monetary value/ spend on procurement	315	593
Total payout to employees in salaries and benefits	117	142
Taxes paid to government	20	15
Repayments to financiers/ banks	547	78
Dividend returns to shareholders	0	0

Note: Community contributions are excluded as Velesto sustains socio-economic growth primarily through job creation, local enterprise value creation, and industry-related training. The social value impact of our Community Investments are disclosed on pages 89 to 90.

INDIRECT ECONOMIC DEVELOPMENT

Velesto is dedicated to the proactive creation of economic development opportunities for the local community and promoting education as a means of fostering a thriving and prosperous community. Velesto's business operations in East and West Malaysia have recorded a significant socioeconomic impact on local communities.

The Group's operations have facilitated the development of local businesses and employment opportunities, both directly and indirectly, in all the locations where it operates. This is achieved through prioritisation of the Group's procurement from local contractors and vendors, which includes procurement of goods and services such as transportation, accommodation, logistics, and food and beverage, among others. In addition, Velesto is involved in the growth of the local infrastructure, exemplified by the creation of the Velesto-INSTEP Drilling Academy ("VIDA").

Velesto is dedicated to continuing its investment in the development of the local community holistically to support a thriving society.

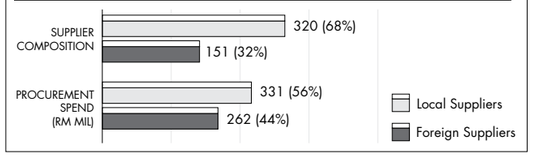
PRIORITISING LOCAL PROCUREMENT

Velesto places a strong emphasis on local procurement, giving preference to local suppliers for goods and services unless there are no local options available, or if the price point, functionality and quality does not meet the Group's requirements.

The Group adopts a Local First policy for all purchases wherever possible. Local procurement has many benefits, including a reduced environmental impact due to less transportation, job creation for the local community, development of local entrepreneurs, and knowledge and skills transfer.

The policy is implemented in accordance to Velesto's supply chain management process. More details on our governance practices for supply chain can be found on page 95.

FY2022 SUPPLIER COMPOSITION & PROCUREMENT SPEND



COMPREHENSIVE SUPPLY CHAIN MANAGEMENT PROCESS

Effective risk management process is placed, to assist supply chain partners in addressing uncertainties and complexities.

SUPPLIER DEVELOPMENT STRATEGY

Develop more suppliers to reduce single or limited source dependencies and increase industry competition to drive down costs.

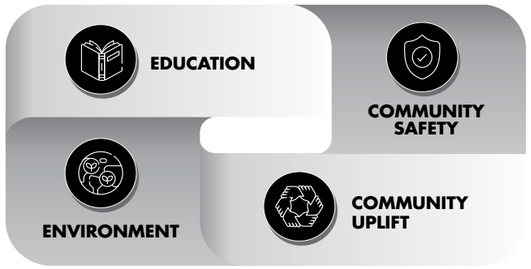
LONG-TERMSUPPLIER PARTNERSHIP

Focus on establishing long-term partnerships results in cost and operational efficiencies and provides assurance to suppliers.

Velesto is committed to supporting local supply chains and is an anchor partner of the PETRONAS Vendor Development Program ("VDPx"), with a focus on developing local suppliers in areas such as Topside Medic Support Services, Logistics & Forwarding Services, Offshore Catering Services, and Offshore Manpower Services based on its business requirements.

Community Investment

Velesto upholds its commitment to invest in local community through various community investment initiatives which focus on the key pillars of:



Throughout FY2022, Velesto organised several CSR activities and engagement programs under our SMART's Cool Program and Community Outreach program. Employees were encouraged to participate and volunteer their time and expertise to support these social initiatives. The Group keeps track of employee volunteerism time spent as a key measure of employee and community engagement.

SMART's Cool Program

- **Education Quality Program**
  Over the next few years, the program intends to enhance the standard of education in Miri, Sarawak by implementing two initiatives in partnership with the Miri State Education Department. The focus of these initiatives is to enhance teaching techniques and provide training to teachers, enabling them to acquire the necessary skills to become proficient educators.

  Principals, teachers, and certain schools were selected based on predetermined criteria as the intended beneficiaries of these initiatives. Data analysis will be used to track progress and ensure improvement in education quality. The ultimate outcome of the programme is to cultivate skilled and professional teachers while also making a positive contribution to the advancement of quality human capital in Sarawak.

  Programme 1: "Sesi Motivasi dan Perkongsian Amalan Terbaik Sekolah Menengah Pengetua PPD" is a forum for sharing of best practices aimed at producing high passing rates for SPM students at the Higher Secondary Level through a best practice sharing forum.

  Programme 2: "Program Peningkatan Profesionalisme Pendidikan Guru DLP Sekolah Rendah Daerah Miri 2022" seeks to enhance the proficiency of Maths and Science teachers in Miri and improve their confidence in using English to teach these subjects under the Dual Language Program ("DLP"). The program is tailored towards enhancing their expertise in these areas, recognising that a significant proportion of them are non-specialists in these subjects.

  The program was conducted from August to October 2020 with 89 teachers from Miri participating. Its efficacy will be assessed by examining the Math and Science test results of the students taught by these teachers.

- **Science and Safety Awareness Program**
  Velesto collaborated with PPD Miri and Science Bridge Academy to organise a Science and Safety Awareness Program for primary students at SK Tudan Jaya in Miri.

  The program includes various interactive activities such as experiments and demonstrations to engage students in learning science concepts in a fun and safe environment. It also featured a session on the creation of safety helmets to promote safety awareness.

  Well-received by students, teachers and parents, the program is expected to have a positive impact on students' interest in Science, Technology, Engineering, and Mathematics ("STEM") education.

LOCAL COMMUNITY IMPACT

Community Outreach Program

- **Striking a Balance in Education for All**
  This Community Outreach program aims to strike a balance in having equality and equity in education, with a focus on reducing inequalities. Currently at its initial phase, the program targets schools under the category of Less Student School (Sekolah Kurang Murid) to assist them in achieving equal access towards quality education.

  During the visit to two Less Student Schools located in remote areas in Miri, Sarawak, Velesto gained a better understanding of the challenges that this type of school faces. Among the challenges that hinder access to quality education include lack of proper infrastructure, poor road access, inadequate instructional supplies i.e. media centre, and no or poor internet access. We intend to ensure that these students are provided quality education and equitable support to achieve success, leaving no one behind.

In FY2022, Velesto also organised Coral Planting project in Perhentian Island, Terengganu. Please see page 73 for for more details on that program.

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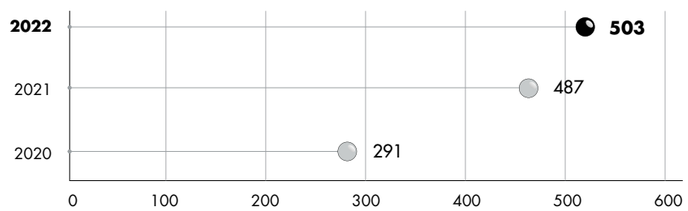
DRILLING PROFESSIONALS
Trained through VIDA in FY2022

VELESTO-INSTEP DRILLING ACADEMY ("VIDA")

Velesto also contributes to the development of local infrastructure, as evidenced by the establishment of the Velesto-Instep Drilling Academy ("VIDA"), which has been running for 8 years. The company's support of VIDA has enabled the development of qualified drilling professionals for the oil and gas industry, both local and foreign.

DRILLING PROFESSIONALS DEVELOPED THROUGH VIDA



Students enrolled in the UTP MSc Drilling Engineering program can participate in courses and workshops conducted by VIDA, including the IWCF Well Control Level 4 Combined Subsea & Surface course, and the Well Construction with Land Rig Hands-On Practice, providing them a leg up in the drilling services employment opportunities to support their socio-economic mobility. VIDA also conducted Well Construction with Land Rig Hands-On Practice Workshop at Institut Teknologi Petroleum PETRONAS, Terengganu.

VIDA is a successful industry-led initiative, addressing the sustainability of talent development for the oil and gas drilling sector while contributing to the national goal of developing a highly-skilled talent pool. VIDA has started to use internal SME from the Group to deliver training at Velesto Drilling Academy and assist Velesto Drilling to close any technical gaps.

VIDA Accreditation Highlights
- VDA Approved IWCF Training Provider.
- VDA Approved IADC Training Provider.
- VDA Approved HRDcorp Training Provider and majority of the training programmes are HRDcorp claimable.

Primary Training
- Accredited (IWCF & IADC) Training – Professional Certification
- Technical Oil and Gas Training

Additional Training
- Competency (VDA also acts as coordinator to source for training providers to meet Group staff competencies and ensure that the training programs are completed within schedule)

GOVERNANCE MATTERS

GRI 204, 205, 206, 308, 414, 415, 418

Good governance is essential to Velesto as it ensures the Group operates with integrity, ethical behaviour, and accountability. This is vital in maintaining the trust of our stakeholders, including clients, investors, and employees.

At Velesto, we are committed to upholding the highest standards of corporate conduct, including anti-corruption and regulatory compliance. Our approach to risk management is guided by a strong risk and internal control framework and policies that provide clear guidance on how we identify, assess, and manage risks.

We also recognise the importance of supply chain management, which is integral to our operations, and strive to work with suppliers who share our commitment to ethical conduct and responsible business practices.

By adhering to these principles, Velesto can continue to build a culture of good governance that supports sustainable growth and strengthens our position as a leading player in the oil and gas industry.

CORPORATE GOVERNANCE & ANTI-CORRUPTION

Corporate governance and anti-corruption policies are crucial components for ensuring the long-term success and sustainability of any organisation. At Velesto, we recognise the importance of maintaining high standards of ethical conduct and transparency in all our business dealings. The Group believes that a strong corporate governance framework, combined with effective anti-corruption measures, not only helps to ensure compliance with applicable laws and regulations, but also fosters a culture of integrity and accountability across the organisation to support the creation of long-term value for all our stakeholders.

REINFORCING ETHICAL CONDUCT AND CORPORATE INTEGRITY

The Group has implemented a Code of Business Conduct and Ethics ("CoBE") that guides the behavior and practices of all employees, directors, and stakeholders. The CoBE promotes a culture of integrity, accountability, transparency, and professionalism across the organisation, with a particular emphasis on matters such as conflicts of interest, sexual harassment, and racial discrimination. The CoBE is reviewed and updated periodically to ensure their continued effectiveness.

Through induction sessions, periodic refresher programs, and mandatory declarations of understanding, Velesto ensures that all employees are aware of and committed to the CoBE and the company's broader approach to good governance. Third party vendors and our supply chain partners are also required to acknowledge their understanding and adherence to the Group's CoBE.

These efforts have resulted in a strong track record of compliance and ethical conduct, with no cases of non-compliance or unethical behavior reported in FY2022 through the Group's internal channels.

ZERO TOLERANCE STANCE TO BRIBERY AND CORRUPTION

Velesto maintains a strict zero tolerance stance towards all forms of bribery and corruption across all aspects of its business operations. The Group's Anti-Bribery and Corruption Policy ("ABC Policy"), developed in accordance with Section 17A of the MACC Act, reflects this uncompromising approach and can be found on the company's website.

The policy prohibits corrupt acts within the organisation as well as in dealings with external parties, including the Board, Management or staff. It covers a wide range of behaviors that constitute bribery and corruption, such as unofficial payments, gifts, entertainment, political contributions and donations, gratifications, and charitable support.

The policy outlines the punitive actions that will be taken against anyone found to be engaged in corrupt acts, which includes fines, suspensions, dismissal, and reporting to enforcement authorities for appropriate action.

GOVERNANCE MATTERS

CORPORATE GOVERNANCE & ANTI-CORRUPTION

SAFEGUARDS TO DRIVE STRONG ANTI-CORRUPTION STANCE

Velesto has put in place several measures to prevent corrupt practices within the organisation and in its dealings with the supply chain, in support of the Group's Anti-Bribery and Corruption Policy ("ABC Policy").

INTERNAL AUDIT

- Internal Audit conducts regular or periodic reviews on Division/ Department to ensure the effectiveness of its internal controls and processes in mitigating corruption risks

INTEGRITY GOVERNANCE UNIT & COMPLIANCE

- Assesses organisational Corruption Risks via Corruption Risk Management
- Promotes Integrity and inculcates anti-corruption practices
- Manages the Whistle Blowing Channel
- Established ABC Policy and Corporate Gifts, Gifts, Entertainment and Hospitality Procedure

SUPPLY CHAIN

- Established policy and procedures on procurement and subcontract processes
- Due diligence activities were conducted on selection and appointment of vendors
- Strict tender processes, such as multiple quotations and proposals, and evaluation criteria
- Closely monitoring existing process management and suppliers relationships
- Firmly establishing expectations with suppliers via Suppliers CoBE and Vendor Integrity Pledge ("VIP") available on Velesto's website
- Identification of high-risk supplier via the new Supplier Registration Request Form ("SREF")

BOARD OVERSIGHT ON ANTI-CORRUPTION AND WHISTLEBLOWING

Velesto's Board and Senior Management lead by example in promoting ethical behaviour and good corporate conduct. To ensure that the organisation remains vigilant and proactive in these matters, the Board through BWBC oversees the whistleblowing mechanism and the Integrity Governance Unit & Compliance ("IGUC"), which regularly reports on matters related to anti-corruption, bribery, and ethical behaviour. Additionally, the Board reviews the ABC Policy periodically to ensure that it is up-to-date with evolving regulatory requirements.

The Board and Senior Management are actively involved in various internal communication initiatives and programs. Furthermore, the Board is responsible for reviewing and deliberating on whistleblowing reports, which are managed by the dedicated Board Whistle-Blowing Committee ("BWBC") to ensure that they are thoroughly investigated and addressed.

INDEPENDENT INTEGRITY GOVERNANCE UNIT & COMPLIANCE

In 2020, Velesto created an independent Integrity Governance Unit & Compliance ("IGUC") that directly reports to both the BWBC and the Malaysian Anti-Corruption Commission ("MACC") in the event of any possible or actual incidents of corruption or other forms of corporate misconduct. The IGUC is administratively accountable to the President's Office.

ANTI-CORRUPTION COMMUNICATION PROGRAMS AND ACTIVITIES

Velesto has been consistently communicating the message of zero tolerance towards corruption and bribery through various channels such as electronic mediums, virtual townhalls, newsletters, and more. The reinforcement of iLEAP core values and the promotion of a culture of integrity and ethical behaviour are also emphasised in these communication efforts.

The Group, in supporting its commitment towards Anti-Bribery & Corruption has organized activities and programs throughout FY2022 as follows:

ACTIVITIES	REMARKS
Completion of IGUC Documentation including Framework, Policies and Procedures	• The following documents were established/ revised in year 2022: - Board Whistle-Blowing Committee Term Of Reference (Revised)
Anti-Bribery & Corruption Training for Internal Stakeholders	• Series of virtual and physical Anti-Bribery & Corruption trainings were held from 1 January 2022 – 31 December 2022 • Participants were at headquarter, supply bases and rigs • As at December 2022, 85% of Velesto's staff have attended the trainings
Anti-Bribery & Corruption Training for External Stakeholders	• A number of sessions of virtual and physical Anti-Bribery & Corruption trainings were conducted in year 2022 • As at December 2022, 20% of Velesto Approved Vendors List attended the trainings
Corruption Risk Management ("CRM")	• Corruption Risk Assessment was performed on a quarterly basis
Velesto Energy Berhad Anti-Corruption Plan ("VACP") 2023 -2027	• The VACP was presented and approved by the BOARD on 8 September 2022.
National Integrity Day 2022 Talk	• Topic: Bribery : The Effect and Its Consequences • Invited speaker: Tuan Hasraff Hashim from MACC • The event was conducted on 29 November 2022 at Malakoff Auditorium
IGUC e-Newsletter	• The IGUC e-Newsletter is to facilitate employees to learn and understand the importance of practicing high integrity and compliance culture. • The e-Newsletters were disseminated to all employees. - 1st edition on 14 March 2022 - 2nd edition on 29 June 2022 - 3rd edition on 30 September 2022 - 4th edition on 15 December 2022
Reporting to Board Whistle- Blowing Committee ("BWBC") (biannually)	• IGUC reporting to BWBC were conducted as follows: - 1 - 2022 – 18 February 2022 - 2 - 2022 – 19 May 2022 - 3 - 2022 – 24 November 2022
Submission of MACC Report (biannually)	• Report was submitted based on a standard format/ template set by MACC • Report coverage period and submission dates: - January – June 2022: 27 July 2022 - July – December 2022: 26 January 2023

ASSESSMENT OF CORRUPTION RISKS WITHIN OUR OPERATIONS

Velesto conducts quarterly assessments to identify corruption risks within specific departments or units of the organisation. These assessments utilise an approved risk rating matrix that considers the likelihood and impact of risk to determine varying levels of risk, including extreme, high, medium, and low.

The results of these assessment are reviewed by Integrity Governance Unit & Compliance ("IGUC") on a quarterly basis and presented to the Board Whistle-Blowing Committee ("BWBC"). Any identified risks or potential risks are closely monitored and reviewed by the IGUC through the implementation of Risk Action Plans ("RAPs"). These assessments and their findings reflect Velesto's commitment to maintaining a corruption-free workplace.

In FY2022, 100% of the organisation has been assessed for corruption-related risks. Areas of the Group's operations at the highest risk of corruption were identified in terms of the risk of collusion with third parties through the receiving and giving of bribes that may affect the impartiality of the tender process. Risk action plans have also been developed to address these risks.

CORPORATE GOVERNANCE & ANTI-CORRUPTION

WHISTLEBLOWING MECHANISM

Velesto has implemented a dedicated whistleblowers mechanism in compliance with Section 7(1)(c) of the Whistleblowers Protection Act 2010 since 2020. The mechanism provides immunity to the whistleblower from any form of punitive action, intimidation or reprisal, regardless of whether the allegations are substantiated or unfounded, as long as the report was made in good faith. The identity of the whistleblower is kept confidential to avoid any concerns of recrimination or reprisals.

Reports can be submitted directly to the Head of IGUC and will be investigated by the IGUC upon verification and notification to BWBC. If the reports are found to be true, appropriate actions will be taken against the offending party, including warnings, dismissals, contract termination, or reporting to enforcement authorities such as MACC or the police.

VELESTO WHISTLEBLOWING PROCESS

1. **Whistleblower**
   Makes the disclosure (report) via one of the whistleblowing channels
2. **IGUC**
   Evaluates the disclosure and notifies BWBC
3. **BWBC**
   Deliberates on the disclosure and decides the next course of action
4. **Investigation Team**
   Conducts investigation and issues report
5. **BWBC**
   Deliberates on the investigation report and decides the next course of action
6. **IGUC/HR**
   Disciplinary proceedings/ lodge official report to authority
7. **IGUC**
   Notifies the outcome of the investigation to the whistleblower

POLITICAL VIEWS AND CONTRIBUTIONS

Velesto adheres to an apolitical stance and does not align with or endorse any political parties or organisations. The Group has a clear policy against making donations to political parties.

Velesto may participate in events organised by the government or its agencies as part of charitable or nation-building efforts.

CASCADING ANTI-CORRUPTION COMMITMENTS TO OUR SUPPLY CHAIN

Velesto actively promotes anti-corruption efforts by providing dedicated briefing sessions to its suppliers. One of the initiatives spearheaded by the Group Procurement and the IGUC is the Velesto ABC Online Training for External Parties. The program is designed to combat corruption and to support the T.R.U.S.T principles (Guidelines on Adequate Procedures).

In addition, Velesto has conducted the following anti-corruption training sessions for vendors in FY2022:

- 4 sessions of Anti-Bribery & Corruption Awareness Trainings at Kemaman Supply Base ("KSB") on 2 and 13 October 2022, with a total of 28 vendors in attendance
- 4 sessions of Anti-Bribery & Corruption Awareness Trainings at Asian Supply Base ("ASB") on 2 and 3 November 2022, with participation from 21 vendors

SUPPLY CHAIN MANAGEMENT

Velesto follows a transparent process for procurement, allowing all qualified vendors to participate in bidding for contracts. Contracts are awarded based solely on merit, with the best value proposition being the determining factor, considering various aspects such as cost, quality, track record in OSH, regulatory compliance, and other relevant factors.

Velesto aims to extend its sustainability goals and values to its supply chain in order to have a greater impact on the environment and society. To be eligible for contract bidding with Velesto, suppliers must adhere to certain general principles, which include:

RESPECT FOR LAWS AND HUMAN RIGHTS

- Suppliers must abide by all laws.
- Suppliers resorting to forced or child/ underage labour, intimidation or harassment, threats or coercion will be disqualified and prohibited from future procurement processes.

RESPECT FOR FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING

- Suppliers must at all times, allow workers to bargain collectively for their rights and compensation packages.

RESPECT FOR DIVERSITY

- Suppliers are at all times, to adopt formal or informal non-discriminatory practices based on age, gender, language, marital status, religion, union affiliation, race, colour, ethnic or national origin, family status, disability or other distinguishing characteristics.

RESPECT FOR HEALTH AND SAFETY

- Employees are to be at all times provided with safe working conditions and conditions that do not impact their health. Where the job or work area presents health and safety risks, workers must be at all times, provided with the necessary training, equipment and safeguards.
- Suppliers must strive for zero life loss at all times.
- Adoption of a recognised HSE system.

RESPECT FOR THE ENVIRONMENT

- Be committed to protecting the environment and prevent pollution.

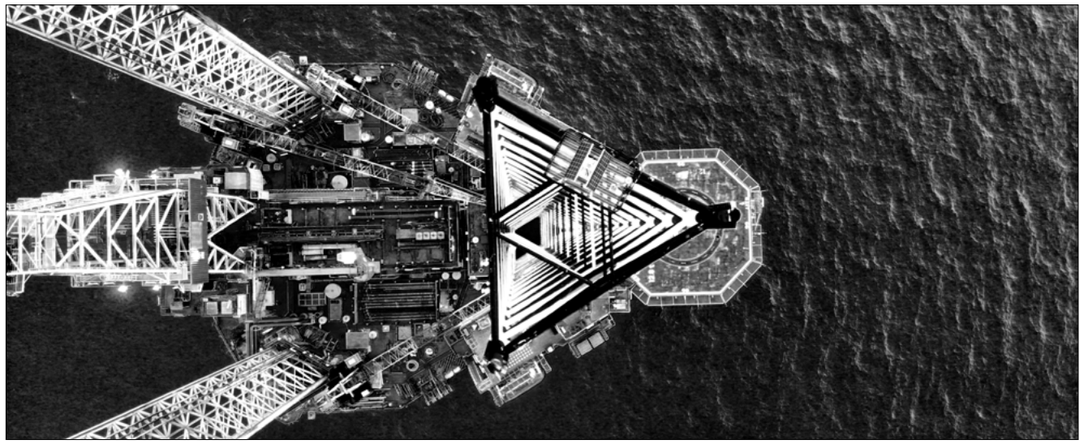
Assessment of vendors is a critical part of Velesto's sustainability approach. The evaluation process involves assessing vendors' sustainability policies related to all types of corruption, occupational health and safety, human rights, environmental performance, and labour rights. Additionally, in 2022, a total of 30 companies were identified to undergo the Critical Supplier Audit exercise.

CRITICAL SUPPLIERS AUDIT PERFORMANCE FOR YEAR 2022

RATING	AUDIT SCORE
A Excellent	≥ 90%
B Good	70% - 89%
C Fair	50% - 69%
D Failure	≤ 49%
Others	Incomplete documents submission during audit

All tender and contract documents, as well as vendor registration documents, contain clauses that require vendors to comply with Velesto's CoBE, ABC Policy, and other policies for good environmental and social performance. Non-compliance can result in termination of services or reporting to the authorities. Suppliers who fall below the desired quality scores are given ample time to rectify any weaknesses, failing which they will be removed from the vendor procurement list.

In FY2022, there were no termination of suppliers reported for non-compliance.



> **Velesto is also**
> **COMMITTED TO FAIR COMPETITION AND DOES NOT ENGAGE**
> **in any anti-competitive behaviour or abuse its market position for undue advantage**

REGULATORY COMPLIANCE

Velesto recognises the importance of regulatory compliance to the sustainability of its operations as its license to operate may be impacted by various compliance issues, including corruption, pollution, modern slavery, data privacy, and more.

This includes the timely publication of the Group's financial performance on an annual and quarterly basis, corporate announcements and governance-related disclosures on its website to meet Velesto's listing requirements.

Velesto is also committed to fair competition and does not engage in any anti-competitive behaviour or abuse its market position for undue advantage. The Group strictly prohibits any form of collusion or anti-competitive actions such as price-fixing, coordinating bids, and creating market restrictions.

The Group's closely monitor changes in the regulatory landscape as part of its ESG Risk Management and Internal Control to ensure continuous compliance with all applicable laws and industry regulations *(refer to Statement on Risk Management and Internal Control page 138)*.

For more details of Velesto's performance in regulatory compliance, please refer to ESG Performance Data Table on Risk Management & Regulatory Compliance page 98.

CUSTOMER DATA PRIVACY AND PROTECTION

Velesto subscribes to the Personal Data Protection Act ("PDPA") and is committed to keeping all pertinent data safe. In this extend, Velesto has appointed data protection officer from IGUC to implement good practices for handling personal data.

Beyond adhering to the PDPA, Velesto also adopts a wide range of ICT based systems to ensure safe storage of data. This includes firewalls and other protection mechanisms. Data integrity and confidentiality is prioritised. Access to data is also carefully guarded with restricted levels of access. Transfer of files are always encrypted to ensure safety.

In FY2022, there were zero cases of data breach.

ESG PERFORMANCE DATA

DISCLOSURES	UNIT OF MEASUREMENT	FY2020	FY2021	FY2022
Energy				
Total Fuel consumption (diesel, petrol, etc.)	GJ	844,041	713,028	738,952
Total Electricity consumption	GJ	1,686	1,137	2,359
Total Energy consumption	GJ	845,727	714,165	741,311
GHG Emissions				
Total Scope 1 Emission (from fuel)	tonnes of CO2e	62,748	53,008	54,936
Total Scope 2 Emissions (from electricity)	tonnes of CO2e	112	181	452
Scope 3 Emissions for business travel	tonnes of CO2e			32,798
Total Scope 1 & 2 Emissions Intensity/ Operating Days	Ratio	37	48	41
Total Scope 1 & 2 Emissions Intensity/ Revenue	Ratio	115	141	95
Variance of Scope 1 & 2 Emissions Intensity/ Operating Days (Compared to previous year)	%			-15
Variance of Scope 1 & 2 Emissions Intensity/ Revenue (RM mil) (Compared to previous year)	%			-32
Air Quality				
CO Emissions	CO2e	62,543	52,835	52,911
NO_x Emissions	CO2e	134.20	113.37	113.53
NH_4 Emissions	CO2e	70.90	59.89	59.89
Water Consumption				
Total Volume of Water Use	litres	95,246.00	77,249.00	75,556.40
Water intensity/ Operating Days	Ratio	56.59	69.59	55.8
Water intensity/ Revenue (RM mil)	Ratio	174.12	204.36	130.05
Waste and Effluent				
Total Waste Generated	tonnes		193.7	137.78
No. of Minor Environmental Spills	Number	0	0	0
No. of Major Environmental Spills	Number	0	1	0
Biodiversity				
Number of Biodiversity Assessments undertaken on new sites	Number	Based on EIA assessment by client		
Number of Biodiversity Audits undertaken on existing sites	Number	Based on EIA assessment by client		
Number of Operations within or adjacent to sites deemed rich in biodiversity (Based on RAMSAR, IUCN, etc.)	Number	0	0	0
Number of Trees Planted (Tree Planting program)	Number	0	0	0
Number of Tree Tagging Activities	Number	0	0	0

DISCLOSURES	UNIT OF MEASUREMENT	FY2020	FY2021	FY2022
Biodiversity				
Budget spent on Biodiversity and conservation efforts/ programs/ initiatives	RM			45,000
Risk Management & Regulatory Compliance				
Incident of Environmental Regulatory Non-Compliance[1]	Y/N			No
Incident of Social Regulatory Non-Compliance[1]	Y/N			No
Incident of Corporate/ Governance Non-Compliance[1]	Y/N			Yes
Total Incident of Corporate/ Governance Non-Compliance[1]	Number			5
Total Monetary Value of paid fines for Corporate/ Governance Non-Compliance[1]	RM '000			24
Anti-Corruption				
Number of employees who have received training on anti-corruption by employee category:				
- Managerial Staff	Number	13	19	13
- Executives	Number	35	43	39
- Non - Executives	Number	133	174	132
- Total	Number	181	236	184
Number of training hours relating to anti-corruption				
- Managerial Staff	Hours	26	38	26
- Executives	Hours	70	86	78
- Non - Executives	Hours	266	348	264
- Total	Number	362	472	368
Percentage of Business Partners that the organisation's Anti-corruption Policies and Procedures have been communicated to	%		13	20
Percentage of Operations Assessed for Corruption-related Risks	%	100	100	100
Confirmed Incidents of Corruption	Number	0	0	0
- Cost of Fines, Penalties or Settlements in relation to Corruption	RM	0	0	0
Total Number of Confirmed Incidents in which Employees were Dismissed or Disciplined for Corruption	Number	0	0	0
Public Legal Cases regarding Corruption brought against the Organisation or its Employees during the reporting period and the Outcomes of such cases	Number	0	0	0
Public Legal Cases regarding Corruption brought against the Organisation or its Employees during the reporting period and the Outcomes of such cases	Number	0	0	0

DISCLOSURES	UNIT OF MEASUREMENT	FY2020	FY2021	FY2022
Data Privacy and Security				
Number of substantiated complaints concerning breaches of customer privacy and losses of customer data	Number	0	0	0
Supply Chain Management				
Total Procurement Spend	RM mil	174.19	315.57	593.27
Total Procurement Spend on Local Suppliers	RM mil	83.04	190.65	331.02
Total Procurement Spend on Foreign Suppliers	RM mil	53.91	124.92	262.25
Proportion of Spending on Local Suppliers	%	48	60	56
Total Number of Registered Active Vendors	Number	385	420	471
Number of Registered Local Vendors	Number	268	300	320
Number of Registered Foreign Vendors	Number	117	120	151
Percentage of Registered Local Vendors	%	70	71	68
Number of Suppliers Screened / Audited for Good ESG Performance	Number	0	0	0
Number of Suppliers Removed from Procurement List or Cautioned for Poor ESG Performance	Number	0	0	0
Percentage of Suppliers Endorsed Anti-bribery and Anti-corruption Policies	%			99
Corporate Governance				
Number of Board of Directors	Number	9	9	9
Number and Percentage of Independent Directors	Number (%)	5 (56%)	5 (56%)	5 (56%)
Number and Percentage of Women on the Board	Number (%)	4 (44%)	3 (33%)	4 (44%)
AGM Notice Filing Date	DD-MM-YYYY	28-05-2021	29-04-2022	28-04-2023
AGM Date	DD-MM-YYYY	28-06-2021	28-06-2022	29-05-2023
Number of Days Between the Date of Notice and Date of Meeting	Number	More than 28 days	More than 28 days	More than 28 days
Male Directors	Number (%)	5 (56%)	6 (67%)	5 (56%)
Female Directors	Number (%)%	4 (44%)	3 (33%)	4 (44%)
Directors Aged 30 and below	%	0	0	0
Directors Aged 31-50	%	22	22	33
Directors Aged 51-65	%	11	22	11
Directors Aged 65 Years and Above	%	67	56	56
Malay Directors	%	89	89	67
Chinese Directors	%	11	11	22

DISCLOSURES	UNIT OF MEASUREMENT	FY2020	FY2021	FY2022
Corporate Governance				
Indian Directors	%	0	0	11
Directors of Other Ethnicities	%	0	0	0
Malaysian Directors	%	100	100	100
Non - Malaysian Directors	%	0	0	0
Number/ percentage of Directors with disabilities	Number / %	0	0	0
Workforce Diversity				
Total Workforce	Number	632	624	722
Malaysian Employees	%	78	75	73
Non - Malaysian Employees	%	22	25	27
Permanent Employees	%	41	38	28
Employees that are Contractors or Temporary Staff	%	59	62	72
Male Managerial Staff	%	59	55	71
Female Managerial Staff	%	41	45	29
Male Executive Employees	%	66	62	49
Female Executive Employees	%	34	38	51
Male Non-Executive Employees	%	98	97	98
Female Non-Executive Employee	%	2	3	2
Managerial Staff Aged 30 and below	%	2	6	1
Managerial Staff Aged 31-50	%	77	76	71
Managerial Staff Aged 51-65	%	21	18	27
Managerial Staff Aged 65 Years and Above	%	0	0	1
Executive Employees Aged 30 and below	%	74	72	45
Executive Employees Aged 31-50	%	25	26	52
Executive Employees Aged 51-65	%	1	1	2
Executive Employees Aged 65 Years and Above	%	0	1	1
Non-Executives Aged 30 and below	%	9	8	10
Non-Executives Aged 31-50	%	64	66	64
Non-Executives Aged 51-65	%	26	25	25
Non-Executives Aged 65 Years and Above	%	1	1	1
Malay Managerial Staff	%	67	69	64
Chinese Managerial Staff	%	15	11	18

DISCLOSURES	UNIT OF MEASUREMENT	FY2020	FY2021	FY2022
Workforce Diversity				
Indian Managerial Staff	%	8	6	9
Managerial Staff of Other Ethnicities	%	10	13	10
Malay Executive Staff	%	91	90	86
Chinese Executive Staff	%	3	1	5
Indian Executive Staff	%	1	3	3
Executive Staff of Other Ethnicities	%	5	7	7
Malay Non-Executive Staff	%	38	33	35
Chinese Non-Executive Staff	%	4	3	9
Indian Non-Executive Staff	%	5	4	6
Non-Executive Staff of Other Ethnicities	%	52	59	50
Number/ percentage of Disabled Managerial Staff	Number/ %	0	0	0
Number/ percentage of Disabled Executive Staff	Number/ %	0	0	0
Number/ percentage of Disabled Non-executive Staff	Number/ %	0	0	0
Total Number/ percentage of Staff with Disabilities	Number/ %	0	0	0
Hiring and Attrition				
Total New Hires	Number	80	104	216
New Hires (Male)	%	83	68	85
New Hires (Female)	%	18	32	15
New Hires aged 30 and below	%	19	25	23
New Hires Aged 31-50	%	54	63	66
New Hires Aged 51-65	%	28	11	11
New Hires Aged 65 and above	%	0	1	0
New Hires with Disabilities, or from Underprivileged Groups	%	0	0	0
Staff Training				
Total Training Spend as a company	RM '000	206	46	250
Total Training Hours as a company	Number	2176	378	824
Total Training Hours for Managerial Staff	Number	1456	514.5	1321
Total Training Hours for Executive Staff	Number	2336	1235	2310
Total Training Hours for Non-Executive Staff	Number	5336	642	981
Average Training Hours Per Employee (Management Staff)	Number	12.88	4.67	9.57
Average Training Hours Per Employee (Executives)	Number	11.92	5.97	11.27

DISCLOSURES	UNIT OF MEASUREMENT	FY2020	FY2021	FY2022
Staff Training				
Average Training Hours Per Employee (Non-Executives)	Number	18.15	3.36	7.32
Total Male Employees Attended Training	Number	516	271	264
Total Female Employees Attended Training	Number	193	316	287
Average Training Hours Per Employee (Male)	hrs	16.14	6.16	9.19
Average Training Hours Per Employee (Female)	hrs	10.84	4.60	9.46
Employee Benefits and Remuneration				
Percentage of Staff Receiving a Performance Appraisal	%	87.9	74.1	68.13
Total payments made to Employees in terms of Salaries, Bonuses and Benefits	RM mil	118	117	142
Statutory Payments made for Employees' Retirement Benefits ("EPF")	RM mil	7	7	7
Payments to SOCSO for Employees' Medical Insurance	RM mil	0.37	0.32	0.41
No. of Employees Entitled for Maternity and Paternity Leave	Number	54	67	95
No. of Employees Who Took Paternity Leave	Number	0	0	0
No. of Employees Who Took Maternity Leave	Number	0	2	5
Male Employees Return to Work Rates (return to work after parental leave period)	%	100	100	100
Female Employees Return to Work Rates (return to work after parental leave period)	%	100	100	100
Male Employees Retention Rates (remain with the organisation for 12 months or more post parental leave)	%			100
Female Employees Retention Rates (remain with the organisation for 12 months or more post parental leave)	%			100
Employee Engagement				
Employee Satisfaction Level	%	78	79	ESS done biennially
Community Engagement				
Total Amount Invested in the Community where the target Beneficiaries are External to the Listed Issuer	RM '000			95
Total Number of Beneficiaries of the Investment in Communities	Number			4 secondary schools, 3 primary schools, 89 teachers
Number of Community Engagement Activities	Number		4	2
Total Number of Employee Volunteer Hours	Manhours			60

DISCLOSURES	UNIT OF MEASUREMENT	FY2020	FY2021	FY2022
HSE Performance				
Total Manhours Worked	Hours	2,308,792	1,839,629	2,002,687
Number of Work-related Fatalities	Number	0	0	0
Employees	Number	0	0	0
Contractors	Number	0	0	0
Fatality Rate	Rate	0	0	0
No. of Recordable Work-related Injuries	Number	0	2	1
Injury Rate (including fatalities)	Rate	0.00	1.09	0.50
Total No. of Lost Days	Number	0	7	7
Lost Day Rate	%	0.00	1.92	1.92
No. of LTIs	Number	0	1	1
No. of Unsafe Act Unsafe Condition ("UAUC")	Number	49,047	44,953	40,773
Rate of High-consequence Work-related Injuries	Rate	0.00	0.00	0.00
Lost Time Incident Rate	Rate	0.00	0.54	0.50-
Occupational Diseases Rate	Rate	0	0	0
Absenteeism Rate - Days	Rate	0.00	0.05	0.05
Absenteeism Rate - Headcount	Rate	0.00	0.10	0.10

[1] *Non-compliance resulting in paid fines or penalty*

Data unavailable or undisclosed in the previous year or incompatible with reporting format

BOARD OF DIRECTORS

Seated from left to right:

1. **MOHD RASHID MOHD YUSOF**
   Chairman / Non-Independent Non-Executive Director
2. **MEGAT ZARIMAN ABDUL RAHIM**
   President / Executive Director
3. **ROWINA GHAZALI SETH**
   Independent Non-Executive Director

Standing from left to right:

4. **IR. DR. MOHD SHAHREEN ZAINOOREEN MADROS**
   Senior Independent Non-Executive Director
5. **MOHD IRWAN AHMAD MUSTAFA**
   Non-Independent Non-Executive Director
6. **HAIDA SHENNY HAZRI**
   Non-Independent Non-Executive Director
7. **DATUK TONG POH KEOW**
   Independent Non-Executive Director
8. **DATUK GEORGE LING KIEN SING**
   Independent Non-Executive Director
9. **AR. AHILA GANESAN**
   Independent Non-Executive Director

MOHD RASHID MOHD YUSOF

CHAIRMAN

Non-Independent Non-Executive Director

67 M MAL

Appointed to the Board on

23 June 2017

No. of Board Meetings attended

16/16

Qualification

Fellow of Association of Chartered Certified Accountants, UK

Advanced Management Program, Wharton Business School, Pennsylvania, USA

Length of Service
(as at 31 March 2023)

5 years and 9 months

Membership of Associations:

Member of Chartered Association of Certified Accountants, UK

Member of Malaysian Institute of Accountants ("MIA")

Directorships in Other Companies

Listed Entity

None

Other Public Companies

- Standard Chartered Bank Malaysia Berhad
- SIRIM Berhad
- Worldwide Holdings Berhad

Member of Velesto Board Committees

None

Working Experience:

Mohd Rashid Mohd Yusof ("Mohd Rashid") commenced his career with PETRONAS in 1980 and has held various financial positions in PETRONAS such as Head of Group Accounting, Head of Group Treasury and Head of Group Internal Audit.

He was also appointed as Financial Director of Engen Limited ("Engen"), before assuming Senior Management positions as Chief Executive Officer ("CEO") of Malaysian International Trading Corp ("MITCO") and later as Managing Director/Chief Executive Officer of Engen in South Africa and Vice President of Supply Chain & Risk Management at PETRONAS.

Previous directorships held include Putrajaya Holdings Sdn Bhd, KLCC (Holdings) Sdn Bhd, Media Prima Berhad and Scicom (MSC) Berhad.

Declaration:

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past 5 years nor any public sanction or penalty by any relevant regulatory bodies during FY2022.

IR. DR. MOHD SHAHREEN ZAINOOREEN MADROS

Senior Independent Non-Executive Director

60 M MAL

Appointed to the Board on

25 August 2021

No. of Board Meetings attended

15/16

Qualification

Doctorate in Structural Engineering, University of Cambridge, UK

1st Class Honours Degree in Civil Engineering, University of London, UK

Length of Service
(as at 31 March 2023)

1 year and 7 months

Membership of Associations:

Board of Engineers, Malaysia

Directorships in Other Companies

Listed Entity

E.A. Technique (M) Berhad

Other Public Companies

None

Member of Velesto Board Committees

Chairman of Board Nomination & Remuneration Committee

Member of Board Audit Committee

Member of Board Whistle-Blowing Committee

Working Experience:

Ir. Dr. Mohd Shahreen Zainooreen Madros ("Ir. Dr. Shahreen") has over 30 years of working experience in various capacities.

His work experience includes as a lecturer in Engineering Faculty in Universiti Kebangsaan Malaysia, over 20 years in the oil and gas industry, and almost 10 years in the government agencies.

He was appointed as the CEO of MATRADE in early 2017 and served until February 2019. He has worked with many industries beyond oil and gas and formulating strategic directions in growing and promoting trade. In addition, Ir. Dr. Shahreen has represented Malaysia in many international trade missions and involved in various industry dialogue working with the Ministry of International Trade and Industry. He aims to forge strategic partnerships with all relevant stakeholders in both private and public sectors at various levels within ministries, agencies, trade associations, chambers of commerce and business councils, to ensure Malaysia remains competitive globally.

Ir. Dr. Shahreen is now an independent advisor to many industries. He is also a certified coach with Malaysian Institute of Management, a pro-temp committee for IAC Malaysia, and is an Adjunct Professor with a local university.

Declaration:

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past 5 years nor any public sanction or penalty by any relevant regulatory bodies during the FY2022.

ROWINA GHAZALI SETH

Independent Non-Executive Director

62 F MAL

Appointed to the Board on

23 June 2017

No. of Board Meetings attended

16/16

Qualification

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

Length of Service
(as at 31 March 2023)

5 years and 9 months

Membership of Associations:

None

Directorships in Other Companies

Listed Entity

- UEM Edgenta Berhad
- Top Glove Berhad

Other Public Companies

- Hong Leong Islamic Bank Berhad

Member of Velesto Board Committees

Chairperson of Board Risk Management Committee

Member of Board Nomination & Remuneration Committee

Member of Board Whistle-Blowing Committee

Working Experience:

Rowina Ghazali Seth ("Rowina") began her 32-year career in SHELL in the Information Technology Division in 1985.

She thereafter assumed various local and global positions in SHELL's upstream, downstream and business operations, including as Director of SHELL Business Services Sdn Bhd.

Rowina was SHELL Malaysia's first female General Manager of Corporate Affairs. Her last position at SHELL was Director, Government Affairs, building the function from inception and pioneering the lead role. She has extensive experience in strategic government relations, reputational and crisis management, strategic CSRs, and People and change management programs.

During the course of her career, Rowina also served as Chairman of the SHELL Sustainable Development Fund, Deputy President of the SHELL Women's Action Network, and Trustee of the SHELL Scholarship Fund. She was also Vice President of the Business Council for Sustainable Development Malaysia, and an active mentor in the Young Corporate Malaysia program.

Declaration:

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past 5 years nor any public sanction or penalty by any relevant regulatory bodies during the FY2022.

DATUK TONG POH KEOW

Independent Non-Executive Director

68 F MAL

Appointed to the Board on

29 August 2019

No. of Board Meetings attended

16/16

Qualification

Diploma in Commerce, Kolej Tunku Abdul Rahman, Malaysia

Examination of the Institute of Chartered Secretaries and Administrators, UK

Length of Service
(as at 31 March 2023)

3 years and 7 months

Membership of Associations:

Fellow of the Association of Chartered Certified Accountants, UK

Member of the Malaysian Institute of Accountants ("MIA")

Directorships in Other Companies

Listed Entity

Sunway Berhad

Other Public Companies

None

Member of Velesto Board Committees

Chairperson of Board Audit Committee

Member of Board Nomination & Remuneration Committee

Working Experience:

Datuk Tong Poh Keow ("Datuk Tong") began her career as secretarial assistant with Siva, Heng & Monteiro in 1978 and was promoted to manager of secretarial services and audit in 1980.

She left the firm in 1981 to join Shapadu Holding Sdn Bhd as an accountant and company secretary until March 1983.

She joined Highlands & Lowlands Berhad in November 1983 as an accountant and assistant company secretary. In 1985, she joined Kumpulan Guthrie Berhad and has held various senior positions until her promotion to Chief Financial Officer ("CFO") in April 2003. In October 2007, post the completion of the merger of Sime Darby Berhad, she was appointed as the CFO of Sime Darby Plantation Berhad. In June 2008, she assumed the position of Group CFO of Sime Darby Berhad. She held this position for about 9 years, until her appointment as Executive Director/Group CFO of Sime Darby Property Berhad in November 2017, post the completion of the demerger of Sime Darby Berhad. She retired as Group CFO of Sime Darby Property Berhad on 31 March 2019 and as Executive Director on 31 May 2019.

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

Declaration:

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past 5 years nor any public sanction or penalty by any relevant regulatory bodies during the FY2022.

HAIDA SHENNY HAZRI

Non-Independent Non-Executive Director

49 F MAL

Appointed to the Board on

23 June 2017

No. of Board Meetings attended

16/16

Qualification

LLB and BComm (Accounting & Finance), University of Melbourne, Australia

LLM, University of Malaya, Malaysia

Length of Service
(as at 31 March 2023)

5 years and 9 months

Membership of Associations:

None

Directorships in Other Companies

Listed Entity

Privasia Technology Berhad

Other Public Companies

Keyfield International Berhad

Member of Velesto Board Committees

Chairperson of Board Whistle-Blowing Committee

Member of Board Nomination & Remuneration Committee

Working Experience:

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

Haida commenced her career with PETRONAS and she undertook legal and commercial roles in PETRONAS E&P, LNG and Technology businesses. Her last post in PETRONAS was CEO, Petronas Technology Ventures Sdn Bhd. She also served as a Board member of a few PETRONAS entities such as PETRONAS Technical Solutions Sdn Bhd, PETROSAINS Sdn Bhd as well as being a board member of the technology entity where PETRONAS is a shareholder. Whilst in PETRONAS, she was part of various Corporate Strategic studies, including representing PETRONAS at the National Key Economic Areas Lab conducted by PEMANDU.

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

She was the CEO of Matrix Reservoir Sdn Bhd, the owner and operator of Tok Bali Supply Base, the third supply base in Malaysia. She led the startup and operationalisation as well as the successful sale of the majority interest of the company. Post the divestment, she joined Bintulu Supply Base Sdn Bhd to build another supply base in Bintulu. She served as CEO Bintulu Supply Base Sdn Bhd until 2019.

Since 2018 and 2019 respectively, she has served as an Independent Non-Executive Director of Privasia Technology Berhad and Non-Independent Non-Executive Director of Matrix Reservoir Sdn Bhd, a subsidiary of Ahmad Zaki Resources Berhad. She also now serves as an Independent Non-Executive Chairperson of the Keyfield International Berhad.

Declaration:

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past 5 years nor any public sanction or penalty by any relevant regulatory bodies during FY2022.

MOHD IRWAN AHMAD MUSTAFA

Non-Independent Non-Executive Director

43 M MAL

Appointed to the Board on

25 August 2021

No. of Board Meetings attended

16/16

Qualification

Masters in Finance, Australian National University, Australia

Bachelor of Commerce, Australian National University, Australia

Length of Service
(as at 31 March 2023)

1 year and 7 months

Membership of Associations:

Member, Chartered Accountants, Australia and New Zealand

Directorships in Other Companies

Listed Entity

None

Other Public Companies

Maybank Asset Management Group Berhad

Member of Velesto Board Committees

Member of Board Nomination & Remuneration Committee

Member of Board Risk Management Committee

Working Experience:

Mohd Irwan Ahmad Mustafa ("Irwan") is currently the Group Head, Private Markets of Permodalan Nasional Berhad ("PNB") overseeing investments in Private Equity and Infrastructure asset classes. He is responsible for the Private Market's overall portfolio allocation, value creations and capital deployments via direct and indirect investments. Prior to joining PNB, he was with Ekuiti Nasional Berhad as a Director of Investment from December 2011 to July 2017 focusing on investments and management of portfolio companies in oil and gas, education, manufacturing and consumer.

He also served as Vice President, Business Development at Integrax Berhad, Halim Rasip Holdings Sdn. Bhd. from December 2009 to November 2011. He started his career in March 2004 with PricewaterhouseCoopers Kuala Lumpur in Assurance Services and later moved to Advisory Services specialising in Mergers & Acquisitions, Corporate Finance and Project Financing.

Declaration:

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company, except being a Nominee Director of PNB.
- Has never been convicted for any offence for the past 5 years nor any public sanction or penalty by any relevant regulatory bodies during FY2022.

DATUK GEORGE LING KIEN SING

Independent Non-Executive Director

67 M MAL

Appointed to the Board on

29 November 2021

No. of Board Meetings attended

16/16

Qualification

Bachelor of Engineering, McMaster University, Hamilton, Ontario, Canada

Length of Service
(as at 31 March 2023)

1 year and 4 months

Membership of Associations:

None

Directorships in Other Companies

Listed Entity

None

Other Public Companies

None

Member of Velesto Board Committees

Member of Board Risk Management Committee

Member of Board Audit Committee

Working Experience:

Datuk George Ling Kien Sing ("Datuk George") graduated as a chemical engineer from McMaster University, Canada and joined SHELL Malaysia Exploration Production in 1980.

He recorded almost 31 years of working experiences in SHELL worldwide, and 5 years in PETRONAS from 2011 until his retirement in 2016. In the course of his career, Datuk George progressed through the ranks in technical, operational and managerial positions as Petroleum Engineer, Operations Engineer, Rig Superintendent, Head of Drilling, Well Engineering General Manager and Asset Management General Manager.

Datuk George introduced and developed the first ever 'All Rounded Drilling Training Program' for PETRONAS. In 2013, he was involved in managing the construction of the 1st PETRONAS Integrated Oil and Gas Training Centre in Kuala Terengganu. He was a key member in PETRONAS Upstream for Technical Global People Development Committee and Upstream Field Development Plan Committee. After his retirement, Datuk George is currently active in freelance consultancy works.

Declaration:

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past 5 years nor any public sanction or penalty by any relevant regulatory bodies during the FY2022.

AR. AHILA GANESAN

Independent Non-Executive Director

48 F MAL

Appointed to the Board on

12 August 2022

No. of Board Meetings attended

7/7

Qualification

Masters of Business Administration, Monash University, Australia

Bachelor of Architecture, University of Melbourne, Australia

Bachelor of Science, Architecture, University Science Malaysia, Malaysia

Length of Service
(as at 31 March 2023)

7 months

Membership of Associations:

Malaysian Board of Architects (LAM)

Malaysian Institute of Architects (PAM)

Directorships in Other Companies

Listed Entity

None

Other Public Companies

None

Member of Velesto Board Committees

Member of Board Risk Management Committee

Member of Board Audit Committee

Working Experience:

Ar. Ahila Ganesan ("Ahila"), a professional architect with the Board of Architects Malaysia, has over 20 years of experience in the built environment.

As a consultant architect she was involved in award winning Malaysian and international projects. In 2012, she transitioned successfully into property development. As General Manager she helmed the regional offices for some of the most prominent property developers in Malaysia, i.e. Sunway Property and Mah Sing Property.

Ahila is a Certified Sustainability Professional and a regular speaker at national and international forums. She is also the Founder and Director of Future LinQ, a consultancy, which focuses on business sustainability through ESG. She also serves as a Special Advisor to ESG Foundation, a global entity located in London.

Currently, she is a Senior Director of Think City, a wholly owned subsidiary of Khazanah Nasional Berhad, that deals with various facets of nation building in the context of sustainable urbanism.

She also serves as INED at UM Holdings Sdn Bhd, the corporate vehicle of Universiti Malaya.

Declaration:

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past 5 years nor any public sanction or penalty by any relevant regulatory bodies during the FY2022.

MEGAT ZARIMAN ABDUL RAHIM

PRESIDENT

Executive Director

55 | M | MAL

Appointed to the Board on

25 February 2022

No. of Board Meetings attended

14/14

Qualification

Bachelor of Science (Electrical Engineering) - Worcester Polytechnic Institute, USA

Length of Service
(as at 31 March 2023)

1 year 2 months

Membership of Associations:

- Board of Engineers Malaysia
- Institute of Engineers Malaysia
- Malaysian Board of Technologist
- Society of Petroleum Engineers

Directorships in Other Companies

Listed Entity

None

Other Public Companies

None

Working Experience:

Megat Zariman Abdul Rahim ("Megat") commenced his career with Esso Production Malaysia Inc. in 1990.

He later joined SLB until 2013. During his 21 years with SLB, he held various technical, commercial, and management roles globally.

Subsequently, he joined Bumi Armada Berhad ("Bumi Armada") until early 2022. During his stint in Bumi Armada he was responsible for Corporate External Relations and Sustainability agenda. He had held various positions within Bumi Armada for the last 8 years including managing the Offshore Marine Services Business between 2018 to 2021.

He is a certified Professional Engineer by the Malaysian Board of Engineers since 1997, and Professional Technologist from Malaysian Board of Technologies since 2018.

Concurrently, Megat is also an Advisor in the Malaysian Oil & Gas Services Council ("MOGSC"). MOGSC is a non-profit industry association promoting the interests of Malaysian oilfield service providers in Malaysia.

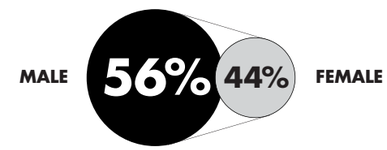
Declaration:

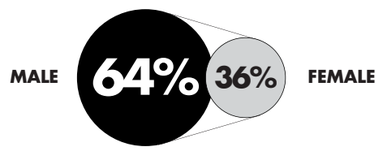
- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company.
- Has never been convicted for any offence for the past 5 years nor any public sanction or penalty by any relevant regulatory bodies during FY2022.

BOARD OF DIRECTORS & OUR LEADERS' HIGHLIGHTS

Board of Directors — **Our Leaders**

GENDER





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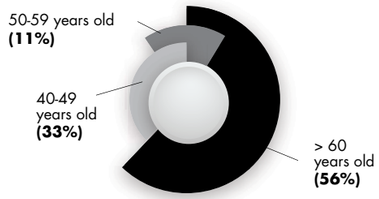
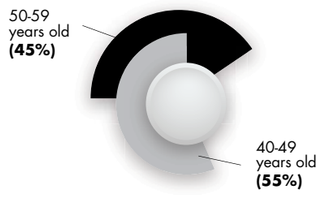
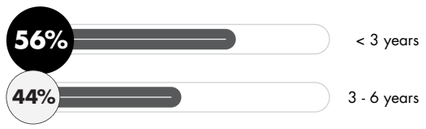
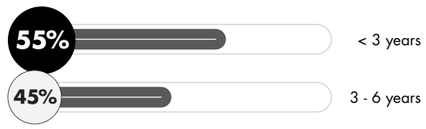


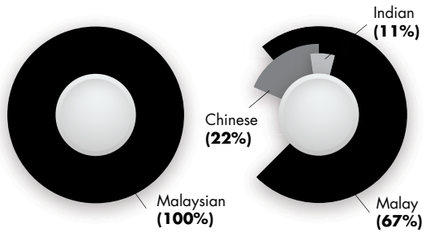


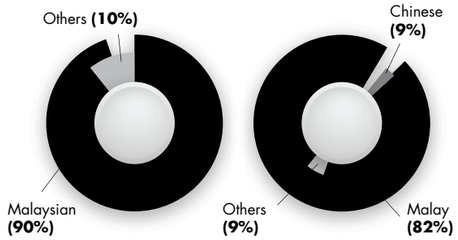
TENURE OF SERVICE





NATIONALITY AND ETHNICITY





BOARD COMPOSITION

- 1 Chairman, Non-Independent Non-Executive Director
- 5 Independent Non-Executive Director
- 1 President, Executive Director
- 2 Non-Independent Non-Executive Director

OUR LEADERS

ABDUL HADI ABDUL BARI
Chief Commercial Officer

MEGAT ZARIMAN ABDUL RAHIM
President / Executive Director

SAZLYNA SAPIEE
Chief Financial Officer

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

NORZALIZAH ALIAS
Head, Internal Audit

LEE MI RYOUNG
General Counsel, Legal & Secretarial

NORZAIDI MOHD ZAHIDIN
Vice President, Operations

MOHAMMAD HAFIZ SAPARANI
Head, Integrity Governance Unit and Compliance

CHONG EU JIN
Vice President, Integrated Project Management

ZULFA ASHIDA ZULKIFLI
Vice President, Human Resources

SHAHRUL NIZAR AHMAD
Vice President, Corporate Services

OUR LEADERS

1

MEGAT ZARIMAN ADBUL RAHIM

President / Executive Director

Malaysian | 55 | M

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

2

SAZLYNA SAPIEE

Chief Financial Officer

Malaysian | 57 | F

01 June 2020

Qualification

- Fellow of Association of Chartered Certified Accountants ("FCCA")
- Certified Internal Auditors ("CIA")
- Certified Risk Management Assurance ("CRMA")
- Distinction Holder of Diploma in Management - Malaysian Institute of Managment
- Certified HRDF Trainer

Membership of Association

- Association of Chartered Certified Accountants ("ACCA")
- Malaysian Institute of Accountants ("MIA")
- Institute of Internal Auditors Malaysia ("IIA")
- Institute of Corporate Directors Malaysia – Affiliate Member

Past Employment

- Sapura Energy Berhad
- Scomi Group Berhad
- Faber Group Berhad

3

ABDUL HADI ABDUL BARI

Chief Commercial Officer

Malaysian | 47 | M

01 December 2018

Qualification

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

Membership of Association

NIL

Past Employment

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

Declaration

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past 5 years.
- Has never been convicted for any offence within the 5 years nor any public sanction or penalty by any relevant regulatory bodies in FY2022.

Nationality | Age | Date of Appointment | Gender

4

NORZAIDI MOHD ZAHIDIN

Vice President, Operations

Malaysian | 49 | M

01 September 2022

Qualification

Bachelor (Hons) of Naval Architecture & Ocean Engineering - University of Glasgow, Scotland

Membership of Association

SPE Professional Membership

Past Employment

- Sapura Drilling
- Seadrill
- Transocean
- Sedco Forex Schlumberger

5

CHONG EU JIN

Vice President, Integrated Project Management

Malaysian | 46 | M

15 April 2020

Qualification

Bachelor of Engineering (Honours) University of Lincolnshire and Humberside, UK

Membership of Association

NIL

Past Employment

- Destini Berhad
- Aquaterra Energy Asia Pacific Sdn Bhd
- Cameron International Malaysia Sdn Bhd

6

ZULFA ASHIDA ZULKIFLI

Vice President, Human Resources

Malaysian | 54 | F

02 February 2023

Qualification

- Bachelor of Business Administration - Universiti Utara Malaysia
- MSc. Organisational Behaviour - University of London

Membership of Association

NIL

Past Employment

- UEM Sunrise
- Bursa Malaysia
- Airasia Berhad
- Shell People Services Asia
- Shell International BV
- Shell Exploration and Production Company
- Shell International Sdn Bhd
- BP Asia Pacific Malaysia Sdn Bhd
- BP Malaysia Sdn Bhd
- BP Asia Limited
- Amoco Chemical Malaysia Sdn Bhd

Declaration

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past 5 years.
- Has never been convicted for any offence within the 5 years nor any public sanction or penalty by any relevant regulatory bodies in FY2022.

Nationality | Age | Date of Appointment | Gender

7

SHAHRUL NIZAR AHMAD

Vice President, Corporate Services

Malaysian | 47 | M

01 November 2022

Qualification

Bachelor Degree in Mechanical Engineering - The Univesity of Manchester, UK

Membership of Association

Board of Engineers Malaysia

Past Employment

- SLB
- Dunham Bush

8

LEE MI RYOUNG

General Counsel, Legal & Secretarial

Malaysian Permanent Residence | 46 | F

15 July 2019

Qualification

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

Membership of Association

- Malaysian Institute of Chartered Secretaries and Administrators
- Chartered Institute of Arbitrators
- Honourable Society of Gray's Inn, London, UK
- Malaysia Association of Risk and Insurance Management
- Institute of Corporate Directors Malaysia
- Inns of Court Malaysia

Past Employment

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

Declaration

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past 5 years.
- Has never been convicted for any offence within the 5 years nor any public sanction or penalty by any relevant regulatory bodies in FY2022.

Nationality | Age | Date of Appointment | Gender

9

MOHD ALI MOHD SAIBI

Head, Quality, Health, Safety & Environment

Malaysian | 51 | M

17 December 2018

Qualification

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

Membership of Association

- Malaysian Society For Occupational Safety & Health (MSOSH)
- Malaysia AGT Association (MAGTA)
- DOSH Registered Safety & Health Officer

Past Employment

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

10

NORZALIZAH ALIAS

Head, Internal Audit

Malaysian | 49 | F

01 March 2018

Qualification

Bachelor of Accountancy (Honours) – Universiti Teknologi MARA

Membership of Association

- Malaysian Institute of Accountants ("MIA")
- Institute of Internal Auditors Malaysia

Past Employment

- PricewaterhouseCoopers
- JF Apex Securities Berhad
- AFTAAS
- KPMG
- Export-Import Bank of Malaysia Bhd
- Sapurakencana Petroleum Berhad
- Ranhill Capital Sdn. Bhd

11

MOHAMMAD HAFIZ SAPARANI

Head, Integrity Governance Unit and Compliance

Malaysian | 45 | M

01 January 2020

Qualification

- Bachelor of Accountancy (Honours) – Universiti Teknologi MARA
- Certified Integrity Officer, Malaysian Anti-Corruption Academy

Membership of Association

- Malaysian Institute of Accountants ("MIA")
- Institute of Internal Auditors Malaysia

Past Employment

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

Declaration

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past 5 years.
- Has never been convicted for any offence within the 5 years nor any public sanction or penalty by any relevant regulatory bodies in FY2022.

Nationality | Age | Date of Appointment | Gender

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors ("Board") believes that good corporate governance is the foundation for the Group's sustainable busines, vigilance, resilience, leverage for positive changes and fundamental for long term value creation as the Group drive for realisation of Wawasan 2030.

Stewardship of Velesto Group's Corporate Governance ("CG") is essentially based on Principles of Good Governance as promulgated from the Malaysian Code of Corporate Governance 2021 ("MCCG 2021") and references are made to the 3 key CG principles in the MCCG 2021:

PRINCIPLE A
Leadership and Effectiveness

PRINCIPLE B
Effective Audit and Risk Management

PRINCIPLE C
Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders

Testament to the Group's commitment to the highest standards of CG, VELESTO received recognitions, under the following categories in the MSWG-Asean Corporate Governance Award in November 2022:

- **Industry Excellence Award - Energy Sector.**
- **Ranked 24** out of the top 100 public listed companies (PLCs) listed for the **'EXCELLENCE AWARD FOR CG DISCLOSURE'.**

Setting the tone for the Group, the Board provides oversight, direction, proponents of good CG, rejuvenating governance as sources of competitive advantage and spearheading for strategic reinvention.

BOARD OF DIRECTORS AT A GLANCE

- Mohd Rashid Mohd Yusof *(Chairman)*
- Ir. Dr. Mohd Shahreen Zainooreen Madros
- Rowina Ghazali Seth
- Haida Shenny Hazri
- Datuk Tong Poh Keow
- Mohd Irwan Ahmad Mustafa
- Datuk George Ling Kien Sing
- Ar. Ahila Ganesan
- Megat Zariman Abdul Rahim

Board committees are constantly refreshed to meet evolving oversight responsibilities and delivering their focused priorities:-

BOARD COMMITTEES AT A GLANCE

BOARD AUDIT COMMITTEE

- Datuk Tong Poh Keow
- Ir. Dr. Mohd Shahreen Zainooreen Madros
- Datuk George Ling Kien Sing
- Ar. Ahila Ganesan

BOARD NOMINATION & REMUNERATION COMMITTEE

- Ir. Dr. Mohd Shahreen Zainooreen Madros
- Rowina Ghazali Seth
- Datuk Tong Poh Keow
- Mohd Irwan Ahmad Mustafa
- Haida Shenny Hazri

BOARD WHISTLE-BLOWING COMMITTEE

- Haida Shenny Hazri
- Rowina Ghazali Seth
- Ir. Dr. Mohd Shahreen Zainooreen Madros

BOARD RISK MANAGEMENT COMMITTEE

- Rowina Ghazali Seth
- Datuk George Ling Kien Sing
- Ar. Ahilla Ganesan
- Mohd Irwan Ahmad Mustafa

MOHD RASHID MOHD YUSOF

Chairman/ Non-Independent Non-Executive Director ("NINED")

ATTENDANCE	
· BOARD	16/16
· AGM	1

ROWINA GHAZALI SETH

INED

ATTENDANCE	
· BOARD	16/16
· BNRC	8/8
· BRMC (Chairperson)	3/3
· BWBC	1/1
· AGM	1

HAIDA SHENNY HAZRI

NINED

ATTENDANCE	
· BOARD	16/16
· BAC	5/5
· BNRC	2/2
· BRMC	2/2
· BWBC (Chairperson)	1/1
· AGM	1

DATUK GEORGE LING KIEN SING

INED

ATTENDANCE	
· BOARD	16/16
· BAC	2/2
· BRMC	3/3
· BWBC	2/2
· AGM	1

MEGAT ZARIMAN ABDUL RAHIM *(appointed on 25 February 2022)*

President/ Executive Director ("ED")

ATTENDANCE	
· BOARD	14/14
· AGM	1

IR. DR. MOHD SHAHREEN ZAINOOREEN MADROS

Senior Independent Non-Executive Director ("INED")

ATTENDANCE	
· BOARD	15/16
· BAC	7/7
· BNRC (Chairman)	8/8
· BWBC	1/1
· AGM	1

DATUK TONG POH KEOW

INED

ATTENDANCE	
· BOARD	16/16
· BAC (Chairperson)	7/7
· BNRC	8/8
· BWBC	2/2
· AGM	1

MOHD IRWAN AHMAD MUSTAFA

NINED

ATTENDANCE	
· BOARD	16/16
· BNRC	8/8
· BRMC	1/1
· AGM	1

AR. AHILA GANESAN *(appointed on 12 August 2022)*

INED

ATTENDANCE	
· BOARD	7/7
· BAC	2/2
· BRMC	1/1

RAZALEE AMIN *(resigned on 2 May 2022)*

Senior INED

ATTENDANCE	
· BOARD	6/6
· BAC	3/3
· BRMC	1/1
· BWBC	1/1

ROHAIZAD DARUS *(retired on 25 February 2022)*

President/ ED

ATTENDANCE	
· BOARD	2/2

Total time commitment by Board **144 HOURS**

PRINCIPLE A: LEADERSHIP AND EFFECTIVENESS

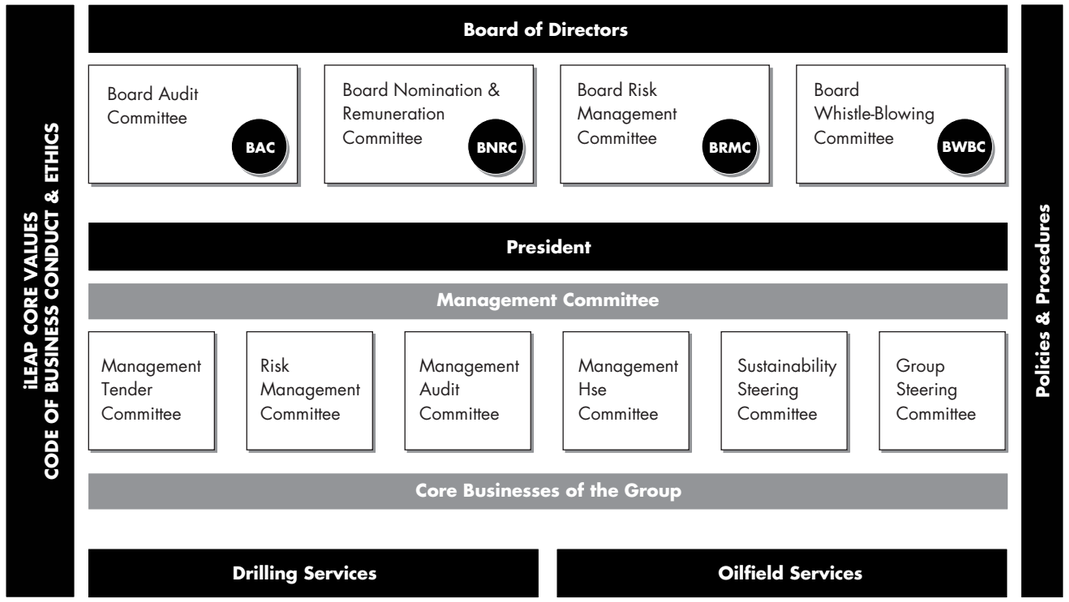
OUR GOVERNANCE STRUCTURE

Corporate Governance is VELESTO's iLEAP Way

Velesto's commitment to the highest standard of CG is reflected in its CG Framework, whereby the integrity governance and integrated internal control systems are inextricably linked as part of the Group's comprehensive approach to shape a culture of integrity and compliance throughout the Group. Our Velesto's Code of Business Conduct and Ethics ("CoBE") supports Velesto's vision and mission, underpins our iLEAP core values and defines our approaches to all aspects of our businesses. For Velesto, good governance is imperative to ensure sustainable long-term performance, maximise returns for our stakeholders and to create long-term economic value and growth of the Group.

The table below illustrates the Group's governance structure with an overview of the Board Committees and the Management committees:

STAKEHOLDERS



Velesto's CG Framework combines all the elements of sound approaches to governance and responsibility, complements the beliefs, mindsets and behaviours as set out in Velesto's CoBE and our core values in iLEAP. The Group operates within the CG Framework ensuring the observance of the highest standards of CG.

DEMARCATION OF RESPONSIBILITIES AT THE BOARD LEVEL - HOW THE BOARD OPERATES

The Board Charter

In discharging the Board's duties and responsibilities effectively, the Board is guided by its Board Charter, a 'living charter' which sets out the principles and guidelines that are to be applied by the Board. The Board Charter was reviewed and updated in December 2021, remain relevant and consistent for FY2022 to reflect the relevant changes to the policies, procedures and processes as well as amendments as directed by the regulators and with the applicable rules, regulations and recommended best practices under MCCG 2021.

The division of responsibilities in respect of the Board, Board Committees, individual Directors and Management is reviewed periodically to ensure that the Company is able to adapt to changing business circumstances, to respond to changing macroeconomic factors, drive business entrepreneurship, market shifts, value creation and growth. The Group endeavours to bring focused dedications and priorities to ensure enhanced efficiencies, increased productivity and better allocation of resources.

The Charter is the source of guide on the Group's governance structure, authority and Terms of Reference ("TOR") of its Board Committees, identification of respective roles and responsibilities and what is expected of them in terms of commitment. The Board Charter also sets out the matters reserved for the Board.

The Board Charter is available on the Company's corporate website, https://www.velesto.com together with the TORs of all Board Committees. Whilst specific authorities have been delegated to various Board Committees, the Board always keeps itself abreast of key issues and/or decisions made by the respective Board Committees, through reports made by the Chairman from each Board Committee and also through the tabling of minutes of the Board Committees at the Board level. The Company's general policy is that all major decisions be considered by the Board as a whole.

Principal Roles and Responsibilities of the Board

Entrusted with the responsibility to promote the success of the Group as stewards, the Board directs and supervises the Group's affairs in a responsible and effective manner. Each Director has a duty to act in good faith and in the Company's best interest. In discharging its functions, the following are the main roles and responsibilities of the Board, as clearly set out in the Board Charter:

- Provides guidance on the corporate strategic direction, governance, challenges assumption, priorities and options as put forward by the Management in the strategic plan in tandem with the review of the philosophy of the Group;
- Reviews the business plan and budget, and sets targets for the Management to ensure integration of sustainability considerations in upholding its underlying Environmental, Social and Governance ("ESG") agendas;
- Together with the Management, takes responsibility for the governance of sustainability in the Company, including setting the Company's sustainability strategies, priorities and targets;
- Reviews, approves and provides feedbacks on corporate key performance indicators ("KPIs") and targets, and reviews results quarterly, discusses material variances, and ensures that corrective actions are taken, if required;
- Selects and proactively plans the President's succession and evaluates the President's performance, endorses the development plan to those in pivotal positions and reviews the pool of future leaders;
- Supports the promotion and inculcation of good ethical practices and CG in the Group and vendors, suppliers, service providers and other business partners to Velesto Group;
- Sets the Company's risk parameters, understands major risk exposures and ensures appropriate risk mitigation approaches are in place and considers the risk factors in all major decisions;
- Balances and manages economic impact of stakeholders' interests on shareholders' values, and supports the Management in managing key stakeholders;
- Ensures that the Company's sustainability strategies, priorities and targets as well as performances against these targets are communicated to its internal and external stakeholders;
- Takes appropriate action to ensure the Board stays abreast and understands the sustainability issues relevant to the Group and its business, including climate-related risks and opportunities; and
- Ensures shareholders have the information they require to make an informed decision on the reappointment of a director. This includes details of any interest, position or relationship that might influence, or reasonably be perceived to influence, in respect of their material capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company as a whole.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

THE BOARD'S 2022 KEY FOCUS AREAS & PRIORITIES

During the FY2022, the following were range of focused areas by the Board based on the Group's key areas and priorities:-

- Monitored the economic and industry outlook;
- Oversight over the performances of Velesto's core businesses i.e. Drilling and Oilfield Services;
- Enhanced strategic business plan of the Group, including its People-Focused strategy and Sustainability agendas with the formation of WAWASAN 2030;
- Set the of corporate KPIs and targets;
- Considered the emerging opportunities and value creation;
- Oversight on the Group's Quality, Health, Safety and Environmental ("QHSE") performance and associated matters;
- Reviewed the Group's financial results, resources planning and budget;
- Reviewed the Related Party Transactions and Recurrent Related Party Transactions of the Group;
- Tax management and monitoring updates;
- Compliance with the Accounting Standards and other relevant legal and regulatory requirements with regards to the financial statements;
- Monitoring of NAGA 7 management;
- Oversight of Enterprise Resources Planning ("ERP") implementation;
- Oversight over Enterprise Risk Management ("ERM") Framework and practices;
- Digitalisation & enhancement of operational efficiencies;
- Oversight on regulatory compliance and governance;
- Compliance with the MCCG 2021 and Companies Act 2016;
- Fit & Proper Policy for the Group;
- Updates to the Listing Requirements and other related regulation changes;
- Company's announcements released to Bursa Malaysia;
- Comprehensive review on the Group's CG Framework;
- Board Effectiveness Evaluation ("BEE") results and Assessment of Independent Directors' Independence;
- Appointment of new Directors;
- Appointment of new Board Committee members;
- Annual review of the fees and benefits to be paid to the Non-Executive Directors;
- Recommendation on re-appointment of Directors and Auditors;
- Evaluated the performance of President and Direct Reports; and
- Reviewed the Succession Planning of the Board, Board Committees and President.

At every quarterly Board meeting, the President provided a review of the business, market outlook and the Group's performance, and the Chief Financial Officer provided a detailed review of the Group's financial results.

Prior to the Board meetings, Directors received the meeting materials before the meeting or such date as approved by the Board before the meetings. All proceedings of the Board were duly minuted and circulated to all Directors in timely manner for their perusal prior to the confirmation of the minutes. The proceedings of the meetings were recorded by the Company Secretaries, which included pertinent issues, the substance of inquiries, if any, and responses thereto, suggestions, decisions and rationale. Any matters arising from the meetings were updated at the next meeting and decisions or requests made were circulated to the Management for further actions.

Board Committees

Certain responsibilities of the Board were delegated to the Board Committees, which operate within its respective TOR. The TORs are periodically reviewed and updated. Upon completion of each Board Committees' meeting, the Chairman of respective committees will update the Board on the summary of matters deliberated during the meeting(s). Subsequently, the minutes of each Board Committee's meetings are made available to the members of the Committees on a timely basis, which are then tabled to the Board.

BAC

A summary of activities of the BAC to discharge their duties during FY2022 is disclosed in the BAC Report of this Annual Report. The composition and attendance of BAC Meetings held during FY2022 is displayed under "Board & Board Committees at a Glance" of this CG Overview Statement. The TOR of the BAC is available for viewing at the Group's corporate website at https://www.velesto.com.

BNRC

During the year under review, BNRC provided key oversight role for the Board, particularly on overseeing all aspects of succession planning, remuneration and performances of Directors and Senior Management, KPIs setting and results, monitoring of Employees' Share Option Scheme (ESOS), organisation wide remuneration framework, in accordance with its TOR.

The composition and attendance of BNRC meetings held during FY2022 are displayed under "Board & Board Committees at a Glance" of this CG Overview Statements.

Composition of BNRC is in compliance with the requirement of Paragraph 15.08A (1) of the Main Market Listing Requirements (MMLR), which provides that the BNRC must comprise exclusively of NED, majority of whom are independent directors. As at the date of this CG Overview Statement, the BNRC is made up of 3 INED and 2 NINED:-

Director	Designation
Ir. Dr. Mohd Shahreen Zainooreen Madros	Chairman (Senior INED)
Rowina Ghazali Seth	Member (INED)
Datuk Tong Poh Keow	Member (INED)
Mohd Irwan Ahmad Mustafa	Member (NINED)
Haida Shenny Hazri *(Appointed on 29 August 2022)*	Member (NINED)

The Chairman of BNRC is Ir. Dr. Mohd Shahreen Zainooreen Madros, who is also a Senior Independent Director, which is in compliance with Practice 5.8 of MCCG 2021. Observing Practice 1.4 of MCCG 2021, the Chairman of the Board is not a member of the BNRC.

Summary of BNRC's activities

During the FY2022, the following subjects were deliberated by the BNRC and recommended for the Board's approval:-

- Directors retiring by rotation and re-election to the Board;
- Re-designation of Directors on Board and revision to the composition of Board Committees refreshed periodically as recommended under Practice 5.1 of MCCG 2021;
- Appointment of Directors on the boards of companies outside the Velesto Group;
- Appointment of Directors on the boards of companies within the Velesto Group;
- Succession planning for Directors;
- Setting KPIs for the President;
- Extension of contract of service for senior executive positions;
- Assessment of the performance of the President and his direct reports with Job Grade 20 and above;
- Proposal on Revised Questionnaires on Board Evaluation for Board, Board Committees and President;
- Conducted an evaluation of the effectiveness of the Board as a whole, Board Committees and the contributions of the President;
- Provided oversight of the ESOS shares granted under it, subject to the By-Laws.

The BNRC is governed by its TOR, which outlines its duties and responsibilities. The TOR of BNRC is available for viewing at the Velesto's corporate website at https://www.velesto.com.

BRMC

The BRMC is governed by its TOR, which outlines its duties and responsibilities. The TOR of the BRMC is available for viewing at the Velesto's corporate website at https://www.velesto.com.

The oversight of risks at the enterprise wide level and with responsibility to review, monitor and guide on the effectiveness of Velesto Group's Enterprise Risk Management and Business Continuity Plan, BRMC has during the year under review ensured that the Group drove measures to embed risk management and business continuity practices in Velesto Group's key processes and activities.

During FY2022, the activities carried out by the BRMC were as follows:-

- Assessed and reviewed the Velesto Group's Top Risks and Risk Action plans for each quarter in FY2022;
- Received the quarterly progress report on QHSE;
- Reviewed the Emergency and Crisis Management of the Group;
- Updated the Business Continuity Management and its related activities;
- Endorsed the simulation scenarios for Business Continuity Management exercises for the year 2022;
- Endorsed the revision to the Risk Rating Matrix;
- Guided on the communication and awareness/ refresher sessions on Enterprise Risk Management conducted by Risk Management Department for employees of Velesto Group; and
- Reviewed the Sustainability Report and Statement on Risk Management and Internal Control ("SORMIC") for inclusion into Velesto Annual Report 2022.

Further details of BRMC's activities in FY2022 as available in SORMIC of this Annual Report.

BWBC

The BWBC is governed by its TOR, which outlines its duties and responsibilities. BWBC is responsible to provide oversight on the inculcation of strong culture of integrity, compliance and the promotion of good ethical practices in the Group.

A copy of the TOR of the BWBC is available for viewing at the Velesto's corporate website at https://www.velesto.com.

THE MANAGEMENT

The President is the conduit between the Board and the Management in ensuring that management practices are performed at the highest level of integrity and transparency. Supporting the stewardship of the Group under its respective terms of reference, the following Management Committees provide the forum for leadership, reporting, monitoring, planning, supervising and decision making on multi-faceted operations and businesses of the Group:-

These forums provide direct line of sight of the operations and businesses of the Group and avenues of communications for effective engagements, delegation of tasks, monitoring of activities, projects and businesses of the Group.

The weekly Management Committee Meetings chaired by the President, deliberate on overall management of the Group with reports from the following divisions:-

- Finance and Accounts
- Commercial
- Operations
- Corporate Services
- Integrated Project Management ("IPM")
- Human Resources
- Legal & Secretarial
- QHSE

Other Management Sub-Committees met regularly or periodically, to effectively discharge their functions, in tandem with the requirements of the Group's activities and operations.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

BOARD BALANCE AND COMPOSITION

During the FY2022, the composition of the Board changed with the resignation of Razalee Amin, who had served the Company for 9 years, and welcomed the appointment of Ar. Ahila Ganesan.

As at the date of this Statement, the Board comprise of nine members, with eight NEDs and one Executive Director. There are 5 INEDs, 3 NINEDs, including the Chairman and 1 ED.

Overview of VELESTO's Board Composition

The composition of the Board meets the requirements of Paragraph 15.02(1) of the MMLR as more than one-third of its members are INEDs; and in compliance with Practice 5.2 of MCCG 2021 which requires the Board of large company to comprise a majority of independent directors.

Assessment of Independence

In determining independence, the Independent Director must be able to provide objective challenge to the Management, willing to stand up and defend their perspectives for the good of the Group and there are no business or other relationships likely to affect, or which could appear to affect their judgment.

During the Board Effectiveness Evaluation ("BEE") exercise for the year 2022, the INEDs conducted self-assessment of independence based on criteria set by regulatory provisions as well as emerging and leading practices and "independence in thought and mind" in accordance with Guidance to Practice 5.3 of MCCG.

Derived from the results from the BEE 2022, all the INEDS declared independence from the management and that they are free from any business or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interests of the Group. The assessment results were then tabled to the Board, as part of BEE results for FY2022.

In addition to the annual assessment, throughout the year, the INEDs are required to declare any conflict or situation that may impact their independence.

Tenure of Independent Director

The Board Charter limits the tenure of its INEDs to up to 9 years. As at FY2022, none of the INEDs have served the Board more than 9 years.

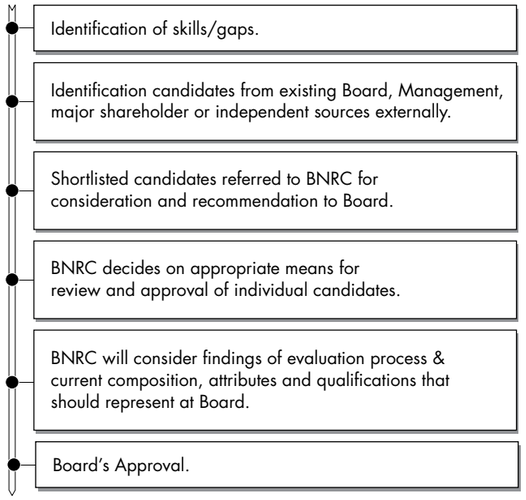
Appointment of a Director & Senior Management

The appointment of a new Director is a matter for consideration and decision by the Board upon recommendation from the BNRC. In making recommendation, BNRC considers the following:-

- Objective criteria, merit and with due regard for diversity in skills, qualifications, experiences, core competencies, other qualities, ethnicity, age, cultural background and gender;
- Consideration of the current composition and the tenure of each director on the board to achieve the Board balance and the composition as required by the Company;
- Composition of skill matrix in order to strengthen board leadership and oversight of sustainability;
- Fit & Proper assessment;
- Time availability and commitment to serve the board effectively;
- His/her existing board positions; and
- Information on his/her integrity and governance practices.

Appointment of Directors

In accordance with the Board Charter, the following process of appointment of Directors are applied:-



The Board Charter provides that the selection of candidates may come on recommendations by any existing Board members, Management or major shareholders. BNRC may also consider appointing an independent party or source out to third party in identifying suitably qualified candidates. If the selection of candidate is solely based on recommendations made by existing Board members, Management or major shareholders, BNRC shall explain why other sources are not used.

During FY2022, the BNRC conducted a review of the Company's succession plan for the Board membership, which included review of the size and composition, with diversity and independence elements that meet the Company's objectives and strategic goals. The results of this review was tabled for the Board's consideration and recorded for future candidate sourcing of the Board.

Appointments to Board Committees

The review of the composition of the Board committees is part of the BEE of the Company which is conducted annually. Such review may also be conducted as and when the need arises, such as when a new Director is appointed. In determining the candidates for appointment to the Board Committees, various factors are considered by the BNRC, including (but are not limited to) the following factors:-

- The needs of the particular Board Committees;
- The results of the BEE for the Board Committees;
- Time commitment and availability;
- Regulatory requirements; and
- Best practices or governance practices.

Directors' Re-election and Re-appointment

In assessing the Director's eligibility for re-election, the BNRC considers his/her competencies, commitment, contribution, performance based on the BEE and their ability to act in the best interest of the Company. The Board at its meeting held on 27 February 2023 endorsed the recommendation of the BNRC for the following Directors to be considered for re-election pursuant to the following relevant Articles of VELESTO's Constitution at the Company's forthcoming 13th Annual General Meeting ("AGM").

In accordance with the Article 96 of the Company's Constitution, at the forthcoming AGM, the following Directors are due for retirement and being eligible have offered themselves for re-election:

- Mohd Rashid Mohd Yusof
- Rowina Ghazali Seth
- Haida Shenny Hazri

In accordance with the Article 103 of the Company's Constitution, at the forthcoming AGM, Ar. Ahila Ganesan is due for retirement and being eligible has offered herself for re-election.

Appointments of Senior Management

The Human Resources Division coordinates the process of selection and appointment of candidates for senior management position based on selection criteria which best matches the requirements of the open position. Select candidates are interviewed by the President together with Vice President of Human Resources and then tabled to BNRC for its deliberation and recommendation for the Board's consideration and approval. The selection criteria include (but are not limited to) attributes, capabilities, qualifications, skills and experiences.

Commitment

All Directors are expected to attend the scheduled Board meetings and Board Committee meetings to which they are members. To achieve this, the Board and Board Committee meetings for FY2022 were arranged and circulated to the Board members in Q3 FY2021 to allow Directors to manage their other commitments.

In cases where Directors are unable to attend a meeting because of exceptional circumstances, they are still able to receive the papers and other relevant information in advance of the meeting. As such, they have the opportunity to discuss with the relevant Chair, President, Senior Management or Company Secretaries on any matters which they wish to raise and subsequently follow up on the decisions taken at the meeting. With open accessibility, the Chairman, President, Senior Management and Company Secretaries are always available to discuss issues relating to meetings or other matters with the Directors. For FY2022, the Board was satisfied that each of the NED was able to devote time as a Director of the Company.

In line with Paragraph 15.06(1) of MMLR of Bursa Malaysia, none of the members of the Board holds more than five directorships in listed companies. Prior to acceptance of other appointment for directorship in other listed companies, the Directors are required to notify the Company Secretary, and thereafter, tabled the appointment to the BNRC and Board for notification on conflict of interest. Such measures are taken to ensure that such appointment would not affect their time commitment and responsibilities to the Board. In addition, none of the Directors have appointed alternates.

Board Skills Matrix

The Board has members with a broad range of skills and a multitude of experiences that complement each other. With the appropriate mix of skills and experiences, the Board is assured that it is well-equipped to guide and steer Velesto strategically into the future and thereby, create value.

Industry Background:	Functional Experience:	
• Oil and Gas • Engineering	• Engineering • Legal/Regulatory • Commercial/ Marketing • Operations • Economics • Capital Market	• Finance • Audit • Risk Management • Sustainability • Corporate Strategy • Project Management

CORPORATE GOVERNANCE OVERVIEW STATEMENT

BOARD BALANCE AND COMPOSITION (CONT'D.)

Gender Diversity

In conformance with the requirements of Practice 5.9 MCCG 2021, the Group's Board Charter has a policy on gender diversity that strives to have at least 30% women Directors on the Board. With 4 women Directors, the Board of Directors at Velesto has met the requirement of 30% women Directors. Velesto has complied with the requirement by having 44% women directors in its Board for FY2022.

Velesto does not discriminate on the grounds of gender, age and ethnicity/cultural background. All appointments to the Board and to the Senior Management Team are based on merit.

- The BNRC is responsible for regularly reviewing the structure, size and composition of the Board, with due regard to skills, knowledge, experience and diversity. Leading the process for Board appointments, re-election and succession of Directors, BNRC makes recommendations to the Board, including the composition and skills of the Board and proposed changes to the Board. Candidates are identified based on their corporate leadership, skills, knowledge, competencies, experience and expertise to complement the Board. Diversity of experiences in business, professionalism, corporate industry standing, integrity as well as academic background, are also considered by the Board, prior of appointing any new Director.

- For the appointment of Senior Management positions, candidates are considered based on merit, which include considerations but not limited to their qualifications, experiences and professional contributions and achievements.

Velesto focuses on ensuring a fair talent recruitment process that enables qualified candidates to have an equal opportunity to apply for jobs. Velesto has set a target of 30% gender diversity for Senior Management. For FY2022, Velesto is proud that the Company's Senior Management Team comprises of 40% women.

Board Effectiveness Evaluation

The BNRC carries out the annual process for assessing and evaluating the effectiveness of the Board as a whole and the Board Committees, the performance and contribution of the Chairman and the President of the Company, and to identify areas for improvement.

An independent consultant was engaged to conduct the BEE for FY2021 in compliance with MCCG 2021. For FY2022, BEE exercise was conducted internally, and all the Directors completed the online questionnaires. The results of the evaluation were collated and the insights and findings were discussed collectively by BNRC and subsequently tabled for deliberations by the Board.

The scope of BEE covered the effectiveness of the Board, Board Committees, Chairman and Executive Director, in the following areas:-

- The performance of the Board;
- Directors' Skill Matrix;
- Fit and Proper Assessment;
- Independence Assessment on Independent Directors;
- Performance of BAC, BNRC, BRMC and BWBC; and
- Performance of Executive Director.

The performance of the Board of Directors

The Board Assessment evaluated the effectiveness of the Board as a whole. The Board Assessment Form contained five sections which comprised of the following areas:

- Board mix and composition, which covered the sufficient size of the Board.

- Quality of information and decision-making, which involved assessment of conduct of meetings and access to information.

- Boardroom activities with assessment of discussion on strategic planning, infusing ESG considerations into key decision making.

- Effectiveness in working relations between the Chairman and the President.

- Chairman's role in promoting healthy discussions and consideration on accessibility of the Chairman.

Board Skills Matrix Assessment

The Board Skills Matrix Assessment was developed to gain an understanding of the extent to which the Board members comply with the appropriate "Fit and Proper" criteria, skills, knowledge, competence and experience necessary to meet the needs of Velesto. The assessment was formulated based on regulatory provisions as well as emerging and leading practices to facilitate self-assessment of the Board of Directors' positioning in current and envisaged Board Skills Matrix.

Fit and Proper Assessment

The fit and proper assessment covered in the following areas for the Board members, Senior Management and the employees of the Group:-

- Probity;
- Personal Integrity;
- Financial integrity and reputation; and
- Time and commitment.

A copy of the Group's Fit and Proper policy is available in the Company's website at https://www.velesto.com.

Independence Assessment on Independent Directors

Based on the responses received, INEDs have declared compliance for all assessment criteria relating to background, economic relationship, family relationship and tenure. The Board is satisfied with the level of independence demonstrated by the INEDs and their ability to act in the best interest of the Company.

Board Leadership – Separation of Roles of Chairman, President and Senior Independent Director

Chairman of the Board

The Chairman of the Board is Mohd Rashid Mohd Yusof, a NINED. The Chairman is responsible for leading the Board and for ensuring its effectiveness. He facilitates the contributions of Board members and leads to harness the talents and energy contributed by each of the individual Directors. The Chairman also presides over Board meetings whilst leading the discussions and deliberations conducted in boardroom to ensure time allocated for meeting are used productively. The Chairman provides conciliatory elements when the elements of the Board differ. He maintains effective communications with shareholders and other stakeholders.

President

The President, Megat Zariman Abdul Rahim, also sits on the Board as the Company's ED. He is responsible for the executive leadership, formulates strategic plan and leads in day-to-day management of the Group. He ensures the delivery of business strategies as agreed by the Board and in accordance with the Group's risk appetite and business plan. In addition, the President also exercises his role as the lead champion who promotes and inculcates the Group's iLEAP culture, high standards of ethical governance and Sustainability programs.

The Group has a clear division between powers and responsibilities of the Chairman and the President, which are set out in the Board Charter.

Senior INED

Ir. Dr. Mohd Shahreen Zainooreen Madros was re-designated as the Senior INED effective on 25 May 2022. He acts as the conduit between the INEDs and the Chairman on sensitive issues and is available for discussion with other NEDs. He has been identified as a designated contact to whom shareholders' concerns or queries may be raised, as an alternative to the formal channel of communication with shareholders. The Senior INED can be contacted at senior.id@velesto.com.

NED

The NED are responsible for contributing sound judgements and objectivities to the Board's deliberations and overall decision-making process. They are also responsible for providing constructive challenges, and monitoring the Management's delivery of the strategies within the Board's risk and governance structure.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

BOARD BALANCE AND COMPOSITION (CONT'D.)

Board Administration

COMPANY SECRETARIES

The Company Secretaries, namely Lee Mi Ryoung and Sazlyna Sapiee support the Board by providing corporate governance advice, ensure adherence to rules and procedures, and advocate good corporate governance practices. As a conduit, they ensure the information flows amongst the Board, the Board Committees and the Management, whilst establishing good communication with shareholders and stakeholders. All Board members have unrestricted access to the Company Secretaries. Their profiles are available under "Our Leaders" section of this Integrated Annual Report.

ACCESS TO INFORMATION

Contributing to effective communication flows amongst the Board, the Board Committees, and the Management, all Directors have direct access to the President and Senior Management.

Prior to each Board meeting, the agenda and a set of Board papers relevant to the business of the meeting are circulated to all Directors 5 business days prior to the meeting dates or such date as approved. Any urgent papers may be presented and tabled at a meeting upon endorsement by the President and approval by the Chairman.

Presentations and briefings by the Management and relevant external advisors, where applicable, are tabled at the Board and Board Committee meetings. Relevant information is made available in the board papers welcoming any clarifications to assist in decision making. Directors also have access to the advice from Company Secretaries and, in appropriate circumstances, may obtain independent professional advice at the Company's expense.

The Directors are provided with access to the Board and Committee papers online, through a secured software platform. This software eases the process of distribution of meeting papers to the members.

Commitment to Good business conduct and corporate culture – VELESTO's approach to compliance

Velesto is committed to good business conduct and positive corporate culture. With the following Code and Policies, the Group continuously inculcates the culture of integrity and compliance.

Code of Business Conduct and Ethics

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

The CoBE describes the measures put in place to:-

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

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

Whistle-Blowing Policy

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

The Policy serves to provide a formal channel of communication for the employees and any other persons to raise concerns in a responsible and timely manner. Integrity Governance Unit & Compliance ("IGUC") is responsible to ensure that integrity is upheld and dissemination of highest standards of compliance within Velesto Group. IGUC reports to the BWBC and is governed by its TOR and Integrity Framework approved by the Board.

Anti-Bribery and Corruption ("ABC") Policy

The Group has in place, an Anti-Bribery and Corruption Policy ("ABC Policy") that ensures a commitment to conduct its business ethically, as well as conforming with applicable laws, which includes compliance with the Malaysian Anti-Corruption Commission Act ("MACC") 2009 and the MACC (Amendment) Act 2018; any of its amendments or re-enactments that may be made by the relevant authority from time-to-time.

The ABC Policy provides principles, guidelines and requirements on how to deal with corrupt and bribery practices that may arise in the course of daily business and operation activities within the Group. The personnel working for the Group are responsible to comply with laws against corruption/bribery.

The Policy further provides information and guidance to all personnel on how to recognise and deal with corruption and bribery issues. The ABC Policy is available for viewing at the Velesto's corporate website at https://www.velesto.com.

Disclosure Channel

Whistle-Blower may lodge a report on any suspected wrongdoings, via the following channel:

Attention to:
HEAD OF IGUC
+603-2096 8788
whistleblower@velesto.com

The Whistle-Blowing Policy is available for viewing at the Velesto's corporate website at https://www.velesto.com.

Read more on Velesto's compliance and integrity culture in the SORMIC of this Annual Report.

Governing Sustainability

The Board is committed to ensuring that sustainability is integrated into the strategic direction of Velesto and its operations. The Board through BRMC continuously ensures that there is governance framework for sustainability within the Group.

The BRMC provides oversight on the Group's sustainability strategies, priorities, targets and performance.

Read more on Velesto's sustainability progress and activities in our Sustainability Report 2022.

Onboarding and Continuing Development Program for Directors

Newly appointed Directors receive a comprehensive and structured induction, which were tailored to their individual requirements. The induction program, which is arranged by the Company Secretaries, includes the Mandatory Accreditation Training Program, as prescribed by Bursa Malaysia and visits to the Group's businesses and engagement with Senior Management. The program is designed to facilitate their understanding of the Group, the key drivers of business performance, the role of the Board and its Board Committees, the Group's CG practices and procedures, as well as providing them with appropriate training and guidance as to their duties, responsibilities and liabilities as a director of a public listed company.

Pursuant to Paragraph 15.08 of the MMLR, the Directors recognise the importance and value of attending conferences, training programs and seminars in order to keep themselves abreast of the development and changes in the industry, as well as updates on new statutory and regulatory requirements. In addition, all members of the BAC have also fulfilled the requirement of Practice 9.5 of the MCCG 2021 by attending the relevant seminars on accounting and auditing standards.

During the FY2022, the following directors have participated in the following continuing education programs:-

Director	Training Program Attended	Organiser
Mohd Rashid Mohd Yusof	Directors Duties and Conflicts Management	Standard Chartered Bank
	Corporate Governance and ESG	SIRIM Berhad
	PNB Knowledge Forum 2022: Sustainable Investing ESG at the Forefront	Permodalan Nasional Berhad ("PNB")
	Data Governance	Standard Chartered Bank
	Road to Transition for Upstream Oil and Gas	Rystad Energy
	PNB Forum (Tall Buildings Living Space)	PNB
	Cyber Security	Standard Chartered Bank
	Climate Risk and ESG	Standard Chartered Bank
	Directors and Officers Liability Insurance	Wilis Tower Watson
	Shariah Committee Dialogue	Standard Chartered Saadiq
	Rig Visit (NAGA 6)	Velesto
	Board Away Day 2022	Velesto
Ir. Dr. Mohd Shahreen Zainooreen Madros	ICDM International Directors Summit	Institute of Corporate Directors Malaysia ("ICDM")
	Audit Oversight Board Conversation with Audit Committees	Securities Commission Malaysia ("SC")
	Board Away Day 2022	Velesto
	Rig Visit (NAGA 6)	Velesto
	MIDF Automation and Digitalisation Forum	Malaysian Industrial Development Finance Berhad ("MIDF")
	National Oil and Gas Services and Equipment (OGSE) Roadshow 2022 – Unlocking Opportunities in Malaysia's Energy Landscape	Malaysia Petroleum Resources Corporation ("MPRC")
	Current Issue and Direction of Oil and Gas Industry in Malaysia	SIRIM Berhad
Rowina Ghazali Seth	ICDM International Directors Summit	ICDM
	Board Away Day 2022	Velesto
	Rig Visit (NAGA 6)	Velesto

CORPORATE GOVERNANCE OVERVIEW STATEMENT

BOARD BALANCE AND COMPOSITION (CONT'D.)

Director	Training Program Attended	Organiser
Rowina Ghazali Seth (cont'd.)	Climate Governance from a Risk Viewpoint	ICDM
	DEI: Break the Bias	30% Club Malaysia
	Malaysian Outlook Conference 2022	Institute for Democracy and Economic Affairs ("IDEAS")
	Top Sustainability Trends in 2022 and their Impact on Boards and C-suite	ERM International Group Limited ("ERM")
	PNB Knowledge Forum 2022: Sustainable Investing ESG at the Forefront	PNB
	Sustainability & its Impact on Organisations	The Iclif Leadership and Governance Centre ("ICLIF")
	Climate Change: Impact on Banks & Role of Boards	Asia School of Business ("ASB")
	Ecosperity Week 2022: Accelerating the Energy Revolution (Day 1)	Temasek Holdings
	Ecosperity Week 2022: Decarbonising Transport and Heavy Industry (Day 2)	Temasek Holdings
	Ecosperity Week 2022: Financing Asia's Green Transition (Day 3)	Temasek Holdings
	BNRC Dialogue (Panelist)	ICDM
	CIMB Roundtable with UN-HABITAT	Think City
	PNB Knowledge Forum	PNB
	PowerTalk ESG Series #6: Characteristics of ESG & Sustainability Leadership	ICDM
	Board Sustainability Awareness Session	UEM Edgenta Berhad
	ESG Designation Program (6 sessions)	Competent Boards
	International Directors Summit 2022: The B Factor – [Bold + Brave] Boards	ICDM
	Refresher: "Corporate Liability Provision on Corruption"	Hong Leong Bank
	C-Suites Takeaway COP27	ERM
	Bursa Malaysia Enhanced Sustainability Reporting Framework	ICDM

Director	Training Program Attended	Organiser
Datuk Tong Poh Keow	ICDM International Directors Summit	ICDM
	Board Away Day 2022	Velesto
	Rig Visit (NAGA 6)	Velesto
	Audit Oversight Board Conversation with Audit Committees	SC
Haida Shenny Hazri	ICDM International Directors Summit	ICDM
	Board Away Day 2022	Velesto
	Rig Visit (NAGA 6)	Velesto
	PNB Knowledge Forum 2022: Sustainable Investing ESG at the Forefront	PNB
	London Business School Masterclass in Dubai - an Evergreen Society	London Business School Dubai
	Audit Oversight Board Conversation with Audit Committee	SC
	World Hydrogen Summit and Exhibition Rotterdam	Sustainable Energy Council
	Road to Transition: How will the new market reality play out for the upstream industry?	Rystad Energy ("Rystad")
	Rystad Talks Energy - Powering the Energy Transation - China's roles	Rystad
	PNB Knowledge Forum2022: The Enigma of Convergence of Science and Art	PNB
Mohd Irwan Ahmad Mustafa	Prolintas Project Site Visit (SUKE Project)	Project Lintasan Kota Holdings Sdn Bhd ("Prolintas")
	IT Blueprint: Briefing Session Prolintas Board of Directors with PwC	Prolintas
	iRAC Week 2022	PNB
	Prolintas Project Site Visit (DASH Project)	Prolintas
	PERKUKUH-Laksana Initiative	Ministry of Finance, Malaysia
	PNB INTEGRITY TALK 2022 : Section 17A MACC Act Corporate Liability, Adequate Procedures and ISO 37001 ABMS	Trident Integrity

Director	Training Program Attended	Organiser
Mohd Irwan Ahmad Mustafa (cont'd.)	PNB Virtual Crisis Simulation Exercise	PNB
	PNB Knowledge Forum 2022	PNB
	EagleTree Partners 2022 Annual Limited Partner Conference	EagleTree Partners
	Maybank Investment Banking Group MIBG Board Offsite 2022	Maybank Investment Banking
	EQT Investor Committee Meeting at Stockholm, Sweden	EQT Group
	EQT Annual Investor Meeting & AGM at Stockholm, Sweden	EQT Group
	Rig Visit (NAGA 6)	Velesto
	AML/CFT & TFS: Evolving Challenges & Expectations In Regulatory Compliance for Senior Management	Visioon Business Solutions Sdn Bhd
	Online Training: Environment, Social And Governance (ESG) Strategies for Leadership Team	Securities Industry Development Corporation ("SIDC")
	Perodua Plant Visit	Perusahaan Otomobil Kedua Sdn Bhd
	SiberSAFE Online Cybersecurity Awareness Training	PNB
	Board Away Day 2022	Velesto
	[BP2023] PNB Management Offsite – Investment Day #1	PNB
	[BP2023] - Management Offsite -Investment - Focused Day #2	PNB

Director	Training Program Attended	Organiser
Mohd Irwan Ahmad Mustafa (cont'd.)	[BP2023] PNB Management Offsite – Investment Day #3	PNB
	[BP2023] PNB Management Offsite – Firm-wide Day #4	PNB
	[BP2023] PNB Management Offsite – Firm-wide Day #5	PNB
	Cyber Security Awareness Program for BOD and Leadership Team 2022	PNB
	Prolintas Board Retreat at Indonesia	Prolintas
	PNB Year-End BOD Offsite	PNB
Datuk George Ling Kien Sing	ICDM International Directors Summit	ICDM
	Board Away Day 2022	Velesto
Ar. Ahila Ganesan	ICDM International Directors Summit	ICDM
	Board Away Day 2022	Velesto
	Bursa Malaysia Mandatory Accreditation Program	ICDM
Megat Zariman Abdul Rahim	Basic Offshore Safety Induction and Emergency Training ("BOSIET") with Compressed Air Emergency Breathing System ("CA-EBS")	SEQU Offshore Safety Sdn Bhd
	Board Away Day 2022	Velesto
	Rig Visits	Velesto
	Bursa Malaysia Mandatory Accreditation Program	ICDM

REMUNERATION

The Board is mindful that fair remuneration for Directors is important in attracting, retaining and motivating knowledgeable and experienced individuals of the calibre needed to manage the business of the Company.

The BNRC is responsible of providing recommendation on the fees and benefits for NEDs to the Board for consideration which will be subjected to the approval from the shareholders of Velesto. The Company also reimburses expenses incurred by the Directors, where relevant, in the course of carrying out their duties as Directors.

A copy of Remuneration Policy and Procedures for Non-Executive Directors is available on the Group's website at https://www.velesto.com.

The responsibilities of BNRC include setting remuneration and reward propositions as set forth in its TOR.

Remuneration of Directors

For FY2022, the breakdown of the detailed Board remuneration paid is disclosed in the Corporate Governance Report 2022 available on the Group's website at https://www.velesto.com. Alternatively, the breakdown of the detailed Board remuneration can be found under Notes to the Financial Statements section of this Annual Report.

The information on the proposed payment of the Directors' fees and Remuneration from the 13th AGM until the conclusion of the next AGM will be tabled at the forthcoming 13th AGM for shareholders' approval. Please refer to "Other Information" section of this Annual Report under Notice of 13th AGM, for more details.

Remuneration of Top 5 Senior Management

On the disclosure of remuneration of top 5 senior management, the Board is of the view that the disclosure thereof would be unfavourable to the Group due to the intense competition, scarcity for talents and to safeguard its Senior Management retention efforts.

As an alternative to the recommended practice of MCCG 2021, the Board has opted to disclose the remuneration of the top 5 Senior Management on a group basis for FY2022, which amounted to RM3.147 million. For further explanation on the remuneration for the top five Senior Management, please refer to the CG Report. The CG report can be found at Group's website at https://www.velesto.com and also uploaded together with this report under "Company Announcement" page at Bursa Malaysia's website.

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

Accountability and Audit

Effective and Independent BAC

The BAC's primary objective is to assist the Board in fulfilling its fiduciary responsibilities relating to financial and accounting practices in accordance with the accounting standards and to maintain a sound system of internal control of the Group.

For more details on the composition, roles and responsibilities of BAC and activities during the FY2022 are available in the "Our Governance" section, under the BAC Report of this Integrated Annual Report.

Financial Reporting

The Board is committed to providing a fair and objective assessment of the financial position of the Group in the quarterly financial results, annual financial statements, Annual Report and all other reports or statements to shareholders, investors and relevant regulatory authorities.

The statement by the Board of its responsibilities for preparing the financial statements is set out in the Audited Financial Statements for the financial year ended 31 December 2022 of the Company.

Risk Management and Internal Control

The Board is accountable for Enterprise Risk Management ("ERM") Framework and the system of internal control of the Group and for reviewing the effectiveness of the system. In the discharge of this responsibility, the Board through the BRMC and BAC review the risk management processes and internal control procedures to ensure a sound system of risk management and internal control to safeguard shareholders' investments and the assets of the Company.

The ERM Framework and system of internal control in Velesto Group identify as well as enable the Management and the Board to evaluate and manage the Group's top risks. This system is aligned with the Group's needs and the risks to which it is exposed, and is designed to manage, rather than eliminate risks. Owing to the limitations inherent in any system of internal control, this system provides robust, but not absolute, assurance against material misstatement or loss. The effectiveness of the Group's system of internal control is regularly reviewed by the BAC, BRMC and the Board.

The Group's approach to risk management and how the risks profiles are identified together with the salient features of the Group's ERM and internal control framework are disclosed in SORMIC and BAC Report under the "Our Governance" section of this Annual Report.

PRINCIPLE C: INTEGRITY IN REPORTING & MEANINGFUL RELATIONSHIPS WITH STAKEHOLDERS

Annual Report 2022

The Annual Report provides comprehensive information and in-depth report for shareholders and stakeholders on the Group's performance for the year in focus. The co-ordination and the development of the Annual Report follows a process, which is conducted in parallel with the formal audit process undertaken by the External Auditors together with the review and approval by the respective Board and Board Committees.

Communicating Effectively with Stakeholders and Investors

Velesto recognises the importance of clear communication and proactive engagement with stakeholders, for the sustainable growth of the business. The Group is committed and takes efforts to maintain an open and transparent engagement and communication with stakeholders.

The President and Senior Management are closely involved in Velesto's investor relations activities which are managed by the Commercial Division. Dialogues with key institutional shareholders, fund managers and analysts are organised throughout the year.

Investors are kept informed of key business activities, decisions and other key announcements on an ongoing basis via the announcements released to Bursa Malaysia, Velesto's website, press releases, briefing sessions, press conferences, one-to-one meetings, and annual general meeting with shareholders. The Group's website contains information on the Group, together with financial reports, presentations and other information on the Group's operations.

Further details of the stakeholders' engagement conducted by the Group throughout FY2022 is disclosed at the Sustainability Statement section of this Integrated Annual Report.

A dedicated "Investor Relations Contact" section is available in the Group's website.

For any queries on Investor Relations matters, please contact the following:

Attention: Head, Strategic Marketing
Contact: +603-2096 8788
Email: investor.relations@velesto.com

Conduct of General Meeting

The Company served the Notice of AGM to shareholders of the Company at least 28 days prior to the Annual General Meeting. The Notice of the 12th AGM on 28 June 2022 was circulated to shareholders on 29 April 2022.

The Company had notified the shareholders on the conduct of the AGM virtually via the Remote Participation and Voting Facilities ("RPV") application, via Securities Services ePortal's platform at https://sshsb.net.my together with the instructions in the Administrative Guide. The same was also published through the announcement to Bursa Malaysia and the Company's corporate website respectively.

The proceedings of 12th AGM saw remote participations by registered shareholders and proxyholders, included presentations of financial statements for FY2021, presentations on the performance of the Group by the President and the Group's responses to questions submitted in advance of the AGM by the Minority Shareholders Watch Group.

Before putting the proposed resolutions to vote, the proceedings continued with Questions and Answers session to respond to questions raised by shareholders or proxyholders prior to and during the meeting.

In line with the MMLR on the requirement for poll voting for all resolutions set out in the notice of the meeting, the resolutions tabled at the 12th AGM were all voted by poll electronically.

The minutes of the 12th AGM of the Company was made available on the Company's website.

Conclusion

The Board is satisfied that for FY2022, the Group complies substantially with the principles and guidance of the MCCG 2021.

This Corporate Governance Overview Statement is made in accordance with a resolution of the Board of Directors passed on 30 March 2023.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

This Statement on Risk Management and Internal Control is made in accordance to Paragraph 15.26(b) of the Main Market Listing Requirement ("MMLR") of Bursa Malaysia, the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers endorsed by Bursa Malaysia Securities Berhad and pursuant to requirements of Malaysian Code of Corporate Governance 2021 ("MCCG 2021"). The Board of Directors is pleased to provide the following statement which outlines the nature and scope of risk management and internal controls of the Group in FY2022.

Through the Group's enhanced system of Enterprise Risk Management ("ERM"), the Group navigated the evolving environments, risk trends and movements to facilitate the execution of risk mitigation measures and monitoring. Complementing ERM, the Group's system of internal controls encompasses governance, compliance, operational and financial controls.

RESPONSIBILITIES AND ACCOUNTABILITIES

A. The Board

The Board affirms the overall responsibility for the Group's system of risk management and internal control, as set out in the Board Charter. With the establishment and continuous enhancement of the Group's system of internal control and risk management to safeguard shareholders' investment and the Group's assets, the Board sets the tone and provides an oversight function. The Board and the Management ensure that the Group's internal controls and risk management are embedded into the processes, structures and culture of the Group. The Board recognises that such system provides a reasonable assurance and not absolute assurance that significant risks which impact the Group's objectives and strategies are within levels appropriate to the Group's businesses as approved by the Board.

The following Board committees have complementary yet different roles and responsibilities delegated by the Board to oversee risk management and internal controls of the Group:

- **Board Risk Management Committee ("BRMC")**
  BRMC assists the Board in ensuring a sound and robust ERM Framework governed by its ERM Policy and ERM Framework Procedures to enhance the Group's Risk Management, Business Continuity Management, ESG risks and matters pertaining to Health, Safety and Environment.

- **Board Audit Committee ("BAC")**
  BAC oversees the effectiveness of the Group's internal control structures and supports the Board in fulfilling its fiduciary responsibilities relating to financial and accounting practices in accordance with accounting standards and maintenance of a sound system of internal control, management information systems, including compliance with applicable laws, rules, directives and guidelines.

  The responsibilities of the BAC extend to reviewing conflict of interest situations and related party transactions of the Group to ensure that they are in the best interest of the Group are fair, reasonable, at arm's length, undertaken on the Group's normal commercial terms not more favorable to the related party than those generally available to the public and not detrimental to the interest of the minority shareholders. The BAC monitors the Group's internal control environment and evaluation of internal audit functions and external audit process, by assessing the adequacy and effectiveness of the internal control systems. Further details are available in the BAC Report of this Annual Report.

- **Board Whistle-Blowing Committee ("BWBC")**
  BWBC supports the Board on the inculcation of strong culture of integrity, compliance and the promotion of good ethical practices in the Group. The BWBC reviews and investigates complaints received against any employees within the Group and other stakeholders within its purview.

The Terms of References ("TOR") of BRMC, BAC and BWBC are available on the Group's website at https://www.velesto.com

B. The Management

The Management is responsible for implementing the Board approved frameworks, policies and procedures related to risk management and internal controls.

The Management's responsibilities include but are not limited to:

- identifying, assessing and monitoring the risks that may jeopardise the Group's objectives and strategies;
- formulating, implementing and monitoring the effectiveness of risk management and internal control system;
- guiding and setting the tone from the top on the Group's core values of integrity, leadership, excellence, agility and people-focused for the dissemination and assimilation of good ethics and governance.

C. Internal Audit Division ("IAD")

IAD undertakes the internal audit function of the Group and provides independent assurance on the adequacy and effectiveness of the internal control system implemented by the Group. The Head of IAD reports functionally to the BAC and administratively to the President. The IAD functions are independent of the activities and operations of other corporate and operating units in the Group.

IAD operates independently in formulating the scope and extent of its audits, undertaking the audit work and presenting the results and findings to the BAC. IAD undertakes reviews of the Group's system of internal controls, its operations and selected key activities based on risk assessment and in accordance with the annual internal audit plan which is presented and approved by the BAC.

Ultimately, IAD aims to add value and improve the operational effectiveness and efficiency of the Group by ensuring proper adherence to the established procedures, internal controls and ERM framework. IAD adopts the standards and principles outlined in the International Professional Practices Framework ("IPPF") of the Institute of Internal Auditors ("IIA").

D. Risk Management Department ("RMD")

RMD oversees the risk management functions for the Group at the enterprise level. Operating in accordance with the Group's ERM Policy and Framework, RMD's initiatives and activities are aligned with the plan approved by the Risk Management Committee ("RMC") and the BRMC. Through effective promotions and communications on risk management to employees, the Group continuously engage employees, encourages dialogues to develop the culture of risk management within the Group.

During the year under review, the existing processes and procedures were reviewed and enhanced to ensure the Group's risk management framework is in accordance with best practices and standards. Internally facilitated workshops, training and awareness programs were conducted to provide assurance to stakeholders that the risk management systems are implemented and complied within the Group. Continuous engagement on identification, management and monitoring of key risks allows a comprehensive evaluation of risks, their potential impact and how they are monitored by the Group for continuous enhancement.

Additionally, quarterly risk assessment exercise and review discussions were carried out by RMD focusing on controls and mitigation plans on functional risk areas with risk owners with the aim of minimising risks impacting the Group's operations and projects as well as to ensure that risk events reflect the changes to current business conditions and risk exposures.

E. Integrity & Governance Unit and Compliance ("IGUC")

IGUC ensures the inculcation of ethical practices at work with strong integrity and compliance including promoting anti-corruption, curbing abuse of power and malpractice. IGUC is required to submit reports on the implementation of its activities every six months to the MACC via the Agency Integrity Management Division (also known as Bahagian Pengurusan Integriti Agensi - BPIA). IGUC's 5 core functions are as follows:

i) Good Governance : To ensure implementation of good corporate governance
ii) Integrity Enhancement : To ensure acculturation, institutionalisation and implementation of integrity within the organisation
iii) Detection and Verification :
- To detect and verify criminal misconduct, violation of code of conduct and organisational ethics and to ensure appropriate actions are taken
- To report criminal misconduct to responsible enforcement agencies

iv) Complaints Management : To receive and respond to all complaints/information concerning criminal misconduct, violation of code of conduct and organisational ethics
v) Compliance : To ensure the compliance of policies and procedures

Integrity Governance Framework provides a framework of reference of Velesto Group's integrity governance and how the integrated internal control systems work as part of its comprehensive approach to shape integrity and compliance throughout Velesto Group.

INTEGRITY GOVERNANCE FRAMEWORK

The Group through IGUC conducts comprehensive programs, activities and initiatives to ensure the formulation and continuous enhancements of a culture of integrity and high standards of corporate governance at all times and all levels of operations.

These programs, activities and initiatives are in line with the requirements of Section 17A of the Malaysian Anti-Corruption Commission Act 2009 (Amendment 2018) in adopting the 5 main "T.R.U.S.T." principles that act as a defense mechanism against Corporate Liability Provision.

ENTERPRISE RISK MANAGEMENT ("ERM")

A. ERM Framework

ERM Framework provides a structured and systematic approach towards managing risks and is an integral part of value creation with uniform assessment methodologies and standards which are embedded in the Group's organisational processes and operations so that all inherent and emerging risks are systematically identified, assessed, mitigated and monitored.

Velesto Group's adoption of the 'ISO 31000 Risk Management – Guidelines Standard' and continuous improvements over the years in practices and operations have enhanced the Group's ERM Framework.

The diagram below illustrates the Group's ERM Framework:-

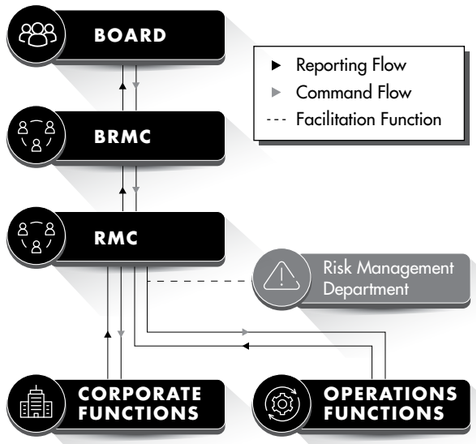
Velesto Group's ERM Framework

B. Risk Oversight and Reporting Structure

Having clear risk oversight and reporting structure provides effective communication flows and dissemination of information at all levels on the risk management implementation process. The diagrams below illustrate the Group's Risk Oversight and Reporting Structure.

OVERSIGHT STRUCTURE	
BOARD OF DIRECTORS ("BOARD")	• Ultimate governor of risk management with overall risk oversight. • Sets the tone and directions of risk management and governance of the Group. • Allocates adequate resources to ensure the functionality of the risk management function.
BRMC	• Monitors and ensures consistent and effective risk management practices across Velesto Group. • Reviews and endorses risk parameters, risk appetites, risk assessment outcomes, risk treatment strategies and key risk indicators. • Provides quarterly reports to the Board.
RMC	• Monitors the implementation of ERM Framework and Policy. • Implements and ensures robust risk identification, assessment and treatment processes. • Review the Risk Assessment outcomes and risk treatment strategies including providing support and advice. • Provide quarterly reports to the BRMC.

Reporting Structure



The RMC is assisted by the RMD, whose primary roles include, but not limited to, ensuring effective implementation of risk management and business continuity management framework, programs and education across the Velesto Group. The RMD provides an independent and objective assessment on risks as well as timely reporting to the RMC, BRMC and the Board.

One of the key features to enhance effectiveness and efficiency in relation to the risk management framework is the implementation of the 3 Lines of Defence Model which distinguishes the three groups which are involved in the process of adequate risk management:-

BOARD OF DIRECTORS BRMC, BAC & BWBC		
LINES OF DEFENCE		
1st Line: **Risk-Taking Units**	**2nd Line:** **Risk-Control Units**	**3rd Line:** **Assurance Units**
Division & Departments	RMC & RMD	Internal Audit & IGUC
Own and manage risks that exist in day-to-day business operations diligently within the established risk strategies, frameworks, policies and procedures.	Provide risk oversight and guidance over effective operation of the risk management framework, policies and procedures.	Provides assurance via independent assessment and validation that: • Risk management framework, policies and tools are sufficiently robust and consistent, compliance to regulatory standards. • Controls to mitigate risks are adequate.

During the year, the ERM Policy & Framework was reviewed and revamped taking into consideration the alignment of Velesto key objectives with risk overview.

Several key enhancements were implemented as follows:

- Establishing key risks categories – Safety, Financial, Reputation, Asset, Environment and Sustainability that could affect the Group's strategy and operations.
- Enhanced understanding on the ERM process during internally facilitated workshops.
- Reviewing key risks and their potential impact to the Group.
- Consolidation of various risk registers into one focused risk register.
- Active participation of risk owners on the status of key risks and their mitigation during RMC and BRMC meetings.

FY2022, risks related to ESG were identified as the Group continued to monitor and keep abreast with the ESG requirements and regulation to develop in-house capacity for ESG and by incorporating climate change as part of risk assessment process. Analysis and discussions on the impact of ESG and climate change were undertaken and elements of climate change were included as a root cause to certain risk events identified within the Group.

C. Velesto Group Top Risks Overview

For the FY2022, the following table sets out the overview of Group Top Risks, key risk action plans and initiatives undertaken to address the top risks:

Risk Overview	Response
Technology Risk	The Group continued to keep abreast with changes in new technology and ensuring clients requirements are met and delivered. For FY2022, Velesto successfully upgraded two rigs, NAGA 5 and NAGA 6 to have offline capabilities. For more details, please refer page 23 of this Integrated Annual Report ("IAR") on the Enhancing Asset Readiness and Capabilities.
Human Capital Risk	The Group was actively involved in addressing this risk to ensure operations continuity through proactive talents sourcing and retention. For FY2022, the Group launched career progression and mentoring program for employees with fast tracked career path for High Potential ("HiPOTS") talents and salaries adjustment to ensure talent retention.
Execution Risk	Implementation of services improvements aligned with the Group's maxim of 'performance driven, operations focused' with emphasis on continuous clients' engagements and operational excellence. For more details, please refer page 25 of this IAR on Management Visits to Rigs.
Process Efficiency Risk	Continued focus on proactive planning, refining processes, speeding workflows and digitisation of existing processes. For the year under review, with the implementation of Enterprise Resource Planning ("ERP") System, management is better positioned to develop the necessary strategic visibility of operations Group wide. For more details, please refer page 25 of this IAR on digitalisation and technology.

Risk Overview	Response
Strategic Risk	Managing strategic risks by continued monitoring of industry outlook, market drivers, business model, anticipating external triggers and imported risks and long-term outlook through the Group Wawasan 2030 (Vision 2030) strategy roadmap. For more details, please refer page 29 of this IAR.
ESG Risk	Increased focus on the ESG requirements and regulations to develop in-house capacity for ESG compliance. For more details, please refer page 58 of this IAR on Sustainability Statement.
Market Risk	Exploring business opportunities with new clients in neighbouring ASEAN countries such as Indonesia, Vietnam and Thailand.

The Group remains focused to continuously monitor and mitigate its risk exposures to manage their impact on the Group's performances to ensure the Group remains resilient and agile for value-creation and sustainability.

BUSINESS CONTINUITY MANAGEMENT ("BCM")

Velesto Group's ongoing effort and commitment towards ensuring preparedness in addressing risks in changing operating environments is constantly reinforced in BCM programs conducted throughout FY2022. The Group's BCM Framework sets out a holistic management process that allows the Management to identify potential threats to the Group and impacts to business operations, which then provides a framework to manage the effects of those risks to ensure the resilience of the Group to safeguard the interests of the stakeholders, brand value and reputation. The BCM Framework have four key components:-

- Business Continuity Policy which governs the business continuity principles, priorities and authority of the Group.
- Business Continuity Oversight Structure which establishes the accountability, roles and responsibilities on implementation and changes to the BCM Framework.
- BCM Methodology defines the guiding principles to develop viable strategies and related Business Continuity Plan ("BCP").
- BCM Program which identifies key milestones within practical timelines to assist the business continuity capabilities of the Group.

The Group has further adopted the ISO 22301:2019 Business Continuity Management System Standard.

A. BCM Framework

The diagram below illustrates the Group's BCM Framework which provides comprehensive guidelines to enhance the Group's resilience.

Velesto Group's BCM Framework

B. Business Recovery Strategies

The Group proactively formulates the recovery strategies which are improvised and enhanced from time to time to ensure business continuity.

The development of recovery strategies involves the following 8 strategic pillars:-

Strategic Pillars	Abridged Recovery Strategies
People	Critical manpower prioritisation, team rotations and outsourcing
Information & Data	Web-based document management system and hardcopy storage
Premises	Work from Home ("WFH") initiative and physical alternate sites
Equipment And Consumables	Emergency procurement arrangement and services
Information And Communication Technology ("ICT") Systems	Cloud backups and data replication
Transportation And Logistics	Emergency logistical arrangements
Finance	Sufficient standby banking facilities, security of accounting system and insurance coverages
Partners And Suppliers	Emergency service level agreements

C. Crisis Management

Crisis Management is an integrated process to response and manage crises in risk area to protect the People, Environment, Asset and Reputation ("PEAR") and minimise the impact to VEB's reputation, viability, operability, and earning capacity. In FY2022, crisis management process was reviewed for continuous improvement. To ensure robustness of our plan, test and drill exercise was conducted to ensure readiness in crisis management and business continuity.

INTERNAL CONTROL SYSTEMS

Key elements of the internal control systems established by the Board that provides direction, effective governance and oversight of internal controls include:-

A. Organisation Structure

The Board has established an organisational structure with clearly defined lines of responsibilities, accountability and authority limits, that are aligned to the corporate and operational requirements.

The Management Committee is established to facilitate the decision-making process, effective supervision of day-to-day business conducts and accountabilities. The Management Committee comprises Senior Management and is chaired by the President.

The Tender Committee reviews and recommends the tender plans and awards for all procurement activities exceeding certain values. As at date of the report, the committee comprises selected senior division heads and chaired by the Vice President, Corporate Services.

The Management Audit Committee assesses the adequacy and effectiveness of internal controls as well as implementation of action plans. The committee comprises of Chief Financial Officer ("CFO") as the chairperson and selected senior division heads.

The organisation structure and delegation of responsibilities are communicated throughout the Group which sets out amongst others, authorisation levels, segregation of duties and other risk and control procedures.

B. Annual Business Plan and Budget

An annual business planning and budgetary exercise is conducted, which included industry and market studies, formulation of business strategies and establishment of Key Performance Indicators ("KPIs"), which are then presented for the Board's deliberation and approval prior to implementation.

Budgets prepared by operating units and corporate divisions are regularly compared with the actual results and explanations on variances are incorporated in management reports which are prepared and reported on a quarterly basis to the Board.

C. Core Values and Code of Business Conduct and Ethics

The Group's core values, iLEAP of "Integrity, Leadership, Excellence, Agility and People-Focused" and CoBE are the essential guiding principles to drive behavioural ethics. iLEAP campaigns have been conducted throughout the year amongst the employees to cultivate the values embraced by the Group.

D. Policies and Management System Procedures

Internal policies and Management System Procedures are developed to achieve efficiency, quality of services/ output and standardisation of processes through the relevant charter, terms of reference, organisational structures and appropriate authority limits. The Management System Procedures are developed and implemented based on the applicable standard and are certified under the following:

a. ISO 9001:2015 – Quality Management System
b. ISO 14001:2015 – Environmental Management System
c. ISO 45001:2018 – Occupational Health and Safety ("OSH") Management System
d. ISO 29001:2010 – Petroleum, Petrochemical and Natural Gas Industries – Sector Specific Quality Management System

The policies and procedures are communicated throughout the Group via the Velesto intranet for implementation and compliance. The policies are approved by the Board and regularly updated to reflect changing business requirements.

The key supporting policies and procedures in place are:-

i) Limits of Authority
This serves as a reference to identify the appropriate approving authority at various levels of Management including matters that require the Board's approval. It provides guidelines to employees on requirements on the exercise of financial and non-financial limits of authority and procedures to be complied.

ii) Anti-Bribery Corruption ("ABC") Policy
This policy prohibits employees and the Board of Velesto from committing a corrupt act. It outlines Velesto Group's commitment to conducting its business in accordance with all applicable laws, rules and regulations with the highest ethical standards. This commitment is embodied in the Group's CoBE. It iterates commitment to full compliance by Velesto to the MACC Act 2009 and similar Acts in relation to countering bribery and corruption.

iii) Whistle-Blowing Policy
This policy addresses the Group's commitment towards achieving the highest ethical standards in all of its practices as well as to ensure transparency, integrity and accountability. This policy also covers situations where an individual as the whistle-blower, raises a concern on risk, malpractice or wrongdoing that affects others such as clients, suppliers, staff, company and the public. It also addresses the protections accorded to whistle-blowers.

iv) Health, Safety and Environment Policy
The policy sets out the Group's commitment to safeguarding the interest and protection of people, asset and the environment, affirms the Group's adoption of industry's accepted best practices and dedication to continually improve the Group's Health, Safety and Environment performances. This policy further ensures that employees of the Group in performing daily business activities will implement effective risk control measures.

v) Human Resources Procedures and Guidelines
The procedures and guidelines on Human Resources govern all aspects of human resource management from talent acquisition, development and retention, performance and consequence management to cessation of employment. Disciplinary procedures are established to ensure that structured disciplinary actions are taken fairly, consistently and in line with the prevailing labour laws and employment regulations.

vi) Corporate Gifts, Gift, Entertainment and Hospitality Procedures ("CGGEH")
The procedures set out the standard of conduct and procedures to guide employees and members of the Board of the Group in dealing with CGGEH. Covering legal, ethical and cultural considerations involved when dealings in CGGEH, it establishes a framework to ensure Velesto Group's employees and members of the Board promote high integrity and adhere to legal requirements and ethical standards while performing their daily business activities.

vii) Procurement Procedures
Procurement procedures state the principles and procedures required in the procurement of goods and services within the Group. Authority to approve any requisition against budgeted or unbudgeted expenditures shall be in accordance with relevant approving authority policies.

ASSURANCE TO THE BOARD

In line with the guidelines, the Board has received assurance from the President and CFO of Velesto stating that the Group's risk management and internal control systems have operated adequately and effectively, in all material aspects, for the FY2022 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 was no significant weakness 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.

REVIEW OF THIS STATEMENT

The External Auditors, Messrs. Ernst & Young PLT ("EY"), have performed limited assurance procedures on the Statement in accordance with Malaysian Approved Standard on Assurance Engagements, ISAE 3000 (Revised), 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information' and Audit and Assurance Practice Guide 3, 'Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control' included in the Annual Report.

EY has reported to the Board that nothing has come to their attention that causes them to believe that the Statement included in the Annual Report is not prepared, in all material aspects, in accordance with the disclosures required by the 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 April 2023.

BOARD AUDIT COMMITTEE REPORT

The Board Audit Committee ("BAC") Report provides an insight into the manner in which BAC discharged its functions for the Group in FY2022.

OVERVIEW OF BAC:

4	✓	1	✓	0	✓
NON-EXECUTIVE DIRECTORS	MAJORITY INDEPENDENT	MIA MEMBERSHIP	INDEPENDENT CHAIRPERSON	ALTERNATE DIRECTOR	TERMS OF REFERENCE

COMPOSITION

The members of BAC are:

Datuk Tong Poh Keow *Chairperson, Independent Non-Executive Director* *(redesignated as Chairperson effective on 25 May 2022)*	**Ir. Dr. Mohd Shahreen Zainooreen Madros** *Senior Independent Non-Executive Director*
Datuk George Ling Kien Sing *Independent Non-Executive Director* *(appointed effective on 29 August 2022)*	**Ar. Ahila Ganesan** *Independent Non-Executive Director* *(appointed effective on 29 August 2022)*
Razalee Amin *Senior Independent Non-Executive Director* *(resigned effective on 2 May 2022)*	**Haida Shenny Hazri** *Non-Independent Non-Executive Director* *(resigned effective on 29 August 2022)*

At the date of this report, the BAC comprises of 4 members, all Independent Non-Executive Directors ("INEDs"), thus, fully complying with the requirements of paragraph 15.09(1)(a) and (b) of the Bursa Malaysia Securities Berhad's ("BURSA") Main Market Listing Requirements ("MMLR") and Practice 9.4 under Principle B of the Malaysian Code on Corporate Governance 2021 ("MCCG 2021").

BOARD AUDIT COMMITTEE

COMMUNICATIONS

- Deep engagements with the Management
- Updates & recommendations to Board
- Oversight on reports to Board & shareholders

EFFECTIVENESS

- Review the adequacy & effectiveness of financial reporting & internal control systems

FINANCIAL REPORTING

- Compliance with accounting policies, accounting standards & statutory requirements
- Assess financial position and reporting

EXTERNAL AUDIT

- Appointment and remuneration
- Scope of work
- Audit findings and recommendations
- Review performance of external auditors
- Independence assessment

INTERNAL CONTROL

- Conflict of interest management & related party transactions review
- Access internal control environment
- Limits of Authority
- Consider findings of Internal & External Auditors

INTERNAL AUDIT

- Evaluate Internal Audit Process
- Scope of work
- Assess and recommends on effectiveness of Internal Audit

BAC has 6 focus areas that are distinct yet holistically complement each other to fulfill the fiduciary responsibilities relating to financial reporting and a sound system of internal control of the Group, forming part of the foundation for the Group's corporate governance.

All the INEDs satisfy the test of independence under BURSA's MMLR and none of the Independent Directors has appointed alternate directors. The Chairperson of the BAC, Datuk Tong Poh Keow, is a member of the Malaysian Institute of Accountants and a Fellow of the Association of Chartered Certified Accountants, UK. Accordingly, the BAC complies with the requirement of paragraph 15.09(1) (c)(i) of MMLR.

The Board Nomination & Remuneration Committee ("BNRC") had conducted the annual performance evaluation of the BAC and its members for the FY2022, and the report of which was reviewed by the Board of Directors ("Board"). Cognizant of the BAC's requirements for additional skills and attributes, review and assessment encompassed among others, requisite knowledge, expertise as well as sufficiency of time commitment. The Board is satisfied that during the FY2022, the BAC and its members have discharged their functions, duties and responsibilities in accordance with the BAC's Terms of Reference ("TOR"). Details of Board Effectiveness and Evaluation ("BEE") results for FY2022 is available in the Corporate Governance Overview Statement of this Annual Report.

The BAC being a committee of the Board of the Company under delegated authority and empowerment as set out in its Terms of Reference ("TOR") is the vital conduit amongst the Board, the Management, Internal Auditor and External Auditors.

TOR

The TOR of the BAC sets out among others, the objectives, functions, authority, duties and responsibilities which include the above areas of focus of BAC. Featuring therein, size and composition requirements and administrative procedures to effectively discharge its responsibilities.

The TOR of the BAC is published on the Velesto's website at https://www.velesto.com.

COMPOSITION

During FY2022, the BAC comprised of 4 members, all of which are Non-Executive Directors ("NEDs"). Majority of the members were Independent Non-Executive Directors ("INEDs"). As at 31 December 2022, all members of the BAC are INEDs, thus fully complying with the requirements of paragraph 15.09(1)(a) and (b) of the BURSA's MMLR, and Principle B of the MCCG 2021.

MEETINGS AND ATTENDANCE

The BAC held 7 meetings in FY2022 and the members' attendance records are outlined in Corporate Governance Overview Statement of this Annual Report. The BAC meetings for the year under review were pre-scheduled in FY2021 to provide ample notice of meetings for the BAC members to plan ahead and incorporate the meeting dates into their respective schedules. Reminders of upcoming meetings were communicated prior to meetings for the members of BAC.

The President, Chief Financial Officer, General Counsel Legal & Secretarial, Head of Internal Audit, as well as the External Auditors were invited to attend BAC meetings to present, facilitate and furnish information and clarifications to relevant items on the agenda.

The Chairperson of BAC was involved in agenda setting of BAC meetings and ensured the effectiveness of the operation of BAC. The approved agenda provided concise and clear information to assist the members of BAC on the flow of meetings and the Chairman managed the members' interactions during the meetings. The agenda and meeting papers with information relevant to the business of the meetings were distributed to the BAC members via a secured platform, not less than five days before the date of each meeting or such days as approved by the BAC, which enabled the Directors to have access to the proposal papers electronically.

The Company Secretary, who is also the General Counsel Legal & Secretarial, acts as secretary to the BAC and the minutes of each meeting are kept by the Company Secretary as a record of the proceedings at the meeting and as evidence that the BAC has discharged its functions. After each meeting, the Chairperson of BAC reports to the Board. The approved minutes of BAC meetings were tabled to the Board for information and significant issues were discussed at the Board meetings.

CONTINUOUS TRAINING

The BAC members acknowledge the need for continuous education trainings. During the year under review, all members of the BAC attended trainings in line with Practice 9.5 of MCCG 2021. The list of trainings attended are in the Corporate Governance Overview Statement of this Annual Report.

ROLES AND RESPONSIBILITIES

BAC had been entrusted by the Board to execute its governance and oversight responsibilities in ensuring transparent financial reporting of the Group, guided by the TOR of the BAC. The BAC deliberates the Summary of Internal Audit Reports and the External Auditors' Reports relating to financial, operational, compliance, governance, risk management and control matters during BAC meetings. The findings and status of preventive and corrective actions for issues discussed are updated to the BAC to ensure that the appropriate actions are taken and monitored.

BOARD AUDIT COMMITTEE REPORT

SUMMARY OF BAC'S WORK

During the year under review, the BAC in the discharge of its duties and functions, had carried out the following activities:-

FINANCIAL REPORTING	During the following meetings, BAC reviewed (including the Bursa announcements on the Group's quarterly financial results):- • On 24 February 2022- Unaudited fourth quarter financial results of FY2021; • On 28 February 2022- Unaudited fourth quarter financial results of FY2021; • On 19 May 2022- Unaudited first quarter financial results of FY2022; • On 25 August 2022- Unaudited second quarter financial results of FY2022; • On 24 November 2022- Unaudited third quarter financial results of FY2022; and • On 21 February 2023- Unaudited fourth quarter financial results of FY2022. The quarterly financial results for FY2022, were prepared in compliance with the Malaysian Financial Reporting Standards ("MFRS") and paragraph 9.22, including Appendix 9B of MMLR. The BAC's recommendations on the quarterly financial results for FY2022 were presented for approval at the respective Board meetings.
	On 18 April 2022, BAC reviewed the Audited Financial Statements for FY2021, prior to the approval by the Board on 22 April 2022.
	On 11 April 2023, BAC reviewed and recommended for the Board's approval on the Audited Financial Statements for FY2022.
OTHER FINANCIAL REPORTING & OTHER MATTERS	• Impairment Assessment for FY2021 and Preliminary Indicative Results of FY2022 Impairment Assessment and Key Assumptions; • Velesto Drilling Sdn Bhd's Physical Stocktake and Inventory Data Cleansing; • Audit Transparency Report 2021; • Enhancement of the External Auditors Assessment Policy; • Proposed Audit Plan by External Auditor for FY2022; • Capitalisation of Intercompany Advances for Velesto Drilling Sdn Bhd; • Update Taxation matters; • Update on Enterprise Resources Planning ("ERP"); • The appointment of Ernst & Young Consulting Sdn Bhd to review VEB Group's ERP Data Completeness Validation and Limited Financial Closing Review; • Proposed Foreign Exchange Policy; • Update on New Statutory and Accounting Standard Requirements for 2022 and 2023; • Reviewed and deliberated on related party transactions and recurrent related party transactions for FY2022 for each quarter in accordance with Velesto Management System Procedure on Related Party Transactions and Recurrent Related Party Transactions; • Updates on the loan covenants of the Group for each quarter.
ANNUAL REPORTING	On 18 April 2022, the BAC reviewed and endorsed the Statement on Risk Management & Internal Control ("SORMIC"), BAC Report and Additional Compliance Information for Board's approval and inclusion in Annual Report 2021. On 22 March 2023, the BAC reviewed and endorsed the BAC Report and Additional Compliance Information. On 11 April 2023, the BAC reviewed and endorsed the SORMIC. The statements endorsed by BAC were then presented for Board's approval and inclusion in Annual Report 2022.
INTERNAL CONTROL	Reviewed the effectiveness of the system of internal controls from the findings of Internal and External Audit reports.

EXTERNAL AUDIT	On 24 February 2022, the External Auditors, EY presented their report on Audit matters arising from the audit for FY2021. On 18 April 2022, BAC deliberated on External Auditors' report on the audited financial statements for FY2021. At the same meeting, the lead audit engagement partner Ng Yee Yee from EY confirmed that EY was and had been independent throughout the conduct of the audit engagement in accordance with the terms of relevant professional and regulatory requirements, including the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants. Key audit matters as set out in the report were then presented to the BAC.
	The BAC at its meeting on 18 April 2022, carried out an annual review of the performance of the External Auditors including the assessment of their suitability, objectivity and independence. The BAC was satisfied with EY's overall performance for the Group.
	The BAC had 3 private meetings with the External Auditors on 24 February 2022, 18 April 2022, and 3 November 2022 without the presence of Management. During the private sessions, BAC enquired on the progress of the audit, the cooperation extended and sufficiency of resources by the Group to cover the scope of the audit for the year. The External Auditors highlighted for BAC considerations on their findings and key significant audit matters, which BAC discussed with EY on their recommendations and Management's responses and follow up actions thereto. The BAC Chairperson requested External Auditors to coordinate with the Management to ensure audit efficiency.
	On 3 November 2022, the BAC reviewed and approved the External Auditors' Audit Plan Memorandum which outlined their scope of work and audit strategy and plans for FY2022, including the names of the engagement team, areas of audit emphasis, timeline of audit and their focus on key audit matters; and assessed and recommended to the Board for approval of the audit fees payable to the External Auditors.
INTERNAL AUDIT	The BAC had on 24 February 2022, reviewed and endorsed the Internal Audit Division's ("IAD") 2021 key performance result. The 2023 Annual Internal Audit Plan was reviewed and approved on 21 February 2023. The BAC ensured that the principal risks, key entities and functions were adequately identified and covered in the plan. BAC also reviewed on IAD's manpower plan and budget for FY2023 to ensure the adequacy of resources, competencies and coverage of areas to be audited.
	The Head of IAD, presented the IAD reports at each of the BAC meetings during the year. The Annual Audit Plan was reviewed on a quarterly basis and Head of IAD reported on the following:- • The progress of the annual internal audit plan, special review and its key initiatives; • Adequacy of the Management's responses to the audit findings and recommendations; and • Adequacy of IAD resources, training and development.
	The BAC at its quarterly meetings considered the major findings, recommendations and Management's responses and implementation of internal audit issues. All findings from the internal audit reviews were reported to the BAC, Senior Management and the relevant Management of the audited entities. The respective Management of the audited entities is accountable to ensure proper and timely handling of the audit issues and implementation of their action plans within the time-frame specified. Actions taken by the audited operating units were followed-up by IAD together with the Management Audit Committee and the status updated in the subsequent audits.

INTERNAL AUDIT FUNCTION

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

The BAC is supported by an in-house internal audit function, the IAD, in discharging its governance responsibilities stated in the BAC's TOR. The Head of IAD, namely Norzalizah Alias, reports directly to the BAC on a functional basis and to the President on administrative matters. She periodically reports to the BAC on the activities performed as well as the key control issues noted by the internal auditors.

The purpose, authority and responsibility of IAD are reflected in the Internal Audit Charter. In order to maintain its independence and objectivity, IAD has no operational responsibility and authority over the activities of the auditees.

The total staff strength in IAD as at 31 December 2022 stood at five staff and a total of RM0.87 million (2021: RM0.76 million) was incurred as part of resource allocation for an internal audit function, covering mainly manpower and incidental costs such as travelling and trainings.

IAD adopts a risk-based approach as part of its audit planning and execution focusing on significant identified risks and effectiveness of the controls in mitigating the risks.

In performing the audit engagements, IAD is guided by the Institute of Internal Auditors' International Professional Practices Framework ("IPPF") which includes the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.

During the year, the Institute of Internal Auditor reviewed the IAD scope and functions.

Internal Control Oversight Structure of which IAD is included, is further described under SORMIC of this Integrated Annual Report.

RELATED PARTY TRANSACTIONS ("RPT") & RECURRENT RPT ("RRPT")

The Company has in place Management System Procedure ("MSP RPT") on RPT and RRPT, which sets out the guideline and procedure of identifying, reviewing, tracking and reporting RPT and RRPT by personnel in applicable departments and divisions who are responsible in operating the procedure.

During the year under review, RPT Secretariat which is a committee formed under the MSP RPT, was involved in the coordination and monitoring of RPT/RRPT compliance of the Group. All RPTs and RRPTs of the Group were reported to BAC and then to the Board every quarter.

The BAC performed a quarterly review of all RPT/RRPTs entered by the Group during the year under review and is satisfied that all the RPT/RRPTs were carried out at arm's length basis and not detrimental to the interests of Velesto and its minority shareholders.

This BAC Report is made in accordance with the resolution passed at BAC meeting held on 22 March 2023.

ADDITIONAL COMPLIANCE INFORMATION

1. UTILISATION OF PROCEEDS FROM CORPORATE PROPOSALS

There was no corporate proposal exercise during the financial year.

2. AUDIT AND NON-AUDIT FEES

Details of statutory audit, audit-related and non-audit fees paid/payable in the FY2022 to Ernst & Young PLT and its affiliates are as follows:-

Type of Fees	Company (RM'000)	Group (RM'000)
Messrs. Ernst & Young PLT, Malaysia:		
Audit fees	190	669
Non-audit fees	1,114	1,155
Total	**1,304**	**1,824**

4. 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 FY2022 or entered into since the end of the previous financial year.

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

The Company did not seek any mandate from its shareholders on any recurrent related party transactions of a revenue or trading nature as there was no mandate required for FY2022.

6. INSIDER TRADING

There was no insider trading reported for FY2022.

7. EMPLOYEES SHARES OPTION SCHEME ("ESOS")

The ESOS for the eligible employees (including Executive Director) of the Company and its subsidiaries (excluding subsidiaries which are dormant) was approved by the shareholders at the Extraordinary General Meeting held on 31 October 2019 and launched on 1 November 2019.

The ESOS is governed by the By-Laws and administered by the Board Nomination & Remuneration Committee, which also acts as the ESOS Committee.

The details of the first ESOS granted on 1 November 2019 are summarised below:-

ESOS Grant	Year	Option Price per share	No. of ESOS Granted	No. of ESOS Accepted	No. of ESOS Vested	No. of ESOS Exercise
ESOS Granted to eligible employees of the Group						
1st ESOS Grant	2019	RM 0.33	130,330,000	109,660,000	0*	0
ESOS Granted to Executive Director of the Company						
1st ESOS Grant	2019	RM 0.33	11,400,000 *(maximum number of ESOS)*	11,400,000^	0*	0
ESOS Granted to Senior Management (including Executive Director of the Company)						
1st ESOS Grant	2019	RM 0.33	35,450,000	35,450,000		

** Subject to vesting condition at the discretion of the ESOS Committee.*

^11,400,000 ESOS options offered to Rohaizad Darus, who retired as the President and Non-Independent Executive Director of the Company on 25 February 2022, has lapsed.

Note: The Non-Executive Directors are not eligible to participate in the ESOS.

There was no additional ESOS granted for the past 3 years.

The ESOS has a 3-year vesting period (subject to earlier vesting date at the discretion of the ESOS Committee), whereby eligible employees can exercise their ESOS after the vesting period. The Company may recommend, upon obtaining approval from the Board of Directors, to extend the ESOS period for another 5 years of up to a maximum of 5 years in aggregate. The maximum number of shares of the Company which may be made available under the ESOS, shall not in aggregate exceed 7.5% of the total number of issued shares of Velesto excluding treasury shares, if any at any point in time over the duration of the ESOS.

On 14 April 2023, the Board of Directors of the Company announced that the Company proposes to seek shareholders' approval to offer and grant up to a maximum number of 11,400,000 ESOS Options under the ESOS to Megat Zariman Abdul Rahim, the President and Non-Independent Executive Director of the Company ("Proposed Granting of ESOS Options").

Kindly refer to the Circular to Shareholders dated 28 April 2023 in relation to the Proposed Granting of ESOS Options for further details.

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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 2022.

PRINCIPAL ACTIVITIES

The principal activities of the Group and of the Company are referred to in Note 1 to the financial statements.

There have been no significant changes in the nature of the principal activities during the financial year.

RESULTS

The results of the Group and of the Company for the financial year ended 31 December 2022 are as follows:

	Group RM'000	Company RM'000
(Loss)/profit for the year	(100,402)	90,708
Attributable to:		
Equity holders of the Company	(100,402)	90,708

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than as disclosed in the financial statements.

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year.

DIRECTORS OF THE COMPANY

The names of the Directors of the Company in office since the beginning of the financial year to the date of this report are:

Mohd Rashid Mohd Yusof
Ir. Dr. Mohd Shahreen Zainooreen Madros
Rowina Ghazali Seth
Datuk Tong Poh Keow
Haida Shenny Hazri
Mohd Irwan Ahmad Mustafa @ Mustafa
Datuk Ling Kien Sing
Ar. Ahila Ganesan (appointed on 12 August 2022)
Megat Zariman Abdul Rahim # (appointed on 25 February 2022)
Rohaizad Darus # (retired on 25 February 2022)
Razalee Amin (resigned on 2 May 2022)

Director of the Company and certain of its subsidiaries.

DIRECTORS' REPORT

DIRECTORS OF THE COMPANY'S SUBSIDIARIES

The names of the Directors of the Company's subsidiaries since the beginning of the financial year to the date of this report, excluding those who are already the Directors of the Company, are:

Abdul Hadi Abdul Bari
Sazlyna Sapiee
Chong Eu Jin
Lee Mi Ryoung (appointed on 29 September 2022)
Kok Chong Mun
Ong Kok Eng
Thum Sook Fun
Syed Rozhan Syed Hassan *
Kenzo Yamada *
Yoichi Onoe *
Satoru Umezu *
Mohd Hagitar Awang *
Rafiza Ghazali *
Adrin Shafil Ahmad Nasir (resigned on 30 June 2022)

* Ceased to be a director on 5 April 2022 due to dissolution of UMW JDC Drilling Sdn. Bhd.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than those arising from the share options granted under the Employees' Share Option Scheme ("ESOS").

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company or a related corporation as shown below) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

The directors' benefits are as follows:

	Group and Company RM'000
Salaries and other emoluments	1,612
Fees	811
Pension costs - defined contribution plan	267
Benefits-in-kind	533
Insurance effected to indemnify directors	47
	3,270

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the interests of Directors in office at the end of the financial year in shares and options over shares in the Company and its related corporations during the financial year were as follows:

	Number of Ordinary Shares			
	1 January 2022	Bought	Sold	31 December 2022
The Company				
Direct interest				
Datuk Ling Kien Sing	103,700	1,396,000	-	1,499,700

None of the other Directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

EMPLOYEES' SHARE OPTION SCHEME

The ESOS is governed by the By-Laws and administered by the Board Nomination and Remuneration Committee.

The salient features and other terms of the ESOS are disclosed in Note 18(b) to the financial statements.

In the financial year ended 31 December 2019, the Company granted 130,330,000 share options under the ESOS. These options are exercisable subject to the vesting conditions determined at the discretion of the Board Nomination and Remuneration Committee. There was no ESOS granted during the financial year.

Details of all the options to subscribe for the ordinary shares of the Company pursuant to the ESOS as at 31 December 2022 are as follows:

Expiry date	Exercise price (RM)	Number of options
31 October 2024	0.33	130,330,000

DIRECTORS' AND OFFICERS' INDEMNITY

The Group and Company maintained a Directors' and Officers' Liability Insurance for the purpose of Section 289 of the Companies Act 2016 in Malaysia, throughout the year, which provide appropriate insurance cover for Directors and officers of the Group and Company. The amount of insurance premium effected for the Directors and officers of the Group and Company during the financial year was RM111,055, and the portion related to Directors was only RM47,476. The Directors and officers shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them.

OTHER STATUTORY INFORMATION

(a) Before the statements of financial position and statements of comprehensive income of the Group and of the Company were made out, the Directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for impairment on receivables and satisfied themselves that no known bad debts had been written off and that adequate allowance for impairment on receivables had been made; and

(ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

OTHER STATUTORY INFORMATION (cont'd.)

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

(i) it necessary to write off any bad debts or the amount of the allowance for impairment on receivables in the financial statements of the Group and of the Company inadequate to any substantial extent; and

(ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

(c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(e) At the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

(f) In the opinion of the Directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

SIGNIFICANT EVENT

Details of significant event is disclosed in Note 35 to the financial statements.

AUDITORS

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

Auditors' remuneration as follows:

	Group RM'000	Company RM'000
Statutory audit		
- Ernst & Young PLT	669	190
- Other auditors	55	-
Other services		
- Ernst & Young PLT	1,155	1,114

Signed on behalf of the Board in accordance with a resolution of the directors dated 14 April 2023.

MOHD RASHID MOHD YUSOF **MEGAT ZARIMAN ABDUL RAHIM**

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, MOHD RASHID MOHD YUSOF and MEGAT ZARIMAN ABDUL RAHIM, being two of the directors of VELESTO ENERGY BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 162 to 222 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2022 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 14 April 2023.

MOHD RASHID MOHD YUSOF **MEGAT ZARIMAN ABDUL RAHIM**

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(b) OF THE COMPANIES ACT 2016

I, SAZLYNA SAPIEE, being the officer primarily responsible for the financial management of VELESTO ENERGY BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 162 to 222 are, to the best of my knowledge and belief, 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 SAZLYNA SAPIEE
at Kuala Lumpur in the Federal Territory
on 14 April 2023

SAZLYNA SAPIEE
MIA Membership No. 19254

Before me,

Kapt (B) Jasni bin Yusoff
No: W465
Lot 1.08, Tingkat 1
Bangunan KWSP, Jalan Raja Laut
50350 Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF VELESTO ENERGY BERHAD (INCORPORATED IN MALAYSIA)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Velesto Energy Berhad, which comprise the statements of financial position as at 31 December 2022 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 162 to 222.

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 2022, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

Impairment of property, plant and equipment and rights of use assets: drilling services and hydraulic workover asset

As disclosed in Note 4 and 8 to the financial statements, included in the carrying amount of the property, plant and equipment and rights of use assets of the Group as at 31 December 2022 are assets related to the drilling services segment and hydraulic workover operation ("drilling services and hydraulic workover assets") of RM2,376.4 million and RM4.8 million respectively, which collectively represents 77% of the Group's total assets. The accumulated impairment loss on drilling services and hydraulic workover assets as at 31 December 2022 is RM2,037.6 million. The Group did not recognised any impairment loss on the property, plant and equipment during the financial year.

The Group is required to assess at each reporting period whether there is any indication that a cash generating unit ("CGU") may be impaired. If any such indication exists, the Group shall estimate the recoverable amount of the CGU(s).

Due to the uncertainties of the demand and supply in the oil and gas industry and the volatile oil prices, the Group has determined that there are indications that the assets of drilling services and hydraulic workover assets may be impaired. Accordingly, the Group estimated the recoverable amount of the respective cash generating units ("CGU"s) based on their fair value less cost to sell or their respective value-in-use ("VIU"), whichever is higher.

Key audit matters (cont'd.)

Impairment of property, plant and equipment and rights of use assets: drilling services and hydraulic workover asset (cont'd.)

Estimating the recoverable amounts based on VIU involved estimates made by management relating to the future cash inflows and outflows that will be derived from the CGU and discounting them at the appropriate rate. The cash flow forecasts included a number of significant judgements and estimates such as the expected operating day rates and utilisation rate of the rigs/hydraulic workover units, estimated terminal value of the assets and the discount rates.

Given the significance of the drilling services and hydraulic workover assets to the Group and the significant judgements and estimates involved in the assessment of the recoverable amounts, we have identified the above impairment assessments as an area of focus to our audit.

Our procedures in reviewing the significant judgements and estimates applied in arriving at the recoverable amount for the impairment assessment as at 31 December 2022, include inter-alia the following:

- Obtained an understanding of the relevant processes and internal controls over the estimating the recoverable amount of the CGUs;
- Evaluated the appropriateness of the methodology and approach applied;
- Evaluated the key assumptions used by management in the cash flow projections on whether they are reasonable by comparing to past actual information and by corroborating with industry analysts' views, management's plans, existing contracts and upcoming bidding opportunities, where applicable;
- Evaluated the discount rates and the methodology used in deriving the present value of the cash flows, with the support of our internal valuation specialists;
- We have performed sensitivity analysis on the key inputs to understand the impact that alternative assumptions would have had on the recoverable amounts; and
- Assessed the adequacy of the disclosures made in the financial statements.

Impairment assessment of investments in subsidiaries

As at 31 December 2022, the carrying amount of the investment in subsidiaries companies of the Company amounted to RM1,012.3 million, representing 43% of the Company's total assets. The accumulated impairment loss on cost of investments in subsidiaries as at 31 December 2022 is RM2,559.6 million.

As disclosed in Note 5 to the financial statements, during the financial year, certain subsidiaries with a carrying amount of RM989.4 million have reported continuing operating losses and/or depleting shareholders' funds which indicate that the investments in these subsidiaries may be impaired. The Company estimated the recoverable amount of the subsidiaries using value in use based on discounted future cash flows and compared the carrying amount of the investments in subsidiaries with their respective recoverable amounts.

Given the significance of investment in subsidiaries to the Company and the significant judgements and estimates involved in the assessment of the recoverable amount, we have identified the above impairment assessment as an area of focus to our audit.

In addressing the matter above, we have performed amongst others the following audit procedures:

- Obtained an understanding of the relevant processes and internal controls over the estimation of present value of estimated future cash flows;
- Evaluated the appropriateness of the methodology and approach applied;
- Evaluated the key assumptions used in determination of the present value of estimated future cash flows such as expected operating day rates, utilisation rates, inflation rate, bareboat chartered rates, estimated terminal value by comparing to past actual outcomes, management's plans, existing contracts and upcoming bidding opportunities, where applicable;
- Evaluated the discount rates used in used in deriving the present value of the cash flows; and
- Assessed the adequacy of the disclosures made in the financial statements.

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the Group's annual report and the Directors' Report for the financial year ended 31 December 2022, but does not include the financial statements of the Group and of the Company and our auditors' report thereon. The Group's 2022 Annual Report 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 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 when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

- 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 the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements
In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 30 to the financial statements.

Other matters
This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Mimie Joanna Binti Johar
No. 03592/09/2023 J
Chartered Accountant

Kuala Lumpur, Malaysia
14 April 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Note	2022 RM'000	2021 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	2,408,145	2,294,319
Investment in an associate	6	1,236	1,077
Right-of-use assets	8	7,950	8,899
		2,417,331	2,304,295
Current assets			
Inventories	9	185,196	173,518
Trade and other receivables	10	359,148	198,687
Tax recoverable		7,659	13,463
Other investments	12	-	22,531
Deposits, cash and bank balances	13	120,028	293,512
		672,031	701,711
TOTAL ASSETS		3,089,362	3,006,006
EQUITY AND LIABILITIES			
Non-current liabilities			
Long term borrowings	14	306,277	302,110
Lease liabilities	8	4,067	4,928
		310,344	307,038
Current liabilities			
Short term borrowings	15	254,950	279,916
Lease liabilities	8	2,915	2,742
Trade and other payables	16	237,412	154,345
Tax payable		2,076	3,863
		497,353	440,866
Total liabilities		807,697	747,904
EQUITY			
Equity attributable to equity holders of the Company			
Ordinary share capital	17	1,844,817	1,844,817
Other reserves	18	1,056,244	932,279
Accumulated losses		(619,396)	(518,994)
Total equity		2,281,665	2,258,102
TOTAL EQUITY AND LIABILITIES		3,089,362	3,006,006

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	Note	2022 RM'000	2021 RM'000
Revenue	19	580,853	377,509
Other operating income	20	9,216	563,857
Finished goods purchased		(6,235)	(1,968)
Raw materials and consumables used		(117,451)	(50,529)
Employee benefits	21	(141,574)	(117,049)
Depreciation and amortisation		(167,928)	(157,013)
(Allowance for)/reversal of impairment losses	22	(2,729)	359
Other operating expenses	23	(207,688)	(660,145)
Loss from operations		(53,536)	(44,979)
Finance costs	24	(31,836)	(40,268)
Investment income	25	3,447	2,395
Share of results of associate		155	153
Loss before tax		(81,770)	(82,699)
Income tax expense	26	(18,632)	(8,125)
Loss net of tax for the year		(100,402)	(90,824)
Other comprehensive income:			
Foreign currency translation		124,846	76,014
Other comprehensive income that may be reclassified to profit or loss in subsequent periods, net of tax:		124,846	76,014
Total comprehensive income/(loss) for the year		24,444	(14,810)
Loss attributable to:			
Equity holders of the Company		(100,402)	(90,824)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		24,444	(14,810)
Loss per share attributable to equity holders of the Company (sen per share)			
- Basic	27	(1.22)	(1.11)
- Diluted	27	(1.22)	(1.11)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	← Non-distributable					→	Distributable			
	Ordinary share capital RM'000 (Note 17)	**Warrant reserve RM'000 (Note 18(a))**	**Share options reserve RM'000 (Note 18(b))**	**Capital reserve RM'000 (Note 18(c))**	**Gain on derecognition of financial liabilities RM'000 (Note 18(d))**	**Foreign currency translation reserve RM'000 (Note 18(e))**	**Accumulated losses RM'000**	**Total RM'000**	**Non-controlling interests RM'000**	**Total equity RM'000**
At 1 January 2022	1,844,817	211,876	10,842	698	78,145	630,718	(518,994)	2,258,102	-	2,258,102
Transactions with owners										
Share options lapsed under ESOS (Note 18)	-	-	(881)	-	-	-	-	(881)	-	(881)
Total transactions with owners	-	-	(881)	-	-	-	-	(881)	-	(881)
Loss for the year	-	-	-	-	-	-	(100,402)	(100,402)	-	(100,402)
Other comprehensive income for the year	-	-	-	-	-	124,846	-	124,846	-	124,846
Total comprehensive income/(loss) for the year	-	-	-	-	-	124,846	(100,402)	24,444	-	24,444
At 31 December 2022	1,844,817	211,876	9,961	698	78,145	755,564	(619,396)	2,281,665	-	2,281,665
At 1 January 2021	1,844,817	211,876	7,525	698	78,145	554,704	(428,170)	2,269,595	1,211	2,270,806
Transactions with owners										
Share options granted under ESOS (Note 18)	-	-	3,317	-	-	-	-	3,317	-	3,317
Liquidation of subsidiaries (Note 30)	-	-	-	-	-	-	-	-	(1,211)	(1,211)
Total transactions with owners	-	-	3,317	-	-	-	-	3,317	(1,211)	2,106
Loss for the year	-	-	-	-	-	-	(90,824)	(90,824)	-	(90,824)
Other comprehensive income for the year	-	-	-	-	-	76,014	-	76,014	-	76,014
Total comprehensive income/(loss) for the year	-	-	-	-	-	76,014	(90,824)	(14,810)	-	(14,810)
At 31 December 2021	1,844,817	211,876	10,842	698	78,145	630,718	(518,994)	2,258,102	-	2,258,102

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	2022 RM'000	**2021 RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(81,770)	(82,699)
Adjustments for:		
Depreciation and amortisation	167,928	157,013
Reversal of impairment loss on property, plant and equipment	(745)	-
Property, plant and equipment written off	1,224	438,981
Interest expense	31,836	40,268
Investment income	(3,447)	(2,395)
Net gain on disposal of property, plant and equipment	-	(163)
Provision for unutilised leave	477	208
Share of results of associate	(155)	(153)
Share options (lapsed)/granted under ESOS	(881)	3,317
Net unrealised foreign exchange (gain)/loss (Note 20, 23)	(8,503)	3,142
Allowance for/(reversal of) impairment losses of trade receivables	3,474	(359)
Trade receivables written off	-	359
Inventories written off	-	28,288
Insurance claim	-	(560,850)
Gain on liquidation of subsidiaries	-	(2,102)
Net fair value gain on investments in money market fund	-	(19)
Operating profit before working capital changes	109,438	22,836
Increase in trade and other receivables	(143,007)	(1,211)
(Increase)/decrease in inventories	(2,591)	4,400
Increase in trade and other payables	47,633	536
Net cash generated from operations	11,473	26,561
Interest paid	(23,303)	(35,573)
Taxes paid	(14,615)	(20,106)
Net cash used in operating activities	(26,445)	(29,118)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,333	2,333
Purchase of property, plant and equipment	(147,391)	(71,933)
Proceeds from disposal of property, plant and equipment	-	350
Withdrawal of investments in money market fund	22,540	76,963
Movement in deposits placement with maturity of more than 3 months	46,076	(46,076)
Insurance claim	-	560,850
Dividend received from an associate	-	953
Proceeds from liquidation of subsidiaries	-	1,301
Net cash (used in)/generated from investing activities	(75,442)	524,741

	2022 RM'000	2021 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term borrowings	(13,853)	(707,169)
Net movement in short term borrowings	(37,131)	195,468
Net movement of restricted cash deposits in licensed banks	(3,769)	54,967
Payment of lease liabilities	(4,007)	(6,631)
Net cash used in financing activities	(58,760)	(463,365)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(160,647)	32,258
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	244,500	203,331
EFFECTS OF EXCHANGE RATE CHANGES	29,470	8,911
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	113,323	244,500
Cash and cash equivalents comprise:		
Deposits with licensed banks (Note 13)	47,279	239,826
Cash and bank balances (Note 13)	72,749	53,686
	120,028	293,512
Less: Restricted cash (Note 13)	(6,705)	(2,936)
Less: Deposits with a maturity of more than 3 months (Note 13)	-	(46,076)
	113,323	244,500

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Note	2022 RM'000	2021 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	15,472	12,668
Investments in subsidiaries	5	1,012,327	997,328
Due from subsidiaries	11	1,136,900	935,369
Right-of-use assets	8	1,398	2,113
		2,166,097	1,947,478
Current assets			
Other receivables	10	2,502	664
Tax recoverable		5,779	7,877
Due from subsidiaries	11	175,262	288,281
Deposits, cash and bank balances	13	30,933	47,150
		214,476	343,972
TOTAL ASSETS		2,380,573	2,291,450
EQUITY AND LIABILITIES			
Non-current liability			
Due to subsidiaries	11	322,554	328,986
Lease liabilities	8	5	426
		322,559	329,412
Current liabilities			
Other payables	16	12,143	5,763
Due to subsidiaries	11	124,198	124,196
Lease liabilities	8	1,414	1,647
		137,755	131,606
Total liabilities		460,314	461,018
EQUITY			
Equity attributable to equity holders of the Company			
Ordinary share capital	17	1,844,817	1,844,817
Other reserves	18	296,795	297,676
Accumulated losses		(221,353)	(312,061)
Total equity		1,920,259	1,830,432
TOTAL EQUITY AND LIABILITIES		2,380,573	2,291,450

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	Note	2022 RM'000	2021 RM'000
Revenue	19	15,308	11,524
Other operating income	20	70,973	42,939
Employee benefits	21	(24,409)	(24,761)
Depreciation and amortisation		(5,108)	(3,021)
Allowance for impairment losses	22	-	(1,720)
Other operating expenses	23	(9,657)	(7,395)
Profit from operations		47,107	17,566
Finance costs	24	(96)	(84)
Investment income	25	43,722	34,499
Profit before tax		90,733	51,981
Income tax expense	26	(25)	(116)
Profit for the year, representing total comprehensive income for the year		90,708	51,865

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	← Non-distributable			→	Distributable	
	Ordinary share capital RM'000 (Note 17)	Warrant reserve RM'000 (Note 18(a))	Share options reserve RM'000 (Note 18(b))	Gain on derecognition of financial liabilities RM'000 (Note 18(d))	(Accumulated losses)/ retained profit RM'000	Total equity RM'000
At 1 January 2022	1,844,817	211,876	7,655	78,145	(312,061)	1,830,432
Transactions with owners						
Share options lapsed under ESOS (Note 18)	-	-	(881)	-	-	(881)
Total transactions with owners	-	-	(881)	-	-	(881)
Total comprehensive income for the year	-	-	-	-	90,708	90,708
At 31 December 2022	1,844,817	211,876	6,774	78,145	(221,353)	1,920,259
At 1 January 2021	1,844,817	211,876	4,338	78,145	(363,926)	1,775,250
Transactions with owners						
Share options granted under ESOS (Note 18)	-	-	3,317	-	-	3,317
Total transactions with owners	-	-	3,317	-	-	3,317
Total comprehensive income for the year	-	-	-	-	51,865	51,865
At 31 December 2021	1,844,817	211,876	7,655	78,145	(312,061)	1,830,432

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

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	2022 RM'000	2021 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	90,733	51,981
Adjustments for:		
Depreciation and amortisation	5,108	3,021
Interest expense	96	84
Investment income	(43,722)	(34,499)
Net unrealised foreign exchange gain (Note 20)	(69,277)	(40,384)
Share options (lapsed)/granted under ESOS	(881)	3,317
Property, plant and equipment written off	971	136
Provision for/(reversal of) unutilised leave	233	(12)
Allowance for impairment losses in amount due from subsidiaries	-	1,720
Gain on liquidation of subsidiaries	-	(1,597)
Operating loss before working capital changes	(16,739)	(16,233)
(Increase)/decrease in other receivables	(1,838)	156
Increase in other payables	6,152	2,111
Net changes in related companies' balances	1,971	21,781
Net cash (used in)/generated from operations	(10,454)	7,815
Tax refund/(paid)	2,071	(2,713)
Net cash (used in)/generated from operating activities	(8,383)	5,102
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from deposits with licensed banks	1,084	80
Purchase of plant and equipment	(6,454)	(6,778)
Movement in deposits placement with maturity of more than 3 months	46,076	(46,076)
Proceeds from disposal of investment in subsidiaries	-	1,028
Withdrawal of investments in money market fund	-	45,263
Dividends received from other investments	-	742
Net cash generated from/(used in) investing activities	40,706	(5,741)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of lease liabilities, representing net cash used in financing activities	(2,464)	(2,568)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	29,859	(3,207)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,074	4,281
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	30,933	1,074
Cash and cash equivalents comprise:		
Deposits with licensed banks (Note 13)	28,550	46,676
Cash and bank balances (Note 13)	2,383	474
	30,933	47,150
Less: Deposits with a maturity of more than 3 months	-	(46,076)
	30,933	1,074

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2022

1. CORPORATE INFORMATION

Velesto Energy Berhad ("VEB") is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia"). The registered office of VEB is located at Level 18, Block 3A, Plaza Sentral, Jalan Stesen Sentral 5, 50470 Kuala Lumpur.

The principal activity of the Company is to carry on the business of an investment holding company and to provide full corporate management, administrative and professional services as well as financial support to its subsidiary companies. The principal activities of the subsidiaries and associate are described in Note 30 and Note 6 to the financial statements, 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;

(b) the provision of integrated services includes workover operations for the oil and gas industry; and

(c) the provision of threading, inspection and repair services for Oil Country Tubular Goods ("OCTG") in overseas, with a focus on premium connections used in high-end and complex wells.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 14 April 2023.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and of the Company comply with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia.

On 1 January 2022, the Group and the Company adopted the new and amended MFRSs and IC Interpretation (collectively referred to as "pronouncements") issued by the Malaysian Accounting Standards Board ("MASB") that are mandatory for the financial periods beginning on or after 1 January 2022 as described fully in Note 2.3.

MASB has also issued new and revised MFRSs which are not yet effective for the Group and the Company and therefore, have not been implemented by the Group and the Company in these financial statements as set out in Note 2.4.

The financial statements of the Group and of the Company have been prepared on a historical cost basis unless otherwise indicated in the accounting policies below.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

The preparation of financial statements in conformity with the provisions of the Companies Act 2016 and MFRSs in Malaysia, requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported year. Actual results could differ from those estimates. There are no areas involving a higher degree of judgement or complexity, or areas where estimates and assumptions are significant to the financial statements other than as disclosed in Note 3.

2.2 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.

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.)

The Company controls an investee if and only if the Company has all the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its investment with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting rights of an investee, the Company considers the following in assessing whether or not the Company's voting rights in an investee are sufficient to give it power over the investee:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Subsidiaries are consolidated from the effective date of acquisition, being a date on which the Group obtains control, and continue to be consolidated until the date that such control ceases, being the effective date of disposal.

Intragroup transactions, balances and resulting unrealised gains are eliminated in full on consolidation. The consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless the cost cannot be recovered.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Company.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

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

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

Business combinations (cont'd.)

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. For business combinations after 1 January 2011, acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 9 Financial Instruments is measured at fair value with the changes in fair value recognised in profit or loss in accordance with MFRS 9. Other contingent consideration that is not within the scope of MFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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

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

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

Business combinations under common control

Business combinations under common control are accounted for in the consolidated financial statements retrospectively from the date the Group obtains the ownership interest. Assets and liabilities are recognised upon consolidation at their carrying amounts in the consolidated financial statements. Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are recorded is recognised directly in equity.

Non-controlling interests

Non-controlling interests in the consolidated statement of comprehensive income and consolidated statement of financial position represent the portion of profit or loss and net assets in subsidiaries not held by the Group. Non-controlling interests in the consolidated statement of financial position consist of the non-controlling interests' share of the fair value of the identifiable assets and liabilities of the acquiree as at acquisition date and the non-controlling interests' share of movement in the acquiree's equity since then.

Acquisitions of non-controlling interests are accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised directly in equity.

Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest, even if doing so causes the non-controlling interest to have a deficit balance.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

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

(ii) Subsidiaries

A subsidiary is an entity over which the Group has all the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its investment with the investee; and
- The ability to use its power over the investee to affect its returns.

(iii) Associate

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those decisions. Investment in associate is accounted for in the consolidated financial statements using the equity method of accounting as described in Note 2.2(a)(iv).

(iv) Equity method of accounting

Under the equity method, the investments in associate are carried in the consolidated statement of financial position at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in profit or loss. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes.

In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss. An associate is equity accounted for from the date on which the investee becomes an associate.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the year in which the investment is acquired.

When the Group's share of losses in the associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available audited financial statements of the associate are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting year of the Group. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

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

(v) Separate financial statements

In the separate financial statements of the Company, investments in subsidiaries and associate are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

(b) Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment (including spare parts and standby-equipment) is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to initial recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively.

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

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	1 - 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(q).

(c) Financial assets

The Group and the Company applied MFRS 9 Financial Instruments as disclosed below:

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at either amortised cost, fair value through other comprehensive income or fair value through profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

(c) Financial assets (cont'd.)

Initial recognition and measurement (cont'd.)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under MFRS 15 Revenue from Contracts with Customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income ("OCI"), it needs to give rise to cash flows that are 'solely payments of principal and interest ("SPPI")' on the principal amount outstanding. The assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For the purpose of subsequent measurement, financial assets of the Group are classified in two categories:

(i) Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's and the Company's financial assets at amortised cost include trade receivables, other receivables (other than prepayments), amounts due from subsidiaries and deposits, cash and bank balances.

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

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

(c) Financial assets (cont'd.)

Subsequent measurement (cont'd.)

For the purpose of subsequent measurement, financial assets of the Group are classified in two categories (cont'd.):

(ii) Financial assets at fair value through profit or loss (cont'd.)

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statements of financial position at fair value with the net changes in fair value recognised in the statements of profit or loss.

The Group's and the Company's financial assets at fair value through profit or loss include investment in money market fund.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(d) Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

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

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

(e) Cash and cash equivalents

Cash and cash equivalents include cash and bank balances and deposits at call with licensed banks with a tenure of three months or less that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

(f) 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 consumable	- Weighted averages

Cost of finished goods, raw materials, spares and consumables represents cost of purchase.

(g) Intangible assets

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. On disposal of an entity, the carrying amount of goodwill is taken into account in determining the gain or loss.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's Cash-Generating Units ("CGU") that are expected to benefit from the synergies of the combination.

The CGU to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the CGU may be impaired, by comparing the carrying amount of the CGU, including the allocated goodwill, with the recoverable amount of the CGU. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a CGU and part of the operation within that CGU is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair value of the operation disposed of and the portion of the CGU retained.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

(h) Foreign currencies

(i) Functional and presentation currency

The financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RM, which is also the Company's functional currency.

(ii) Foreign currency transactions

Transactions in currencies other than the Company's and its subsidiaries' functional currency ("foreign currencies") are initially converted into functional currency at rates of exchange ruling at the transaction dates.

Non-monetary items

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

Monetary items

At each reporting date, monetary items denominated in foreign currencies are translated into functional currency at exchange rates ruling at that date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period.

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation are taken directly to the foreign currency translation reserve within other comprehensive income until the disposal of the foreign operation, at which time they are recognised in profit or loss.

(iii) Foreign operations

The financial statements of foreign operations which are consolidated are translated at year-end exchange rates with respect to the assets and liabilities, and at average exchange rates for the year, which approximate the exchange rates at the dates of the transactions with respect to profit or loss. All resulting translation differences are included in the foreign currency translation reserve within other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2006 are treated as assets and liabilities of the foreign operation and are recorded in the functional currency of the foreign operation and translated at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign operation before 1 January 2006 are deemed to be assets and liabilities of the parent company and are recorded in RM at the exchange rate ruling at the date of the transaction.

(i) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or amortised cost as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities at amortised cost, net of directly attributable transaction costs.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

(i) Financial liabilities (cont'd.)

Subsequent measurement

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statements of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statements of profit or loss.

(j) 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.

(k) 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.

(l) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

(m) Income taxes

Income tax in the profit or loss for the period comprises current tax and deferred tax. Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries and associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except in respect of deductible temporary differences associated with investments in subsidiaries and associate, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(n) Revenue and other income recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when or as it transfers control over a good or service to the customer. An asset is transferred when (or as) the customer obtains control of the asset.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

(n) Revenue and other income recognition (cont'd.)

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time in accordance with the above criteria, an entity satisfies the performance obligation and recognises revenue at a point in time.

(i) Revenue from provision of drilling and workover services and related expenses

Revenue from provision of drilling and workover services includes minimum lease payments from customers under day-rate based contracts and other services. Revenue generated from day-rate based contracts, which are classified as operating lease by the Group, are recognised over time over the contract period.

Day-rate based contracts may include lump-sum fees for mobilisation and demobilisation which are recognised based on the policies stated in Note 2.2(n)(ii) and (iii). Fees received from customers under contract for upgrade to the rig are deferred and recognised over the contract term.

Additional payments for meeting or exceeding certain performance targets are recognised at the point in time at which the service is performed.

(ii) Lump sum mobilisation fees received

Lump sum mobilisation fees received on drilling and workover services contracts are deferred and recognised on a straight-line basis over the period that the related drilling and workover services are performed.

Mobilisation costs incurred as part of a contract are deferred and recognised as an expense over the contract period. The costs of relocating drilling rigs that are not under a contract are expensed as incurred.

(iii) Demobilisation fees received

Demobilisation costs are costs related to the transfer of a drilling rig to a safe harbour or different geographical area and are expensed as incurred.

Demobilisation fees on drilling and workover services contracts are recognised at the point in time when it becomes known and certain that demobilisation fee can be charged to the customer.

(iv) Sale of goods

Revenue from sale of goods is recognised at the point in time when the control of the asset is transferred to the customer.

(v) Rendering of services

Revenue from services rendered is recognised net of service tax over time because the customer simultaneously receives and consumes the benefits provided to them.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

(n) Revenue and other income recognition (cont'd.)

(vi) Rental income

Rental income from operating leases are accounted for on a straight-line basis over the lease terms.

(vii) Interest income

Interest income is recognised using the effective interest method.

(viii) Management fees

Management fees are recognised when services are rendered.

(ix) Dividend income

Dividend income is recognised when the shareholders' rights to receive payment is established.

(o) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Short-term leasehold land	50 years
Office premises	2 - 3 years
Motor vehicles	2 - 3 years
Warehouses	2 - 9 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment, and the policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(q).

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

(o) Leases (cont'd.)

Group as a lessee (cont'd.)

(ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low-value. Lease payments on short-term leases and leases of low- value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in other operating income in the statements of profit or loss due to its nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as income in the period in which they are earned.

(p) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

(p) Employee benefits (cont'd.)

(ii) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years.

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund. Some of the Group's foreign subsidiaries also make contributions to their respective countries' statutory pension schemes. The contributions are recognised as an expense in profit or loss as incurred.

(q) Impairment of non-financial assets

The carrying amounts of assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss, if any.

For the purpose of impairment assessment of these assets, the recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs to sell and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro- rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss.

(r) Segment reporting

For management purposes, the Group is organised into operating segments based on nature of services which are managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the Executive Director who regularly reviews the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 29, including the factors used to identify the reportable segments and the measurement basis of segment information.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

(s) Fair value measurement

MFRS 13 Fair Value Measurement prescribed that fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

Financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

(t) 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.

(u) Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 18(b).

That cost is recognised in employee benefits expense (Note 21), together with a corresponding increase in equity (share options reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statements of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

(u) Share-based payments (cont'd.)

Equity-settled transactions (cont'd.)

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 27).

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 2022, the Group and the Company adopted the following new and amended MFRSs and IC Interpretations (collectively referred to as "pronouncements") mandatory for annual financial periods beginning on or after 1 January 2022.

Description	**Effective date**
Amendments to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018-2020)	1 January 2022
Amendments to MFRS 3 Business Combinations (Reference to the Conceptual Framework)	1 January 2022
Amendments to MFRS 9 Financial Instruments (Annual Improvements to MFRS Standards 2018-2020)	1 January 2022
Amendments to MFRS 116 Property, Plant and Equipment (Proceeds before Intended Use)	1 January 2022
Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets (Onerous contracts - Cost of fulfilling a contract)	1 January 2022

The adoption of the above new and amended standards did not have any significant effect on the financial performance or position of the Group and of the Company.

2.4 Standards issued but not yet effective

The pronouncements that are issued but not yet effective up to the date of issuance of the Group's and of the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.4 Standards issued but not yet effective (cont'd.)

Description	Effective for annual periods beginning on or after
Amendments to MFRS 101 Presentation of Financial Statements (Disclosure of Accounting Policies)	1 January 2023
Amendments to MFRS 101 Presentation of Financial Statements (Classification of Liabilities as Current or Non-current)	1 January 2023
Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Accounting Estimates)	1 January 2023
Amendments to MFRS 112 Income Taxes (Deferred Tax related to Assets and Liabilities arising from a Single Transaction)	1 January 2023
Amendment to MFRS 16 Leases (Lease Liability in a Sale and Leaseback)	1 January 2024
Amendments to MFRS 101 Non-current Liabilities with Covenants	1 January 2024
Amendments to MFRS 10 Consolidated Financial Statements (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)	Deferred
Amendments to MFRS 128 Investments in Associates and Joint Ventures (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)	Deferred

The directors expect that the adoption of the pronouncements above will have no material impact on the financial statements in the period of initial application.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Deferred tax assets

Deferred tax assets are recognised for all unutilised tax losses, unabsorbed capital allowances and unabsorbed reinvestment allowances to the extent that it is probable that taxable profit will be available against which the losses, capital allowances and reinvestment allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies. The amount of recognised and unrecognised tax losses, capital allowances and reinvestment allowances of the Group are as disclosed in Note 7.

(ii) Impairment of property, plant and equipment, right-of-use assets and investment in subsidiaries

During the current financial year, the Group and the Company have recognised impairment losses in respect of property, plant and equipment.

The Group carried out the impairment assessment based on value-in-use and fair value less costs to sell of the CGU to which the assets are allocated.

Estimating the value-in-use requires the management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Fair value is obtained from valuation reports performed by independent professional valuers based on best information available. Significant estimate is involved in deriving the fair value as there are possible variations in the basis and assumptions used by the valuers. Further details of the impairment losses recognised are as disclosed in Note 4 and Note 5.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (cont'd.)

Key sources of estimation uncertainty (cont'd.)

(iii) Useful lives and residual value of plant and equipment

The cost of plant and equipment is depreciated on a straight-line basis over their estimated economic 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 expenctancies 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 plant and equipment at the reporting date is disclosed in Note 4.

(iv) Provision for expected credit losses ("ECLs") of trade receivables

The Group uses simplified approach to calculate ECLs for trade receivables. The provision rates are based on various customer's historical observed default rates.

The Group considers and assesses the historical credit loss experience withforward-looking information. For instance, if forecast economic conditions (i.e. gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the oil and gas sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 10.

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 2021	21,090	6,542,024	24,194	19,297	39,385	6,645,990
Exchange differences	1,273	223,436	618	596	920	226,843
Additions	-	48,132	3	23,242	556	71,933
Write-offs	-	(988,449)	-	(6)	(1,422)	(989,877)
Disposals	-	(2,608)	-	-	-	(2,608)
Reclassification	-	2,028	-	(2,028)	-	-
At 31 December 2021/ 1 January 2022	22,363	5,824,563	24,815	41,101	39,439	5,952,281
Exchange differences	(690)	331,523	(345)	1,712	1,182	333,382
Additions	-	133,501	-	12,176	1,714	147,391
Write-offs	-	(1,305)	-	-	(1,674)	(2,979)
Reclassification	-	28,429	-	(44,059)	15,630	-
At 31 December 2022	21,673	6,316,711	24,470	10,930	56,291	6,430,075

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 depreciation						
At 1 January 2021	2,757	1,655,103	10,614	-	33,714	1,702,188
Exchange differences	174	55,973	489	-	842	57,478
Depreciation charge for the year	418	151,357	242	-	1,168	153,185
Write-offs	-	(199,400)	-	-	(1,201)	(200,601)
Disposals	-	(2,174)	-	-	-	(2,174)
At 31 December 2021/ 1 January 2022	3,349	1,660,859	11,345	-	34,523	1,710,076
Exchange differences	(99)	92,012	(278)	-	1,135	92,770
Depreciation charge for the year	414	160,091	235	-	3,292	164,032
Write-offs	-	(628)	-	-	(703)	(1,331)
At 31 December 2022	3,664	1,912,334	11,302	-	38,247	1,965,547
Accumulated impairment losses						
At 1 January 2021	6,637	2,203,592	10,863	-	1,971	2,223,063
Exchange differences	-	75,362	-	-	3	75,365
Write-offs	-	(350,295)	-	-	-	(350,295)
Disposals	-	(247)	-	-	-	(247)
At 31 December 2021/ 1 January 2022	6,637	1,928,412	10,863	-	1,974	1,947,886
Exchange differences	-	109,656	-	-	10	109,666
Reversal of impairment loss	(745)	-	-	-	-	(745)
Write-offs	-	(424)	-	-	-	(424)
At 31 December 2022	5,892	2,037,644	10,863	-	1,984	2,056,383
Net carrying amount						
At 31 December 2022	12,117	2,366,733	2,305	10,930	16,060	2,408,145
At 31 December 2021	12,377	2,235,292	2,607	41,101	2,942	2,294,319

4 . PROPERTY, PLANT AND EQUIPMENT (cont'd.)

	**Other assets RM'000	Assets-in-progress RM'000	Total RM'000
Company			
Cost			
At 1 January 2021	8,095	4,850	12,945
Additions	360	6,418	6,778
Write-offs	(448)	(6)	(454)
Reclassification	360	(360)	-
At 31 December 2021/1 January 2022	8,367	10,902	19,269
Additions	474	5,980	6,454
Write-offs	(1,674)	-	(1,674)
Reclassification	15,630	(15,630)	-
At 31 December 2022	22,797	1,252	24,049
Accumulated depreciation			
At 1 January 2021	6,287	-	6,287
Depreciation charge for the year	632	-	632
Write-offs	(318)	-	(318)
At 31 December 2021/1 January 2022	6,601	-	6,601
Depreciation charge for the year	2,679	-	2,679
Write-offs	(703)	-	(703)
At 31 December 2022	8,577	-	8,577
Net carrying amount			
At 31 December 2022	14,220	1,252	15,472
At 31 December 2021	1,766	10,902	12,668

** *Included in the other assets are office equipment, computer software, furniture and fittings, renovation, improvements and motor vehicles.*

Whilst crude oil price has improved compared to the end of the previous financial year, the oil companies continue to be prudent with capital expenditure. During the financial year, certain subsidiaries of the Group within the drilling services segment, hydraulic workover operation and oilfield services segment carried out a review of the recoverable amounts of their property, plant and equipment.

Recoverable amount determined based on value-in-use

Included in the carrying amount of the property, plant and equipment is RM2,376.4 million (2021: RM2,265.5 million) relating to drilling services segment and hydraulic workover operations, of which was impaired in prior years. The recoverable amount of these assets are based on the value-in-use of each asset, based on their respective cash flow projections discounted at pre-tax discount rates up to 13.3%. For the financial year ended 31 December 2022, no impairment loss was recognised (2021: no impairment loss).

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. Adjustments to the discount rates are made to factor in the specific amount and timing of the future cash flows in order to reflect a pre-tax discount rate.

The calculation of value-in-use is most sensitive to the utilisation rates, time charter rates and discount rate assumptions. Any adverse change in the key assumptions used in value-in-use calculations would result in further impairment.

4 . PROPERTY, PLANT AND EQUIPMENT (cont'd.)

Recoverable amount determined based on fair value less costs to sell

The fair value of certain building was determined based on the valuation performed by an independent valuer using the comparable approach. The fair value measurement is derived from inputs based on level 3 of the fair value hierarchy. Further details of the fair value hierarchy are disclosed in Note 32.

Sensitivity to changes in assumptions

The only CGU where a reasonably possible change to certain key assumptions would cause the recoverable amount to be equal to its carrying amount are the drilling rigs and HWUs CGU.

The following changes in the key assumptions, in isolation, would lead to the sensitivity of the recoverable amount of the drilling rigs and HWUs.

		Effect on recoverable amount Increase/(decrease) RM'000
Drilling rigs		
Discount rate	- Increase by 0.1%	(19,939)
	- Decrease by 0.1%	19,939
HWUs		
Discount rate	- Increase by 0.5%	(73)
	- Decrease by 0.5%	73

In relation to the recoverable amount determined based on fair value less costs to sell of certain building, if the fair value increase by 5%, the recoverable amount will increase by RM689,000.

5. INVESTMENTS IN SUBSIDIARIES

	Company	
	2022 RM'000	2021 RM'000
Unquoted shares, at cost		
In Malaysia	3,087,009	3,087,009
Outside Malaysia	22,902	22,902
Capitalisation of amounts due from subsidiaries	462,030	447,031
	3,571,941	3,556,942
Less: Allowance for impairment losses	(2,559,614)	(2,559,614)
	1,012,327	997,328

The Company performed an impairment review of its investments in certain subsidiaries, where the carrying amount of investments exceeded its recoverable amount in the respective subsidiaries at the reporting date. The review did not gave rise to the recognition of allowance for impairment loss of investment in subsidiaries for the financial year ended 31 December 2022 and 31 December 2021.

Details of the subsidiaries are set out in Note 30.

If recoverable amount increase of 5%, this will result in RM49,401,000 (2021: RM22,040,000) decrease in allowance for impairment loss of investment in subsidiaries.

6. INVESTMENT IN AN ASSOCIATE

	Group	
	2022 RM'000	2021 RM'000
Unquoted shares, at cost	1,090	1,090
Share of post-acquisition reserves	146	(13)
	1,236	1,077

Details of the associate are as follows:

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest 2022 %	2021 %
Oil-Tex (Thailand) Company Limited*	Thailand	Provision of logistic services for the oil and gas industry.	20	20

* Audited by a firm other than Ernst & Young PLT.

Financial year end of Oil-Tex (Thailand) Company Limited is 31 March.

The financial statements of the associate are not coterminous with that of the Group as its financial year end is 31 March. For the purpose of applying the equity method of accounting, the management accounts for the 12-month period ended 31 December 2022 and 2021 of the associate have been used.

The summarised financial information of the associate, not adjusted for the proportion of ownership interest held by the Group, is as follows:

	2022 RM'000	2021 RM'000
Assets and liabilities:		
Current assets	6,666	5,407
Non-current assets	179	213
Total assets	6,845	5,620
Current liabilities, representing total liabilities	2,333	2,137
Results		
Revenue	9,376	8,624
Profit for the year	777	751
Total comprehensive (loss)/income	(637)	1,451

Reconciliation of the summarised financial information presented above to the carrying amount of the Group's interest in associate is as follows:

	2022 RM'000	2021 RM'000
Net assets at 1 January	5,149	9,150
Profit for the year	777	751
Dividend paid	-	(5,452)
Other comprehensive (loss)/income	(1,414)	700
Net assets at 31 December	4,512	5,149
Share of net assets	902	1,030
Goodwill	334	47
Carrying value of the Group's interest in associate	1,236	1,077

7. DEFERRED TAXATION

	Group	
	2022 RM'000	2021 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	1,550	2,306
Deferred tax assets	(1,550)	(2,306)
	-	-

The components and movements of deferred tax liabilities and assets during the financial year, prior to offsetting are as follows:

Deferred tax liabilities:

	Accelerated capital allowances RM'000
Group	
At 1 January 2021	2,381
Recognised in profit or loss	(75)
At 31 December 2021/1 January 2022	2,306
Recognised in profit or loss	(756)
At 31 December 2022	1,550

Deferred tax assets:

	Unabsorbed capital allowances RM'000	Unutilised tax losses RM'000	Total RM'000
Group			
At 1 January 2022	(1,581)	(725)	(2,306)
Recognised in profit or loss	109	647	756
At 31 December 2022	(1,472)	(78)	(1,550)
At 1 January 2021	(2,226)	(155)	(2,381)
Recognised in profit or loss	645	(570)	75
At 31 December 2021	(1,581)	(725)	(2,306)

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Unutilised tax losses	249,513	178,235	79,049	71,601
Unabsorbed capital and reinvestment allowances	48,073	45,137	7,907	6,402
Others	104,552	86,645	4,830	1,061
	402,138	310,017	91,786	79,064

The unutilised tax losses, unabsorbed capital and reinvestment allowances of the Group are available for offsetting against future taxable profits of the respective subsidiaries within the Group, subject to no substantial changes in the shareholding of these subsidiaries under the Income Tax Act, 1967. The Ministry of Finance via the Budget 2022 announced that the Government will limit the carrying forward of unutilised business losses and unabsorbed investment tax allowances up to a maximum of ten consecutive years of assessment, retrospectively from year of assessment in 2019. Deferred tax assets have not been recognised in respect of these items because there is uncertainty as to when the companies that have recent history of losses will be profitable and therefore, it is not probable that future taxable profits of the applicable Group entities will be sufficient to allow the benefits to be realised.

8. LEASES

Right-of-use assets

	Group				
	Short-term leasehold land RM'000	Office premises and equipment RM'000	Motor vehicles RM'000	Warehouses RM'000	Total RM'000
Cost					
At 1 January 2021	2,710	7,538	437	8,619	19,304
Addition	-	330	-	-	330
Lease modification	-	1,831	-	445	2,276
Exchange differences	131	-	-	-	131
At 31 December 2021/1 January 2022	2,841	9,699	437	9,064	22,041
Addition	-	-	-	666	666
Lease modification	-	1,864	-	426	2,290
Derecognition	-	-	(437)	(481)	(918)
Exchange differences	(9)	-	-	-	(9)
At 31 December 2022	2,832	11,563	-	9,675	24,070
Accumulated depreciation					
At 1 January 2021	524	4,787	297	2,903	8,511
Depreciation	56	2,404	140	1,228	3,828
At 31 December 2021/1 January 2022	580	7,191	437	4,131	12,339
Depreciation	57	2,646	-	1,193	3,896
Derecognition	-	-	(437)	(481)	(918)
At 31 December 2022	637	9,837	-	4,843	15,317
Accumulated impairment					
At 1 January 2021/31 December 2021/ 1 January 2022/31 December 2022	803	-	-	-	803
Net carrying amount					
At 31 December 2022	1,392	1,726	-	4,832	7,950
At 31 December 2021	1,458	2,508	-	4,933	8,899

Included in the right-of-use assets are RM4,832,000 (FY2021: RM4,933,000) relating to warehouses which is under drilling services segment.

8. LEASES (cont'd.)

Right-of-use assets (cont'd.)

	Company		
	Office premises and equipment RM'000	Motor vehicles RM'000	Total RM'000
Cost			
At 1 January 2021	7,011	367	7,378
Lease modification	1,852	28	1,880
At 31 December 2021/1 January 2022	8,863	395	9,258
Lease modification	1,714	-	1,714
Derecognition	-	(395)	(395)
At 31 December 2022	10,577	-	10,577
Accumulated depreciation			
At 1 January 2021	4,529	227	4,756
Depreciation	2,221	168	2,389
At 31 December 2021/1 January 2022	6,750	395	7,145
Depreciation	2,429	-	2,429
Derecognition	-	(395)	(395)
At 31 December 2022	9,179	-	9,179
Net carrying amount			
At 31 December 2022	1,398	-	1,398
At 31 December 2021	2,113	-	2,113

Lease liabilities

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
At 1 January	7,670	11,296	2,073	2,677
Accretion of interest (Note 24)	363	399	96	84
Additions	666	330	-	-
Lease modification	2,290	2,276	1,714	1,880
Payments	(4,007)	(6,631)	(2,464)	(2,568)
At 31 December	6,982	7,670	1,419	2,073
Current	2,915	2,742	1,414	1,647
Non-current	4,067	4,928	5	426
Total	6,982	7,670	1,419	2,073

8. LEASES (cont'd.)

Lease liabilities (cont'd.)

The maturity analysis of lease liabilities are disclosed in Note 34(d).

The following are the amounts recognised in profit or loss:

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Depreciation expense of right-of-use assets	3,896	3,828	2,429	2,389
Interest expense on lease liabilities (Note 24)	363	399	96	84
Rental of leases of low-value assets and short-term leases (Note 23)	-	364	-	99
Total amount recognised in profit or loss	4,259	4,591	2,525	2,572

9. INVENTORIES

	Group	
	2022 RM'000	2021 RM'000
At cost:		
Raw materials, spare parts and consumables	185,196	173,518

The cost of inventories recognised as an expense during the financial year amounted to RM123,686,000 (2021: RM52,497,000).

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Trade receivables (Note (a))	339,286	177,579	-	-
Other receivables (Note (b))	19,862	21,108	2,502	664
Total trade and other receivables	359,148	198,687	2,502	664
Total trade and other receivables	359,148	198,687	2,502	664
Less:				
Accrued income (Note (a))	(233,294)	(63,451)	-	-
Prepayments (Note (b))	(17,931)	(18,015)	(2,058)	(315)
	107,923	117,221	444	349
Add:				
Deposits, cash and bank balances (Note 13)	120,028	293,512	30,933	47,150
Due from subsidiaries -				
Non-current (Note 11)	-	-	1,136,900	935,369
Current (Note 11)	-	-	175,262	288,281
Total financial assets at amortised cost	227,951	410,733	1,343,539	1,271,149

10. TRADE AND OTHER RECEIVABLES (cont'd.)

(a) Trade receivables

	Group	
	2022 RM'000	2021 RM'000
Third parties	110,375	114,964
Allowance for impairment losses (Note (i))	(4,383)	(836)
	105,992	114,128
Accrued income	233,294	63,451
	339,286	177,579

The Group's normal trade credit terms for the financial year ended 31 December 2022 range from 30 days to 60 days (2021: 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 9 (2021: 9) debtors representing 94% (2021: 98%) of the total net trade receivables.

(i) Receivables that are impaired

	Group	
	2022 RM'000	2021 RM'000
Individually impaired		
Trade receivables	4,383	836
Less: Allowance for impairment losses	(4,383)	(836)
	-	-
Movement in allowance for impairment losses		
At 1 January	836	1,177
Exchange differences	73	18
Charged/(reversal) for the year (Note 22)	3,474	(359)
At 31 December	4,383	836

Trade receivables that are individually determined to be impaired at the reporting date relate to trade disputes. These receivables are not secured by any collateral or bank guarantee. The information about the credit exposures are disclosed in Note 34(c).

(b) Other receivables

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Deposits	1,126	1,147	285	295
Prepayments (Note (i))	17,931	18,015	2,058	315
Sundry receivables	805	1,946	159	54
	19,862	21,108	2,502	664

(i) Prepayments mainly comprise insurance premium and advance payments to vendors in respect of certain services.

11. DUE FROM/(TO) SUBSIDIARIES

	Company	
	2022 RM'000	2021 RM'000
Non-current:		
Due from subsidiaries		
- interest bearing at 2.80% to 5.53% (2021: 2.71% to 3.02%) per annum	1,166,245	1,081,390
Less: Allowance for impairment losses (Note (i))	(29,345)	(146,021)
	1,136,900	935,369
Current:		
Due from subsidiaries		
- interest bearing at 2.80% to 5.53% (2021: 2.71% to 4.69%) per annum	180,463	252,210
- non-interest bearing	211,321	135,917
	391,784	388,127
Less: Allowance for impairment losses (Note (i))	(216,522)	(99,846)
	175,262	288,281
Total amount due from subsidiaries	1,312,162	1,223,650
Non-current:		
Due to subsidiaries		
- non-interest bearing	(322,554)	(328,986)
Current:		
Due to subsidiaries		
- non-interest bearing	(124,198)	(124,196)
Total amount due to subsidiaries	(446,752)	(453,182)

Amounts due from subsidiaries that are not expected to be realised within twelve months after the reporting period are classified as non-current.

At the reporting date, the Company has provided a net allowance of RM Nil (2021: RM1,720,000) for impairment losses of the amount due from subsidiaries as disclosed in Note 22.

(i) Amount due from subsidiaries that are impaired

	Company	
	2022 RM'000	2021 RM'000
Movement in allowance for impairment losses		
At 1 January	245,867	244,147
Charged for the year (Note 22)	-	1,720
At 31 December	245,867	245,867

12. OTHER INVESTMENTS

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Investment in money market fund at fair value through profit or loss (Note 32)	-	22,531	-	-

13. DEPOSITS, CASH AND BANK BALANCES

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Current:				
Deposits with licensed banks	47,279	239,826	28,550	46,676
Cash and bank balances	72,749	53,686	2,383	474
	120,028	293,512	30,933	47,150
Less: Restricted cash	(6,705)	(2,936)	-	-
Less: Deposits with a maturity of more than 3 months	-	(46,076)	-	(46,076)
Cash and cash equivalents	113,323	244,500	30,933	1,074

Cash and bank balances amounting to RM6,705,000 (2021: RM2,936,000) are not available for general use by the Group due to restrictions by the lender in respect of the term loan of USD70,500,000 (2021: USD73,800,000) obtained by the Group as disclosed in Note 14.

The range of interest rates per annum and maturities of deposits as at the reporting date were as follows:

	Group		Company	
	2022	2021	2022	2021
Interest rate (%)	2.30 - 4.90	0.06 - 2.35	2.30 - 2.85	1.65 - 2.35
Maturity (days)	3 - 46	3 - 174	3 - 26	6 - 174

14. LONG TERM BORROWINGS

	Group	
	2022 RM'000	2021 RM'000
Secured (Floating rate)		
Term loan	311,610	308,189
Less: Unamortised transaction costs	(5,333)	(6,079)
Total long term borrowings	306,277	302,110

14. LONG TERM BORROWINGS (cont'd.)

On 21 November 2017, the Group raised USD365,000,000 of term loans, classified as Term Loan A (USD145,000,000) and Term Loan B (USD220,000,000). Term Loan A was fully repaid in 2021, while Term Loan B will be fully settled in May 2027 and is secured by a charge over all existing and future assets of the Group.

The maturity of the Group's total long term and short term borrowings excluding transaction costs as at the respective reporting dates are as follows:

	Within 1 year RM'000 (Note 15)	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000	Total RM'000
31 December 2022					
Secured					
- Revolving credit	254,950	-	-	-	254,950
- Term loan	-	-	311,610	-	311,610
31 December 2021					
Secured					
- Revolving credit	279,916	-	-	-	279,916
- Term loan	-	-	220,493	87,696	308,189

Changes in liabilities arising from financing activities:

	Group		
	Revolving credit RM'000	Secured term loan RM'000	Total RM'000
At 1 January 2021	80,620	973,182	1,053,802
Drawdown	195,468	-	195,468
Repayment	-	(707,169)	(707,169)
Amortisation of transaction costs	-	5,400	5,400
Effect of changes in foreign exchange rate	3,828	30,697	34,525
At 31 December 2021/1 January 2022	279,916	302,110	582,026
Repayment	(37,131)	(13,853)	(50,984)
Amortisation of transaction costs	-	746	746
Effect of changes in foreign exchange rate	12,165	17,274	29,439
At 31 December 2022	254,950	306,277	561,227

The range of weighted average effective interest rates per annum at the reporting date for secured short term borrowings are disclosed in Note 15.

15. SHORT TERM BORROWINGS

	Group	
	2022 RM'000	2021 RM'000
Secured (Floating rate)		
Revolving credits	254,950	279,916

The range of weighted average effective interest rates per annum at the reporting date for borrowings were as follows:

	Group	
	2022 %	2021 %
Term loan	8.12	3.71
Revolving credits	5.74 - 7.48	2.70 - 4.39

16. TRADE AND OTHER PAYABLES

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Trade payables:				
Third parties	57,169	29,414	-	-
Accruals	113,569	65,802	-	-
	170,738	95,216	-	-
Other payables:				
Accruals	60,838	50,434	9,067	4,392
Provision for unutilised leave	1,814	1,300	1,001	768
Sundry payables	4,022	7,395	2,075	603
	66,674	59,129	12,143	5,763
Total trade and other payables	237,412	154,345	12,143	5,763
Total trade and other payables	237,412	154,345	12,143	5,763
Less:				
Provision for unutilised leave	(1,814)	(1,300)	(1,001)	(768)
Add:				
Lease liabilities (Note 8)	6,982	7,670	1,419	2,073
Long term borrowings (Note 14)	306,277	302,110	-	-
Short term borrowings (Note 15)	254,950	279,916	-	-
Due to subsidiaries (Note 11)	-	-	446,752	453,182
Total financial liabilities carried at amortised cost	803,807	742,741	459,313	460,250

Trade payables are non-interest bearing and are normally settled within 30 days to 60 days (2021: 30 days to 60 days).

Included in other payables are sundry payables which are non-interest bearing and are normally settled within 30 days to 90 days (2021: 30 days to 90 days).

17. ORDINARY SHARE CAPITAL

	Group and Company	
	Number of ordinary shares '000	Share capital RM'000
At 1 January 2021/31 December 2021/ 1 January 2022/31 December 2022	8,215,600	1,844,817

18. OTHER RESERVES

(a) Warrant reserve

On 25 October 2017, the Company allotted and issued 1,209,181,678 free warrants on the basis of 1 warrant for every 4 rights shares subscribed and 304,218,076 free warrants on the basis of 1 warrant for every 4 RCPS-i subscribed.

The warrants are valid for exercise for a period of 7 years from its issue date and will expire on 18 October 2024. During this period, each warrant entitled the registered holder to subscribe for 1 new ordinary share/RCPS-i in the Company at any time on or after 25 October 2017 to 18 October 2024, at an exercise price of RM0.395 per warrant. Any warrant not exercised by its expiry date will lapse thereafter and cease to be valid for all purposes. During the financial year, no warrants for rights issue and RCPS-i were exercised. As at the reporting date, 1,209,181,678 warrants for rights issue and 304,218,076 warrants for RCPS-i remained unexercised.

The value allocated to 1 warrant was based on the proportion of the fair value of 1 warrant, being the fair value of the warrant on the first day of its listing, over the combined fair value of 4 rights shares/RCPS-i and 1 warrant to the issue price of the right shares of RM0.30 each.

(b) Share options reserve

Share options reserve represents the equity-settled share options:

(i) Granted by the former ultimate holding company to the employees of the Group; and

(ii) Granted by the Company to eligible senior executives and employees of the Company under the ESOS.

The Company has an Employees' Share Option Scheme ("ESOS") under which options to subscribe for the Company's ordinary shares have been granted to employees of the Group.

At an Extraordinary General Meeting held on 31 October 2019, shareholders approved the ESOS for the granting of non-transferable options to eligible senior executives and employees respectively. The ESOS has been implemented effective from 1 November 2019. Options are granted to the eligible employees employed on a full time basis at the discretion of the ESOS Committee. The key features of the ESOS are as follows:

(i) The maximum number of new ordinary shares of the Company which may be allotted and issued pursuant to the options that may be granted under the ESOS shall not in aggregate exceed seven point five percent (7.5%) of the total number of issued ordinary shares of the Company;

(ii) The maximum number of options that may be granted under the ESOS to any one eligible person shall be at the sole and absolute discretion of the ESOS Committee after taking into consideration the position and performance of the eligible person in the Group, or such other factors which the ESOS Committee may in its absolute discretion deem fit, subject to the following:

- the eligible senior executives and other eligible employees do not participate in the deliberation or discussion in respect of his/her own allocation; and
- the total number of Shares of the Company shall be allocated to any eligible person who, either individually or collectively through persons connected with such eligible person, holds twenty percent (20%) or more of the total number issued ordinary shares of the Company (excluding treasury shares, if any), does not exceed more than ten percent (10%) of the total number of Shares of the Company to be issued under the Scheme.

18. OTHER RESERVES (cont'd.)

(b) Share options reserve (cont'd.)

(iii) The option exercise price shall be determined by the Board upon recommendation of the ESOS Committee to be the five (5) days weighted average market price of the ordinary shares of the Company, as quoted on Bursa Securities, immediately preceding the date of offer or with a premium or discount. In the event of a discount, the discount shall not be more than ten percent (10%) or such other percentage of discount as may be permitted by Bursa Securities or any other relevant authorities from time to time during the duration of the ESOS;

(iv) The ESOS shall be in force for a duration of five (5) years from the effective date of implementation of the ESOS on 1 November 2019. The ESOS Committee may terminate the ESOS at any time before the Date of Expiry without obtaining the approvals from the Grantees who have yet to exercise their Options or the Company's shareholders provided that the Company releases an announcement to Bursa Securities on the following:

- the effective date of termination ("Termination Date");
- the number of Options exercised or Shares vested; and
- the reasons and justification for termination.

(v) The ESOS is exercisable upon fulfilment of the vesting period of three (3) years, or earlier at the discretion of the ESOS Committee.

Movement of share options during the financial year

The number and exercise price of, and movements in, share options during the financial year are as follows:

	Group and Company	
	Exercise price RM	Number ('000)
Outstanding at 1 January 2021	0.33	94,120
Adjusted *	-	(11,490)
Outstanding at 31 December 2021/1 January 2022	0.33	82,630
Adjusted *	-	(23,030)
Outstanding at 31 December 2022	0.33	59,600

* Adjustment on termination of employment.

The remaining contractual life for these options outstanding as at 31 December 2022 was 2 years with an expiry date of 31 October 2024.

Fair value of share options granted

The fair value of the share options granted under the ESOS is estimated at the grant date using a Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the instruments were granted.

The following table lists the inputs to the option pricing model used for the financial year ended 31 December 2019:

	Group and Company
Fair value at the measurement date	RM0.18
Expected volatility	50.67%
Risk-free interest rate	3.28% per annum
Expected life of option	5 years
Share price	RM0.33

18. OTHER RESERVES (cont'd.)

(b) Share options reserve (cont'd.)

Fair value of share options granted (cont'd.)

The expected life of the options is based on the ESOS duration and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

(c) Capital reserve

Capital reserve relates to statutory reserves of an overseas subsidiary.

(d) Gain on derecognition of financial liabilities

The gain on derecognition of financial liabilities arose as part of the settlement of liabilities due to the former ultimate holding company pursuant to a past internal reorganisation.

(e) Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the Group's presentation currency.

19. REVENUE

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Revenue from lease contracts:				
Leasing of drilling rigs and hydraulic workover units	333,078	183,516	-	-
Revenue from contracts with customers:				
Drilling and workover services	183,518	142,886	-	-
Sale of goods	25,970	15,012	-	-
Rendering of services	38,287	36,095	-	-
Revenue from other sources:				
Management fees from subsidiaries	-	-	15,308	11,524
	580,853	377,509	15,308	11,524

Timing of recognition

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Goods and services transferred at a point in time	25,970	15,012	-	-
Services transferred over time	554,883	362,497	15,308	11,524
	580,853	377,509	15,308	11,524

20. OTHER OPERATING INCOME

Included in other operating income are:

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Insurance claim (Note 35)	-	560,850	-	-
Gain on liquidation of subsidiaries	-	2,102	-	1,597
Gain on disposal of property, plant and equipment	-	163	-	-
Rental income	334	254	748	800
Net fair value gain on investments in money market fund	-	19	-	-
Net realised foreign exchange gain	-	-	886	46
Net unrealised foreign exchange gain (Note 29(a))	8,503	-	69,277	40,384

21. EMPLOYEE BENEFITS

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Wages and salaries	103,720	81,298	19,933	16,782
Social security costs	698	502	113	85
Provision for/(reversal of) unutilised leave	477	208	233	(12)
Pension costs - defined contribution plan	8,372	6,562	3,079	2,688
Share options (lapsed)/granted under ESOS	(881)	3,317	(881)	3,317
Other employee related expenses	29,188	25,162	1,932	1,901
	141,574	117,049	24,409	24,761

Included in employee benefits is executive director's remuneration as follows:

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Salaries and other emoluments	1,672	1,275	1,672	1,275
Pension costs - defined contribution plan	267	219	267	219
Share options granted under ESOS	-	695	-	695
Benefits-in-kind	261	106	261	106

22. ALLOWANCE FOR/(REVERSAL OF) IMPAIRMENT LOSSES

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Property, plant and equipment (Note 4)	(745)	-	-	-
Trade receivables (Note 10)	3,474	(359)	-	-
Amount due from subsidiaries (Note 11)	-	-	-	1,720
	2,729	(359)	-	1,720

NOTES TO THE FINANCIAL STATEMENTS

23. OTHER OPERATING EXPENSES

Included in other operating expenses are:

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Non-executive directors' remuneration:				
- fees	811	781	811	781
- meeting allowances	240	210	240	210
- other emoluments	128	72	128	72
Rental of premises	525	716	35	74
Rental of leases of low-value assets and short-term leases (Note 8)	-	364	-	99
Rental of equipment, barge and rig	18,484	1,492	124	88
Repair and maintenance of equipment and rigs	43,844	31,481	14	13
Insurance of equipment and rigs	19,022	15,040	-	-
Auditors' remuneration:				
Statutory audit				
- auditors of the Company	669	662	190	185
- other auditors	55	48	-	-
Other services				
- auditors of the Company	1,155	55	1,114	17
Property, plant and equipment written off	1,224	438,981	971	136
Net realised foreign exchange loss	13,423	1,848	-	-
Net unrealised foreign exchange loss (Note 29(a))	-	3,142	-	-
Trade receivables written off	-	359	-	-
Inventories written off	-	28,288	-	-
Provision of liquidated damages cost	-	36,171	-	-
Service charges	21,199	19,880	-	-
Catering expenses	19,361	14,492	-	-
Mobilisation and demobilisation costs	11,304	8,149	-	-

In the previous financial year ended 31 December 2021, property, plant and equipment written off, inventories written off and provision of liquidated damages includes items related to NAGA 7.

	Directors' fees		*Other emoluments	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Group and Company				
Non-executive directors:				
Mohd Rashid Mohd Yusof	120	120	127	66
Ir. Dr. Mohd Shahreen Zainooreen Madros	107	37	42	22
Rowina Ghazali Seth	107	105	37	36
Datuk Tong Poh Keow	107	110	43	40
Haida Shenny Hazri	98	98	35	26
Mohd Irwan Ahmad Mustafa @ Mustafa***	99	34	31	14
Datuk Ling Kien Sing	97	8	28	1
Ar. Ahila Ganesan	38	-	11	-

23. OTHER OPERATING EXPENSES (cont'd.)

	Directors' fees		*Other emoluments	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Group and Company (cont'd.)				
Non-executive directors: (cont'd.)				
Razalee Amin	38	110	14	38
Dato' Ibrahim Marsidi	-	53	-	15
Rizal Rickman Ramli	-	48	-	10
Dato' Dayang Fatimah Johari	-	58	-	14
	811	781	368	282

	Directors' fees		**Other emoluments	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Group and Company				
Executive director:				
Megat Zariman Abdul Rahim	-	-	1,431	-
Rohaizad Darus	-	-	613	1,600

* *Included in the other emoluments are meeting allowances, per diem allowance, telephone expenses and car (for Chairman of the Board only).*

** *Included in the other emoluments are salary, gratuity, employer's statutory contribution, car and petrol, leave passage, allowances, telephone expenses and club subscriptions.*

*** *Fees as nominee Director paid to Permodalan Nasional Berhad.*

24. FINANCE COSTS

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Interest expenses				
- Bank borrowings	30,621	39,441	-	-
- Lease liabilities (Note 8)	363	399	96	84
- Others	852	428	-	-
	31,836	40,268	96	84

25. INVESTMENT INCOME

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Distribution income from:				
- Money market fund	9	1,555	-	742
Interest income from:				
- Deposits with licensed banks	3,438	840	1,084	80
- Subsidiaries	-	-	42,638	33,677
	3,447	2,395	43,722	34,499

26. INCOME TAX EXPENSE

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Income tax:				
Malaysian income taxes	1,139	3,718	-	2
Foreign income taxes	4,181	3,014	25	-
	5,320	6,732	25	2
Under provision in prior years:				
Malaysian income taxes	13,312	1,352	-	114
Foreign income taxes	-	41	-	-
	13,312	1,393	-	114
Total income tax expense	18,632	8,125	25	116

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2021: 24%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliations between tax expense and the accounting (loss)/profit multiplied by the applicable corporate tax rate for the years ended 31 December 2022 and 2021 are as follows:

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
(Loss)/profit before tax	(81,770)	(82,699)	90,733	51,981
Taxation at Malaysian statutory rate of 24% (2021: 24%)	(19,625)	(19,848)	21,776	12,475
Effect of different tax rates in other jurisdictions	10,699	(17,342)	-	-
Income not subject to tax	(40,009)	(23,593)	(26,555)	(16,384)
Expenses not deductible for tax purposes	32,183	41,954	1,751	1,826
Deferred tax assets not recognised	22,109	25,598	3,053	2,085
Under provision of income tax in prior years	13,312	1,393	-	114
Share of results of associate	(37)	(37)	-	-
Tax expense for the year	18,632	8,125	25	116

27. LOSS PER SHARE

	Group	
	2022	**2021**
Net loss attributable to equity holders (RM'000)	(100,402)	(90,824)
Weighted average number of ordinary shares in issue ('000)		
- Basic/diluted	8,215,600	8,215,600
Loss per share (sen):		
- Basic	(1.22)	(1.11)
- Diluted	(1.22)	(1.11)

Basic/diluted loss per share are calculated by dividing the net loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

1,513,399,754 (2021: 1,513,399,754) warrants have not been included in the calculation of diluted loss per share because the current market price is lower than the exercise price and they are anti-dilutive.

ESOS have not been included in the calculation of diluted loss per share in the current year because the current market price is lower than the exercise price and they are anti-dilutive.

28. COMMITMENTS

	Group		Company	
	2022 RM'000	**2021 RM'000**	**2022 RM'000**	**2021 RM'000**
(a) Capital commitments				
Approved and contracted for:				
- equipment, plant and machinery	146,024	61,308	-	-
- others	9,377	6,401	9,355	6,236
	155,401	67,709	9,355	6,236
Approved but not contracted for:				
- land and buildings	7,500	4,431	7,500	-
- equipment, plant and machinery	51,839	96,720	-	-
- others	5,080	4,790	4,127	4,561
	64,419	105,941	11,627	4,561
Total capital commitments	219,820	173,650	20,982	10,797

29. SEGMENT REPORTING

For management purposes, the Group is organised into business segments based on the nature of services and has 4 operating segments as follows:

(i) The drilling services segment is principally involved in the provision of drilling services to the upstream oil and gas sector. This segment owns and operates several drilling rigs. The rigs are chartered out to oil majors for their exploration, development and production activities;

(ii) The integrated services segment principally provide hydraulic workover operation. The hydraulic workover operation own HWUs and acts as an agent for two providers of specialised equipment and service. 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;

(iii) The oilfield services segment principally provide premium OCTG threading, repair and inspection services; and

(iv) 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.

With effect from 1 January 2022, the Group has segregated Workover Services and Oilfield Services as separate segment. Workover services was previously reported under the Oilfield Services segment. The Group has also introduced Integrated Services segment which comprises Workover Services and Integrated Rig Drilling Completion ("i-RDC") Services. Comparative results have been restated following the change in the business segments.

(a) Business segments

	Drilling services RM'000	Integrated services RM'000	Oilfield services RM'000	Others RM'000	Eliminations RM'000	Note	Per consolidated financial statements RM'000
31 December 2022							
Revenue:							
External customers	483,111	86,695	10,073	974	-		580,853
Inter-segment	-	-	-	1,717	(1,717)	i	-
Total revenue	483,111	86,695	10,073	2,691	(1,717)		580,853
Results:							
Depreciation and amortisation	(160,277)	(1,659)	(794)	(5,198)	-		(167,928)
Allowance for/ (reversal of) impairment losses	(3,474)	-	745	-	-		(2,729)
Finance costs	(31,681)	(155)	-	-	-		(31,836)
Investment income	1,261	240	617	1,329	-		3,447
Share of results of associate	-	-	-	155	-		155
Other material non-cash items	13,139	370	-	(5,349)	-	ii	8,160
Segment (loss)/profit before tax	(26,082)	(16,008)	2,751	(42,431)	-		(81,770)
Income tax expense	(18,002)	(135)	(473)	(22)			(18,632)
Segment (loss)/profit after tax	(44,084)	(16,143)	2,278	(42,453)	-		(100,402)

29. SEGMENT REPORTING (cont'd.)

(a) Business segments (cont'd.)

	Drilling services RM'000	Integrated services RM'000	Oilfield services RM'000	Others RM'000	Eliminations RM'000	Note	Per consolidated financial statements RM'000
31 December 2022 (cont'd.)							
Assets:							
Investment in an associate	-	-	-	1,236	-		1,236
Additions to property, plant and equipment	123,424	-	-	23,327	640		147,391
Segment assets	2,922,004	54,203	38,171	74,984	-		3,089,362
Liabilities:							
Segment liabilities	760,876	27,142	3,016	16,663	-		807,697
31 December 2021							
Revenue:							
External customers	359,294	6,632	10,442	1,141	-		377,509
Inter-segment	-	-	-	1,297	(1,297)	i	-
Total revenue	359,294	6,632	10,442	2,438	(1,297)		377,509
Results:							
Depreciation and amortisation	(149,562)	(3,426)	(809)	(3,216)	-		(157,013)
Reversal of impairment losses	359	-	-	-	-		359
Finance costs	(40,268)	-	-	-	-		(40,268)
Investment income	680	403	163	1,149	-		2,395
Share of results of associate	-	-	153	-	-		153
Other material non-cash items	(444,189)	(6)	-	(1,063)	-	ii	(445,258)
Segment (loss)/profit before tax	(40,609)	(8,242)	3,980	(37,828)	-		(82,699)
Income tax expense	(8,056)	-	(356)	287	-		(8,125)
Segment (loss)/profit after tax	(48,665)	(8,242)	3,624	(37,541)	-		(90,824)

29. SEGMENT REPORTING (cont'd.)

(a) Business segments (cont'd.)

	Drilling services RM'000	Integrated services RM'000	Oilfield services RM'000	Others RM'000	Eliminations RM'000	Note	Per consolidated financial statements RM'000
31 December 2021 (cont'd.)							
Assets:							
Investment in an associate	-	-	1,077	-	-		1,077
Additions to property, plant and equipment	64,905	48	-	6,777	203		71,933
Segment assets	2,804,462	53,894	37,690	109,960	-		3,006,006
Liabilities:							
Segment liabilities	710,772	10,759	1,545	24,828	-		747,904

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	2022 RM'000	2021 RM'000
Net gain on disposal of property, plant and equipment	20	-	163
Net fair value gain on investments in money market fund	20	-	19
Net unrealised foreign exchange gain/(loss)	20, 23	8,503	(3,142)
Property, plant and equipment written off	23	(1,224)	(438,981)
Share options lapsed/(granted) under ESOS	21	881	(3,317)
		8,160	(445,258)

(b) Geographical segments

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Malaysia RM'000	Others RM'000	Total RM'000
31 December 2022			
Revenue from external customers	534,211	46,642	580,853
Non-current assets	2,400,604	15,491	2,416,095
31 December 2021			
Revenue from external customers	367,067	10,442	377,509
Non-current assets	2,286,945	16,273	2,303,218

29. SEGMENT REPORTING (cont'd.)

(b) Geographical segments (cont'd.)

Non-current assets information presented above consist of the following items as presented in the consolidated statement of financial position:

	Others RM'000	Total RM'000
Property, plant and equipment	2,408,145	2,294,319
Right-of-use assets	7,950	8,899
	2,416,095	2,303,218

30. SUBSIDIARIES

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest 2022 %	2021 %
Subsidiaries of the Company:				
UMW JDC Drilling Sdn. Bhd.[1]	Malaysia	Provision of drilling operations for the oil and gas industry	-	-
Velesto Malaysian Ventures Sdn. Bhd.	Malaysia	Investment holding	100	100
Velesto Singapore Ventures Pte. Ltd.	Singapore	Investment holding	100	100
Velesto Rig Asset (L) Ltd.	Malaysia	Investment holding	100	100
Sumber Ribu Sdn. Bhd.	Malaysia	Provision for treasury management services	100	100
Sumber Wang (L) Ltd.	Malaysia	Provision for treasury management services	100	100
Subsidiaries of: **Velesto Malaysian Ventures Sdn. Bhd.** **Velesto Singapore Ventures Pte. Ltd.** **Velesto Rig Asset (L) Ltd.**				
Velesto Workover Sdn. Bhd.	Malaysia	Provision of workover operations for the oil and gas industry	100	100
Velesto Drilling Sdn. Bhd.	Malaysia	Contract offshore drilling business and operations and other engineering services for oil and gas exploration, development and production in Malaysia and overseas	100	100
Velesto Drilling Co. Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 2 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 3 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 4 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 5 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 6 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 7 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 8 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100

30. SUBSIDIARIES (cont'd.)

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest 2022 %	2021 %
Subsidiaries of: **Velesto Malaysian Ventures Sdn. Bhd.** **Velesto Singapore Ventures Pte. Ltd.** **Velesto Rig Asset (L) Ltd. (cont'd.)**				
Velesto Drilling Academy Sdn. Bhd.	Malaysia	Provision of workover operations for the oil and gas industry	100	100
Velesto 1 Pte. Ltd.	Singapore	Ownership and leasing of rig	100	100
Velesto 3 Pte. Ltd.	Singapore	Dormant	100	100
Velesto Drilling Ltd.	Cayman Islands	Contract drilling operations and other engineering services for oil and gas exploration, development and production	100	100
Offshore Driller B324 Ltd.	Cayman Islands	Dormant	100	100
Offshore Driller 4 Ltd.	Cayman Islands	Dormant	100	100
Velesto Oilpipe Services Sdn. Bhd.	Malaysia	Provision of threading, inspection, repair and maintenance services for OCTG	100	100
Velesto Oilfield Services (Tianjin) Co., Limited*	People's Republic of China	Provision of threading, inspection, repair and maintenance services for OCTG	100	100
Velesto Rig Asset Sdn. Bhd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Sumber Sdn. Bhd.	Malaysia	Investment holding	100	100
Velesto Drilling 2 Sdn. Bhd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 3 Sdn. Bhd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 4 Sdn. Bhd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 5 Sdn. Bhd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 6 Sdn. Bhd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 7 Sdn. Bhd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 8 Sdn. Bhd.	Malaysia	Ownership and leasing of rig	100	100

[1] The company was dissolved on 5 April 2022.

* Audited by firms other than Ernst & Young PLT.

31. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) In addition to the related party transaction information disclosed elsewhere, transactions by the Company with its subsidiaries are as follows:

	Company 2022 RM'000	2021 RM'000
Management fees income	15,308	11,524
Interest income	42,638	33,677
Rental income	748	800
Services rendered income	56	112

31. SIGNIFICANT RELATED PARTY DISCLOSURES (cont'd.)

(b) Compensation of key management personnel

The aggregate compensation of key management personnel, including the executive director of the Company is as follows:

	Company	
	2022 RM'000	**2021 RM'000**
Salaries and wages	5,681	6,349
Social security cost	9	10
Pension costs - defined contribution plan	914	1,080
Share options granted under ESOS	717	1,832
Other staff related costs	642	669
	7,963	9,940

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair values

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value:

	Note
Receivables	
- Trade and other receivables	10
- Due from related companies	11
Deposits, cash and bank balances	13
Lease liabilities	8
Borrowings	
- Floating rate borrowings (non-current)	14
- Floating rate borrowings (current)	15
Payables	
- Trade and other payables	16
- Due to related companies	11

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

The carrying amounts of the current portion of loans and borrowings are reasonable approximation of fair value due to the insignificant impact of discounting.

The fair values of non-current loans and borrowings are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the reporting date.

32. 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	
	2022 RM'000	**2021 RM'000**
Assets		
Investments in money market fund (Note 12)	-	22,531

The Group does not have any financial instruments classified as Level 2 and Level 3 as at the reporting date. There were no material transfers between Level 1, Level 2 and Level 3 during the financial year.

33. CAPITAL MANAGEMENT

Capital management is defined as the process of managing the composition of the Group's debt and equity to achieve and maintain an optimal capital structure and ensuring availability of funds to support its business and maximise its shareholder value.

The Group defines total capital as total equity and net debt of the Group and manages its capital structure using a gearing ratio which is net debt divided by total equity plus net debt. For this purpose, borrowings from former holding company and other investments, which consist of investments in money market fund, are included in deriving net debt of the Group. The Group endeavours to maintain a gearing ratio to that optimises the usage of capital.

	Group	
	2022 RM'000	**2021 RM'000**
Loans and borrowings	561,227	582,026
Lease liabilities	6,982	7,670
Less:		
Deposits, cash and bank balances	(120,028)	(293,512)
Other investments	-	(22,531)
Net debt	448,181	273,653
Total equity	2,281,665	2,258,102
Total capital	2,729,846	2,531,755
Gearing ratio (times)	0.16	0.11

34. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks. The financial risk management practices of the Group seek to ensure that adequate financial resources are available for the development of the Group's business while managing credit, liquidity, interest rate and foreign currency risks. The principal aim of the Group's financial risk management practices is to identify, evaluate and manage financial risks with an objective to minimise potential adverse effects on the financial performance of the Group.

The Group's risk governance structure comprise the following:

(i) a Board Risk Management Committee; and

(ii) a Risk Management Committee.

Responsibilities of the Board of Directors include:

(i) to define appropriate risk governance structure;

(ii) to conduct overall review and endorsement on the risk parameters, risk appetite, risk profiles, risk treatment options, risk action plans and key risk indicators; and

(iii) to provide overall guidance and advice on appropriateness of risk treatment option selected and risk action plans development.

Responsibilities of the Board Risk Management Committee include:

(i) to monitor the consistent enforcement of Enterprise Risk Management ("ERM") policy across the Group;

(ii) to review and endorse the risk parameters, risk appetite, risk profiles, risk treatment options, risk action plans and key risk indicators;

(iii) to provide guidance and advice on appropriateness of risk treatment option selected and risk action plans development; and

(iv) to provide half yearly reports to the Board on ERM.

The Risk Management Committee is made up of members of the Group's senior management. This committee will be responsible to identify and assess risks and make recommendations on risk management to the Board Risk Management Committee and the Board of Directors.

Financial risk management objectives of the Group are as follows:

(i) to minimise exposure to all financial risks including interest, credit, liquidity and foreign currency exchange risks;

(ii) to accept certain level of financial risks including price risk and credit risk that commensurate with the expected returns on the underlying operations and activities; and

(iii) to minimise liquidity risk by proper cash flow planning, management and control.

The Group's financial risk management strategies include using:

(i) credit controls that include evaluation, acceptance, monitoring and feedback to ensure that only reasonably creditworthy customers are accepted; and

(ii) money market instruments, short term deposits and bank borrowings to manage liquidity risks.

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 2022, approximately 1.6% (2021: 3.2%) of the Group's trade receivables and approximately 8.4% (2021: 19.0%) 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 2022, the Group has such balances amounting to RM19,731,252 (2021: RM60,801,000).

34. FINANCIAL RISK MANAGEMENT (cont'd.)

(a) Foreign currency risk (cont'd.)

Material foreign currency exposures are hedged via foreign exchange contracts by using foreign exchange facilities maintained with leading banks. The foreign exchange contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into foreign contracts until a firm commitment is in place.

The table below demonstrates the sensitivity of the Group's and of the Company's (loss)/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 after taxation		Effect on profit/(loss) after taxation	
	Increase/(decrease)		(Decrease)/increase	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
US Dollar/RM				
- strengthened 5% (2021: 5%)	1,640	1,732	(60,758)	(56,895)
- weakened 5% (2021: 5%)	(1,640)	(1,732)	60,758	56,895

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk in respect of its placements with financial institutions and bank borrowings at floating rates. Its policy is to:

(i) have an optimal mixture of short term deposits or placements; and

(ii) manage its interest cost using a combination of fixed and floating rate debts.

The Group monitors interest rates prior to making deposits and bank borrowings to ensure that the applicable rates are established at acceptable levels. Interest rate swaps may be used to hedge against fluctuation in interest rate where appropriate.

Sensitivity analysis for interest rate risk

The table below demonstrates the sensitivity of the Group's and the Company's (loss)/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.

		Group		Company	
		Effect on loss after taxation		Effect on profit/(loss) after taxation	
		Increase/(decrease)		(Decrease)/increase	
	Basis points	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
London:					
Interbank	+ 50	1,558	1,541	-	-
Offered Rate	- 50	(1,558)	(1,541)	-	-
Cost of funds of	+ 50	1,275	1,400	(5,213)	(5,457)
lenders	- 50	(1,275)	(1,400)	5,213	5,457

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd.)

(c) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligation. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including deposits, cash and bank balances), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

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.

Set out below is the information about the credit risk exposure on the Company's trade receivables and accrued income:

	Group	
	2022 RM'000	**2021 RM'000**
Accrued income	233,294	63,451
Trade receivables:		
Neither past due nor impaired	69,645	90,354
1 to 30 days past due not impaired	21,136	16,476
31 to 60 days past due not impaired	10,608	562
61 to 90 days past due not impaired	747	448
More than 90 days past due not impaired	3,856	6,288
	105,992	114,128
Impaired	4,383	836
	343,669	178,415

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 10.

(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.

34. FINANCIAL RISK MANAGEMENT (cont'd.)

(d) Liquidity risk (cont'd.)

The table below summarises the maturity profile of the Group's and the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations.

	31 December 2022				
Group	**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)	235,598	-	-	-	235,598
Borrowings	285,221	25,738	353,721	-	664,680
Lease liabilities	2,851	1,259	2,942	-	7,052
Total undiscounted financial liabilities	523,670	26,997	356,663	-	907,330

	31 December 2021				
Group	**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)	153,045	-	-	-	153,045
Borrowings	293,478	11,591	249,199	88,910	643,178
Lease liabilities	3,070	1,821	3,303	710	8,904
Total undiscounted financial liabilities	449,593	13,412	252,502	89,620	805,127

	31 December 2022			
Company	**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**	**Total RM'000**
Financial liabilities:				
Other payables (exclude provisions)	11,142	-	-	11,142
Due to subsidiaries	446,752	-	-	446,752
Lease liabilities	1,072	5	-	1,077
Total undiscounted financial liabilities	458,966	5	-	458,971

34. FINANCIAL RISK MANAGEMENT (cont'd.)

(d) Liquidity risk (cont'd.)

	31 December 2021			
Company	**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**	**Total RM'000**
Financial liabilities:				
Other payables (exclude provisions)	4,995	-	-	4,995
Due to subsidiaries	453,182	-	-	453,182
Lease liabilities	1,729	684	5	2,418
Total undiscounted financial liabilities	459,906	684	5	460,595

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 2022 and 31 December 2021.

35. SIGNIFICANT EVENT

Velesto NAGA 7 incident at off the coast of Sarawak

On 3 May 2021, the NAGA 7 drilling rig suffered an incident whilst jacking up at Salam-3 well off the Coast of Sarawak for ConocoPhillips Sarawak. The rig tilted and subsequently on 4 May 2021 it became fully submerged at the location. Drilling activities had not commenced at or prior to the stage of the incident and no well had been drilled.

The Group has fully received proceed from their Hull and Machinery insurance claim for the loss of the NAGA 7 amounting to RM560.9 million (Note 20) in the previous financial year. All of the proceeds received have been utilised to pare down the Group's borrowings via voluntary prepayments.

PROPERTY OWNED BY THE GROUP

AS AT 31 DECEMBER 2022

The details of land and buildings owned by the Group are set out below:

Location	Description	Existing Use	Date of issuance of CCC [1] or equivalent	Built-up area/Land area (Sq. Metres)	Restriction in interest	Net Book Value	Revaluation date
Velesto Oilfield Services (Tianjin) Co., Limited ("VOS-TJ") 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	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 VOS-TJ's business	25 June 2013 Refer to note [2]	6,564/13,909	Nil	RMB2,094,923 (RM1,329,857) (Land) RMB18,858,325 (RM11,971,265) (Building) Refer to note [3]	28 December 2018

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 VOS-TJ.

[3] Based on the rate of RMB1 = RM0.6348 as at 31 December 2022.

STATISTICS ON SHAREHOLDING
AS AT 31 MARCH 2023

Issued Shares of the Company	:	8,215,600,000
Class of Shares	:	Ordinary Share
Voting Right	:	One vote per one ordinary shares

ANALYSIS BY SIZE OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders		Total No. of Shareholders		No. of Issued Shares		Total No. of Issued Shares	
	Malaysian	Foreigner	No.	%	Malaysian	Foreigner	No.	%
Less than 100	978	32	1,010	3.15	24,976	789	25,765	0
100 – 1,000	3,798	64	3,862	12.07	2,350,255	32,338	2,382,593	0.03
1,001 – 10,000	12,894	165	13,059	40.81	67,482,124	759,670	68,241,794	0.83
10,001 – 100,000	11,317	182	11,499	35.94	425,093,818	6,308,306	431,402,124	5.25
100,001 to less than 5% of issued shares	2,453	112	2,565	8.02	3,673,749,568	728,815,691	4,402,565,259	53.59
5% and above of issued shares	2	0	2	0.01	3,310,982,465	0	3,310,982,465	40.30
TOTAL	31,442	555	31,997	100	7,479,683,206	735,916,794	8,215,600,000	100

CATEGORY OF SHAREHOLDERS

Category	No. of Shareholders			No. of Issued Shares			% of Issued Shares		
	Bumiputra	Non-Bumiputra	Foreign	Bumiputra	Non-Bumiputra	Foreign	Bumiputra	Non-Bumiputra	Foreign
Individual	5,996	18,906	313	157,542,997	888,412,060	20,984,695	1.92	10.81	0.26
Body Corporate									
A) Banks / Finance Companies	25	1	0	4,449,435,175	214	0	54.16	0	0
B) Investment Trusts / Foundations / Charities	4	1	0	27,954	100,000	0	0	0	0
C) Industrial and Commercial Companies	49	129	7	6,732,218	15,278,779	153,269,893	0.08	0.19	1.87
Government Agencies / Institutions	1	0	0	13,407	0	0	0	0	0
Nominees	4,481	1,846	235	446,272,485	1,515,852,938	561,662,206	5.43	18.45	6.84
Others	0	3	0	0	14,979	0	0	0	0
TOTAL	10,556	20,886	555	5,060,024,236	2,419,658,970	735,916,794	61.59	29.45	8.96

30 LARGEST SHAREHOLDERS

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

No.	Holders	No. of shares	Percentage
1.	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	2,726,917,970	33.19
2.	PERMODALAN NASIONAL BERHAD	584,064,495	7.11
3.	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR HONG LEONG VALUE FUND	396,434,700	4.83
4.	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA 2 - WAWASAN	369,000,000	4.49
5.	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA	328,000,000	3.99
6.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD URUSHARTA JAMAAH SDN. BHD. (1)	284,980,080	3.47
7.	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR HONG LEONG BALANCED FUND	190,000,000	2.31
8.	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 14)	167,210,500	2.04
9.	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA 3 - DIDIK	151,856,503	1.85
10.	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA 3	91,600,800	1.11
11.	TOKIO MARINE LIFE INSURANCE MALAYSIA BHD AS BENEFICIAL OWNER (PF)	90,157,000	1.10
12.	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA 2	71,500,000	0.87
13.	TOKIO MARINE LIFE INSURANCE MALAYSIA BHD AS BENEFICIAL OWNER (TMEF)	58,715,000	0.71
14.	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MANULIFE INSURANCE BERHAD (EQUITY FUND)	58,184,900	0.71
15.	CHOW CHEE KEONG	55,650,200	0.68
16.	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	50,233,127	0.61
17.	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	49,256,112	0.60
18.	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT PROGRESS FUND (4082)	41,604,400	0.51
19.	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR MORGAN STANLEY & CO. INTERNATIONAL PLC (IPB CLIENT ACCT)	39,060,000	0.48
20.	AMANAHRAYA TRUSTEES BERHAD PUBLIC SMALLCAP FUND	37,757,400	0.46
21.	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT AL-FAUZAN (5170)	37,252,300	0.45
22.	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT AL-FAID (4389)	31,971,500	0.39
23.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (DG)	31,900,000	0.39
24.	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR HONG LEONG GROWTH FUND	30,000,000	0.37

No.	Holders	No. of shares	Percentage
25.	CIMB GROUP NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR DBS BANK LTD (SFS)	28,403,500	0.35
26.	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM NASIONAL	25,246,927	0.31
27.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR AIA BHD.	24,728,400	0.30
28.	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR HONG LEONG DANA MAKMUR	23,500,000	0.29
29.	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD FIDUCIARY TRUST COMPANY INSTITUTIONAL TOTAL INTERNATIONAL STOCK MARKET INDEX TRUST II	22,753,700	0.28
30.	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MANULIFE INSURANCE BERHAD (MANAGED FUND)	20,496,800	0.25

SUBSTANTIAL SHAREHOLDERS

As per the register of substantial shareholders

Substantial Shareholder	No. of Shares Held (Direct Interest)	% of Issued Shares	No. of Shares Held (Indirect / Deemed Interest)	% of Issued Shares
AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	2,726,917,970	33.19	-	-
PERMODALAN NASIONAL BERHAD	584,064,495	7.11	-	-
YAYASAN PELABURAN BUMIPUTRA*	-	-	584,064,495	7.11

* Yayasan Pelaburan Bumiputra is deemed to have indirect interest through its shareholding of 100% less one share of Permodalan Nasional Berhad by virtue of Section 8(4) of the Companies Act, 2016.

DIRECTORS INTEREST

As at 31 March 2023, the shareholdings of the Directors (both direct and indirect) in the Company are shown below:

		Direct Interest		Deemed Interest	
No.	Directors	No. of Issued Shares	% of Issued Shares	No. of Issued Shares	% of Issued Shares
1.	Mohd Rashid Mohd Yusof	0	0.00	0	0.00
2.	Megat Zariman Abdul Rahim	0	0.00	0	0.00
3.	Rowina Ghazali Seth	0	0.00	0	0.00
4.	Datuk Tong Poh Keow	0	0.00	0	0.00
5.	Ir. Dr. Mohd Shahreen Zainooreen Madros	0	0.00	0	0.00
6.	Haida Shenny Hazri	0	0.00	0	0.00
7.	Mohd Irwan Ahmad Mustafa	0	0.00	0	0.00
8.	Datuk George Ling Kien Sing	0	0.00	2,009,700	0.02
9.	Ar. Ahila Ganesan	0	0.00	0	0.00

The above information was extracted from Record of Depositories on 31 March 2023.

STATISTICS ON WARRANT HOLDING

AS AT 31 MARCH 2023

Issued Warrants of the Company : 1,513,399,754

ANALYSIS BY SIZE OF HOLDINGS

Size of Shareholdings	No. of Shareholders		Total No. of Warrant holders		No. of Issued Warrants		Total No. of Issued Warrants	
	Malaysian	Foreigner	No.	%	Malaysian	Foreigner	No.	%
Less than 100	162	6	168	3.22	7,953	143	8,096	0.00
100 – 1,000	414	7	421	8.08	233,349	3,297	236,646	0.02
1,001 – 10,000	1,666	21	1,687	32.38	8,560,795	71,966	8,632,761	0.57
10,001 – 100,000	2,014	24	2,038	39.12	86,774,795	1,140,743	87,915,538	5.81
100,001 to less than 5% of issued shares	877	17	894	17.16	433,577,231	42,932,623	476,509,854	31.49
5% and above of issued shares	2	0	2	0.04	940,096,859	0	940,096,859	62.12
TOTAL	5,135	75	5,210	100	1,469,250,982	44,148,772	1,513,399,754	100

CATEGORY OF WARRANT HOLDERS

Category	No. of Warrant Holders			No. of Issued Warrants			% of Issued Warrants		
	Bumiputra	Non-Bumiputra	Foreign	Bumiputra	Non-Bumiputra	Foreign	Bumiputra	Non-Bumiputra	Foreign
Individual	1,475	2,437	37	121,210,960	253,671,749	1,917,968	8.01	16.76	0.13
Body Corporate									
A) Banks / Finance Companies	6	0	1	941,963,659	0	408	62.24	0	0
B) Investment Trusts / Foundations / Charities	0	0	0	0	0	0	0	0	0
C) Industrial and Commercial Companies	8	28	0	464,750	5,123,253	0	0.03	0.34	0
Government Agencies / Institutions	0	0	0	0	0	0	0	0	0
Nominees	855	326	37	111,693,352	35,123,259	42,230,396	7.38	2.32	2.79
Others	0	0	0	0	0	0	0	0	0
TOTAL	2,344	2,791	75	1,175,332,721	293,918,261	44,148,772	77.66	19.42	2.92

30 LARGEST HOLDERS

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

No.	Holders	No. of shares	Percentage
1.	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	652,687,400	43.13
2.	PERMODALAN NASIONAL BERHAD	287,409,459	18.99
3.	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	20,487,189	1.35
4.	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	12,999,819	0.86
5.	LEE YIH LEANG	12,000,000	0.79
6.	KOK HON SENG	8,400,000	0.56
7.	LOH SIEW HOOI	6,500,000	0.43
8.	CHOO WING KONG	6,000,000	0.40
9.	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR EE YIT WAH	6,000,000	0.40
10.	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR YOONG SIN KUEN (MY1568)	4,966,600	0.33
11.	MAYBANK NOMINEES (TEMPATAN) SDN BHD AB RAZAK BIN ALI	4,130,800	0.27
12.	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR YEO ENG TEE	3,761,800	0.25
13.	MUHAMMAD SYAFIQ BIN ISHAK	3,515,600	0.23
14.	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR YEO SEE HUEY	3,500,000	0.23
15.	JANNAH BINTI SALEHUN	3,050,000	0.20
16.	SYAKIRAH BINTI MUCHLISH	2,850,000	0.19
17.	SEE SOON BENG	2,821,000	0.19
18.	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ONG YEW BENG (E-SJA)	2,800,000	0.19
19.	WAN AHMAD RAFIUDDIN BIN WAN MOHAMMAD	2,800,000	0.19
20.	MAYBANK NOMINEES (TEMPATAN) SDN BHD HO KEAT SOONG	2,600,000	0.17
21.	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KHOR KIM HOCK (B B KLANG-CL)	2,581,200	0.17
22.	LIU MENG FAH	2,500,000	0.17
23.	CARTABAN NOMINEES (ASING) SDN BHD THE BANK OF NEW YORK MELLON FOR VANGUARD FTSE ALL-WORLD EX-US SMALL-CAP INDEX FUND	2,470,020	0.16
24.	MAYBANK NOMINEES (TEMPATAN) SDN BHD MOHD ISA BIN OTHMAN	2,400,000	0.16
25.	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KOK KAH HOONG (E-SJA)	2,400,000	0.16
26.	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ZET CORPORATION SDN BHD (E-SJA)	2,366,600	0.16
27.	ISHAK BIN ABDUL RAZAK	2,320,000	0.15
28.	PERABUT KUPANG SDN BHD	2,300,000	0.15
29.	TEOH CHIN KEONG	2,263,300	0.15
30.	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM CHONG SOO (MY2591)	2,250,000	0.15

SUBSTANTIAL HOLDERS

As per the register of substantial warrant holders

Holders	No. of Warrants	%
AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	652,687,400	43.13
PERMODALAN NASIONAL BERHAD	287,409,459	18.99

DIRECTORS INTEREST

As at 31 March 2023, the warrants of the Directors (both direct and indirect) in the Company are shown below:

		Direct Interest		Deemed Interest	
No.	Directors	No. of Issued Warrant	% of Issued Warrants	No. of Issued Warrants	% of Issued Warrants
1.	Mohd Rashid Mohd Yusof	0	0.00	0	0.00
2.	Megat Zariman Abdul Rahim	0	0.00	0	0.00
3.	Rowina Ghazali Seth	0	0.00	0	0.00
4.	Datuk Tong Poh Keow	0	0.00	0	0.00
5.	Ir. Dr. Mohd Shahreen Zainooreen Madros	0	0.00	0	0.00
6.	Haida Shenny Hazri	0	0.00	0	0.00
7.	Mohd Irwan Ahmad Mustafa	0	0.00	0	0.00
8.	Datuk George Ling Kien Sing	0	0.00	0	0.00
9.	Ar. Ahila Ganesan	0	0.00	0	0.00

NOTICE OF 13TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 13th Annual General Meeting ("AGM") of Velesto Energy Berhad (the "Company") will be conducted entirely through live streaming from the broadcast venue at Ballroom, Level 2, Aloft KL Sentral, 5, Jalan Stesen Sentral, Kuala Lumpur Sentral, 50470 Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, Malaysia on Monday, 29 May 2023 at 2.00 p.m. for the following business:

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2022 and the Reports of the Directors and Auditors thereon.
(Please refer to Explanatory Note A)

2. To re-elect the following Directors, each whom retire in accordance with Article 96 of the Company's Constitution and each of whom being eligible, offer themselves for re-election:
(i) Mohd Rashid Mohd Yusof — Ordinary Resolution 1
(ii) Rowina Ghazali Seth — Ordinary Resolution 2
(iii) Haida Shenny Hazri — Ordinary Resolution 3
(Please refer to Explanatory Note B)

3. To re-elect the Director, Ar. Ahila Ganesan, who retires in accordance with Article 103 of the Company's Constitution and who being eligible, offers herself for re-election. — Ordinary Resolution 4
(Please refer to Explanatory Note C)

4. (i) To approve the Directors Fees in accordance with the Remuneration Policy and Procedures for Non-Executive Directors of the Company, with effect from this 13th AGM to the next AGM of the Company in 2024:– — Ordinary Resolution 5

	Non-Executive Chairman	Non-Executive Directors
	Ringgit Malaysia/per annum	
Directors' Fees	120,000	80,000
Directors' Fees for Board Audit Committee	15,000	10,000
Directors Fees for Board Nomination & Remuneration Committee	15,000	10,000
Directors Fees for Board Risk Management Committee	15,000	10,000
Directors Fees for Board Whistle Blowing Committee	7,500	5,000

(each of the foregoing payments being exclusive of the other)

(ii) To approve the benefits payable to the Non-Executive Chairman and Non-Executive Directors comprising of allowances, benefits-in-kind and other emoluments payable to them, from the 13th AGM to the next AGM of the Company in 2024:- — Ordinary Resolution 6

	Non-Executive Chairman (Board and Board Committee)	Non-Executive Directors & Members of Board Committee
	Ringgit Malaysia/per meeting attendance	
Meeting Allowances	1,500	1,000

Other benefits including provision of allowances for car inclusive of petrol and car maintenance expenses, with driver provided (for Chairman of the Board only), provision of mobile phone charges, medical, hospitalisation and dental coverage, Directors & Officers Liability Insurance coverage, per diem and other claimable reimbursable expenses.

(Please refer to Explanatory Note D)

5. To re-appoint Messrs. Ernst & Young PLT as Auditors of the Company for the year ending 31 December 2023 and to authorise the Board of Directors to determine their remuneration. — Ordinary Resolution 7
(Please refer to Explanatory Note E)

AS SPECIAL BUSINESS

6. Proposed waiver of pre-emptive rights of shareholders over all options granted and/or to be offered/granted and all new shares to be issued in relation to the Employees Share Option Scheme ("ESOS") of the Company. — Ordinary Resolution 8

"THAT further to the approvals granted by the shareholders of the Company at the Extraordinary General Meeting held on 31 October 2019 for the establishment of the Company's ESOS under which options will be granted to eligible employees and executive director of the Company and/or its subsidiaries ("Grantees") to subscribe for new ordinary shares in the share capital of the Company in accordance with the By-Laws of the ESOS ("By-Laws") as set out in the Circular to Shareholders dated 2 October 2019, pursuant to Section 85 of the Companies Act 2016 ("the Act"), to be read together with Article 60 of the Constitution of the Company, the shareholders of the Company do hereby waive their pre-emptive rights over all options granted and/or to be offered/granted to the Grantees, as well as all new shares of the Company to be issued pursuant to the ESOS, whether before or after the date of this resolution, such new shares when issued, to rank pari passu with existing shares in the Company."

(Please refer to Explanatory Note F)

7. Proposed Granting of ESOS Options to Megat Zariman Abdul Rahim — Ordinary Resolution 9

"THAT, the Company has an existing ESOS which was effective on 1 November 2019 and shall expire on 31 October 2024, and subject to the approvals of the relevant authorities and/or parties (where required) being obtained, the Board of Directors of the Company ("Board") be and is hereby authorised at any time and from time to time during the duration of the ESOS, to offer and grant up to a maximum number of 11,400,000 ESOS options to Megat Zariman Abdul Rahim, being the President and Non-Independent Executive Director of the Company, subject to the provisions of the By-Laws, provided always that:

(i) he must not participate in the deliberation or discussion of his own allocation, as well as that of the persons connected with him, under the ESOS; and

(ii) not more than 10% (or such other percentage as may be permitted by Bursa Malaysia Securities Berhad ("Bursa Securities") or any other relevant authorities from time to time) of the total number of shares made available under the ESOS shall be allocated to him, if he, either singly or collectively through persons connected with him (as defined in the Main Market Listing Requirements of Bursa Securities ("Listing Requirements"), holds 20% (or such other percentage as may be permitted by Bursa Securities or any other relevant authorities from time to time) or more of the total number of issued shares of the Company (excluding treasury shares, if any), subject always to such terms and conditions and/or any adjustments which may be made in accordance with the provisions of the By-Laws and any prevailing guidelines issued by Bursa Securities, the Listing Requirements or any other relevant authorities as amended from time to time.

AND THAT, the Board be further authorised to issue such number of shares arising from the exercise of the ESOS options under the ESOS, from time to time, to the abovementioned person.

AND THAT in connection with the above, pursuant to Section 85 of the Act, to be read together with Article 60 of the Constitution of the Company, the shareholders of the Company do hereby waive their pre-emptive rights to be offered the ESOS Options and/or any new shares ranking equally to the existing issued shares of the Company."

(Please refer to Explanatory Note G)

8. To transact any other ordinary business for which due notice has been given in accordance with provisions in the Company's Constitution.

FURTHER NOTICE IS HEREBY GIVEN THAT for the purpose of determining a Member who shall be entitled to participate through live streaming this 13th AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Article 69 of the Company's Constitution and section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositors as at 19 May 2023. Only a depositor whose name appears in the General Meeting Record of Depositors as at 19 May 2023 shall be entitled to participate in this AGM or appoint a proxy to participate through live streaming and/or vote in his/her stead.

By Order of the Board,

LEE MI RYOUNG (MAICSA 7058423) SSM PC No. 201908002222
SAZLYNA SAPIEE (MIA19254) SSM PC No. 202108000032
Company Secretaries

Kuala Lumpur
28 April 2023

NOTES:

1. **IMPORTANT NOTICE**

   The Broadcast Venue is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 which requires the Chairperson of the meeting to be present at the main venue of the meeting.

   The Members/proxies **WILL NOT BE ALLOWED** to attend the 13th AGM in person at the Broadcast Venue on the day of the meeting.

   Members, proxies, attorneys or authorised representatives will have to register to participate (including posing questions to the Board via real time submission of typed texts) and vote in the 13th AGM remotely by using the Remote Participation and Voting ("**RPV**") facilities provided by SSE Solutions Sdn Bhd via Securities Services ePortal's platform at https://sshsb.net.my. Please follow the Procedures for RPV in the 13th AGM Administrative Guide and take note of procedure in order to participate remotely via RPV.

2. A member of the Company entitled to participate through live streaming and vote remotely at this 13th AGM may appoint a proxy or proxies to attend through live streaming and vote remotely in his/her stead. A proxy may but need not be a member of the Company. Where there is more than one proxy, the member shall specify the proportion of his/her holdings to be represented by each proxy, failing which the appointment shall be invalid.

3. Where a member is an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("**Omnibus Account**"), there is no limit to the number of proxies which the said nominee may appoint in respect of each omnibus account it holds.

4. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("**SICDA**"), he/she may appoint a proxy in respect of each securities account he/she holds with ordinary shares of the Company standing to the credit of the said securities account. Every appointment submitted by an authorised nominee as defined under the SICDA, must specify the CDS Account Number. The instrument appointing a proxy must be in writing under the hands of the appointer or his/her attorney duly authorised in writing or, if such appointer is a corporation, under its common seal or that of an officer or attorney duly authorised. If the Proxy Form is signed by the officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the Proxy Form is signed by the attorney duly authorised, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A certified true copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed with the Proxy Form. Failure to comply with the above requirement would results in the Proxy Form to be invalid.

5. The Proxy Form together with the duly registered Power of Attorney referred to in Note 4 above, if any, in hardcopy form or by electronic means must be received by the Share Registrar no later than Saturday, 27 May 2023 at 2.00 pm or at any adjournment thereof:

   - **In Hardcopy Form**
     The Proxy Form shall be deposited at the Share Registrar's office, Securities Services (Holdings) Sdn Bhd at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan, Malaysia.

   - **By Electronic Means**
     The Proxy Form shall be electronically lodged via Securities Services ePortal's platform at https://sshsb.net.my/ or by fax to +603-2094 9940 or by email to eservices@sshsb.com.my.

6. For the purpose of determining a member who shall be entitled to participate in this 13th AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Article 69 of the Company's Constitution and Section 34(1) of the SICDA to issue a General Meeting Record of Depositors as at 19 May 2023. Only a depositor whose name appears in the General Meeting Record of Depositors as at 19 May 2023 shall be entitled to participate in the 13th AGM or appoint a proxy to attend and/or vote in his/her stead.

7. For Pursuant to Paragraph 8.29A of Bursa Malaysia Main Market Listing Requirements, all resolutions set out in the Notice of the 13th AGM will be put to vote on a poll.

EXPLANATORY NOTES TO THE RESOLUTIONS:

Explanatory Note A

This agenda item is intended for discussion only as section 340(1) (a) of the Act does not require a formal approval of the Shareholders for the Audited Financial Statements of the Company. Hence, this agenda is not put forward for voting.

Explanatory Note B

Article 96 of the Company's Constitution expressly states that one-third (1/3) of the Directors for the time being or the number nearest to one-third with a minimum of one, shall retire from office at all AGM, PROVIDED ALWAYS all Directors shall retire from office at least once in every three (3) years. A retiring Directors shall be eligible to seek re-election.

At this 13th AGM, Mohd Rashid Mohd Yusof, Rowina Ghazali Seth, and Haida Shenny Hazri will be retiring as directors and are standing for re-election as Directors of the Company, and being eligible has individually offered himself/herself for re-election.

Explanatory Note C

Article 103 of the Company's Constitution provides that any Director appointed during the year, shall hold office only until the next AGM and may seek for re-election. The Director shall not be taken into account in determining the Director retiring by rotation. Ar. Ahila Ganesan was appointed on 12 August 2022, and therefore retire at this 13th AGM. Ar. Ahila Ganesan being eligible, is standing for re-election as Director of the Company, at this 13th AGM.

Recommendation for Re-Election of Retiring Directors

For the financial year under review, the Board undertook a formal and objective annual evaluation to determine the effectiveness of the Board and, its Board Committees.

The Board Nomination and Remuneration Committee ("**BNRC**") and the Board were satisfied that all the retiring directors has contributed positively to the overall performance of the Board and the respective Board Committees to which he/she holds membership. In consideration of the wealth of experience which the retiring directors possess, they will continue to bring sound advice and valuable contributions to the Board and Board Committees' deliberations through active participation and decision making.

All retiring directors, have abstained from deliberations and decisions on their own eligibility to stand for re-election at BNRC and Board (whichever is applicable) and will also abstain from deliberation and decision on re-election at this 13th AGM.

Both the BNRC and the Board recommended the re-election of Mohd Rashid Mohd Yusof, Rowina Ghazali Seth, Haida Shenny Hazri, and Ar. Ahila Ganesan as the Directors of the Company, at this 13th AGM. In addition, Rowina Ghazali Seth and Ar. Ahila Ganesan being the Independent Non-Executive Directors, has provided their annual declaration of independence to the Company.

Explanatory Note D

Article 105 of the Company's Constitution provides that the Directors' remuneration shall be determined by a fixed sum by an ordinary resolution of the Company in general meeting.

Section 230 (1) of the Act provides that the fees of directors and any benefits payable to the directors of a listed company and its subsidiaries shall be approved at a general meeting.

For guidance on estimated amount of meeting allowances paid to the Non-Executive Chairman and other Non-Executive Directors for Board and Board Committee meetings held in the financial year ended 31 December 2022 are disclosed under the "Financial Statement" section of the Annual Report.

The benefits payable to Non-Executive Chairman and Non-Executive Directors from the 13th AGM to next AGM in 2024 will be based on the Remuneration Policy & Procedures for Non-Executive Directors, and taking into account various factors including the number of scheduled meetings for Board and Board Committees, and the number of Directors involved are based on consideration that they remain in office.

Any Non-Executive Directors who are shareholders of the Company will abstain from voting resolutions 5 and 6 concerning remuneration to the Non-Executive Directors at the 13th AGM.

A copy of the Remuneration Policy and Procedures for Non-Executive Directors is available at the Company's corporate website https://www.velesto.com.

Explanatory Note E

Pursuant to Section 271(4)(a) of the Act, the Shareholders are required to approve the re-appointment of Auditors who shall hold office until the conclusion of the next AGM and to authorise the Board of Directors' to determine their remuneration thereof. The present Auditors, Messrs. Ernst & Young PLT has indicated their willingness to continue its services for another year.

The Board Audit Committee and the Board have considered the re-appointment of Messrs. Ernst & Young PLT as Auditors of the Company, having undertaken an annual assessment of the suitability and independence of the external Auditors, have collectively agreed that Messrs. Ernst & Young PLT has met the relevant criteria prescribed by Paragraph 15.21 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. Messrs. Ernst & Young PLT's re-appointment is subject to the approval of the Shareholders at the forthcoming AGM. If their appointment is approved, they shall hold office until the conclusion of the next AGM of the Company.

Explanatory Note F

Resolution 8 is for shareholders to affirm the waiver of their pre-emptive rights under Section 85 of the Act and Article 60 of the Company's Constitution, over all options granted and/or to be offered/granted and all new shares to be issued pursuant to the ESOS. As at the date of this Notice, none of the ESOS options granted were exercised. Refer to the Circular to Shareholders dated 28 April 2023, which is available at the Company's website at https://velesto.com and published on Bursa Malaysia's website on Friday, 28 April 2023.

Explanatory Note G

The ESOS, which obtained shareholders' approval at the Extraordinary General Meeting of the Company held on 31 October 2019, was implemented on 1 November 2019. Under the terms of the By-Laws governing and constituting the ESOS, Megat Zariman Abdul Rahim (who was appointed as Non-Independent Executive Director of the Company on 25 February 2022 is eligible to participate in the ESOS. As Megat Zariman Abdul Rahim is deemed interested in the proposed issue of options, he has abstained and will continue to abstain from all deliberations, discussions or voting of his own allocation as well as that of persons connected with him, if any, under the proposed grant of ESOS.

By voting in favour of Resolutions 8 and 9, shareholders of the Company will agree to waive their pre-emptive rights under Section 85 of the Act and under Article 60 of the Constitution of the Company, over all options granted and/or to be offered/granted and all new shares to be issued pursuant to the ESOS.

Annual Report 2022 & Circular to Shareholders

Refer to the Circular to shareholders dated 28 April 2023, which is available at the Company's website at https://velesto.com and published on Bursa Malaysia's website on Friday, 28 April 2023.

The Annual Report 2022 together with the Circular to Shareholders are available under "AGM/EGM Reports" of the "Investor Relations" page on the Company's website at https://www.velesto.com and also on Bursa Malaysia's website at https://www.bursamalaysia.com under "Company Announcements" of the Listed Companies tab.

Any request for printed Annual Report 2022 and Circular to Shareholders dated 28 April 2023 will be sent to the requestor soonest possible from the date of receipt of request.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

(PURSUANT TO PARAGRAPH 8.27 (2) OF THE MMLR OF BURSA)

The details of the Directors seeking re-election as per Agenda 2 and Agenda 3 of the Notice of the 13th Annual General Meeting is set out under Our Governance (Board of Directors) section of this Annual Report. The Directors' interests in the securities of the Company are disclosed under statistics on shares and warrant holdings in pages 223 and 228 of this Annual Report.

Directors who are standing for re-election/re-appointment	
Mohd Rashid Mohd Yusof	• No conflict of interest or any family relationship with any Director and/or major shareholder of the Company. • Has never been convicted for any offence for the past 5 years nor any public sanction or penalty by any relevant regulatory bodies during FY2022. • Rowina Ghazali Seth and Ar. Ahila Ganesan, being the Company's Independent Non-Executive Directors have provided their annual declaration of independence to the Company.
Rowina Ghazali Seth	
Haida Shenny Hazri	
Ar. Ahila Ganesan	

The Annual Report 2022 is available under "AGM/EGM Reports" of the "Investor Relations" page on the Company's website at www.velesto.com and also on Bursa Malaysia's website at www.bursamalaysia.com under "Company Announcements" of the Listed Companies tab.

SR2022 CONTENT INDEX

BURSA SR GUIDE 2022 DISCLOSURE INDEX

COMMON INDICATORS

No.	Common Sustainability Matters	Code	Indicators	Location / Explanation
1.	**Anti-corruption**	C1 (a)	Percentage of employees who have received training on anticorruption by employee category	Page 98
		C1 (b)	Percentage of operations assessed for corruption-related risks	
		C1 (c)	Confirmed incidents of corruption and action taken	
2.	**Community/ Society**	C2 (a)	Total amount invested in the community where the target beneficiaries are external to the listed issuer	Page 102
		C2 (b)	Total number of beneficiaries of the investment in communities	
3.	**Diversity**	C3 (a)	Percentage of employees by gender and age group, for each employee category	Page 99-101
		C3 (b)	Percentage of directors by gender and age group	
4.	**Energy management**	C4 (a)	Total energy consumption	Page 70; Page 97
5.	**Health and safety**	C5 (a)	Number of work-related fatalities	Page 86; Page 103
		C5 (b)	Lost time incident rate	
		C5 (c)	Number of employees trained on health and safety standards	
6.	**Labour practices and standards**	C6(a)	Total hours of training by employee category	Page 101-102
		C6 (b)	Percentage of employees that are contractors or temporary staff	Page 100
		C6 (c)	Total number of employee turnover by employee category	Page 101
		C6 (d)	Number of substantiated complaints concerning human rights violations	N/A
7.	**Supply chain management**	C7 (a)	Proportion of spending on local suppliers	Page 99
8.	**Data privacy and security**	C8 (a)	Number of substantiated complaints concerning breaches of customer privacy and losses of customer data	Page 99
9.	**Water**	C9 (a)	Total volume of water used	Page 71-72; Page 97
10.	**Waste management**	C10 (a)	Total waste generated, and a breakdown of the following: (i) total waste diverted from disposal (ii) total waste directed to disposal	Page 72; Page 97
11.	**Emissions management**	C11 (a)	Scope 1 emissions in tonnes of CO2e	Page 70-71; Page 97
		C11 (b)	Scope 2 emissions in tonnes of CO2e	
		C11 (c)	Scope 3 emissions in tonnes of CO2e (at least for the categories of business travel and employee commuting)	

SECTOR-SPECIFIC INDICATORS: ENERGY

Sector-Specific Matters	Code	Indicators	Location / Explanation
Biodiversity	S1 (a)	Percentage of existing operations or projects assessed for biodiversity risks	Page 97
	S1 (b)	Size and location of all habitat areas protected or restored	
	S1 (c)	Total number of International Union for Conservation of Nature ("IUCN") Red List of Threatened Species and national conservation list species with habitats in areas affected by the operations of the company	
Emissions - Air Quality/Pollution	S4 (a)	Amount of air emissions of pollutants and particulate matter	Page 97
Materials	S5 (a)	Total weight or volume of materials that are used to produce and package products and services	N/A
Effluents	S8 (a)	Total volume of water (effluent) discharge over the reporting period	Page 97-98

TCFD 2021 DISCLOSURE INDEX

TCFD Recommendations	Recommended Disclosures	Location / Explanation
Governance Disclose the governance around climate-related risks and opportunities.	a) Board Oversight b) Management's Role	Velesto's Board of Directors ultimate responsibility for all ESG matters, including climate-related directives. A sustainability governance structure comprising the Board Risk Management Committee ("BRMC"), the Sustainability Management Committee ("SMC") and the Sustainability Working Group ("SWG") was established to support the Board in its oversight responsibility. Velesto's President is tasked with the strategic management of ESG and climate change matters, and the operationalisation of the Group's sustainability strategy as the chair of the Sustainability Management Committee ("SMC"). The SMC is composed of the Senior Management of Velesto, who assist the Board in the implementation of ESG initiatives. Their role involves translating Board directives into practical applications within business units and divisions, and evaluating the effectiveness of these initiatives at the operational level by comparing them against measurable indicators. This information will then be sent to the Board through the BRMC for their review and further deliberation. See Sustainability Governance Structure section on page 58-59, and Board Oversight & Management's Role on Climate Change Adaptation on page 68 for more information.
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	a) Risks and Opportunities	As a responsible rig operator within the fossil fuel industry, Velesto recognises the impact of our operations on climate change, as well as its risks and opportunities to our long-term sustainability during the current energy transition. As such, the Group has progressively put in place various environmental performance initiatives to support a climate-resilient business model that is conducive for long-term value creation, particularly in meeting regulatory compliance, maintenance of our asset and site accreditations, deriving cost savings from resource efficiency, and the preservation of our brand reputation and goodwill with our stakeholders. More information can be found in the Environmental Matters section of this report on page 67-73, and on page 42 on Addressing Weather Conditions and the Effects of Climate Change.
	b) Impact on Organisation c) Resilience of Strategy	The Group's Board and Senior Management takes into consideration the various climate change risks and opportunities, incorporating it in our strategic planning for all future CAPEX, particularly in terms of the Group's investments for new businesses and technological and systems adoption. Our Climate Change Mitigation, Adaptation and Resilience strategy, Approaches for Reducing Climate Impacts, and the Action and Allocation to Address Climate Change are detailed on page 68-69 in the Energy Consumption and Emissions section of this report. The resilience of Velesto's business model in Addressing Weather Conditions and the Effects of Climate Change can be found on page 42.

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TCFD Recommendations	Recommended Disclosures	Location / Explanation
Risk Management Disclose how the organisation identifies, assesses, and manages climate-related risks	a) Risk ID and Assessment Processes b) Risk Management Processes c) Integration into Overall Risk Management	ESG risks including climate and other environmental risks are systematically identified through the Group's Enterprise Risk Management framework for effective management. The assessment of these risks is further augmented by the Group's robust stakeholder engagement and materiality assessment processes outlined on page 62-66 of this report. The findings of these processes are presented to the BRMC for further management and incorporation into the Group's overall risk management. Additional information on how Velesto embeds ESG Considerations into Risk Management and the Group's Risk Mitigation and Strategies can be found on page 60-61 and page 47 respectively. The Group's overall risk management process is detailed within the Statement on Risk Management and Internal Control on page 138-145.
Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	a) Climate-Related Metrics	Velesto benchmarks the effectiveness of our climate-related risks management through performance tracking of our energy consumption metric as well as the amount of CO2 generated by its business. Scope One energy consumption (i.e fuel such as diesel, and petrol) is measured in litres while Scope Two energy consumption (i.e electricity from the national grid) is measured using kWh. These are then converted to GJ and tCO2e to derive the Group's total energy consumption and GHG emissions for disclosure. Our emissions figure is then compared against the Group's revenue in RM Million and the number of operating days to tabulate the annual emissions intensity and determine the effectiveness of our energy efficiency measures. Starting FY2022, Velesto has begun tracking Scope 3 emissions for business travel by air and will progressively include additional Scope 3 indicators to better track and manage the Group's emissions. Additional environmental performance metrics tracked include air quality emissions in CO2e, water consumption in litres, waste generated in tonnes, and the number of environmental spills as well as its volume in litres. Please refer to the Environmental Matters section on page 67-73 and the ESG Performance Data table on page 97-103 for more information.
	b) Scope 1, 2, 3 GHG Emissions	In FY2022, Velesto recorded the following in terms of emissions: Scope 1 Emissions: 54,936 tCO2e Scope 2 Emissions: 452 tCO2e Scope 3 Emissions: 32,798 tCO2e Total Scope 1 & 2 Emissions Intensity / Operating Days: 41 tCO2e (15% reduction from FY2021) Total Scope 1 & 2 Emissions Intensity / Revenue: 95 tCO2e (32% reduction from FY2021) Refer to page 97 for our 3-year emissions performance data.
	c) Climate-Related Targets	Velesto is committed to achieve a 10% reduction in emissions intensity measured by operating days, and a 30% reduction in revenue emissions intensity by 2030, from our 2021 emissions baseline. The Group also aims to achieve Zero major spills annually.

FTSE 2017 DISCLOSURE INDEX

PILLAR	CODE	THEME	DISCLOSURE
Environmental	EBD	Biodiversity	Marine Biodiversity on Page 73; Biodiversity Performance Data on Page 97-98.
	ECC	Climate Change	Environmental Matters on Page 67; Energy Consumption and Emissions on Page 68-71; GHG Emissions Performance Data on Page 97.
	EPR	Pollution & Resources	Pollution and Waste Management on Page 71-72; Air Quality, Waste and Effluent; Risk Management & Regulatory Compliance Performance Data on Page 97-98.
	ESC	Supply Chain (Environment)	Supply Chain Management on Page 95; Risk Management & Regulatory Compliance, Page 98 ; Supply Chain Management Performance Data on Page 98-99.
	EWT	Water Use	Pollution and Waste Management on Page 71-72; Water Consumption Performance Data on Page 97.
Social	SCR	Customer Responsibility	N/A
	SHS	Health & Safety	Occupational Safety and Health on Page 84-87; HSE Performance Data on Page 103
	SHR	Human Rights & Community	Labour Practices and Human Rights on Page 74-75; Talent Retention and Development on Page 76-83; Local Community Impact on Page 88-90; Corporate Governance & Anti-Corruption on Page 91-94; Community Engagement Performance Data on Page 102.
	SLS	Labour Standards	Labour Practices and Human Rights on Page 74-75; Talent Retention and Development on Page 76-83; Corporate Governance & Anti-Corruption on Page 91-94; Workforce Diversity, Hiring and Attrition, Staff Training, Employee Benefits and Remuneration and Employee Engagement Performance Data on Page 100-102.
	SSC	Supply Chain (Social)	Labour Practices and Human Rights on Page 74-75; Talent Retention and Development on Page 76-83; Supply Chain Management on Page 95; Risk Management & Regulatory Compliance and Supply Chain Management Performance Data on Page 98-99.
Governance	GAC	Anti-Corruption	Corporate Governance & Anti-Corruption on Page 91-94; Anti-Corruption Performance Data on Page 98.
	GCG	Corporate Governance	Sustainability Governance at Velesto on Page 58-61; Governance Body Composition Performance Data on Page 99-100; Corporate Governance Overview Statement on Page 122-137.
	GRM	Risk Management	Embedding ESG Considerations into Risk Management on Page 60-61; Regulatory Compliance on Page 96; Risk Management & Regulatory Compliance Performance Data on Page 98; Statement on Risk Management & Internal Control on Page 138-145.
	GTX	Tax Transparency	N/A

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GRI STANDARDS 2021 CONTENT INDEX

GRI STANDARD	CODE	DISCLOSURE	LOCATION	PAGE
GRI 2: General Disclosures 2021	2-1	Organisational details	Corporate Information	10
	2-2	Entities included in the organisation's sustainability reporting	Corporate Structure Scope, Boundary and Exclusions	11 51
	2-3	Reporting period, frequency and contact point	About This Report	51-52
	2-4	Restatements of information	N/A	
	2-5	External assurance	Data Quality and Assurance	52
	2-6	Activities, value chain and other business relationships	Our Value Chain	34-35
	2-7	Employees	Workforce Diversity Data	100
	2-8	Workers who are not employees	Workforce Diversity Data	100
	2-9	Governance structure and composition	Corporate Governance Overview Statement	122-137
	2-10	Nomination and selection of the highest governance body		
	2-11	Chair of the highest governance body		
	2-12	Role of the highest governance body in overseeing the management of impacts		
	2-13	Delegation of responsibility for managing impacts		
	2-14	Role of the highest governance body in sustainability reporting	Sustainability Governance at Velesto Governing Sustainability	58-61 133
	2-15	Conflicts of interest	Assessment of Independence Additional Compliance Information Statistics on Shareholding	128 151 223-225
	2-16	Communication of critical concerns	FY2022 Materiality Matrix	66
	2-17	Collective knowledge of the highest governance body	Board Skills Matrix Identification of Risk and Related Action Plans HSE Alert Velesto Group Top Risks Overview	129 85 87 141
	2-18	Evaluation of the performance of the highest governance body	Board Effectiveness Evaluation	130
	2-19	Remuneration policies	Remuneration Policy and Procedures & TOR BNRC at www.velesto.com	
	2-20	Process to determine remuneration		
	2-21	Annual total compensation ratio	Directors' Benefits	154
	2-22	Statement on sustainable development strategy	SS2022 Message from the Group President	54-55
	2-23	Policy commitments	Diverse Policies for Good Governance	61
	2-24	Embedding policy commitments		
	2-25	Processes to remediate negative impacts	Grievance Mechanism Hazard Identification, Risk Assessment and Risk Control	75 85
	2-26	Mechanisms for seeking advice and raising concerns	Feedback Channel	52
	2-27	Compliance with laws and regulations	Regulatory Compliance	96
	2-28	Membership associations	Industry Association Membership and External Initiatives	65
GRI 2: General Disclosures 2021 (cont'd.)	2-29	Approach to stakeholder engagement	Stakeholder Engagement	62-64
	2-30	Collective bargaining agreements	Labour Practices and Human Rights Supply Chain Management	74 95
GRI 3: Material Topics 2021	3-1	Process to determine material topics	Determining Materiality	66
	3-2	List of material topics		
	3-3	Management of material topics	Management of all material topics are provided in the respective topical disclosures within this report.	
GRI 201: Economic Performance 2016	201-1	Direct economic value generated and distributed	Local Community Impact	88
	201-2	Financial implications and other risks and opportunities due to climate change	Addressing Weather Conditions and the Effects of Climate Change Energy Consumption and Emissions	42 68-71
	201-3	Defined benefit plan obligations and other retirement plans	Competitive Remuneration and Benefits	81
	201-4	Financial assistance received from government	N/A	
GRI 202: Market Presence 2016	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Not disclosed	
	202-2	Proportion of senior management hired from the local community	Our Leaders	116-121
GRI 203: Indirect Economic Impacts 2016	203-1	Infrastructure investments and services supported	Local Community Impact	88
	203-2	Significant indirect economic impacts		
GRI 204: Procurement Practices 2016	204-1	Proportion of spending on local suppliers	Prioritising Local Procurement Supply Chain Management Data	88-89 99
GRI 205: Anti-corruption 2016	205-1	Operations assessed for risks related to corruption	Corporate Governance & Anti-Corruption Anti-Corruption Performance Data	91-94 98
	205-2	Communication and training about anti-corruption policies and procedures		
	205-3	Confirmed incidents of corruption and actions taken		
GRI 302: Energy 2016	302-1	Energy consumption within the organisation	Energy Consumption and Emissions	68-71
	302-2	Energy consumption outside of the organisation		
	302-3	Energy intensity	Energy and GHG Emissions Data	97
	302-4	Reduction of energy consumption		
	302-5	Reductions in energy requirements of products and services		
GRI 303: Water and Effluents 2018	303-1	Interactions with water as a shared resource	Pollution and Waste Management	71-72
	303-2	Management of water discharge-related impacts		
	303-3	Water withdrawal	Water Consumption and Waste and Effluent Data	97
	303-4	Water discharge		
	303-5	Water consumption		
GRI 304: Biodiversity 2016	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Marine Biodiversity Biodiversity Data	78 97-98
	304-2	Significant impacts of activities, products and services on biodiversity		

GRI STANDARD	CODE	DISCLOSURE	LOCATION	PAGE
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	Energy Consumption and Emissions	68-71
	305-2	Energy indirect (Scope 2) GHG emissions		
	305-3	Other indirect (Scope 3) GHG emissions		
	305-4	GHG emissions intensity		
	305-5	Reduction of GHG emissions		
	305-6	Emissions had increased in FY2022, year-on-year.	Energy, GHG Emissions and Air Quality Data	97
	305-7	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions		
GRI 306: Waste 2020	306-1	Waste generation and significant waste-related impacts	Pollution and Waste Management	71-72
	306-2	Management of significant waste-related impacts		
	306-3	Waste generated	Waste and Effluent Data	97
	306-4	Waste diverted from disposal		
	306-5	Waste directed to disposal		
GRI 308: Supplier Environmental Assessment 2016	308-1	New suppliers that were screened using environmental criteria	Supply Chain Management	95
	308-2	Negative environmental impacts in the supply chain and actions taken		
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	Talent Retention and Development	76-83
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Hiring and Attrition and Employee Benefits and Remuneration Data	101-102
	401-3	Parental leave		
GRI 402: Labor/ Management Relations 2016	402-1	Minimum notice periods regarding operational changes	Minimum Notice Period	75
GRI 403: Occupational Health and Safety 2018	403-1	Occupational health and safety management system		
	403-2	Hazard identification, risk assessment, and incident investigation		
	403-3	Occupational health services		
	403-4	Worker participation, consultation, and communication on occupational health and safety		
	403-5	Worker training on occupational health and safety	Occupational Safety and Health	84-87
	403-6	Promotion of worker health		
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	HSE Performance Data	103
	403-8	Workers covered by an occupational health and safety management system		
	403-9	Work-related injuries		
	403-10	Work-related ill health		
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	Talent Retention and Development	76-83
	404-2	Programs for upgrading employee skills and transition assistance programs		
	404-3	Percentage of employees receiving regular performance and career development reviews	Staff Training Data	101-102
GRI 405: Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	Commitment to Diversity and Equal Opportunity	77-78
	405-2	Ratio of basic salary and remuneration of women to men	Governance Body Composition and Workforce Diversity Data	99-101

GRI STANDARD	CODE	DISCLOSURE	LOCATION	PAGE
GRI 406: Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	Labour Practices and Human Rights	74-75
GRI 407: Freedom of Association and Collective Bargaining 2016	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Labour Practices and Human Rights	74-75
GRI 408: Child Labor 2016	408-1	Operations and suppliers at significant risk for incidents of child labor	Labour Practices and Human Rights	74-75
GRI 409: Forced or Compulsory Labor 2016	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	Labour Practices and Human Rights	74-75
GRI 413: Local Communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs	Local Community Impact	88
	413-2	Operations with significant actual and potential negative impacts on local communities	Community Engagement Data	102
GRI 414: Supplier Social Assessment 2016	414-1	New suppliers that were screened using social criteria	Labour Practices and Human Rights	74-75
	414-2	Negative social impacts in the supply chain and actions taken	Supply Chain Management Data	99
GRI 415: Public Policy 2016	415-1	Political contributions	Political Views and Contributions	94
GRI 418: Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Customer Data Privacy and Protection	96
			Data Privacy and Security Data	99

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PROXY FORM

VELESTO energy

I/We _____

(Name as per NRIC / Passport / Certificate of incorporation in capital letters)

with (New NRIC/Old NRIC/Passport/Company No.) _____ of _____

_____

(full address in capital letters)

being a member of **VELESTO ENERGY BERHAD (Registration No. 200901035667(878786-H)**(Company), do hereby appoint

* ☐ _____

(Name as per NRIC / Passport in capital letters)

with (New NRIC/Old NRIC/Passport/Company No.) _____ of _____

_____

(full address in capital letters)

or failing him/her,

☐ _____

(Name as per NRIC / Passport in capital letters)

with (New NRIC/Old NRIC/Passport/Company No.) _____ of _____

_____

(full address in capital letters)

or failing him/her,

* ☐ Chairman of the Meeting, ***(* Please tick one (1) box only)***

as my/our proxy to vote for me/us and on my/our behalf at the 13th Annual General Meeting ("AGM") of the Company which will be conducted entirely through live streaming from the **broadcast venue Ballroom, Level 2, Aloft KL Sentral, 5, Jalan Stesen Sentral, Kuala Lumpur Sentral, 50470 Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, Malaysia on Monday, 29 May 2023 at 2.00 p.m.** or at any adjournment thereof.

My/Our proxy is to vote as indicated below:
(Please indicate with an "X" in the appropriate box against each resolution how you wish your proxy to vote. If no instruction is given, this form will be taken to authorise the proxy to vote at his/her discretion.)

ORDINARY BUSINESS	FOR	AGAINST
To re-elect Mohd Rashid Mohd Yusof whom retires in accordance with Article 96 of the Company's Constitution and being eligible, offers himself for re-election. **Ordinary resolution 1**		
To re-elect Rowina Ghazali Seth, whom retires in accordance with Article 96 of the Company's Constitution and being eligible, offers herself for re-election. **Ordinary resolution 2**		
To re-elect Haida Shenny Hazri, whom retires in accordance with Article 96 of the Company's Constitution and being eligible, offers herself for re-election. **Ordinary resolution 3**		
To re-elect Ar. Ahila Ganesan, whom retires in accordance with Article 103 of the Company's Constitution and being eligible, offers herself for re-election. **Ordinary resolution 4**		
To approve the payment of fees to the Non-Executive Chairman and Non-Executive Directors with effect from this 13th AGM until the next AGM of the Company to be held in year 2024. **Ordinary resolution 5**		
To approve the benefits payable to the Non-Executive Chairman and Non-Executive Directors comprise of allowances, benefits-in-kind and other emoluments payable to them, from the 13th AGM to the next AGM of the Company in 2024. **Ordinary resolution 6**		
To re-appoint Messrs. Ernst & Young PLT as Auditors of the Company for the financial year ending 31 December 2023 and to authorise the Board of Directors to determine their remuneration. **Ordinary resolution 7**		
SPECIAL BUSINESS	**FOR**	**AGAINST**
To approve the proposed waiver of statutory pre-emptive rights of shareholders over all options granted and/or to be offered/granted and all new shares to be issued in relation to the Employees Share Option Scheme ("ESOS") of the Company. **Ordinary resolution 8**		
To approve the proposed granting of ESOS Options to Megat Zariman Abdul Rahim and waiver of pre-emptive rights of shareholders over the ESOS Options and/or new shares. **Ordinary resolution 9**		

Dated this _____ day of _____ 2023

CDS Account No.

_____

Name of Member
(If the appointor is an attorney or a corporation please see Note 4 below)

_____

Signature of Member(s) / Common Seal

Total number of ordinary shares held		
Number of shares to be represented by each proxy	Proxy 1	Proxy 2

Notes:

1. *The Broadcast Venue is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 which requires the Chairperson of the meeting to be present at the main venue of the meeting. Members WILL NOT BE ALLOWED to attend the 13th AGM in person at the Broadcast Venue on the day of the meeting. Members are to attend, participate (including posing questions to the Board) and vote remotely at the 13th AGM via the Remote Participation and Voting ("RPV") facilities provided by SS E Solutions Sdn. Bhd. via Securities Services ePortal's platform at https://sshsb.net.my. Please follow the procedures provided in the Administrative Guide for the AGM in order to register, participate and vote remotely via the RPV facilities.*
2. *A member of the Company entitled to attend and vote at the Meeting may appoint a proxy or proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company. Where there is more than one proxy, the member shall specify the proportion of his/her holdings to be represented by each proxy, failing which shall appointment shall be invalid.*
3. *Where a member an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the said nominee may appoint in respect of each omnibus account it holds.*
4. *Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), he / she may appoint a proxy in respect of each securities account he / she holds with ordinary shares of the Company standing to the credit of the said securities account. Every appointment submitted by an authorised nominee as defined under the SICDA, must specify the CDS Account Number. The instrument appointing a proxy must be in writing under the hands of the appointer or his attorney duly authorised in writing or, if such appointer is a corporation, under its common seal or that of an officer or attorney duly authorised. If the Proxy Form is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the Proxy Form is signed under the attorney duly authorised, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A certified true copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed with the Proxy Form. Failure to comply with the above requirement would result in the Proxy Form to be invalid.*

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THE REGISTRAR OF
VELESTO ENERGY BERHAD
Company No.: 200901035667 (878786-H)

AFFIX
STAMP
HERE

SECURITIES SERVICES (HOLDINGS) SDN. BHD.
Level 7, Menara Milenium Jalan Damanlela,
Pusat Bandar Damansara, Damansara Heights,
50490 Kuala Lumpur, Malaysia

2nd fold here

5. *A member who has appointed a proxy or attorney or authorised representative to attend, participate and vote at this 13th AGM via RPV must request his/her proxy to register himself/herself for RPV at SS E Solutions Sdn. Bhd. via Securities Services ePortal's platform at https://sshsb.net.my. Please follow the Procedures for RPV in the Administrative Guide.*
6. *The Proxy Form with the duly registered Power of Attorney referred to in Note 4 above, if any, in hardcopy form or by electronic means in the following manner and must be received by the Company no later than Saturday, 27 May 2023 by 2:00 pm or at any adjournment thereof:*

   (i) In Hardcopy Form
   The proxy form shall be deposited at the Share Registrar's office, Securities Services (Holdings) Sdn. Bhd. at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan, Malaysia.

   (ii) By Electronic Means
   The proxy form shall be electronically lodged via Securities Services ePortal's platform at https://sshsb.net.my/ or by fax to +603-2094 9940 or by email to eservices@sshsb.com.my.

   By submitting the duly executed proxy form, the members and his/her proxy consent to the Company (and/or its agents/service providers) collecting, using and disclosing the personal date thereon in accordance with the Personal Data Protection Act, 2010 for the purpose of this AGM and any adjournment thereof.
7. *For the purpose of determining a member who shall be entitled to attend this 13th AGM, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd., in accordance with Article 69 of the Company's Constitution and Section 34(1) of the SICDA to issue a General Meeting Record of Depositors as at 19 May 2023. Only a depositor whose name appears in the General Meeting Record of Depositors as at 19 May 2023 shall be entitled to attend the said Meeting or appoint a proxy to attend and / or vote in his / her stead.*
8. *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of the 13th AGM of the Company shall be put to vote by way of a poll.*

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GLOSSARY

In this Annual Report the following words and abbreviations, unless stated otherwise, shall have the meanings ascribed below:

"Act" or "CA 2016"	Companies Act, 2016 and shall include any amendments thereto that may be made from time to time. The word "Act" and "CA 2016" may be used interchangeably
"ABC Policy"	Anti-Bribery and Corruption Policy
"AGM"	Annual General Meeting of the Company
"BAC"	Board Audit Committee
"BCM"	Business Continuity Management
"BCP"	Business Continuity Plan
"BEE"	Board Effectiveness Evaluation
"BNRC"	Board Nomination & Remuneration Committee
"Board Committee(s)"	Board Committee established by the Board
"Board" or "Board of Directors"	Board of Directors of the Company
"BRMC"	Board Risk Management Committee
"BURSA"	Bursa Malaysia Securities Berhad
"BWBC"	Board Whistle-Blowing Committee
"CCO"	Chief Commercial Officer
"CFO"	Chief Financial Officer
"CGGEH"	Corporate Gifts, Gifts, Entertainment and Hospitality
"CoBE"	Code of Business Conduct and Ethics
"Constitution"	Constitution of the Company
"CRM"	Corruption Risk Management
"CRR"	Corruption Risk Registers
"CSR"	Corporate Social Responsibility
"DCR"	Daily Charter Rate
"DD"	Directional Drilling
"Director"	Refers to individual director who is a member of the Board
"EBITDA"	Earnings Before Interest, Tax, Depreciation and Amortisation
"EES"	Employees Engagement Survey
"ERM"	Enterprise Risk Management
"ERP"	Enterprise Resource Planning
"EIA"	Environmental Impact Assessment
"ESOS"	Employees' Share Option Scheme
"ESG"	Environmental, Social and Governance
"EY"	Messrs Ernst & Young PLT
"E&P"	Exploration and Production
"FYE"	Financial Year Ended
"FY2022"	Financial year ended 31 December 2022
"GDP"	Gross Domestic Product
"GJ"	Gigajoules

GLOSSARY

"GHG"	Greenhouse Gas
"GRI"	Global Reporting Initiative
"Government"	Government of Malaysia
"HiPots"	Velesto's High Potential Programme
"HOC"	HSE Observation Card
"HPHT"	High Pressure High Temperature
"HSE"	Health, Safety and Environment
"HWU"	Hydraulic Workover Unit
"IAD"	Internal Audit Division
"IADC"	International Association of Drilling Contractors
"IAR 2022"	Integrated Annual Report 2022
"ICDM"	Institute of Corporate Directors Malaysia
"IGU"	Integrity & Governance Unit
"INSTEP"	Institut Teknologi Petroleum PETRONAS
"INED"	Independent Non-Executive Directors
"IFRS"	International Financial Reporting Standards
"IR"	Investor Relations
"i-RDC"	Integrated Rig Drilling Services & Completion
"<IIRC>"	International Integrated Reporting Council
"<IR>"	Integrated Reporting
"JU"	Jack-Up Rig
"KPI"	Key Performance Indicators
"LTI"	Loss Time Incidents
"LWD"	Logging While Drilling
"MAC"	Management Audit Committee
"MACC"	Malaysian Anti-Corruption Commission
"Management"	Management of Velesto Group
"MCCG 2021"	Malaysian Code on Corporate Governance, published by Securities Commission on April 2021
"MD&A"	Management Discussion and Analysis
"MFRS"	Malaysian Financial Reporting Standards
"MMLR"	Main Market Listing Requirements issued by Bursa Malaysia Securities Berhad, and shall include any amendments thereto that may be made from time to time
"MIA"	Malaysian Institute of Accountants
"MWD"	Measurement While Drilling
"NED"	Non-Executive Directors
"NINED"	Non-Independent Non-Executive Directors
"Notice"	Notice of this AGM
"OCTG"	Oil Country Tubular Goods
"OPEC"	Organisation of the Petroleum Exporting Countries
"OPEC+"	Organisation of the Petroleum Exporting Countries Plus
"OFS"	Oilfield Services
"OSH"	Occupational Safety and Health
"P&A"	Plug and Abandonment
"PAO"	PETRONAS Activity Outlook
"PCSB"	PETRONAS Carigali Sdn. Bhd.
"PPE"	Personal Protection Equipment
"QHSE"	Quality, Health, Safety and Environment
"RAP"	Risk Action Plan
"RE"	Renewable Energy
"RMC"	Risk Management Committee
"RPMS"	Rig Power Management System
"RPV"	Remote Participation and Voting Facilities
"SC"	Securities Commission Malaysia
"SEA"	South East Asia
"Senior Management"	Senior officers of Velesto Group who are members of the Management Committee
"SOP"	Standard Operating Procedures
"SLP"	Safety Leadership Programme
"SORMIC"	Statement on Risk Management and Internal Control
"SR2022"	Sustainability Report 2022
"SSC"	Sustainability Steering Committee
"SSM"	Suruhanjaya Syarikat Malaysia
"SWG"	Sustainability Working Group
"TC"	Tender Committee
"TJ"	Terajoules
"TDS"	Top Drive System
"TOR"	Terms of Reference
"TRC"	Total Recordable Case
"UNSDG"	United Nations Sustainability Development Goals
"VDPx"	Vendor Development Programme
"Velesto Group" or "the Group"	Collectively, Velesto and its subsidiaries
"Velesto" or "Company"	Velesto Energy Berhad, Registration No. 200901035667 (878786-H) a company incorporated in Malaysia and having its registered office at Level 18, Block 3A, Plaza Sentral, Jalan Stesen Sentral 5, 50470, Kuala Lumpur. The word "Velesto" and "Company" may be used interchangeably
"VIDA"	Velesto-INSTEP Drilling Academy (A collaboration between Velesto Drilling Academy Sdn Bhd and Institut Teknologi Petroleum PETRONAS)
"VTS"	Velesto Trainee Scheme
"WFH"	Work-From-Home

In this Annual Report, words incorporating the singular shall, where applicable, include the plural and vice versa and words incorporating the masculine gender shall, where applicable, include the feminine and neuter gender and vice versa. Reference to persons shall include corporation, unless stated otherwise.

VELESTO ENERGY BERHAD
Registration No.: 200901035667 (878786-H)

ADMINISTRATIVE GUIDE
13TH ANNUAL GENERAL MEETING (AGM) OF VELESTO ENERGY BERHAD (the Company)

Date	:	Monday, 29 May 2023
Time	:	2:00 p.m.
Broadcast Venue	:	Ballroom, Level 2, Aloft KL Sentral, 5, Jalan Stesen Sentral, Kuala Lumpur Sentral, 50470 Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, Malaysia

VIRTUAL MEETING
The 13th AGM of the Company will be conducted entirely through live streaming from the Broadcast Venue.

As the Broadcast Venue is for the purpose of complying with Section 327(2) of the Companies Act, 2016 which requires the Chairperson of the meeting to be present at the main venue of the meeting. Shareholders/proxies **WILL NOT BE ALLOWED** to attend the 13th AGM in person at the Broadcast Venue on the day of the meeting.

As no Shareholders should be physically present at the Broadcast Venue, we request Shareholders to attend and vote at the 13th AGM remotely via the RPV facilities, provided by SS E Solutions Sdn. Bhd. via Securities Services ePortal's platform at https://sshsb.net.my/

PROCEDURES FOR RPV
Shareholders, proxies, corporate/authorised representatives or attorneys who wish to participate the AGM remotely using the RPV facilities are to follow the requirements and procedures as summarized below:-

BEFORE THE MEETING

(A) Sign up for a user account at Securities Services e-Portal

Step 1: Visit https://sshsb.net.my/ Step 2: Sign up for a user account Step 3: Wait for our notification email that will be sent within 1 working day Step 4: Verify your user account within 7 days of the notification email and log in	• We require 1 working day to process all user sign-ups. If you do not have a user account with the e-Portal, you will need to sign up for a user account by the deadlines stipulated below. • Your registered email address is your User ID.

To register for the meeting under (B) and to submit e-Proxy Form under (C) below, please sign up for a user account by 25 MAY 2023, failing which you may only be able to submit the hard copy proxy form.
This is a ONE-TIME sign up only. If you already have a user account, please proceed to either (B) or (C) below.

(B) Register for Remote Participation at the Meeting

- Log in to https://sshsb.net.my/ with your registered email and password.
- Look for Velesto Energy Berhad under Company Name and 13th AGM on 29 May 2023 at 2:00 p.m. – Registration for Remote Participation under Corporate Exercise / Event and click ">" to register for remote participation at the meeting.

Step 1: Check if you are attending as:-
- Individual shareholder
- Corporate or authorised representative of a body corporate:
  For body corporates, the appointed corporate / authorised representative has to upload the evidence of authority (e.g. Certificate of Appointment of Corporate Representative, Power of Attorney, letter of authority or other documents proving authority). All documents that are not in English or Bahasa Malaysia have to be accompanied by a certified translation in English in the same file for upload purposes. The original evidence of authority and translation thereof, if required, have to be submitted at the Office of Share Registrar, Securities Services (Holdings) Sdn. Bhd. at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan for verification before the registration closing date and time above.

Step 2: Submit your registration.
- All shareholders must register for remote participation at the meeting and are highly encouraged to register as early as possible and before the eLive access date and time [see (D) below] in order to ensure timely access to the meeting. Access shall be granted only to eligible shareholders in accordance with the General Meeting Record of Depositors as at 19 May 2023.
- A copy of your e-Registration for remote participation can be accessed via My Records (refer to the left navigation panel).
- Your registration will apply to all the CDS account(s) of each individual shareholder / body corporate shareholder that you represent. If you are both an individual shareholder and representative of body corporate(s), you need to register as an individual and also as a representative for each body corporate.
- As the meeting will be conducted on a virtual basis, we highly encourage all shareholders to remotely participate and vote at the meeting, failing which, please appoint the Chairman of the meeting as proxy or your own proxy(ies) to represent you.

(C) Submit e-Proxy Form

Meeting Date and Time	Proxy Form Submission Closing Date and Time
Monday, 29 May 2023 at 2:00 p.m.	Saturday, 27 May 2023 at 2:00 p.m.

- Log in to https://sshsb.net.my/ with your registered email and password.
- Look for Velesto Energy Berhad under Company Name and 13th AGM on 29 May 2023 at 2:00 p.m. – Submission of Proxy Form under Corporate Exercise / Event and click ">" to submit your proxy forms online for the meeting by the submission closing date and time above.

Step 1: Check if you are submitting the proxy form as:-
- Individual shareholder
- Corporate or authorised representative of a body corporate:
  For body corporates, the appointed corporate / authorised representative is to upload the evidence of authority (e.g. Certificate of Appointment of Corporate Representative, Power of Attorney, letter of authority or other documents proving authority). All documents that are not in English or Bahasa Malaysia have to be accompanied by a certified translation in English in the same file for upload purposes. The original evidence of authority and translation thereof, if required, have to be submitted at the Office of Share Registrar, Securities Services (Holdings) Sdn. Bhd. at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan for verification before the proxy form submission closing date and time above.

Step 2:
Enter your CDS account number or the body corporate's CDS account number. Then enter the information of your proxy(ies) and the proportion of your securities to be represented by your proxy(ies).
You may appoint the Chairman of the meeting as your proxy where you are not able to participate remotely.

Step 3: Proceed to indicate how your votes are to be casted against each resolution.

Step 4: Review and confirm your proxy form details before submission.
- A copy of your submitted e-Proxy Form can be accessed via My Records (refer to the left navigation panel).
- You need to submit your e-Proxy Form for every CDS account(s) you have or represent.

PROXIES
All appointed proxies need not register for remote participation under (B) above but if they are not registered users of the e-Portal, they will need to sign up as users of the e-Portal under (A) above by 25 May 2023. PLEASE NOTIFY YOUR PROXY(IES) ACCORDINGLY. Upon processing the proxy forms, we will grant the proxy access to remote participation at the meeting to which he/she is appointed for instead of the shareholder, provided the proxy must be a registered user of the e-Portal, failing which, the proxy will not be able to participate at the meeting as the meeting will be conducted on a virtual basis.

ON THE DAY OF MEETING

Log in to https://sshsb.net.my/ with your registered email and password

(D) Join the Live Stream Meeting (eLive)

Meeting Date and Time	eLive Access Date and Time
Monday, 29 May 2023 at 2:00 p.m.	Monday, 29 May 2023 at 1:00 p.m.

- Look for Velesto Energy Berhad under Company Name and 13th AGM on 29 May 2023 at 2:00 p.m. – Live Stream Meeting under Corporate Exercise / Event and click ">" to join the meeting.

- The access to the live stream meeting will open on the abovementioned date and time.
- If you have any questions to raise, you may use the text box to transmit your question. The Chairman / Board / Management / relevant adviser(s) will endeavour to broadcast your question and their answer during the meeting. Do take note that the quality of the live streaming is dependent on the stability of the internet connection at the location of the user.

(E) Vote Online Remotely during the Meeting (eVoting)

Meeting Date and Time	Meeting Date and Time
Monday, 29 May 2023 at 2:00 p.m.	Monday, 29 May 2023 at 2:00 p.m.

- If you are already accessing the Live Stream Meeting, click Proceed to Vote under the live stream player.

OR
- If you are not accessing from the Live Stream Meeting and have just logged in to the e-Portal, look for Velesto Energy Berhad under Company Name and 13th AGM on 29 May 2023 at 2:00 p.m. – Remote Voting under Corporate Exercise / Event and click ">" to remotely cast and submit the votes online for the resolutions tabled at the meeting.

Step 1: Cast your votes by clicking on the radio buttons against each resolution.

Step 2: Review your casted votes and confirm and submit the votes.
- The access to eVoting will open on the abovementioned date and time.
- Your votes casted will apply throughout all the CDS accounts you represent as an individual shareholder, corporate / authorised representative and proxy. Where you are attending as a proxy, and the shareholder who appointed you has indicated how the votes are to be casted, we will take the shareholder's indicated votes in the proxy form.
- The access to eVoting will close as directed by the Chairman of the meeting.
- A copy of your submitted e-Voting can be accessed via My Records (refer to the left navigation panel).

APPOINTMENT OF PROXY

1. If a shareholder is unable to participate at the AGM via the RPV facilities, he/she may appoint not more than two (2) proxies to participate, speak and vote on his/her behalf. He/she may also appoint the Chairman of the Meeting as his/her proxy and indicate the voting instructions in the proxy form.

2. If you wish to participate at the AGM yourself, please do not submit any proxy form. A shareholder will not be allowed to participate at the AGM together with his/her proxy/proxies.

3. The Proxy Form together with the duly registered Power of Attorney, if any, in hardcopy form or by electronic means is to be deposited/lodged in the following manner and must be received by the Company no later than Saturday, 27 May 2023 at 2:00 pm or at any adjournment thereof:

   (i) In Hardcopy Form
   The proxy form shall be deposited at the Share Registrar's office, Securities Services (Holdings) Sdn. Bhd. at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan, Malaysia.

   (ii) By Electronic Means
   The proxy form shall be electronically lodged via Securities Services ePortal's platform at https://sshsb.net.my/ or by fax to +603-2094 9940 or by email to eservices@sshsb.com.my.

4. If you have submitted your proxy form and subsequently decide to appoint another person or wish to participate personally in the AGM, please write in to eservices@sshsb.com.my no later than Saturday, 27 May 2023 at 2:00 p.m to revoke the earlier appointed proxy.

PRE-MEETING SUBMISSION OF QUESTION TO THE BOARD OF DIRECTORS

1. Shareholders that wish to post questions can email their questions to eservices@sshsb.com.my no later than Saturday, 27 May 2023 at 2:00 p.m.

2. Shareholders may also submit their questions via the real time submission of typed texts through a text box within Securities Services ePortal's platform before the start or during the live streaming of the AGM.

3. The questions will be endeavoured to be responded during the AGM or uploaded onto the Company's website after the AGM.

GENERAL MEETING RECORD OF DEPOSITORS

Only depositors whose names appear in the General Meeting Record of Depositors as at Friday, 19 May 2023 will be entitled to attend the AGM via RPV facilities.

ANNUAL REPORT 2022

1. The Annual Report 2022 is available under "AGM/EGM Reports" of the "Investor Relations" page on the Company's website at https://velesto.com and also on Bursa Malaysia's website at https://www.bursamalaysia.com under "Company Announcements" of the Listed Companies tab.

2. In support of paperless reports, we encourage Shareholders to access online version of the Annual Report 2022. Should you require a printed copy of the Annual Report 2022 and Circular to Shareholders dated 28 April 2023, please submit the completed online request form at https://www.sshsb.com.my by selecting "Request for Annual Report" under "Our Services" and type "VELESTO ENERGY BERHAD" under "Company Name". Any request for printed Annual Report 2022 and Circular to Shareholders dated 28 April 2023, will be sent to the requestor soonest possible from the date of receipt of request.

NO DOOR GIFTS

There will be no door gifts and no vouchers for attending the virtual AGM.

ENQUIRY

For assistance, clarification or any further information on the 13th AGM, please contact our Share Registrar, Securities Services during office hours (Monday to Friday from 8:30 a.m. to 12:15 p.m. and 1:15 p.m. to 5:30 p.m., excluding public holidays):

CONTACT PERSON:	TEL	EMAIL
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