

Integrated Annual Report 2021

FORWARD FOCUS



OUR iLEAP
CORE VALUES

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.

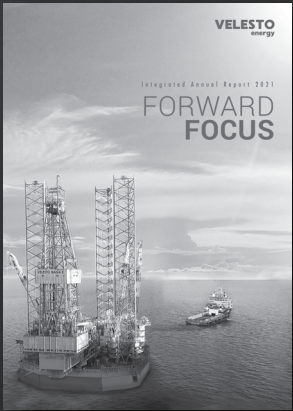
INTEGRITY

- 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.



Velesto Energy Berhad is a Malaysia based multinational provider of services for the upstream sector of the oil and gas industry. The Group owns and operates six premium jackup drilling rigs, which are capable of operating in water depths of up to 400 feet - ideal for the shallow waters of South East Asia. VELESTO is also a provider of workover services through its fleet of hydraulic workover units. To ensure continuity and quality in the drilling sector, VELESTO plays its part through Velesto-INSTEP Drilling Academy.

COVER RATIONALE



We strive to sustain value creation for all stakeholders by remaining focused on our core strategies. With the strength of our foundation built on the excellence of our drilling services, we will maintain discipline, adapt quickly to new norms and strategically progress to secure greater opportunities for now and the future to come.

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.



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.

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.



WHO
WE ARE

OUR
VISION

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.

CONTENT



Scan the QR code to download our Integrated Annual Report 2021

CONTENTS

ABOUT US

Who We Are

Our Vision & Our Mission	4	Our Assets
Our iLEAP Core Values	8	Corporate Information
About This Report	9	Corporate Structure
	10	Calendar of Events

LEADERSHIP STATEMENTS

12 Chairman's Statement	27 Financial Review
16 Management Discussion & Analysis	• 5-Year Group Summary Results
26 Statement of Value Added Distribution & Simplified Financial Statement	• Summary of Group Results
	• Financial Calendar
	• Financial Performance Highlights

CREATING VALUE THROUGH OUR STRATEGY

29 Our Value Creation Model	41 Business Strengths
• Our Value Chain	• Business Strengths and Competitive Advantages
• Our Assets	• Our Risks and Mitigation Strategies and Strategic Priorities
• Industry Overview and Our Operating Environment	
• Our Capitals	

STRENGTHENING A SUSTAINABLE TOMORROW

46 Sustainability Statement
• Economic Performance
• Environment Performance
• Social Performance

OUR GOVERNANCE

94 Board of Directors
106 Our Leaders
110 Corporate Governance Overview Statement
132 Statement on Risk Management and Internal Control
140 Board Audit Committee Report
145 Additional Compliance Information

OUR FINANCIAL PERFORMANCE

146 Financial Statement

OTHER INFORMATION

237 Property Owned by the Group	248 Statement Accompanying Notice of Annual General Meeting
238 Statistics on Shareholding	• Proxy Form
241 Statistics on Warrant Holding	• Glossary
244 Notice of 12 th Annual General Meeting	• Administrative Guide
	258 GRI Content Index
	268 SASB Content Index

About This Report

Veleso Energy Berhad ("VELESTO") and its subsidiaries ("the Group") continues to make progress in its adoption of the globally recognised, Integrated Reporting ("<IR>") framework. Now in its third year of reporting, the Group has strengthened its disclosures in accordance to the principles based framework of the International Integrated Reporting Council ("IIRC").

The rationale for adopting <IR> is to align VELESTO's corporate reporting to a best-practice reporting structure that enables effective disclosure of not just past performance but to provide more comprehensive disclosure on the Group's business model, operating environment, industry value chain and ultimately, how the Group creates financial and non-financial values.

This includes comprehensive yet concise disclosures on VELESTO's overall organisational performance, capital disbursements, risk and reward assessments, value growth appraisals, and qualitative transparency in addition to representing its continuous aptitude in delivering a strong and distinctive value proposition that positions the Group as a preferred best-in-class energy service provider.

The selection of the <IR> framework is to also facilitate effective disclosure on future oriented information such as outlook and prospects for the oil and gas sector, VELESTO and the Group's strategies in response to future trends and developments.

In realising the aforementioned disclosures, the <IR> reporting approach enables the development of integrated thinking within the Group; and also develops a stronger focus on ensuring value creation over the short, medium and long-term perspectives.

APPROACH TO REPORT CONTENT

In selecting relevant content for the Integrated Annual Report 2021 ("IAR2021"), VELESTO has adopted the following materiality criteria:

- Information that is pertinent to the Group's business model and industry value chain
- Information that is related to the creation of financial and non-financial values
- Information that is deemed material from a triple bottom line perspective of environmental, social and governance perspectives
- Information that is related to the Group's future orientation and strategic priorities

In essence, information contained herein encompasses VELESTO's business operations, activities, processes and employees, including applicable Group subsidiaries in relation to the Group's principal business activity of Drilling and Oilfield Services. The IAR2021 disclosures may also include supply chain disclosures where relevant.

FRAMEWORKS APPLIED

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

- IIRC <IR> Principles Based Framework
- Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("BURSA")
- 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 2021 ("MCCG 2021")
- Malaysian Financial Reporting Standards ("MFRS")
- International Financial Reporting Standards ("IFRS")
- ISO 31000 Risk Management Standard

MATERIAL SCOPE & BOUNDARY

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 Drilling and Oilfield Services business operations and undertakings.

As VELESTO strives to persistently expand its proven Drilling Services and technology into more strategic international markets and regions of geographical focus, we are confident that future reports will be further imbued with valuable information obtained without compromise from these global operational assets.

RELATED INFORMATION

This report is accompanied with additional online disclosures for our 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 at [velesto.com](https://www.velesto.com)

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

Forward-Looking Statements

This report also provides statements referring to the Group's future predictions of its overall industry outlook and expected risks entailed, tactical geographical expansion, excellent Health, Safety and Environment performance, Sustainability, rig utilisation rate, expanded revenue opportunities, and value chain improvement prospects. Such informational assumptions have been derived from existing forecast models and current market conditions that may arbitrarily vary due to a myriad of factors beyond the Group's control.

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

Assurance

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

The Group has not undertaken third-party assurance for non-financial and Sustainability related data.

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 Investor Relations Department at

+603 2096 8788

investor.relations@velesto.com

SPECIFIC <IR> RELATED CONTENT SECTIONS

Following are the key <IR> sections:



CORPORATE PROFILE

Basic introductory information of VELESTO such as its principal business operations, operating assets, location of operations and key facts and figures. The section serves to provide an understanding of the nature and extent of the Group's business operations.



OUR APPROACH TO VALUE CREATION

A concise view of how VELESTO creates financial and non-financial values. The section outlines what external and internal factors are drivers or influencers of the business model.



OUR VALUE CREATION MODEL

How VELESTO consumes resources and how these resources are utilised to create financial and non-financial values for stakeholders.



BUSINESS STRENGTHS & COMPETITIVE ADVANTAGES

An overview of VELESTO's business strengths and how these are leveraged upon to drive business strategies and ultimately, value creation.



STRATEGIC PRIORITIES

Identification of key strategic thrusts for VELESTO in response to the industry outlook going forward. The key aspect is how the Group's business model may change, if any to sustain or enhance value creation.



OUR RISKS

A description of major risks faced, as well as the Group's mitigation measures.



OUR VALUE CHAIN

A step-by-step review of the upstream oil and gas value chain in which VELESTO operates, with defined stages throughout the operational lifecycle.



INDUSTRY TRENDS AND THE EXTERNAL OPERATING ENVIRONMENT

Specific information on existing and emerging industry trends and external developments that impact or influence exploration and production activities.



OUR CAPITALS

The principal resources consumed by VELESTO through its business model and business processes for the creation of values. The section also covers challenges or issues affecting availability of capitals as well as potential trade-offs between capitals.



MANAGEMENT DISCUSSION AND ANALYSIS

Provides a comprehensive narration of the Group's financial performance, as well as non-financial values created from the perspective of the Management.

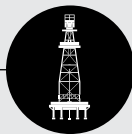
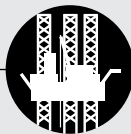


SUSTAINABILITY REPORT

A comprehensive review of the Group's strategies and performance in addressing Environmental, Social and Governance ("ESG") materiality topics and ultimately non-financial value creation. The focus is to showcase how ESG matters are vital to ensure sustained financial performance.

Our Assets

TOTAL ASSETS



6

**JACK-UP
DRILLING RIGS**

4

**HYDRAULIC
WORKOVER UNITS**

1

**OILFIELD
SERVICES**



Scan this QR
code for more
information on
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
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	350 feet

NAGA 5

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

NAGA 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
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	350 feet

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
Class Notations	A1 Self-Elevating Drilling Unit
Water Depth	375 feet

NAGA 4

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

NAGA 8

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





HYDRAULIC
WORKOVER
UNITS



GAIT 1

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

GAIT 5

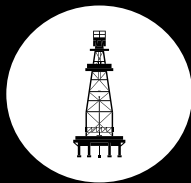
Year Built	2010
Max. Pulling Capacity	460,000 lbs
Max. Snubbing Capacity	225,000 lbs

GAIT 2

Year Built	2003
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



TIANJIN, CHINA PLANT

Corporate Information

Board Of Directors

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

RAZALEE AMIN
(Senior Independent Non-Executive Director)
Date of appointment: 2 May 2013

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

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

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

HAIDA SHENNY HAZRI
(Non-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

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

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

DATO' IBRAHIM MARSIDI
(Independent Non-Executive Director)
Date of retirement: 28 June 2021

RIZAL RICKMAN RAMLI
(Non-Independent Non-Executive Director)
Date of retirement: 28 June 2021

DATO' DAYANG FATIMAH JOHARI
(Independent Non-Executive Director)
Date of resignation: 31 July 2021

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

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

BOARD AUDIT COMMITTEE

- Razalee Amin (Chairman)
- Datuk Tong Poh Keow
- Haida Shenny Hazri – appointed on 16 August 2021
- Ir. Dr. Mohd Shahreen Zainooreen Madros – appointed on 25 August 2021
- Dato' Ibrahim Marsidi – retired on 28 June 2021
- Dato' Dayang Fatimah Johari – resigned on 31 July 2021

BOARD NOMINATION AND REMUNERATION COMMITTEE

- Ir. Dr. Mohd Shahreen Zainooreen Madros (Chairman) – appointed on 25 August 2021
- Rowina Ghazali Seth
- Datuk Tong Poh Keow – appointed on 25 August 2021
- Mohd Irwan Ahmad Mustafa – appointed on 25 August 2021
- Dato' Ibrahim Marsidi – retired on 28 June 2021
- Rizal Rickman Ramli – retired on 28 June 2021
- Dato' Dayang Fatimah Johari – resigned on 31 July 2021

BOARD RISK MANAGEMENT COMMITTEE

- Rowina Ghazali Seth (Chairperson)
- Razalee Amin
- Haida Shenny Hazri
- Datuk George Ling Kien Sing – appointed on 8 December 2021
- Datuk Tong Poh Keow – resigned on 8 December 2021

BOARD WHISTLE-BLOWING COMMITTEE

- Datuk Tong Poh Keow (Chairperson)
- Razalee Amin
- Datuk George Ling Kien Sing – appointed on 8 December 2021
- Haida Shenny Hazri – resigned on 8 December 2021

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

WEBSITE

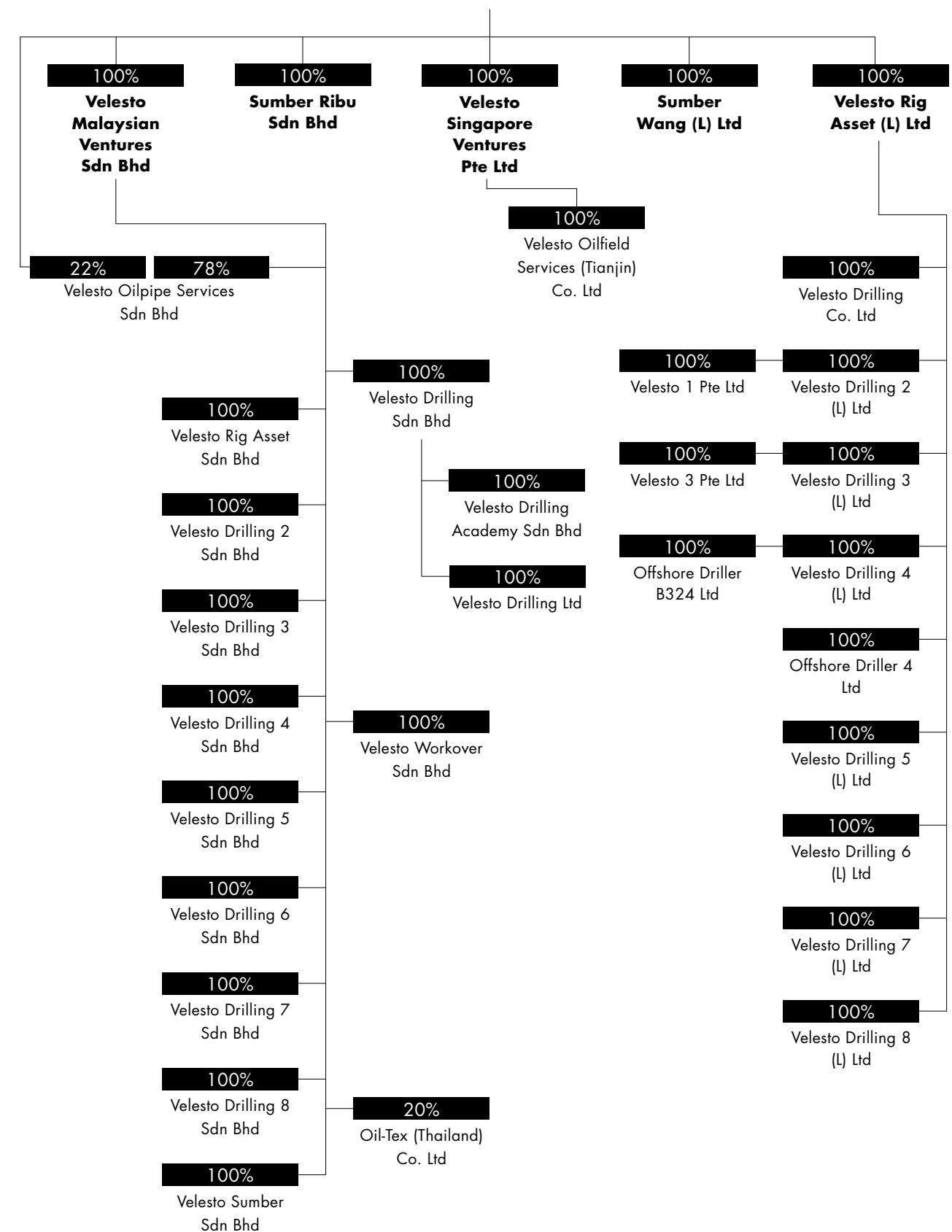
<https://www.velesto.com>

E-MAIL ADDRESS

communications@velesto.com

Group Corporate Structure

VELESTO ENERGY BERHAD



Calendar of Events



APRIL

- ▼ VELESTO won a contract from Shell for NAGA 4
- ▼ NAGA 8 commenced work for Carigali Hess at Malaysia-Thailand Joint Development Area ("MTJDA")



JANUARY

- ▼ CGS-CIMB 13th Annual Malaysia Virtual Corporate Day



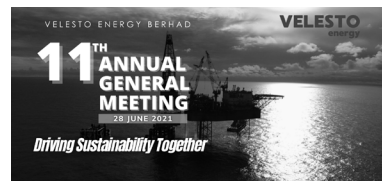
MAY

- ▼ NAGA 7 incident



JULY

- ▼ Fireside Chat: Board Diversity, Sustainability & Governance



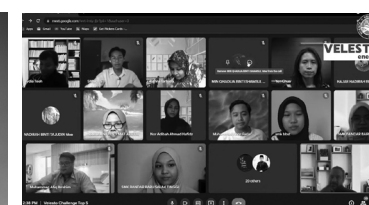
JUNE

- ▼ VELESTO Energy Berhad held 11TH Annual General Meeting virtually



MARCH

- ▼ VELESTO won a contract from PCSB for NAGA 2 and NAGA 5
- ▼ PETRONAS Wells HSE e-Forum



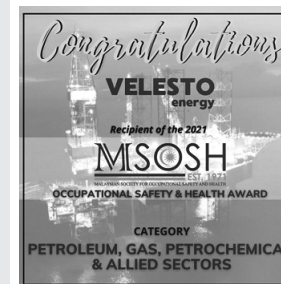
SEPTEMBER

- ▼ GAIT 5 commenced work in Vietnam
- ▼ MOGSC Meet-the-Members: Sustainable Development in the Oil & Gas Industry - The Way Forward
- ▼ CSR Education SMART's Cool 2.0
- ▼ National OGSE Sustainability Forum (Series 2)



AUGUST

- ▼ VELESTO won two awards at the MSWG ASEAN Corporate Governance Awards 2020



OCTOBER

- ▼ VELESTO won MSOSH Occupational Safety & Health Award - GOLD CLASS 1
- ▼ Food Basket CSR Charity Programme in Kelantan
- ▼ VELESTO won a contract from PCSB for NAGA 2



NOVEMBER

- ▼ Heriot-Watt University Virtual Visit
- ▼ Minggu Saham Digital 2021
- ▼ CSR-Green in collaboration with MPI - Sustainability in Malaysia



Chairman's Statement

DEAR SHAREHOLDERS,

I AM PLEASED TO PRESENT THE ANNUAL REPORT AND AUDITED FINANCIAL ACCOUNTS OF THE GROUP FOR FINANCIAL YEAR ENDED 31 DECEMBER 2021 ("FY2021").

After the initial shocks in 2020, most countries and economies adjusted to the new normal scenario. By emphasising vaccination and stringent Standard Operating Procedure ("SOP") compliance, most were able to reopen their economies and borders to a certain degree thus, reviving economic growth.

Consistent with global trends, the Malaysian economy posted a positive performance of 3.1%. However, Gross Domestic Product ("GDP") growth at both the global and domestic levels were still short of predicted figures. This is a clear indication that the COVID-19 pandemic had continued to impact global and national economic recovery.

The price of Brent crude averaged USD71 per barrel in FY2021, a significant improvement from FY2020's average USD41 per barrel. On the back of higher and more stable prices for crude oil and gas, Exploration and Production ("E&P") activities began to increase. However, the extent of recovery was still below expectations as oil and gas majors continued to exercise caution. It must also be made clear that due to the lag effect, a recovery in the economy and crude oil prices does not translate into an immediate upswing in the oil and gas sector. Competition intensified in FY2021 leading to erosion of margins and utilisation.

Amidst a turbulent and challenging operational backdrop, VELESTO focused on its core strategies. These are sustaining cashflow, continued pursuit of cost reductions and increased operational efficiencies, and ensuring a high level of productivity and uptime through stringent adherence to COVID-19 SOPs whilst maintaining safety.

Brent crude oil prices

Average

USD71
PER BARREL

a significant
improvement from
FY2020

Remaining Order Book

RM661
MILLION

as at end-March
2022



Continue to put

**Our People
First**

Despite our total number of jack-up ("JU") rigs decreasing due to the NAGA 7 incident, the Group still has sufficient assets to meet all contractual obligations and in a strong financial position to acquire additional assets if required, in the event of a sustained industry recovery and a significant increase in contracts secured.

VELESTO has build its order book to the tune of RM661 million with contracts secured as at March 2022. Importantly, the Group has also secured a new long-term contract, which augurs well for the Group going forward.

MOHD RASHID MOHD YUSOF
CHAIRMAN

Chairman's Statement

PRIORITISING HEALTH AND SAFETY

The unfortunate incident of NAGA 7 is indeed regrettable. While the loss of the rig is material, the incident has demonstrated VELESTO's high level of vigilance and preparedness in managing emergency situations.

The constant drills and emphasis on Health, Safety and Environment ("HSE") activities, the reinforcement of a HSE oriented culture and mindset, especially among offshore crews were pivotal in enabling all 101 crew members onboard to be safely taken off the rig and transported back to shore.

We remain grateful and thankful that the speed and precision of action undertaken, made possible by the readiness and training of all stakeholders as well as the support and assistance of industry peers and the emergency services enabled a positive conclusion to the matter.

All affected staff were provided various forms of assistance during and after the incident.

Post incident, VELESTO has co-operated fully with regulatory authorities and agencies. Measures were undertaken to contain spillage and to reduce impact to the environment. We have complied with our SOPs and continue work concertedly with our clients and other stakeholders.

As a result of our efforts, I am pleased to share that VELESTO's Hull and Machinery insurance claims were speedily approved and over RM561 million was received in reimbursement claims. The incident has demonstrated that VELESTO is ready and capable of responding effectively in emergency situations.

DRIVING SUSTAINABILITY

FY2021 has seen VELESTO continue to maintain its position as a constituent of the Bursa Malaysia FTSE4Good Index. The index is an exclusive index of select companies, who have achieved good sustainability performance and disclosure.

The index has tightened its scoring mechanism and inclusion criteria. Yet, VELESTO has succeeded in maintaining its presence in the index, a further attestation of our practice of good ESG.

The Group has also secured the ASEAN Corporate Governance Award, presented by the Minority Shareholders Watch Group ("MSWG"). VELESTO was awarded this significant accolade on the strength of its practice of good corporate governance and risk management measures.

Another noteworthy award was the MSOSH Occupational Safety & Health Gold Class 1 Award by Malaysian Society for Occupational Safety and Health for good health, safety and environmental performance achieved in FY2021.

The ESG agenda remains a key consideration in the development of business strategies and the Board of Directors of the Company ("Board") and Senior Management progressively embed sustainability within the business model, business strategies and business processes.

In FY2021, one of the key highlights was the Group setting up emissions reduction targets as part of its commitment to climate change. We have also strengthened existing policies on human and labour rights, sexual harassment and gender equality, not forgetting anti-corruption. In particular, we continue to focus on the development of an equal opportunity workplace where all talents are provided a conducive and fair work environment centred on merit.



PUTTING PEOPLE FIRST DURING COVID-19

I would like to draw attention to the support provided to staff throughout FY2021 amidst the new normal brought on by the COVID-19 pandemic. VELESTO has provided a wide range of financial and non-financial support to staff.

These included broadband allowances as well as a wide range of allowances to offshore crews who have been inconvenienced due to quarantine requirements and other challenges.

During these difficult times, employee engagement was prioritised. Through the "Tell Me" dialogue sessions, various direct engagements were held between employees and Senior Management and even with the President. These sessions proved beneficial to both parties as a mechanism for the exchange of views and ideas, to provide mutual understanding while strengthening employee morale and satisfaction.

Importantly, it proves that the voices of employees; their concerns and perspectives are important to Management, and will be given due consideration.

The Group also held Tazkirah sessions for Muslim staff and talks on mental health. A dedicated mental hotline was setup where employees could seek consultation and assistance on a complimentary basis.

Various financial and non-financial assistance was also extended to the community at large. These included COVID-19 related assistance and general support to various societal causes.



LOOKING TO THE FUTURE

On the back of continued improvement in economic growth, the oil and gas sector barring any unforeseen circumstances should also post a stronger recovery in FY2022. Crude oil prices have exceeded USD100 per barrel and while it is possible that Organization of the Petroleum Exporting Countries Plus ("OPEC+") may increase production, prices are expected to hold firm at a range that encourages renewed investments in E&P activities.

It is expected that the momentum of activities in Malaysia will similarly pick-up in FY2022. Increased consumption demand will necessitate increased requirements for rigs and with many assets reaching end of life stage, an increased demand for workover units.

Present crude oil prices which sustained, will also stir interest in brownfield or marginal fields, that would require well rejuvenation. This also augurs well for VELESTO.

The priority is to increase utilisation rates for both rigs and workover units, by securing more contracts, including overseas contracts, and to participate in Integrated Rig Drilling Services & Completion ("IRDC"). Another priority is to enhance the capability of our assets via Offline capabilities.

APPRECIATION AND ACKNOWLEDGEMENTS

On behalf of the Board, I wish to thank Rohaizad Darus who has chosen to retire after many years of dedicated service with VELESTO as its President.

Rohaizad has truly been instrumental, playing a leading role in the managing the Group through turbulent times. Today, VELESTO stands strong on a robust balance sheet, healthy cash position and has proven its resilience by successfully weathering many downturns.

The result was the emergence of a stronger, more agile, company with a lower operating cost base and lower net gearing ratio that is ready and equipped to compete both at the domestic and international level.

We wish Rohaizad all the best for his future undertakings.

The Board also wishes to thank outgoing directors, Dato Ibrahim Marsidi and Datuk Dayang Fatimah Johari and Rick Ramli, who have stepped down from the Board in FY2021.

In their stead, I am pleased to welcome Mohd Irwan Bin Ahmad Mustafa and Ir Dr Shahreen Zainooreen Madros, who were both appointed to the Board on 25th August 2021 and Datuk Ling Kien Sing, who was appointed to the Board on 29th November 2021.

Each of them brings a wealth of experience and strategic skillsets that enrich the collective capabilities of the Board. We look forward to their contributions as we continue to work together with Senior Management and all stakeholders towards steering VELESTO forward.

In a similar vein, I am pleased to welcome VELESTO's new President, Megat Zariman Abdul Rahim, who brings over 31 years of extensive oilfield business experience, including international industry experience. His comprehensive expertise and proven leadership skills is an asset in steering VELESTO to continued progress and success.

Appreciation is also due to the Management and staff of VELESTO who have again delivered their best during the most difficult of times.

I express my gratitude to my fellow Board members, the regulatory authorities, our clients, our business partners and suppliers for their support throughout FY2021.

The future is brighter, though uncertainties remain. Risks persists but so do potentials and opportunities and we remain optimistic in sustaining value creation for all stakeholders in FY2022.

Management Discussion & Analysis



**ROHAIZAD
DARUS**

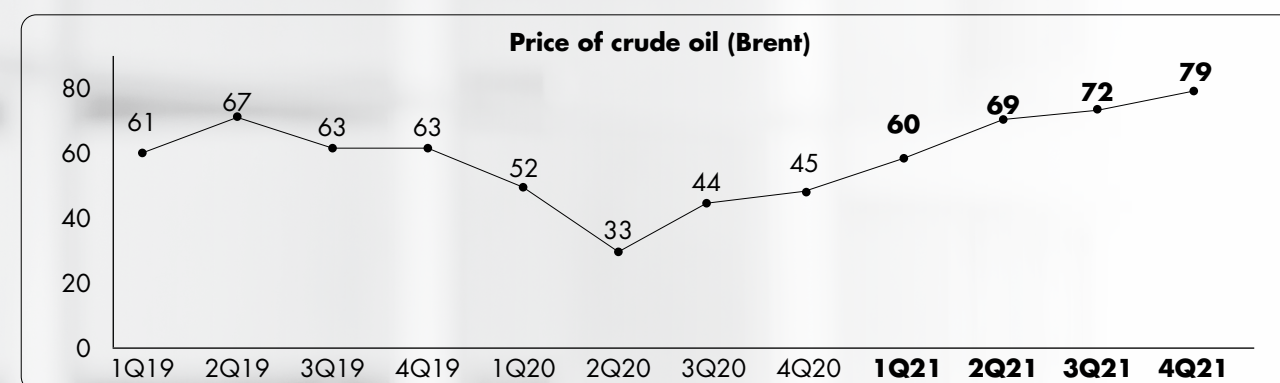
**MEGAT ZARIMAN
ABDUL RAHIM**

REVIEW OF THE OPERATING LANDSCAPE

The global oil and gas sector continued to experience challenges in FY2021, despite an improving outlook of demand outpacing supply. Having implemented various plans to effectively tackle the COVID-19 pandemic (i.e. ramping up of vaccination campaigns), major economies worldwide reopened their business sectors and industries which led to an increased demand for crude oil and gas.

Global oil demand increased to 97 million barrels per day ("bpd"), from FY2020's 92 million bpd, underpinned by ongoing recovery in economic activities. The adherence to production quota discipline by OPEC+¹ resulted in a significant inventory draw which led to higher crude prices.

With inventories being progressively depleted, oil and gas majors resumed or increased exploration and production ("E&P") activities to replenish depleting stocks and to take advantage of higher and more stable crude oil prices.



Consistent with the global economic recovery and increased global demand for oil and gas, E&P activities saw an uptick. Global contracted jack up ("JU") rigs increased in FY2021. In Malaysia, average daily charter rates ("DCR") for JUs improved by 10% towards the end of the year.

However, E&P activities in Malaysia were still lower than planned with a total of 9 JU rigs operating in Malaysia, compared to 10 rigs that was initially forecasted.

Local oil and gas majors were cautious in reinvesting into upstream activities, especially given that FY2021 continued to see dampened economic growth attributed to the continued impacts of the COVID-19 virus pandemic in Malaysia.

FY2021 saw strict lockdowns for significant periods of the year with total number of COVID-19 infection cases reaching 2.8 million cases by year-end. Lower private and public sector investments as well as continued closure of many industries had resulted in Malaysia's Gross Domestic Product ("GDP") growth in FY2021 reaching just 3.1% far short of the initially predicted 4.5%³.

The spectre of a resurgence in the pandemic, brought on by new virus strains (Delta, Omicron, etc.) had also led to cautious sentiments among the oil and gas majors. Hence, while E&P activities were on the uptrend, the expected turnaround was far below expectation.

VELESTO IN FY2021

The continued prevalence of the pandemic meant that operational productivity of all industry players continued to be impacted due to disruptions to the supply chain and processes. Movement of talent, undertaking of refurbishment activities and other key aspects of operations remained impacted as strict Standard Operating Procedure ("SOP") compliance impeded the ability of companies to execute their operations effectively.

Consequently, offshore crews faced extended term of duty and several rigs could only commence operations later than expected due to crewing challenges. Replacement parts for rig equipment and machinery were in short supply and the continued stringent requirements for quarantine of offshore crew notably, meant that VELESTO faced manpower issues at various periods of the year.

¹ <https://www.eia.gov/todayinenergy/detail.php?id=50738>

² <https://www.eia.gov/outlooks/steo/report/prices.php>

³ Source: World Bank

COVID-19 compliance costs which more than doubled in FY2021 to RM40 million had a contributory effect to higher operating expenditure ("OPEX") even as the Group adopted various cost containment and efficiency measures that resulted in savings of RM35 million. Only a small portion of COVID-19 costs were recoverable from clients.

The unfortunate incident involving NAGA 7 had also led to additional costs. Cumulatively, both COVID-19, the NAGA 7 incident as well as a slow industry recovery had impacted revenue and consequently earnings performance for VELESTO FY2021, including VELESTO achieved a lower rig utilisation rate of 48%.

Nevertheless, the Group secured contracts worth USD59 million in FY2021, including a mixture of short and longer-term contracts for JU rigs and a 3-month job for a hydraulic workover unit ("HWU").

RESPONDING PROACTIVELY TO CHALLENGES FACED

Despite the challenging backdrop, VELESTO continued to focus on the following objectives:

- Further cost and operational efficiencies across business operations;
- Intensified business development activities, notably returning to the region;
- Excellent Quality, Health, Safety and Environmental ("QHSE") performance.

A pivotal strategy employed in FY2021 was to accelerate the transition to digital tools and solutions towards addressing maintenance and other requirements. This included greater use of the eHawk system that automatically linked rigs to the manufacturer.

The eHawk system facilitated remote consultation that often allowed faster resolution of issues, and at times without the need to transport a technician to the rig itself. This supported uptime and reduced issues such as the need for quarantine periods and so on.

Operating Efficiency

98% uptime

despite the difficulties of operating in a challenging environment.

Emphasis was placed on upgrading the rigs capabilities to be more technically and commercially competitive including enhancing the Offline capabilities and ensuring readiness of assets to better meet clients' requirement for new contracting concepts such as the Integrated Rig Drilling and Completion ("IRDC") contracts.

The deployment of a roving crew from one rig to another was another innovative method implemented.

This Predictive Maintenance strategy enables mitigation measures to be taken immediately on all the rigs based on lessons learnt from any of the rigs in the fleet, by predicting what can possibly go wrong based on experience. This initiative was in addition to the regular Preventive Maintenance activities.

Periods of lower rig utilisation allowed for training and retraining of crews and in FY2021, VELESTO took the opportunity to provide offshore crew with a wide range of training.

Regular training is essential to ensure regulatory compliance as well as to equip personnel with skills and competencies to deliver high-level, optimum performance. Regular training was also part of the larger Talent Management strategy to manage staff attrition, particularly those positions where there are high demand.

Among the training highlights was VELESTO's High Potential Programme ("HiPots"), designed to mould and develop identified talents to fill critical positions, including senior management positions.

Despite the reduced volume of business activities, VELESTO continued to ensure that all staff and salaries were retained.

VELESTO has not wavered from playing its role as a responsible corporate citizen. FY2021 has seen the Group continue to support various Corporate Social Responsibility ("CSR") programmes, based on its three pillars of Health and Safety, Community Support and Education.

BUSINESS AND OPERATIONAL HIGHLIGHTS

VELESTO was able to secure USD59 million worth of jobs in FY2021 which took its remaining order book to RM661 million as at 31 March 2022.

Among these highlights were key contracts from Petronas Carigali, Shell and a workover contract from Vietnam. The latter marks VELESTO's return to the regional jobs following a six-year hiatus. This contract will provide the impetus to accelerate Velesto's return to the regional market which provided a significant revenue stream for the Group prior to 2016.

Highlights

Veles to won two awards at the MSWG ASEAN Corporate Governance Awards 2020:

- **Industry Excellence Award; and**
- **Excellence Award for CG Disclosure.**

In 2021, VELESTO received the MSOSH Occupational Safety & Health Gold Class 1 Award for the Petroleum, Gas, Petrochemical and Allied Sectors. This recognition is an attestation of our commitment to maintaining the highest standards for occupational safety in the industry.

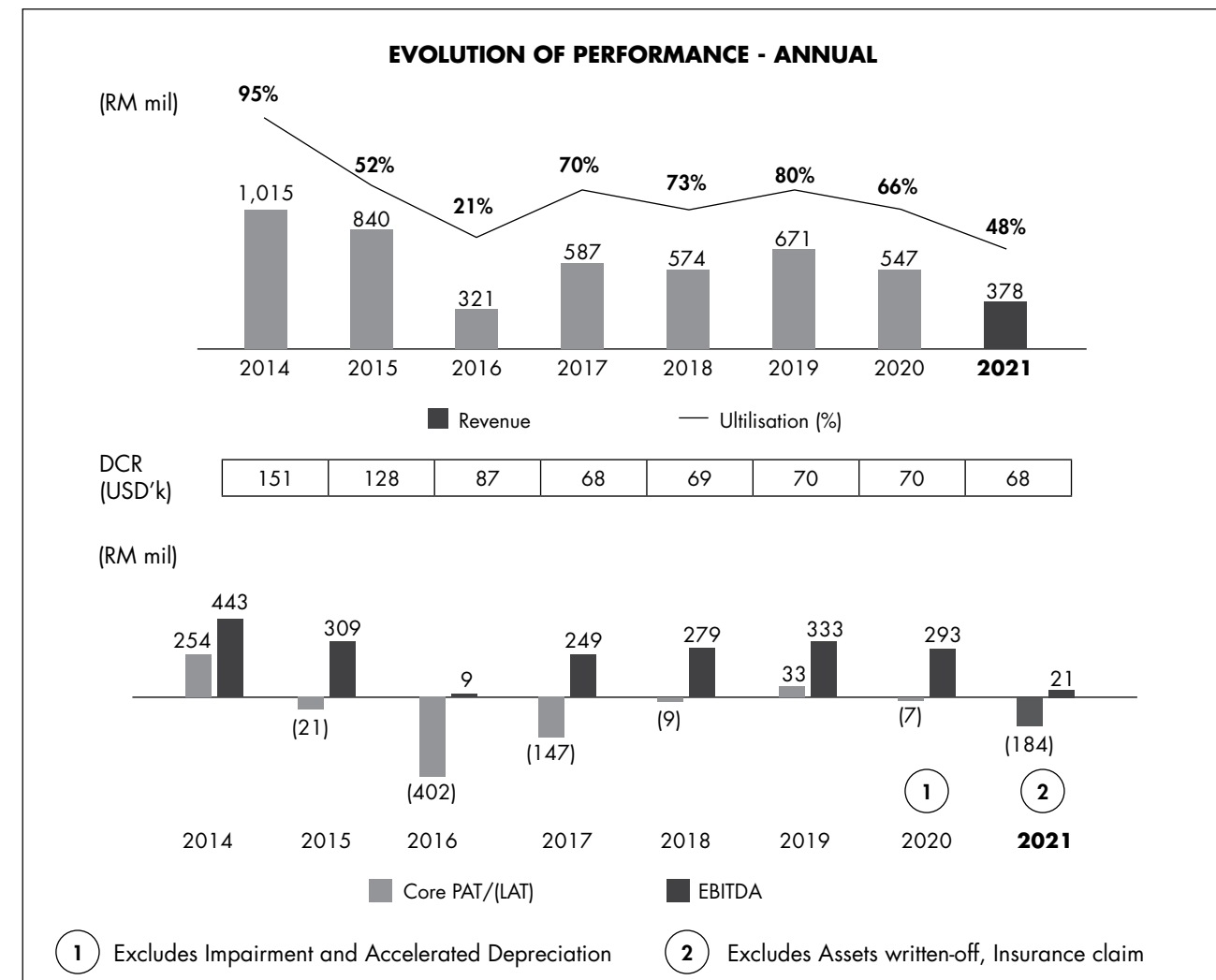
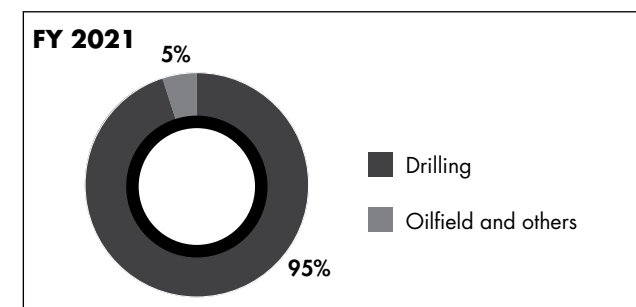
FINANCIAL PERFORMANCE

On the back of lower rig utilisation of 48%, VELESTO's revenue for FY2021 was 31% lower year-on-year at RM378 million (FY2020: RM547 million).

Average daily charter rate ("DCR") during the year fell to USD68k per day as one of our rigs was contracted as an accommodation vessel, which received lower dayrates.

The Group's drilling services posted revenue of RM359 million, 33% lower than the preceding year. Meanwhile, the Group's oilfield services segment posted revenue of RM17.1 million, 63% higher, year-on-year.

Drilling Services remained the main contributor to Group revenue, contributing 95% of Group top-line performance.



VELESTO narrowed its LAT to RM91 million from RM492 million in the previous year, due to insurance claims for NAGA 7 and the absence of impairments which amounted to RM462 million in 2020.

However, the Group's Core LAT widened to RM184 million due to lower utilisation since 2016. Despite that, the Group managed to generate an Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") of RM21 million. The Group continued its cost savings initiatives, having saved RM35 million in 2021.

Management Discussion & Analysis

ASSET AND LIABILITIES / BALANCE SHEET

VELESTO's asset and liabilities position had shifted significantly after the NAGA 7 incident. Following the reduction in the Group's rig asset base, total asset value stood at RM3.0 billion, while liabilities had similarly declined by RM435 million.

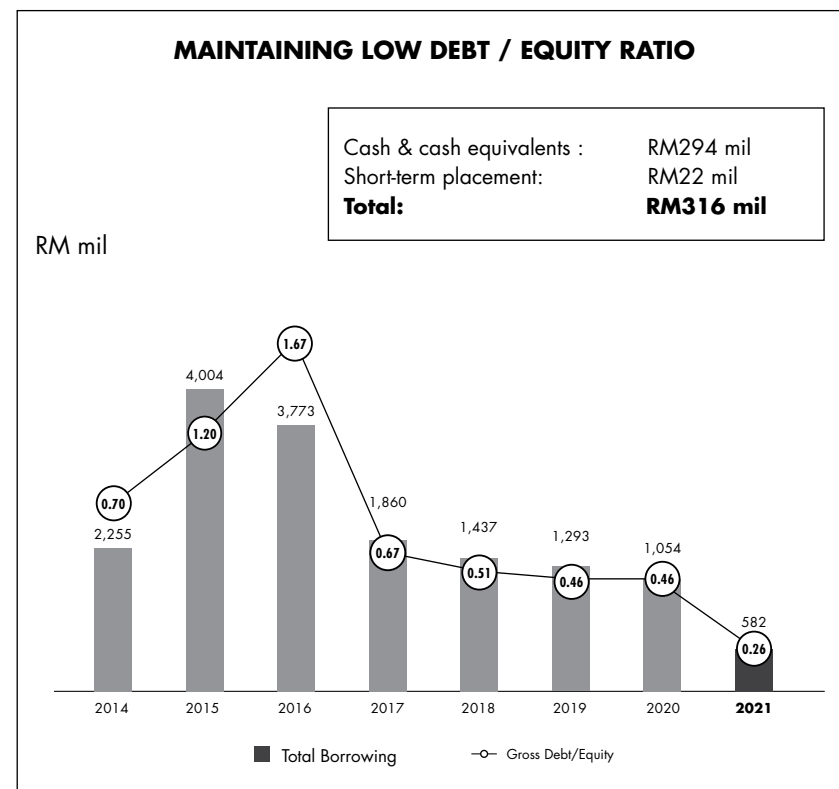
The loss of the rig was compensated via insurance claims of RM561 million.

DEBT AND BORROWINGS

The Group has continued to make prepayments towards reducing its overall borrowings as well as interests paid. These prepayments were in addition to mandatory payments.

Cash from insurance claims were used to pare down the Group's borrowings by pre-paying outstanding debt. As such, the Group reduced its overall principal borrowings by 45%, to RM582 million as at 31 December 2021.

Since 2016, VELESTO has pared down its total debt from a high of RM4 billion to RM582 million with the Group's gross and net gearing ratio reducing to 0.26 times and 0.12 times respectively.



The Group in FY2021 had already paid all its principle repayments up to FY2024 and thus is only required to service interest payments for the upcoming financial years.

CASH AND CASH EQUIVALENTS

As at 31 December 2021, VELESTO's cash position stood at a healthy RM316 million, which was more than sufficient to meet working capital and capital commitment requirements.

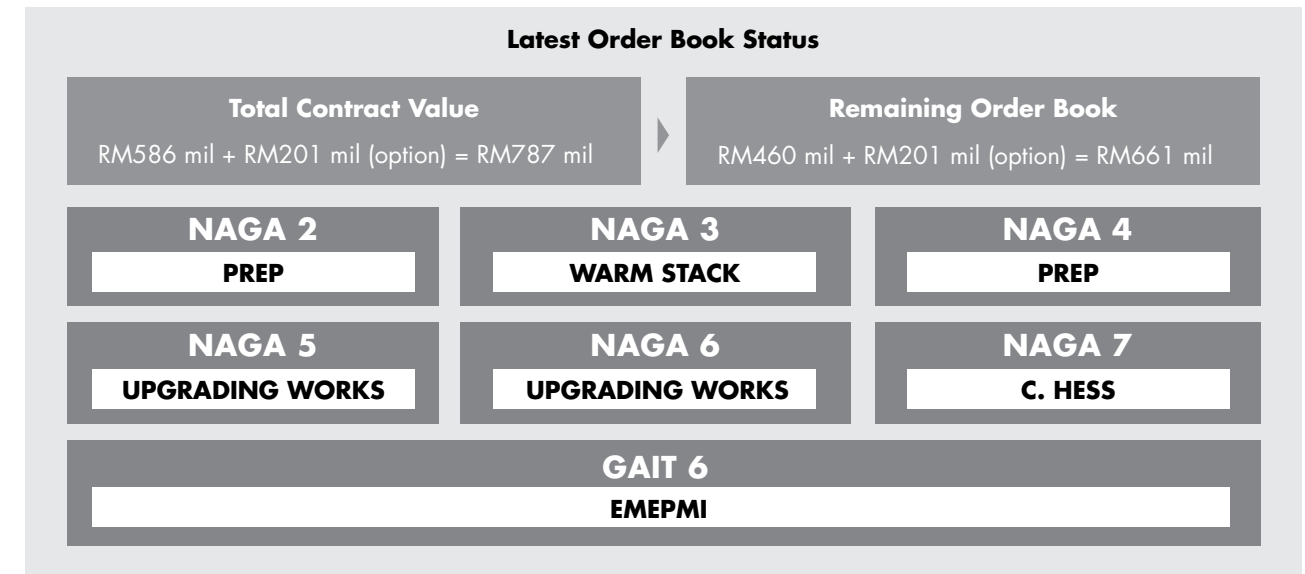
The injection of RM561 million in cash via insurance compensation from NAGA 7 had further strengthened VELESTO's cash position.

Should there be requirements for additional cash, beyond internally generated funds, VELESTO maintains USD and RM denominated lines of credit amounting to RM234 million.

However, it is the Management's preference to continue with its debt reduction strategy and borrowings will only be incurred should there be a clear strategic rationale that supports improved revenue and earnings. The Group will reassess its position 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.

Management Discussion & Analysis

ORDER BOOK AND CONTRACTS SECURED



VELESTO's order book as at 31 March 2022 stood at RM661 million, consisting of RM460 million of fixed contracts with the rest comprising renewal options. The orderbook provides the Group with revenue visibility busy for the next 1-2 years.

DATE	CLIENT	CONTRACT DETAILS	RIG	ESTIMATED CONTRACT VALUE
19 March 2021	Petronas Carigali Sdn Bhd ("PCSB")	Provision of Jack Up Drilling Rig "NAGA 2" for PCSB's drilling programme to drill three (3) firm wells.	NAGA 2	USD21 million
		Provision of Jack Up Drilling Rig "NAGA 5" for PCSB's drilling programme to drill one (1) firm well with an extension option of one (1) plus one (1) well	NAGA 5	
7 April 2021	Sarawak Shell Berhad / Sabah Shell Petroleum Company Limited ("SSB/SSPC")	Provision of Jack Up Drilling Rig "NAGA 4" for SSB/SSPC's drilling programme to drill seven (7) firm wells.	NAGA 4	USD18 million
1 October 2021	PCSB	Provision of Jack Up Drilling Rig "NAGA 2" for PCSB's drilling programme to drill five (5) firm wells with an extension option of one (1) plus one (1) well	NAGA 2	USD12 million
22 February 2022	ExxonMobil Exploration and Production Malaysia Inc ("EMEPMI")	Provision of One (1) Hydraulic Workover Unit & Services	GAIT 6	On call-out basis
11 March 2022	PCSB	Provision of Jack-up Drilling Rigs	NAGA 2, NAGA 3, NAGA 4, NAGA 5, NAGA 6, NAGA 8	On call-out basis

OUTLOOK AND PROSPECTS

Despite the emergence of new virus strains such as Delta and Omicron, global economic recovery remains on track for a second year of positive growth.

While tensions emanating from the ongoing Russia-Ukraine conflict has affected the energy market, it is widely predicted that crude oil prices will hold firm above USD100/barrel. The same is expected for natural gas prices.

⁴For FY2022, crude consumption is expected to reach 100 million barrels per day ("bpd"), up from 97 million bpd in FY2021. The forecast amount surpasses 2019's pre-pandemic levels.

Meanwhile, global oil and gas supply could potentially be restricted by sanctions against Russia due to the Ukrainian conflict. In 2021, Russia supplied 11 million bpd, which accounted for 11% of global supply. As such, other countries would have to increase production in order to make up for the shortfall.

Crude Consumption

Crude consumption in FY2022 is expected to reach

**100
MILLION**
barrel per day

⁵US, Canada and Brazil are expected to pump record levels of crude oil, increasing total non-OPEC+ output by 2 million bpd in FY2022. Supply increases are also expected from Saudi Arabia and OPEC+ towards meeting increasing consumption demand amidst a continued global economic recovery in FY2022. To a lesser extent, Iran could provide additional supply by another 1.3 million bpd, should it be released from sanctions.

The emergence of Omicron and the surge in COVID-19 cases are unlikely to upend the ongoing recovery. Demand growth is expected to come from emerging and developing economies, underpinned by rising populations and income.

Higher energy prices are expected in the near-term, supported by insufficient supply to meet increasing with consumption. Energy prices could remain volatile due to low inventory levels.

Despite a high number of active, positive COVID-19 cases, most governments have chosen to not impose full scale lockdowns or industry/ sectors closures. Instead, the alternative has been reopening of the economy in varying stages, albeit with stringent SOPs in place to contain the spread of infections.

As such, demand for energy resources, notably crude oil and gas is likely to remain on an uptrend or stable as traditionally heavy consumers such as the aviation sector, manufacturing and other industries return to full operational productivity in FY2022.

The recent COP26 Summit has reiterated the call for cleaner energy alternatives to power global economic growth post the pandemic. This is aligned with the Paris Agreement which goal is to limit global warming to 1.5 degrees Celsius.

While the outcomes from the summit are necessary and noble towards achieving sustainable development and to address key issues such as climate change, global warming and various other concerns, hydrocarbons will continue to play a vital role in the global energy mix, certainly in the short and medium term as the world transitions to renewable energy ("RE").

In many instances, nations looking to fund their RE adoption roadmap require oil and gas revenues. The intermittent nature of RE such as solar, the challenges in RE storage and various other challenges necessitate that oil and gas remain a primary energy source for the world.

A large number of developing nations continue to rely on oil and gas as fuel for power plants to provide electricity. Similarly, the transportation sector continues to rely on oil and gas. Hence, crude oil and gas continues to be relevant over the short and medium term.

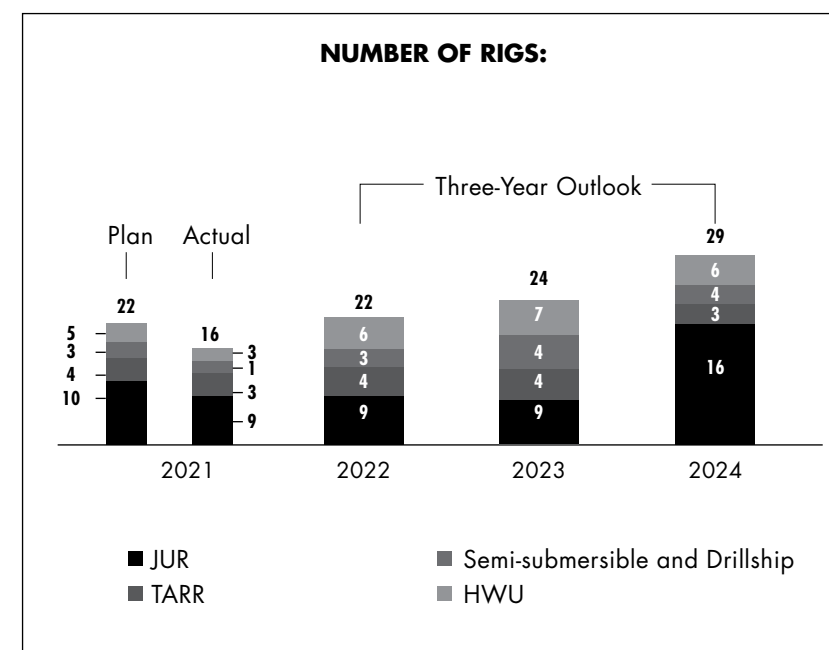
The transition to RE does offer benefits to upstream oil and gas companies such as VELESTO. As banks and financiers move away from financing oil and gas investments; including investments into rigs, it is expected that the global supply of rigs, especially JUs will contract and eventually lead to higher rates.

Reduced incoming supply of new rigs coupled with continued retirement of end of life assets, would mean a higher attrition rate that augurs well for existing players who have quality assets to offer the market. Continued higher attrition without sufficient new entries will not be able to support increasing requirements for increased E&P activities, which will result in higher DCR going forward.

Operating conditions for Malaysia are expected to be consistent with global trends as the domestic economy returned to full operational productivity by the end of FY2021.

The reopening of international borders will stimulate trade and business activities, which augurs well for Malaysia. The local economy is typically driven by oil and gas as well as export revenues hence the reopening of international borders will benefit the local economy, notably the manufacturing sector, travel and tourism, retail and others.

Post COVID-19, governments in the region are looking to ramp up economic growth and revenues from oil and gas are essential to fund large scale infrastructure development and public sector projects. Pump-priming the economy through socio-economic development remains a proven strategy to stimulate economic recovery and oil and gas revenues remain crucial to funding such development.



As the economy regains momentum, consumption demand for oil and gas is expected to increase given stable prices, oil and gas majors should recommit to E&P activities. The 2022 PETRONAS Activity Outlook ("PAO") states that it is anticipating increasing drilling activities in Malaysia, that at least nine JU rigs will be required for 2022 with the number peaking at 16 by 2024.

The PAO also states that the positive outlook is expected to continue for the next three years given the oil price recovery coupled with the relaxation of pandemic SOP and increased plug and abandonment activities.

With regards to VELESTO's prospects, the Group enters FY2022 on the back of several long-term contracts that will contribute to improved utilisation rates. The PCSB contract secured on a callout basis will support utilisation for the next two years.

The contract will have a positive material effect on revenues and earnings. It is a two-year contract which provides a degree of stability for VELESTO going forward. This is significant as it reflects greater confidence and commitment among oil and gas majors to invest into E&P activities, given the present economic growth recovery which supports a stable trajectory for crude oil prices.

The recent Vietnam HWU contract also serves to firmly place VELESTO on the regional radar and thus opens the way for possibly more overseas contracts going forward. Importantly, the EMEPMI contract is for a comparatively longer period; one year as opposed to typical 3-6 months HWU contracts.

As at March 2022, VELESTO has a tender book of RM1.4 billion with some portion of the tenders comprising overseas tenders.

⁴ <https://www.reuters.com/markets/commodities/global-oils-comeback-year-presages-more-strength-2022-2021-12-23/>

⁵ <https://www.iea.org/reports/oil-market-report-december-2021>



STRATEGIC PRIORITIES AND FOCUS AREAS

VELESTO's Future Focused approach outlines the broad strategic objectives and focus areas which the Group will pursue for FY2022 and beyond.

INTEGRATED DRILLING SERVICES

The Group will continue to focus on its core business – increasing asset utilisation rates on the back of increased contracts.

As at 31 March 2022, VELESTO has already secured a contract for the provision of JUs for PCSB and a HWU for EMEPMI, which will see utilisation rates increase in 2022.

The Group has actively tendered for projects in Malaysia and regionally and, will continue to expand its order book.

The Vietnam workover contract completed in 2021 paves the way for further expansion of our presence in the country and within Southeast Asia. Competition is intense, but having secured our first regional contract in six years, we draw confidence of our prospects going forward. However, beyond traditional rig and workover services, VELESTO will enhance its value proposition by increasingly offering integrated drilling and valued added services. This is in line with the Management's intent to provide more comprehensive solutions for clients.

Beyond increasing revenues, the integrated drilling approach strengthens the Group's capability when bidding for contracts and provides more customer centric offerings that further positions VELESTO as a preferred partner to the oil and gas majors.

UPGRADING RIGS WITH OFFLINE CAPABILITIES

In FY2022, VELESTO will begin to upgrade its assets with Offline capabilities.

The FY2022 upgrade will equip the selected JU rigs (NAGA 5 and NAGA 6) with additional capabilities that cater to clients' requirements better and thus increase the competitive capability of the Group when bidding for contracts.

As part of delivering greater operational and cost efficiencies to clients, VELESTO has earmarked the upgrading of an additional two of its rigs with Offline capabilities in 2023. The upgrade is in response to client expectations to improve drilling efficiency.

We intend to finance the upgrades through internally generated cashflow and funds.

STRATEGIC COLLABORATIVE MODELS WITH CLIENTS AND INDUSTRY PLAYERS

Strategic collaborations pave the way for more strategic, value added services. These include stronger value propositions through the bundling of services, knowledge and technology sharing as well as the ability to expand geographical market reach.

Collaborations also supports the Group's aspirations to offer more integrated drilling and well services towards providing comprehensive solutions for clients. Third party collaboration will be pursued with both international and local partners.

DRIVING SUSTAINABILITY

VELESTO continues to integrate Environment, Social and Governance ("ESG") into its business, viewing this as a strategic enabler for continued stakeholder value creation. Improved sustainability performance serves as the basis for enhanced operational efficiency and strengthens mitigation against a wide range of emerging and existing risk factors.

Specifically, the intention to address its emissions profile with reduction targets set for emissions intensity.

TALENT RETENTION AND ACQUISITION

Talent remains key to the Group, in particular local talent development. The focus for talent would be to ensure their skills and knowledge are further developed, and career development and opportunities are made available within the Group. The MyMentor and HiPots are examples of how the Group is committed to developing these talents. We will also be implementing several initiatives to realise many of the suggestions provided in the employees engagement survey ("EES") conducted in 2021.

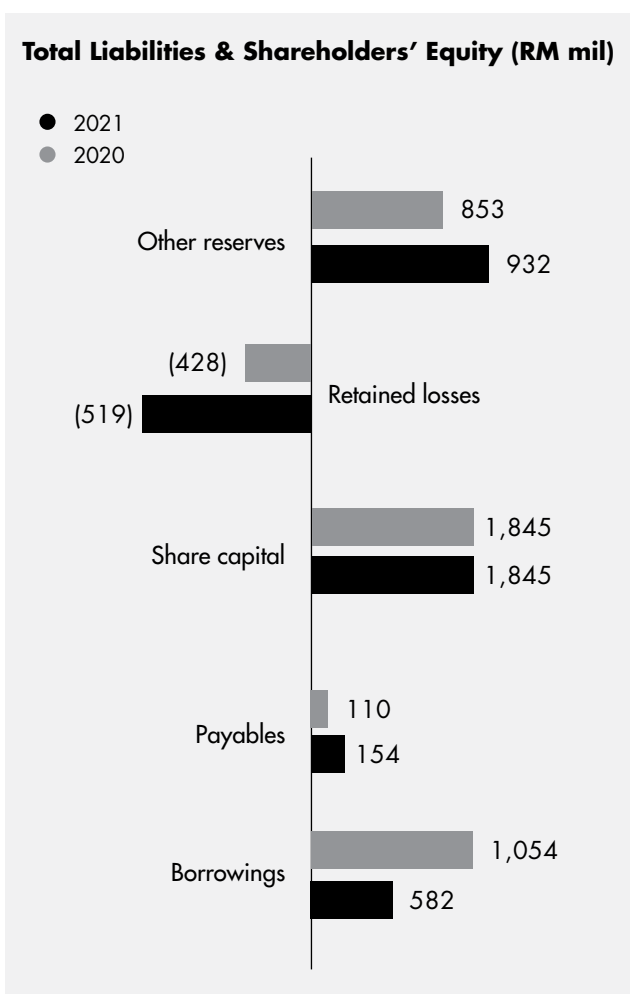
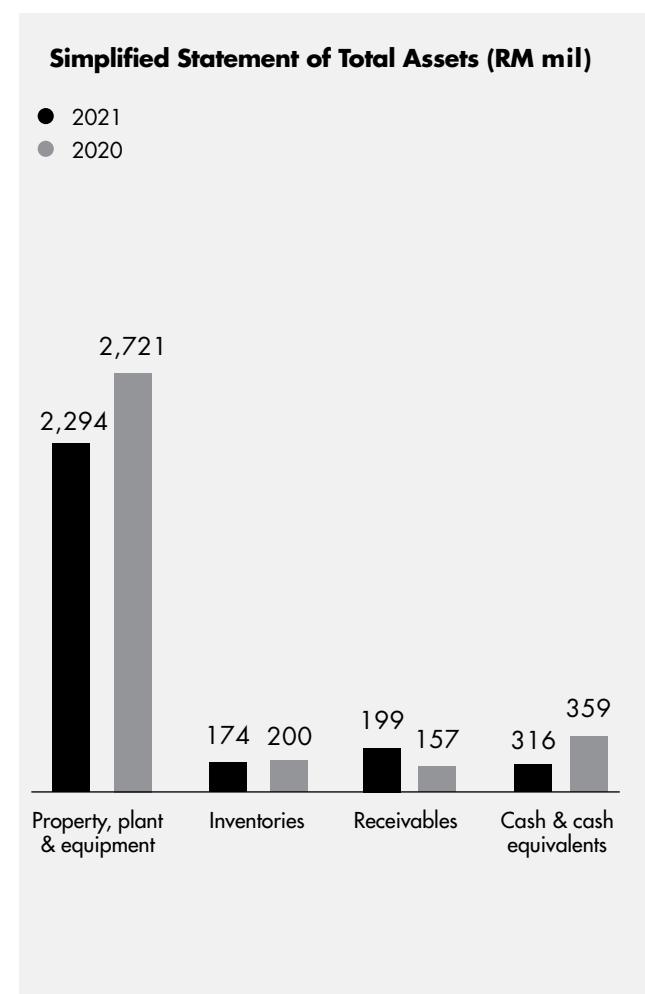
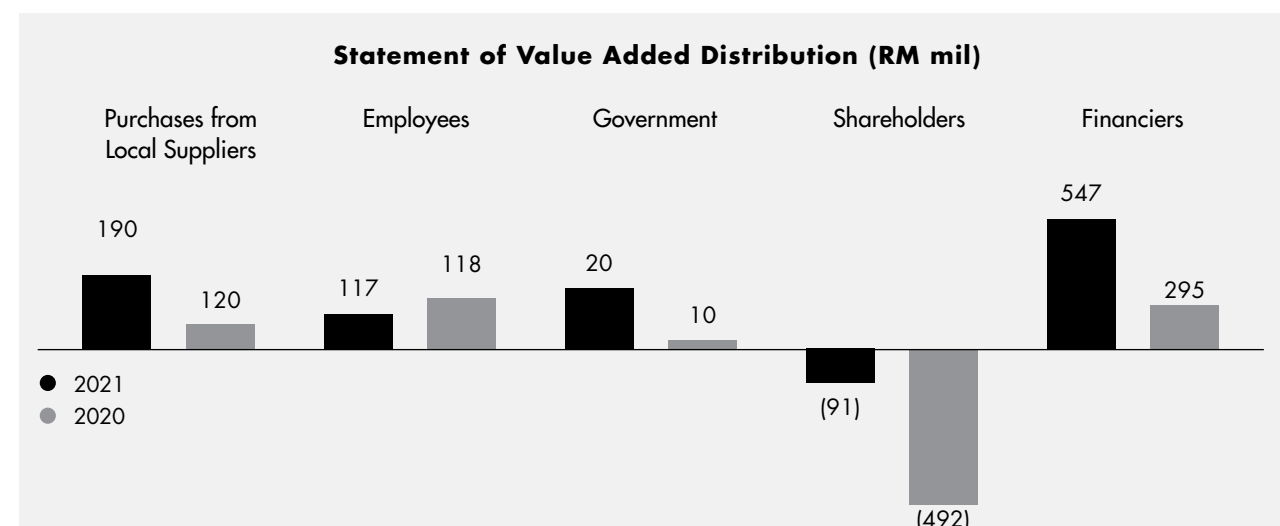
COST AND OPERATIONAL DISCIPLINE

VELESTO will remain vigilant, continuing to prioritise efficiencies and maintaining prudent cost discipline. The many hard-won efficiencies achieved will be maintained and the continued pursuit of a lower operating cost base will be prioritised.

The steps include adopting measures to reduce gearing and liabilities, and improving cashflows while ensuring sufficient funds for business growth and development including capitalising swiftly on opportunities.

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:



Our property, plant and equipment makes up the largest portion of our total assets. Its decrease is mainly due to the write-off of NAGA 7.

Financial Review

5-YEAR GROUP SUMMARY RESULTS

Financial Year Ended 31 December	Units	2017	2018	2019	2020	2021
Revenue	RM mil	587	574	671	547	378
(Loss)/Profit Before Taxation	RM mil	(1,131)	(18)	42	(477)	(83)
(Loss)/Profit Attributable to Equity Holders of The Company	RM mil	(1,127)	(20)	33	(492)	(91)
Shareholders' Funds	RM mil	2,763	2,797	2,802	2,270	2,258
Return on Shareholders' Funds	%	(45)	(1)	1	(22)	(4)
Return on Total Assets	%	(23.6)	(0.4)	1.0	(13.8)	(3)
Basic Earnings/(Loss) Per Share	Sen	(36.8)	(0.2)	0.4	(6.0)	(1.1)
Share Price At Year End	RM	0.31	0.18	0.38	0.14	0.12
Market Capitalisation At Year End	RM mil	2,135	1,479	3,122	1,150	986

SUMMARY OF GROUP RESULTS

Financial Year Ended 31 December	Units	2020	2021
Revenue	RM mil	547	378
Loss Before Taxation	RM mil	(477)	(83)
Loss After Taxation	RM mil	(492)	(91)
Share Capital	RM mil	1,845	1,845
Reserves	RM mil	425	413
Basic Loss Per Share	Sen	(6.0)	(1.1)
Net Assets Per Share	Sen	27.6	27.5

FINANCIAL CALENDAR

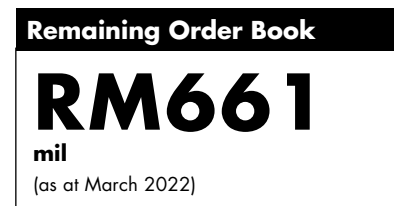
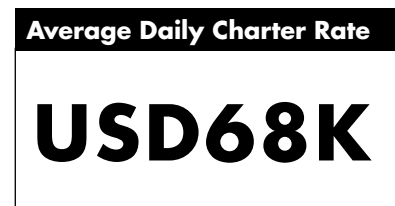
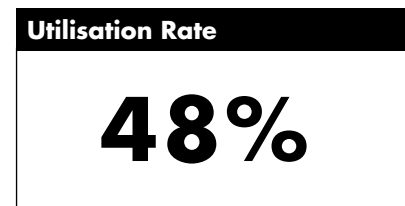
Notice on 11 th Annual General Meeting & Issuance of Annual Report 2020	28 May 2021
11 th Annual General Meeting	28 June 2021
Financial Year Ended	31 December 2021

Approval of Quarterly Unaudited Financial Results:

Quarter 1, 2021	31 May 2021
Quarter 2, 2021	25 August 2021
Quarter 3, 2021	29 November 2021
Quarter 4, 2021	28 February 2022

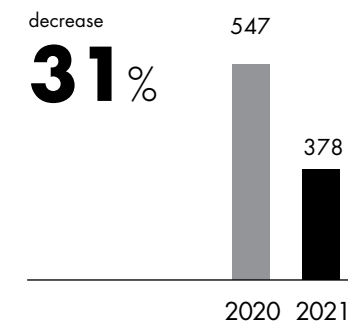
Financial Review

FINANCIAL PERFORMANCE HIGHLIGHTS

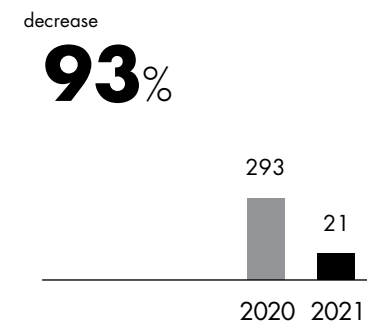


Financial Performance

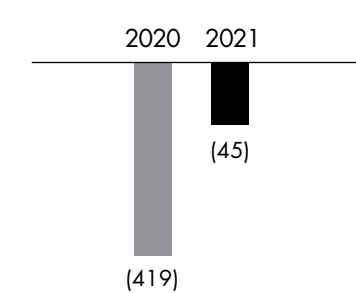
Revenue (RM mil)



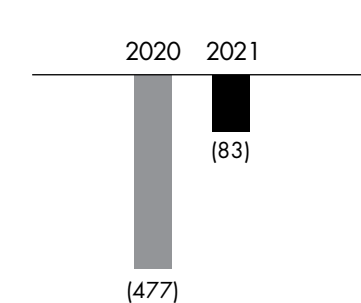
EBITDA (RM mil)



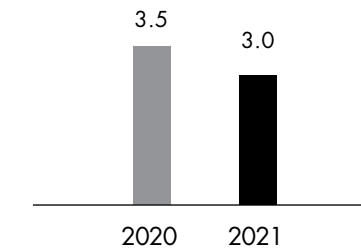
Operating Loss (RM mil)



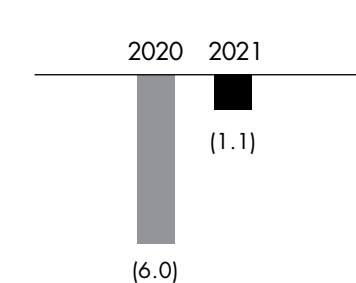
Loss Before Tax (RM mil)



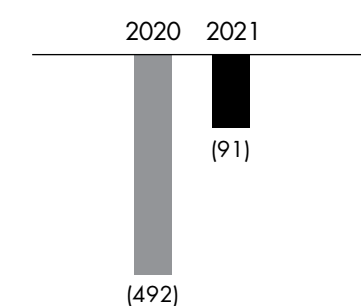
Total Assets (RM bil)



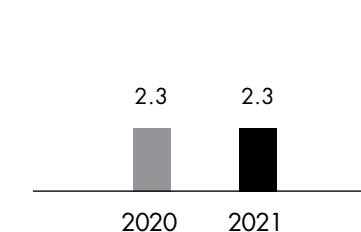
Loss Per Share (sen)



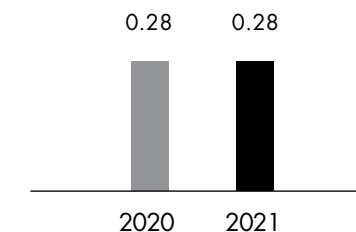
Loss After Tax (RM mil)



Shareholders' Fund (RM bil)



Net Assets Per Share (sen)



Our Value Creation 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

BUSINESS MODEL

BUSINESS STRATEGIES

- Maximise utilisation
- Minimise dayrate reduction
- Actively tender in regional and global markets
- Minimise additional scope and risk
- Cost containment
- Efficiency improvement
- Risk management
- Future planning
- Developing new capabilities and expanding asset workscope

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 entrepreneurship creation, transfer of technology and knowledge, socio-economic prosperity and nation-building

Our Value Creation Model

Since the discovery of crude oil and its extraction in Malaysia in 1910, the oil and gas sector has been a key economic driver for Malaysia's growth. In recent years, oil and gas revenues have contributed as much as 20% of the nation's gross domestic product and its value chain supports thousands of local companies and develops skilled local jobs and wealth creation.

VELESTO, as the largest Malaysian-owned JU rig operator, fulfils a very strategic and fundamental role within the oil and gas industry in Malaysia as well as the region.

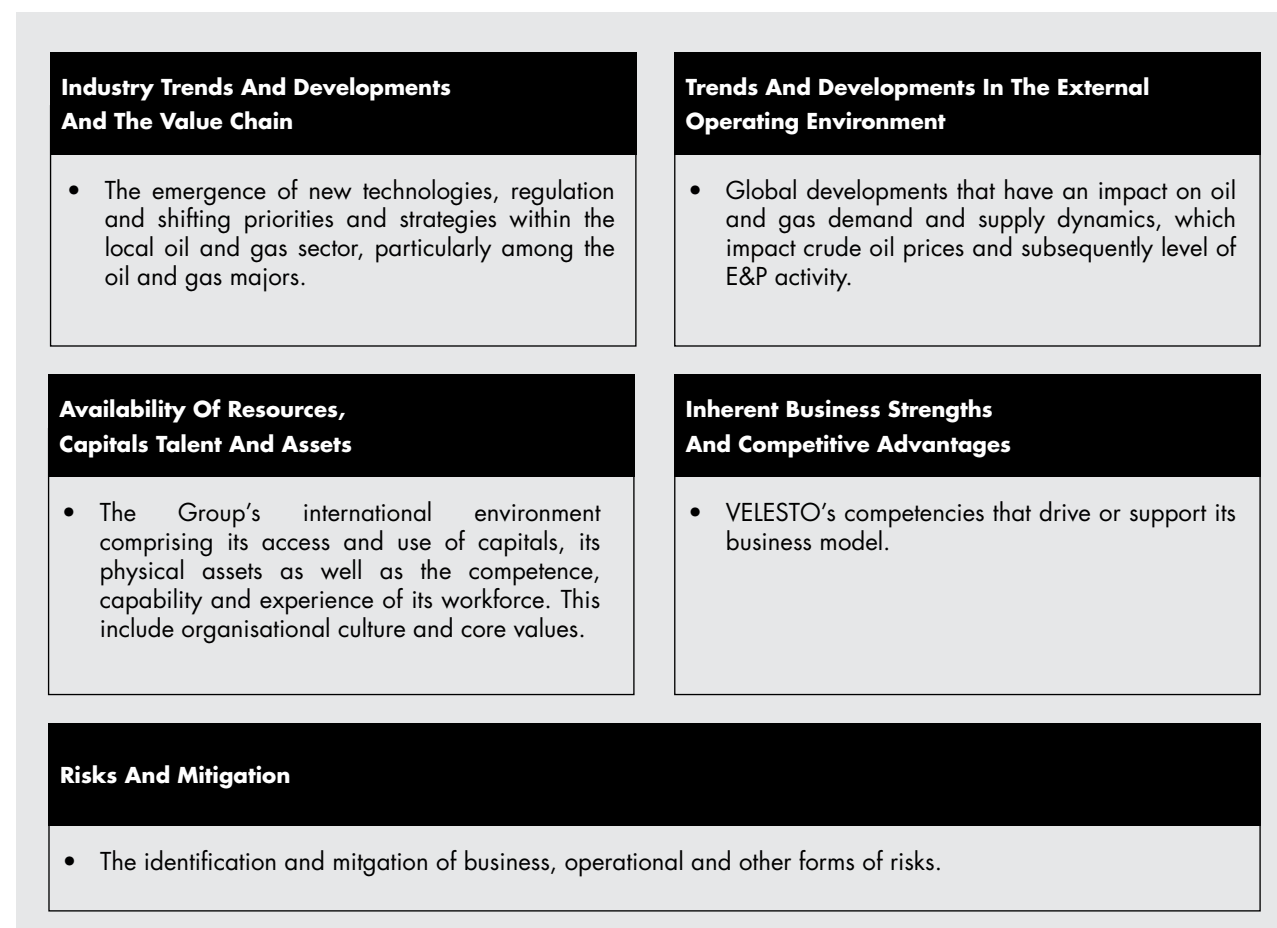
In essence, the oil and gas value chain begins with exploration activities and subsequently the development of oil wells and extraction of resources. Without safe, efficient

and productive drilling capabilities, the entire oil and gas industry would be disrupted and cannot operate at optimum capabilities.

Hence, VELESTO through its business proposition using its JU rigs and other assets, coupled with the collective skills and knowledge of its 624-strong workforce and industry best practices, is committed to undertake efficient, successful and safe drilling activities. This contributes to the development of highly efficient and sustainable oil and gas value chain and ultimately industry.

Specific details of how VELESTO's drilling operations are undertaken at various stages of the E&P cycle are provided in the Industry Value Chain subsection of the IAR2021.

The Group's approach to value creation and its business model continue to be influenced by the confluence of various push and pull macro forces:



The impacts of these identified macro factors are both positive and negative. Further information on each of these are provided in the respective sections of the IAR2021.

Our Value Creation Model



A PEOPLE AND CULTURE FOCUSED ORGANISATION

In FY2021, one of the key aspects of VELESTO's value creation narrative is the importance of its intangible assets such as the high moral of its professional workforce, the Group's prevailing organisational culture and its continued ability to harness the collective capabilities of its people towards rising to the challenges faced and to exemplify resilience and high performance.

While VELESTO's drilling rigs and other physical assets are invariably essential to the Group's business model, it is the workforce which enable operational excellence. VELESTO is a People-Focused organisation and people are at heart of driving higher rig utilisation, production efficiency, health and safety, lower operating cost base and environmental and social performance.

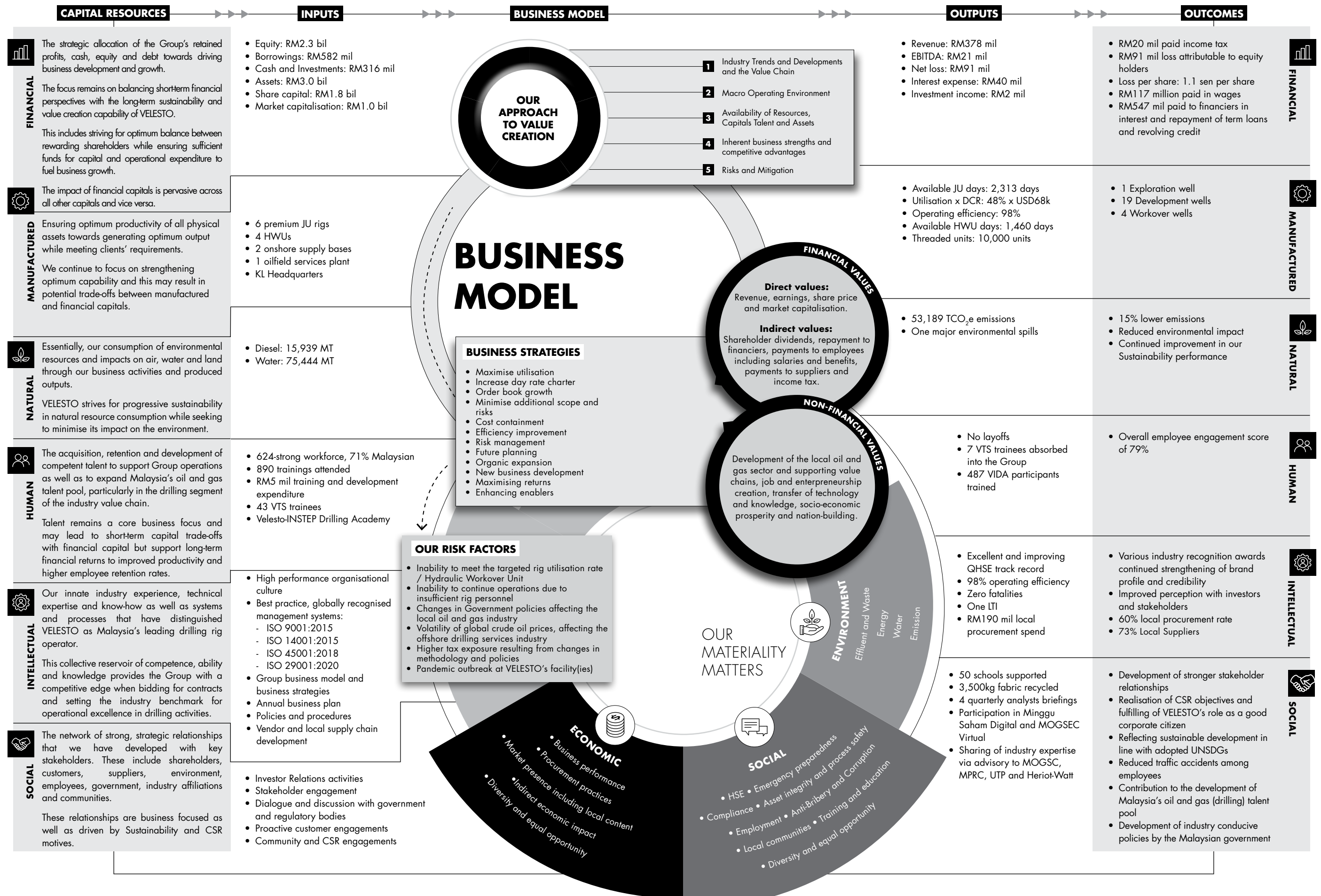
OUR VALUE CREATION MODEL

The following value creation model illustrates how VELESTO consumes a wide range of resources to drive its business model towards the creation of financial and non-financial values. The Group's focus, going forward is to create more positive values, while mitigating or reducing negative values such as environmental impacts.

VELESTO also aims to review the potential relationships or trade-offs between capitals or resources and how the industry outlook as well as emerging trends from the external environment will influence the Group's ability to create value, over the short, medium and long-term perspectives.

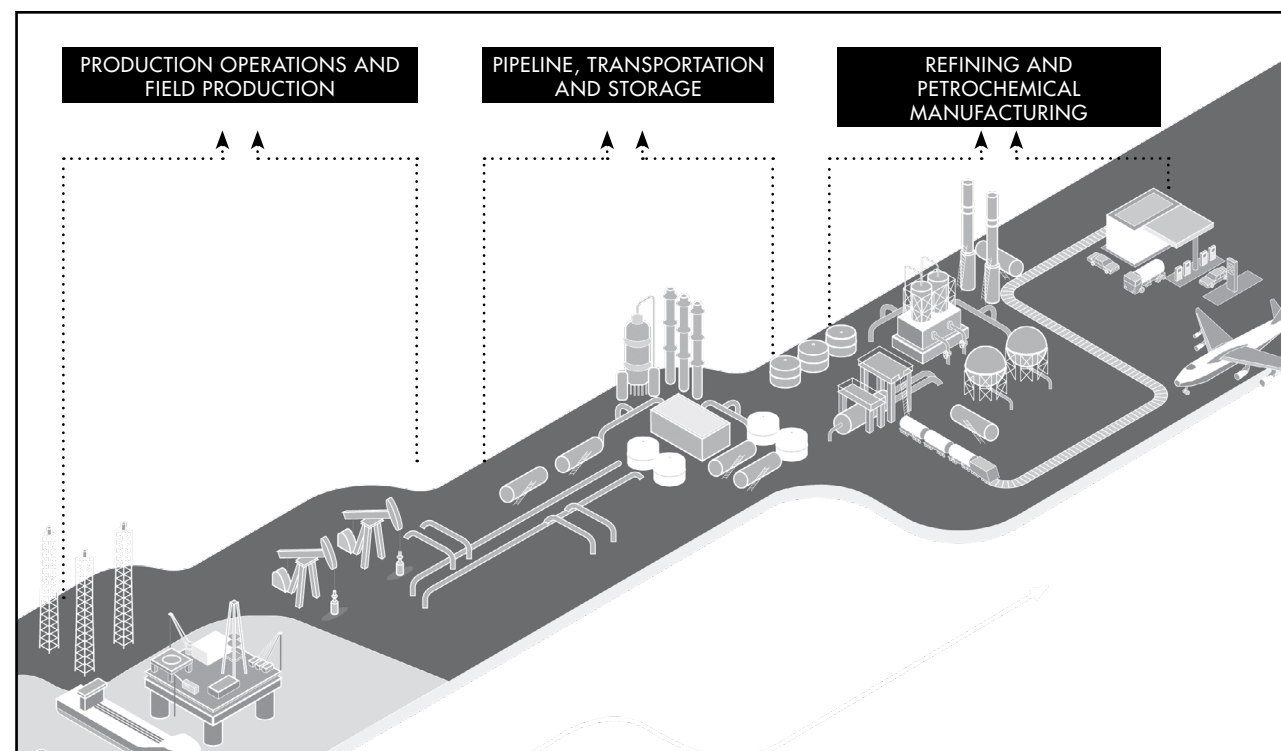
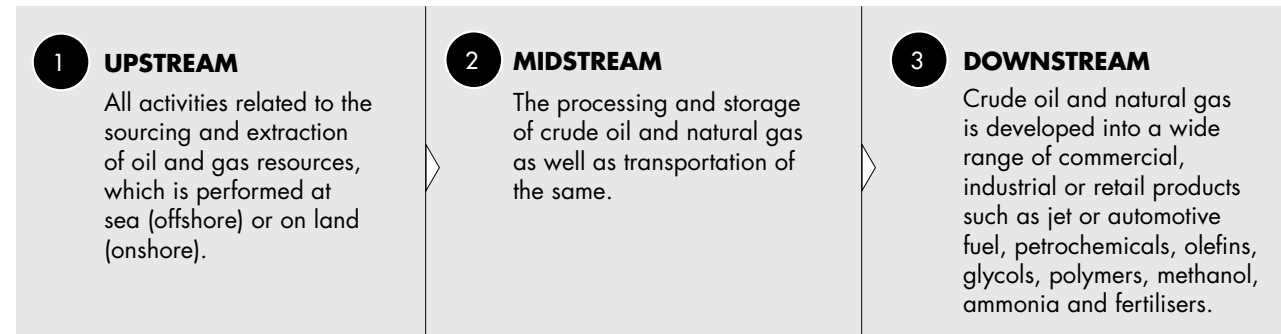
Our Value Creation Model

Our Value Creation Model

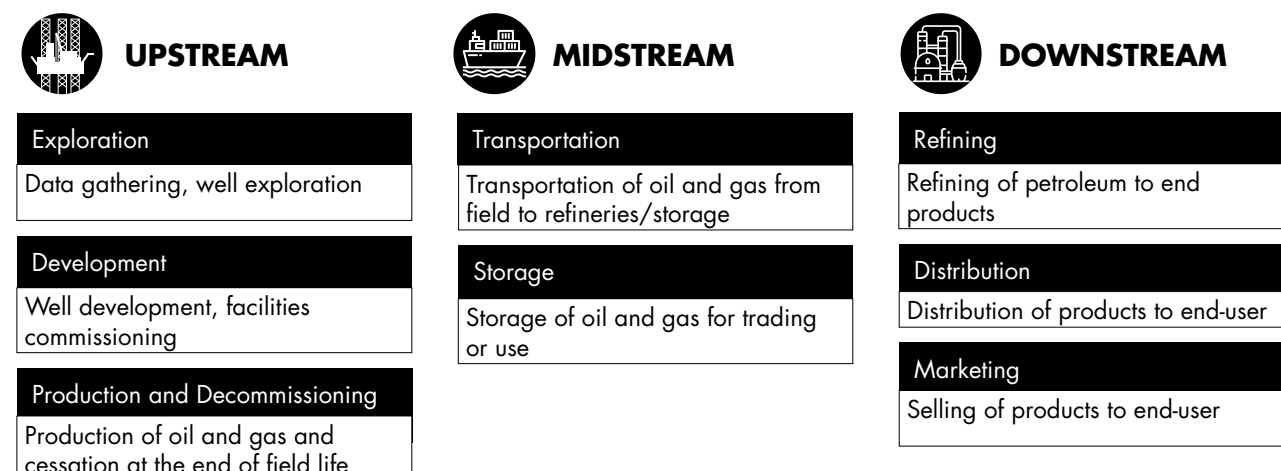


Our Value Chain

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



KEY BUSINESS PROCESS/ DESCRIPTION	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 to prevent crude oil contaminating the ocean environment. Decommissioning is a requirement and must be performed in accordance to set 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. Below 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 jack-up ("JU") drilling 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, equipment performances, crew and other factors.



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 reservoir and is transported to an onshore refining facility through underwater pipelines.



Further drilling to increase production

The client leverages on data sourced from the ongoing drilling process, to refine its drilling activities. It may also drill more production or injection wells and undertake well rejuvenation or repair activities to improve the flow 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.

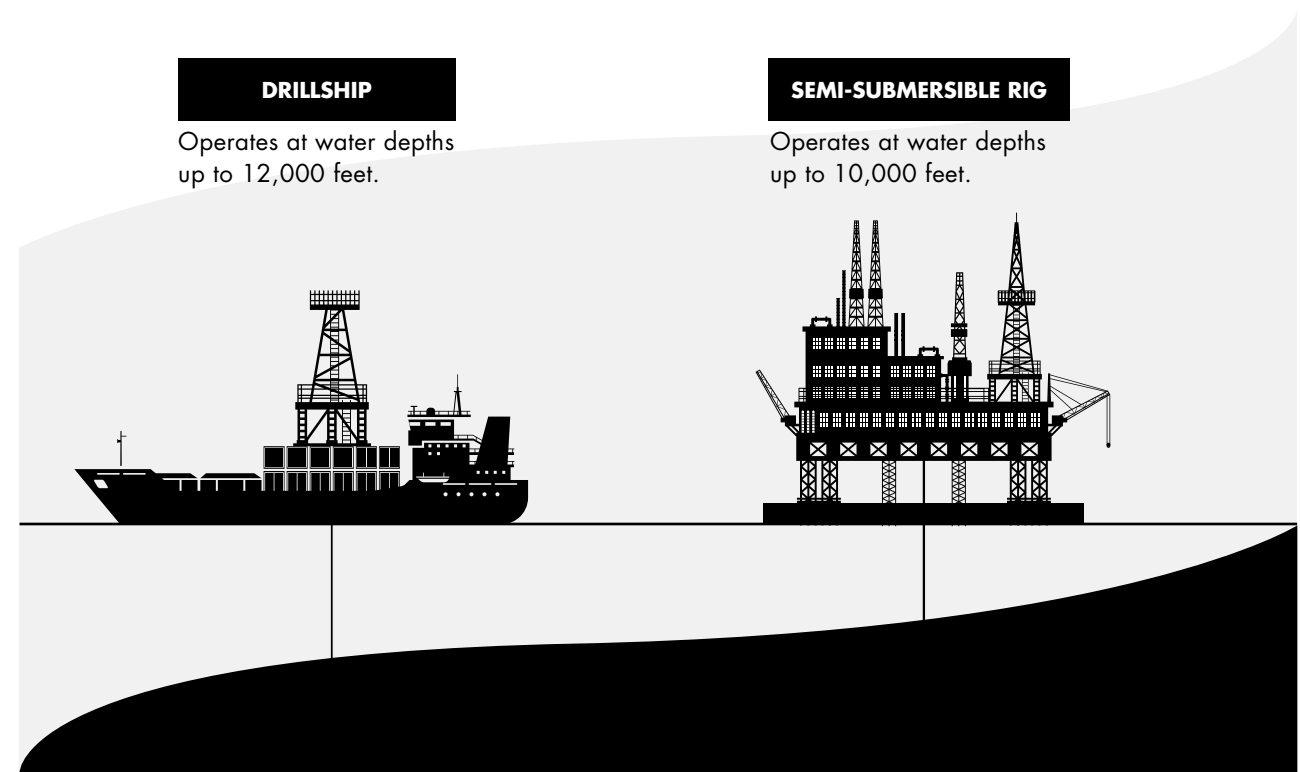


Decommissioning

Once the well has been exhausted or drilling is unproductive, at the client's instruction, VELESTO plugs the well to prevent environmental impacts and is abandoned. The drilling rig is transported to a new exploration and/ or new production location and the process is repeated.

Our Assets

Out of eleven 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.

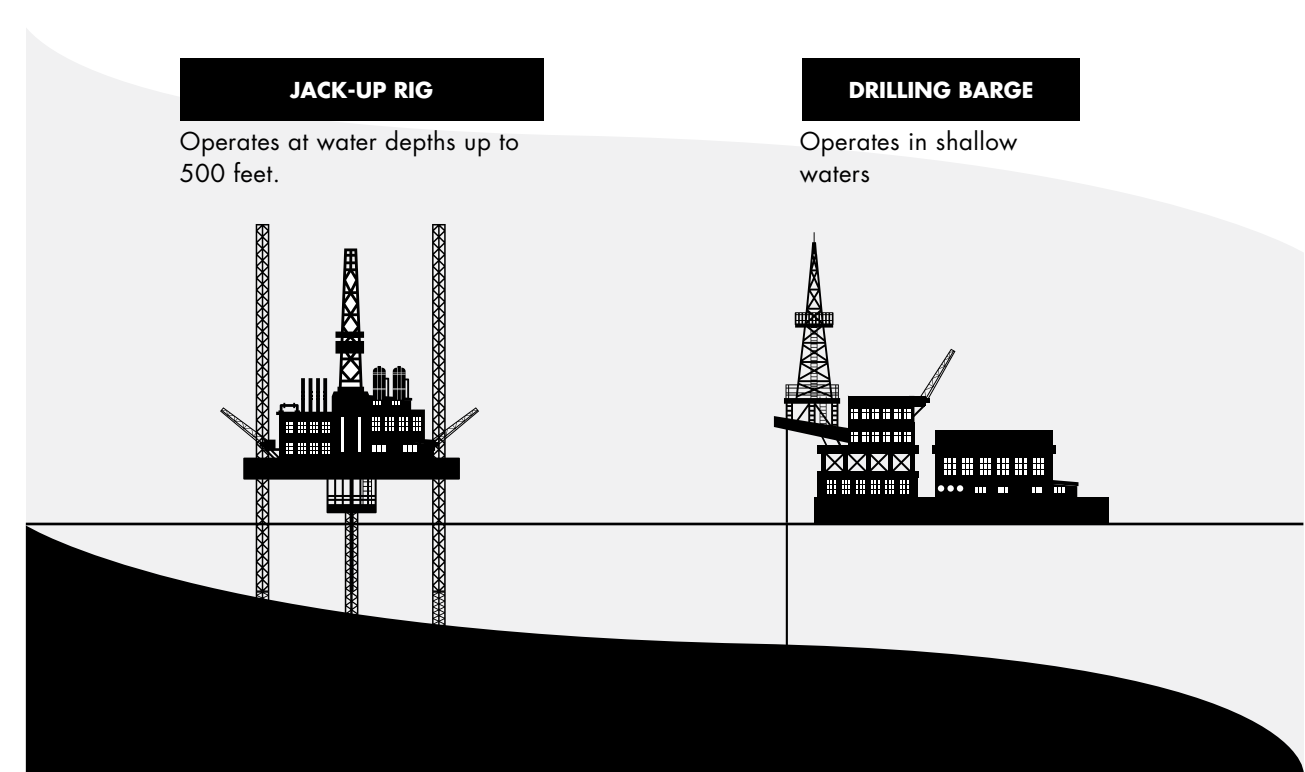


Aside from rated water depth, the different types of rigs have different characteristics in terms of drilling depth, leg length (for JUs), accommodation, lifting capacity, top drive system and other performance specifications.

JACK-UP	TENDER-ASSISTED	SEMI-SUBMERSIBLE	DRILLSHIP	HWU
ACTIVITY PHASE				
<ul style="list-style-type: none">• Exploration• Development• Abandonment	<ul style="list-style-type: none">• Development• Production• Abandonment	<ul style="list-style-type: none">• Exploration	<ul style="list-style-type: none">• Exploration	<ul style="list-style-type: none">• 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.

Our Assets

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



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 are:

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.

Industry Overview and Our Operating Environment

As in all industries, the oil and gas industry is also influenced by external, macro factors at the global level as well as inherent industry trends and developments that influence or impact the local oil and gas sector and its value chain. It can be both positive as in providing opportunities that support financial and non-financial value creation, or negative developments that impact business growth such as pandemics, oversupply of crude oil that led to oil price shocks and more.

Following is a snapshot of the main industry trends and developments, as well as external developments that impact the oil and gas industry, in particular, the upstream segment.

FEATURES	DESCRIPTION
The Industry	<p>Pros: A global industry that has been established for some 200 years and has extensive, far-reaching supply/ value chains. Similar to banking and other well-established industries, the pervasive socio-economic impact of the oil and gas sector and its importance to countries, communities and global economics is unrivalled.</p> <p>Total revenues for the oil and gas sector alone amounted to USD3.3 trillion in 2019.</p> <p>Despite the progressive transition to renewable energy ("RE") sources, oil and gas remain the world's key resources for meeting energy requirements. The share of gas in the world energy mix is around 23% at the moment and this is expected to climb to 30% by 2025. Crude oil's share is expected to only marginally decline from the present 40% to 37% in 2025.</p> <p>Oil and gas products and by-products continue to be in high demand for a wide range of industrial and commercial applications. These include for automotive and aviation fuel, for petrochemical productions and a myriad other applications.</p> <p>For many oil producing countries, the oil and gas sector is vital to providing revenues required for socio-economic and infrastructure development while generating substantial income from royalty payments, taxes and oil export sales.</p> <p>These other reasons continues to justify the fundamental importance of the oil and gas sector and its continued relevance going forward, despite the expanding footprint.</p> <p>Cons: The cyclical nature of crude oil prices eventually leads to industry down-cycles which can affect all players across the value chain. The last down cycle, which began approximately in 2015, lasted almost four years, resulted in both downstream and upstream players to face record low crude oil prices and reduced upstream activities. Companies across the Board had to adopt various austerity measures to cope with the downturn.</p> <p>However, the downturn also led to surviving companies becoming more resilient and competitive with a lower operating cost base and increased operational efficiency.</p> <p>In addition, the industry, whether at a global or national level, remains vulnerable to a wide range of socio-economic and political developments that may impact demand and supply. Any change in the quota discipline among oil producing countries, may substantially impact supply of crude, which could cause prices to fluctuate.</p> <p>In recent years, the decision by the US to undertake record high drilling activities, which made the nation the largest producer of crude oil cause slumps in crude oil prices. The terrorist attack on the Aramco facility in Saudi Arabia, led to an upward surge in oil prices, though the effect was balanced out over the course of the year.</p> <p>The industry also continues to face the challenge of shale oil, with higher crude oil prices enabling more such producers to undertake production. The additional supply destabilises prices leading to a downward spiral.</p> <p>In the wake of the Paris Accord 2015 and the Two-Degree movement which continues to gain traction, the emergence of RE on the agenda of most governments has led to an increasing shift from fossil fuels, including oil and gas.</p> <p>While crude oil and other fossil fuels will continue to be required to meeting the world's energy needs in the short and medium term, the long-term outlook for oil and gas, over the next 30-50 years, remains unclear. However, the days of high crude oil prices, ranging USD100 per barrel and above will be difficult to sustain for long periods.</p>

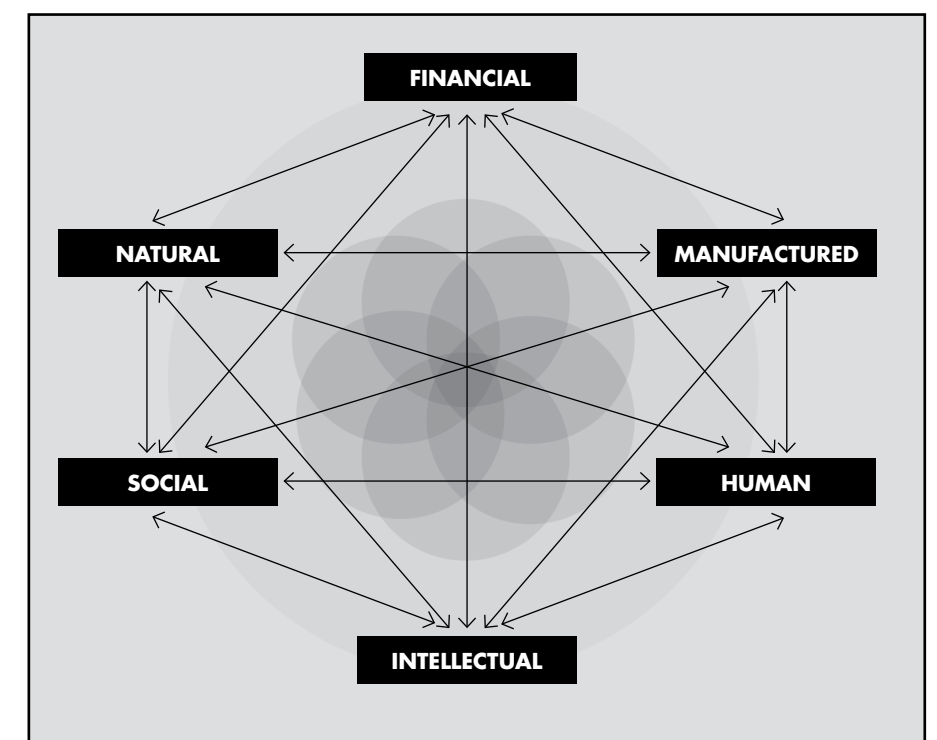
OTHER EXTERNAL OPERATING FACTORS

EXTERNAL TRENDS AND DEVELOPMENTS	DESCRIPTION	SIGNIFICANCE / IMPACT TO AVAILABILITY OF BUSINESS MODEL, CAPITALS & VALUE CREATION
Increasing digitalisation and technological adoption	PETRONAS continues to encourage oil and gas players across the value chain to embrace technology, in particular digitalisation towards becoming more efficient, cost-competitive, operationally nimble and more resilient towards operating in an increasingly dynamic business environment.	VELESTO continues to adopt digitalisation and technological innovation to modernise and integrate business processes and systems. This includes developing a digital workplace and enterprise resource planning.
Climate change and growing ESG awareness	The growing consciousness among almost all stakeholders on environmental and social performance necessitates that businesses today become focused on a triple bottom-line. Investors, shareholders, employees and regulators want businesses to be forces of good and not just profit based entities.	VELESTO is committed towards progressively becoming more sustainable with a growing focus on ESG matters towards improving shareholder's returns. These include wastes and emissions produced, consumption of natural capitals and occupational health and safety. The Group is driven by its focus of zero major spills and zero Loss Time Incidents ("LTI").

Please refer to the Management Discussion and Analysis ("MD&A") section of this report for further information on industry outlook.

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 focused 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.



Our Capitals

Following are VELESTO's principal capitals utilised:



Financial Capital

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



Manufactured Capital

The Group's principal tangible assets comprising its six JU rigs and four HWUs.



Natural Capital

The consumption of diesel, water and other natural resources.



Human Capital

The Group's 624-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.

POTENTIAL TRADE-OFFS IN CAPITALS AND VALUE CREATION

Most companies continue to emphasise financial capitals and financial value creation as being most important. This is evident across almost all for-profit entities. While financials are essential towards justifying the *raison d'être* of the business, a financials only perspective does not ensure medium to long-term value creation and importantly, business and operational sustainability.

VELESTO being cognisant of the growing significance of non-financial value creation, continues to assess how financial and non-financial matters continue to influence each towards ultimately refining its approach to optimise value creation. The Group's focus is on balancing short-term financial perspectives with the long-term sustainability and value creation.

The full list of non-financial material matters are provided in the Sustainability Statement section of the IAR2021.

HUMAN CAPITAL DEVELOPMENT

- Investment into developing organisational culture and the workforce may impact short-term financial performance.
- However, such investments lead to more competent staff and higher staff retention levels, which translate into increased efficiency and productivity and reducing employee hiring costs.

INNOVATION AND RESEARCH & DEVELOPMENT

- Funds injected into acquisition of technology or research are likely to necessitate significant CAPEX and OPEX at the start, which can affect retained profits and cashflows.
- However, any breakthroughs achieved as well as operational efficiencies or improvements will lead to reduced operating costs or business development in the long run.

ENVIRONMENTAL FOOTPRINT MITIGATION

- Measures to improve environmental performance would impact financial values created as funds are diverted to improving emissions, energy consumption and preventing oil spills.
- The improvement in environmental performance puts VELESTO on the radar of large institutional funds and investors who prefer to invest in high ESG focused companies.

Business Strengths

BUSINESS STRENGTHS AND COMPETITIVE ADVANTAGES

BUSINESS STRENGTHS

International Presence

Strong Leadership

Brand Loyalty

Strong Recurring Income

Market Focused

Sustainability at the Core

Good Marketplace Practices and Corporate Governance

Diversified and Integrated Business Group

Highly Experienced and Professional Talent

Proven Expertise and Track Record

Strong Asset and Financial Base

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, 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 services operator	<p>Out of eleven JU rigs available in Malaysia, VELESTO owns and operates six which offer modern drilling technologies.</p> <p>Given the inherent industry preference for local contractors, VELESTO is well positioned to bid and secure Malaysia-based contracts.</p> <p>The operations are supported by competent and experienced crews.</p>	<ul style="list-style-type: none"> • Maximise utilisation • Order book growth • Organic expansion • Project execution
Proven expertise and track record	<p>VELESTO has experience operating in regional countries such as Indonesia, Thailand, Vietnam and Philippines.</p> <p>Beyond drilling, VELESTO's drilling fleet can install Light Weight Structures and undertake well workover as well as decommissioning services.</p> <p>Thus, VELESTO can provide more comprehensive solutions for clients while tapping more opportunities across the upstream segment of the oil and gas value chain.</p>	
RM661 million remaining order book	Despite an industry downturn, VELESTO' has maintained a reasonable order book that provides revenue visibility for the next 1-2 years.	
Strategic geographical presence	<p>Through its two supply bases in Peninsular and East Malaysia, VELESTO is well positioned to operate anywhere within the South China Sea.</p> <p>We are actively tendering in regional and global markets to return to regional markets, where we have a track record operating in.</p>	<ul style="list-style-type: none"> • Order book growth • Organic expansion • New business development

Business Strengths and Competitive Advantages

BUSINESS STRENGTHS	DESCRIPTION	STRATEGIES TO LEVERAGE ON STRENGTH
Modern rigs with experienced personnel i.e. HPHT drilling experience	<p>VELESTO's six JU rigs feature the latest in drilling rig technology. Two of our rigs are equipped with High Pressure High Temperature ("HPHT") capabilities, and we are upgrading another four with Offline capabilities.</p> <p>They are supported by competent and experienced crews, many of whom graduated from the VELESTO-INSTEP Drilling Academy ("VIDA").</p>	<ul style="list-style-type: none"> • 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	<p>VELESTO continues to maintain an industry leading HSE track record.</p> <p>With good HSE performance being a license to operate, VELESTO's HSE performance provides the Group with a competitive advantage when bidding for contracts.</p>	
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 response to the market.	
Strong institutional support via our major shareholders	<p>More than 50%-owned by Permodalan Nasional Berhad and funds under its management.</p> <p>The Group's relationships with regulatory bodies and government agencies has enabled it to achieve strong socio-economic compliance.</p>	<ul style="list-style-type: none"> • Stakeholder engagement strategies
Strong client relationships	<p>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.</p> <p>This enables the Group to play a leading role in advancing industry interests, influencing policies and creating stronger awareness for industry issues and challenges, especially issues affecting Malaysian companies.</p>	
A constant talent pipeline of industry leading drilling via VIDA	VIDA has enabled VELESTO to ensure a sufficient and well-trained talent pool. Aside from supporting operational efficiency and productivity, VIDA also contributes to excellence and sustainable talent pipeline strategies and succession planning.	<ul style="list-style-type: none"> • Cost containment • Efficiency improvement • Risk management • Future planning

Our Risks and Mitigation Strategies and Strategic Priorities



OUR RISKS AND MITIGATION STRATEGIES

The inherent nature of VELESTO's business operations dictates that the Group faces various business, financial, operational and other forms of risk. These risks emerge from the macro-economic operating environment, the oil and gas industry as well as internally, from within the Group.

Risks are essentially potential negative developments or impacts that may impact the Group's access to resources, or impact its ability to generate financial and non-financial values.

The Group's overall management approach to risk management and mitigation is based on the Enterprise Risk Management ("ERM") Framework and the internationally recognised ISO 31000 Risk Management Principles and Guidelines. Through its robust risk management structure, the Group continues to identify and mitigate against its risks, using a likelihood and impact matrix.

From which, risks are then prioritised and the relevant mitigation measures developed and implemented accordingly. The Group's Risk Register is then updated on a quarterly basis.

VELESTO's approach is not just focused on developing mitigation measures, but where possible, to link risks to larger perspectives including how business strategy and even the business model may need to evolve or change in tandem with risks. This is a more comprehensive or holistic approach to developing an effective risk mitigation approach.

In the event of disasters or business disrupting incidents, the Group has developed a comprehensive Business Continuity Plan ("BCP") which has been regularly tested via simulation exercises that were implemented during the financial year.

Given that the external operating environment as well as the oil and gas sector is beyond the control of VELESTO, risks cannot be totally prevented and the Group's approach is to manage the exposure and potential impact arising from risks.

Risk is also given strategic oversight by the Board of Directors through its Board Risk Management Committee ("BRMC").

For further information on the Group's Risk Management Framework, its processes and systems, kindly refer to VELESTO's Statement on Risk Management and Internal Control within this Annual Report.

Our Risks and Mitigation Strategies and Strategic Priorities

Below are VELESTO Group's Top Risks for FY2021 as well as impacts and mitigation plans:

VELESTO GROUP'S TOP RISKS FY2021

DESCRIPTION OF RISK AND BUSINESS IMPACT	MITIGATION MEASURES
Inability To Meet The Targeted Rig Utilisation Rate/ Hydraulic Workover Unit	The Group continued to tender and bid in local and international markets to market its services and increase rig utilisation. The competitive operating landscape and changes in clients' preference for enhanced rigs features require the upgrading of the Group's fleet of rigs with Offline capabilities, continuous improvement of services and focused delivery that promote the Group as the service provider of choice.
Inability To Continue Operations Due To Insufficient Rig Personnel	The Group was actively involved in addressing this risk to avoid disruption to operations through proactive talents sourcing and retention. Monitored numbers of staff especially offshore crews aligned with Sarawak immigration requirements.
Changes In Government Policies Affecting The Local Oil And Gas Industry	The Group continued to keep abreast of developments of government policies at the national state level, and monitored its impact on the Group's operations and services and ensured adherence to such policies.
Volatility Of Global Crude Oil Prices, Affecting The Offshore Drilling Services Industry	Macroeconomics, geopolitical and technological uncertainties, governmental actions and other factors impact the global crude oil prices, which in turn impact the spending pattern of oil majors and the demand for offshore drilling services. The Group continuously monitor the movement in oil prices, market shifts and trends. The Group explored to increase presence in South East Asia and expand internationally. The Group continued to explore business diversification opportunities, instituted effective cost efficiency and focused on high rig utilisation.
Higher Tax Exposure Resulting From Changes In Methodology And Policies	The Group continued to drive tax compliance by enhancement of tax knowledge of the employees, kept abreast of developments of changing tax legislations and engaged with tax advisors and tax authorities
Pandemic outbreak at VELESTO's facility(ies)	The Group kept abreast with the latest requirements and regulations in relation to pandemic outbreak control measures. Aligned with the Group's HSE practices, the Group continued to review its mode of work arrangements including the adoption of Work-From-Home (WFH) initiatives and implemented strict procedures for working on-site i.e. offices, warehouses and rigs.

STRATEGIC PRIORITIES FOR FY2021 AND BEYOND

• Maximise Utilisation • Order Book Growth

- Strengthen and maintain market presence in South East Asia
- Organic expansion
- Collaborations with clients in developing standard terms and conditions
- Strategic partnership to enhance technical expertise and technology, i.e. for IWS
- Propose to client on the activities which are within our control for rewards/ risk sharing model

• Obtain Higher Day Charter Rates • Maintain Market Leadership

- Minimise additional scope and risks
- Cost containment
- Efficiency improvement
- Cash and liquidity management
- Ongoing review on funding options that would give lower cost of borrowings
- Automation process and control for better capacity for productivity and effectiveness
- Continuous investment in rig capabilities such as Offline capabilities

• New Business Development • High Performance Culture

- Driving good corporate culture
- Stakeholder engagement strategies
- Integrate Sustainability objectives with key business strategies and continue to improve ESG rating

Sustainability Statement

Strengthening
A Sustainable
Tomorrow

2021 PERFORMANCE AND HIGHLIGHTS



624 employees
(71% Malaysian)



487 participants trained at VIDA



RM190^{mil}
purchases from Local Suppliers
(60% Malaysian)



2020 ASEAN Corporate
Governance Scorecard Awards
MSOSH Gold Class 1 Award



15% lower energy
consumption and
emissions



40% of Senior Management
33% Directors comprise of
women



**FTSE4Good Bursa
Malaysia Index
Constituent**



Set 2030 emissions intensity reduction goal

10%
Operating Days Emissions Intensity and
30%
Revenue Emissions Intensity



Top Quartile (4-stars)
ESG rating by Bursa Malaysia and
FTSE Russell



738k manhours
without LTI



One Lost Time Incident
One major spill

MESSAGE FROM THE GROUP PRESIDENT

As a responsible and ethical organisation, the Environmental, Social and Governance ("ESG") agenda remains a key consideration in the development of business strategies. The Board and Senior Management continue to progressively embed sustainability within the business model, business strategies and business processes.

VELESTO is of the view that sustainability matters because it is vital for the mitigation of business and operational risks and for continued stakeholder value creation. For instance, a people-focused talent management approach is essential to retain and develop high-calibre professionals across the group, which supports improved operational productivity and service delivery. Maintaining excellent Occupational Health and Safety performance is equally essential in preventing incidents that could disrupt operations that cause revenue loss.

Sustainability Statement

Beyond our own interests, sustainability is vital in addressing the existential issues that all of us face such as climate change and global warming.

Financial year ended 31 December 2021 ("FY2021") despite being a turbulent operating year, has seen VELESTO continues to make progress across its sustainability pillars. VELESTO has targeted decarbonisation as well as labour rights as key focus areas for its sustainability agenda. This is in addition to our existing efforts as reflected across a triple bottom-line of ESG performance.

I am pleased to inform that we have made progress on multiple fronts in FY2021. In response to the ongoing Covid-19 pandemic in 2021, the VELESTO-INSTEP Drilling Academy ("VIDA") has made several changes to ensure the continued development of a sustainable talent pool of drilling professionals. New courses have been introduced and the use of virtual mediums have enabled VIDA to continue training and upskilling much-needed local talent for the drilling sector.

We have continued to ensure the wellbeing of our employees during the pandemic. Despite the many challenges faced, no staff was let go and there were no salary cuts. Instead, various benefits and allowances were provided to assist our employees during this difficult period. This included a broadband stipend to enable them to afford higher-speed broadband so they could work conveniently from their homes. Our counselling helpline was also established to support their mental health and wellbeing.

VELESTO continued to undertake Corporate Social Responsibility ("CSR") activities in FY2021. We supported schools, participated in various student-related programmes and, continue to support local communities, including fishing villages. Full details of our activities are provided in this Sustainability Report 2021.

We are saddened by the unfortunate incident of NAGA 7. Throughout the incident, VELESTO has exemplified excellence in crisis management towards safely evacuating all 101 crew with zero injuries. The incident has enabled VELESTO to demonstrate its readiness to effectively manage emergency scenarios. It serves as a good reminder that constant vigilance, a well-trained, professional crew and the prevalence of a strong HSE culture enables an organisation to manage any crises and to respond effectively with precision, urgency and skill to ensure the wellbeing of stakeholders.







In FY2021, VELESTO secured the MSOSH Occupational Safety & Health Gold Class 1 Award for the Petroleum, Gas, Petrochemical and Allied Sectors. We were also recognised for good risk management and corporate governance practices by the Minority Shareholders Watch Group ("MSWG").

It has been a productive FY2021 with regard to sustainability and we look forward to the future. In tandem with the recovery in the oil and gas sector, we remain positive of driving further ESG strategies and efforts towards strengthening the business model and enhancing stakeholder value creation. We shall continue to play our part in developing a better, cleaner and brighter future for all.

Sustainability Statement

SUSTAINABILITY HIGHLIGHTS AND ACHIEVEMENTS

In assessing its sustainability highlights and achievement, VELESTO has aligned its progress to selected United Nations Sustainability Development Goals ("UNSDGs").

PERFORMANCE AND HIGHLIGHTS	TARGETS AND COMMITMENTS	UNSDGs
PROTECTION OF HEALTH AND SAFETY		
<ul style="list-style-type: none"> Zero fatalities 1 LTI 	<ul style="list-style-type: none"> Zero fatalities Zero LTI TRCF Below 1.0 TRCF rate 	
DECENT WORK AND ECONOMIC GROWTH		
<ul style="list-style-type: none"> 624 jobs (71% Malaysian) RM117 million in employees salaries and benefit RM190 million purchase from local suppliers (60% Malaysian) RM547 million net debt repayment to financiers RM20 million taxes paid to Government 	<ul style="list-style-type: none"> Job and employee retention Development of more high-skilled jobs for Malaysians Further development of the local procurement / supply chain Continued support of government initiatives 	
GENDER DIVERSITY		
<ul style="list-style-type: none"> Women comprise 40% of Senior Management and 33% of Board of Directors 	<ul style="list-style-type: none"> Continued support for gender diversity 	
PRESERVATION OF THE ENVIRONMENT		
<ul style="list-style-type: none"> 1 major spill No material impact to biodiversity Rainwater harvesting on idle rigs First time disclosure of Emissions Intensity by Revenue and Operating Days 15% decline in energy consumption and emissions 20% decline in water consumption 28% decline in chemical wastes 	<ul style="list-style-type: none"> Reduce operating days emissions intensity by 10% and revenue emissions intensity by 30% by 2030 Avoid major spills Reduction in water consumption Reduction in waste produced 	 
ENHANCEMENT OF PEOPLE'S LIVES		
<ul style="list-style-type: none"> 487 participants in VELESTO-INSTEP Drilling Academy 43 graduate placements provided, 7 absorbed as staff Upskilled 18 employees and reskilled 20 employees 79% employee satisfaction score 	<ul style="list-style-type: none"> Various programs in support of government initiatives e.g. Tabung Cerdik, MyStep and internship programme. Continuing to work with key stakeholders, both offshore and onshore towards ensuring mutual value creation 	

AWARDS AND ACCOLADES

MSWG-ASEAN Corporate Governance Award 2020

- Industry Excellence Award – Energy Sector
- Excellence Award for CG Disclosure – Market Cap Above RM300 million to RM1 billion
- Ranked 21 out of the top 100 public listed companies (“PLCs”) listed for the ‘EXCELLENCE AWARD FOR CG DISCLOSURE’

MSOSH Award

- Occupational Safety & Health Gold Class 1 Award for the Petroleum, Gas, Petrochemical and Allied Sectors

SUSTAINABILITY MILESTONES

Commencement of SR commitment and focus	Tier 2: Making Progress on sustainability disclosure	Tier 1: Setting the Pace for sustainability disclosure	Top-25% by ESG Ratings amongst PLCs assessed by FTSE Russell	Benchmarking against global frameworks and industry leading practices
2017	2018	2019	2020	2021
<ul style="list-style-type: none"> • Started Sustainability Reporting based on GRI Framework • Established Sustainability Governance • Conducted materiality assessment 	<ul style="list-style-type: none"> • Included in Bursa Malaysia FTSE4GOOD Index • More systematic data-gathering approach • Improved alignment with GRI Standards • Review of FTSE4Good assessment 	<ul style="list-style-type: none"> • Adoption of 6 UNSDGs • More oversight role by Board of Directors • Incorporated into corporate KPI 	<ul style="list-style-type: none"> • Adoption of Integrated Reporting approach • Acknowledgement of Risk of Climate Change • Joined UN Global Compact and adopted 10 UNGC Principles 	<ul style="list-style-type: none"> • Set emissions intensity reduction targets • Incorporated Climate Change in Risk Factors • Identified Human Rights exposures

ABOUT THIS REPORT

INTRODUCTION

VELESTO’s Sustainability Report 2021 (“SR2021”) is our sixth Sustainability Report and charts the Group’s progress in addressing its material ESG topics.

VELESTO looks to Sustainability as a business enabler that strengthens the business model, as a catalyst for change and a means to capitalise on emerging opportunities.

LINKAGE TO INTEGRATED REPORTING

SR2021 is to be read together with VELESTO’s Integrated Annual Report (“IAR2021”) towards obtaining a more comprehensive perspective of the linkage between business and financial performance and Sustainability performance.

The IAR2021 provides a detailed perspective of the Group’s business strategy, its business model, its external operating environment and other strategic information. SR2021 provides the management approach, performance details including statistical data over a three-year time frame for material ESG topics.

REPORTING SCOPE & BOUNDARY

SR2021 covers the reporting period from 1 January 2021 to 31 December 2021. We exercise a “local where-we-operate” practice.

Content for inclusion has been further determined based on the Global Reporting Initiative (“GRI”) principles of accuracy, balance, clarity, comparability, reliability and timeliness, as well as stakeholder inclusiveness, sustainability context, materiality and completeness.

The Report’s scope and boundary covers the holding entity, VELESTO Energy Berhad, all subsidiaries and its primary business operations of drilling and hydraulic workover services. This consists of the Group’s six jack-up (“JU”) rigs and its four hydraulic workover units (“HWUs”).

Data has been presented for three consecutive years to show meaningful comparisons against past performance and to indicate trend lines.

SR2021 provides some data on VELESTO’s supply chain comprising contractors, vendors, business partners, consultants and other goods and services suppliers. The Group looks to strengthen its disclosures including supply chain disclosures going forward.

EXCLUSIONS

Excluded are disclosures on VELESTO’s Oilfield Services (“OFS”) operations in Tianjin, China given its comparatively small operational footprint.

Given that VELESTO is a drilling services provider, it does not own the oil and gas resources which it extracts for its clients. Hence, the reporting scope for SR2021 exclude ESG impacts arising from the ownership of the aforementioned oil and gas resources, discovered or produced by VELESTO for clients with the same applied for the distribution and consumption of such resources.

The same applies to ESG impacts arising from the larger upstream oil and gas value chain as VELESTO’s involvement is only limited to exploration and production (“E&P”) drilling.

APPLIED FRAMEWORKS

SR2021 has been prepared in line with the GRI Standards: Core Option. The GRI Content Index is provided at the end of SR2021.

Following are additional reporting guidelines and frameworks that have been referenced or applied:

- Bursa Malaysia Sustainability Reporting Guide Second Edition
- FTSE4Good Bursa Malaysia Index
- SASB Sector Specific Disclosures
- United Nations Sustainability Development Goals (“UNSDGs”)

STATEMENT OF USE

The SR2021 was reviewed and approved by the Board of Directors on 22 April 2022. The Board acknowledges responsibility for the following statement of use: The information contained in SR2021 has been prepared in reference with the GRI Standards.

MATERIALITY

Materiality of ESG topics is determined based on the following:

- Topics that are material to financial value creation
- Topics that are material to stakeholders and indirect value creation
- Extent of topics’ ESG impact

RESTATEMENTS OF INFORMATION

SR2021 may contain restatements of information from previous year’s reporting. This is due to the fact that such information remains unchanged in the financial year except for performance numbers, and remain relevant for inclusion. Restated information include content on the Group’s principal business operations, location of operations, business entities; information on stakeholder engagement, and materiality.

REPORTING CYCLE

VELESTO adopts an annual reporting cycle for sustainability reporting as mandated by the local regulator, Bursa Malaysia Securities Berhad (“BURSA”).

REPORT QUALITY & ASSURANCE

All data in SR2021 have been collated from official sources and internal documents and records. Data analysis and computation has been performed using industry standards as well as widely accepted calculation methodologies such as the Greenhouse Gas ("GHG") Protocol.

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

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

VELESTO has undertaken independent auditing and assurance for financial data. Data on Occupational, Health and Safety performance has been verified by DNV-GL.

PRECAUTIONARY APPROACH

VELESTO has applied the precautionary approach as reflected via its risk mitigation strategies and framework and in preventing Occupational Health and Safety ("OHS") incidents. For specific information, please refer to the Statement on Risk Management and Internal Control ("SORMIC") on page 132 and the subsection on OHS in this sustainability report, page 88.

DISTRIBUTION & FEEDBACK

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

INVESTOR RELATIONS & SUSTAINABILITY VELESTO ENERGY BERHAD

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

+603-2096 8788

investor.relations@velesto.com

MEMBERSHIP OF ASSOCIATIONS AND EXTERNAL INITIATIVES

VELESTO is a member of various industry associations and professional bodies both in the respective locations in which the Group operates. The Group leverages on its membership to promote awareness and action on ESG matters and towards actively promoting a more sustainable industry and value chain.

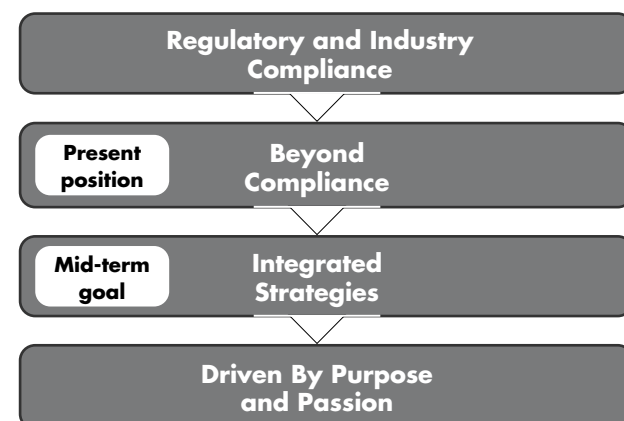
Below is a list of associations we are members of:

- The Malaysian Oil & Gas Services Council ("MOGSC")
- Malaysian Gas Association ("MGA")
- Energy Industry Council ("EIC")
- International Association of Drilling Contractors ("IADC")
- United Nations Global Compact ("UNGC")

In addition, VELESTO is proud to contribute to academia and industry development, through our continuous participation in various advisory panels such as Malaysia Petroleum Resources Corporation ("MPRC"), Universiti Teknologi Petronas ("UTP") and Heriot-Watt University Malaysia.

VELESTO SUSTAINABILITY BLUEPRINT

VELESTO's mid-term goals are to integrate our sustainability practices with our governance, strategy, risk management, metrics and targets. The Group will continue to develop emissions intensity reduction strategies and is addressing its human rights risk exposures.



GOVERNANCE OF SUSTAINABILITY AT VELESTO

Governance of sustainability at VELESTO is achieved through its robust governance structure that enables the Board of Directors ("Board") and Management oversight on ESG-related risks.

Beyond oversight, the structure is designed to enable the highest decision-making bodies of the Group to receive timely updates and accurate information from working levels on a wide range of business and operational matters.

The structure facilitates two-way communication, where aspirations and broad directives set by the Board and Senior Management can be conveyed and implemented Group wide, whilst at the same time, enabling working levels to provide timely and precise feedback of issues, challenges as well as results achieved.

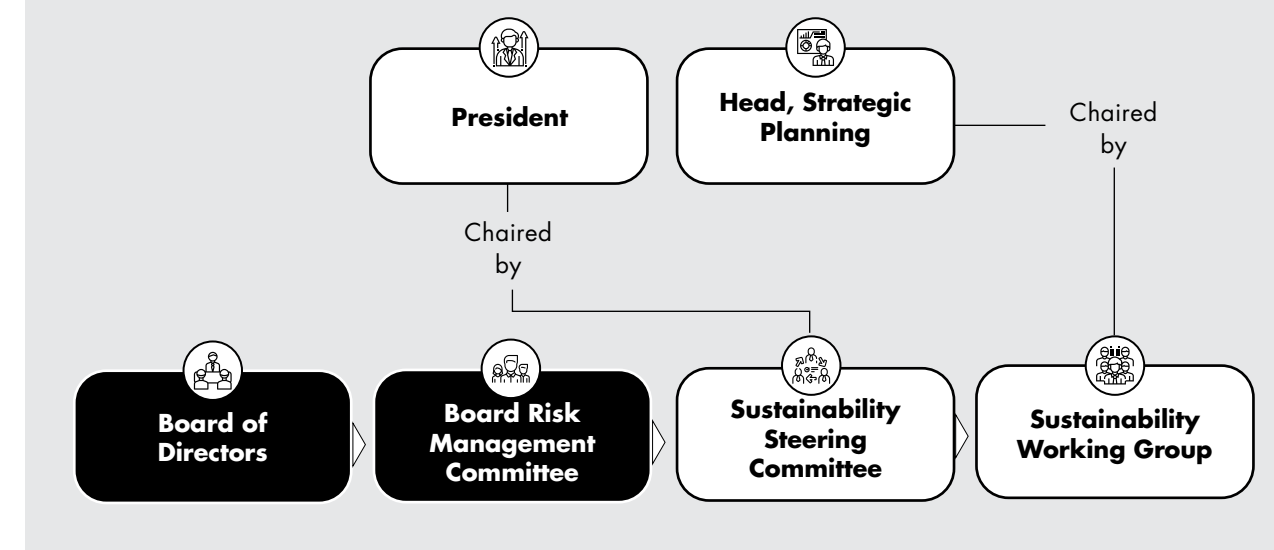
In essence, the structure enables the Board and Senior Management to stay updated with progress on all ESG matters and to develop policies, strategies and goals that are realistic, meaningful and aligned to the capacity and capabilities of the Group. It also ensures that working levels have a channel to voice their concerns and ideas and to have the assurance of strategic leadership support from the Board and Senior Management.

Within the governance structure, the Board and Senior Management maintain oversight on the following material ESG topics: Occupational Health and Safety ("OHS"), climate change and greenhouse gas ("GHG") emissions, energy and water consumption, environmental spills, talent management and development, business, financial, operational and strategic risks as well as community development.

The Board Risk Management Committee ("BRMC") is supported by the Group's Sustainability Steering Committee ("SSC") and the Sustainability Working Group ("SWG"). The structure is closely intertwined with the Group's Risk Management Structure towards developing an integrated approach for risk management, where the potential impacts of ESG matters are progressively included within the risk matrix and risk register.

For further details on the Board's roles and responsibilities as well as Board composition, Board independence and performance, kindly refer to the Corporate Governance ("CG") Report for FY2021: The CG report also showcases how VELESTO has applied the stipulated practices of the Malaysian Code on Corporate Governance 2021 ("MCCG 2021").

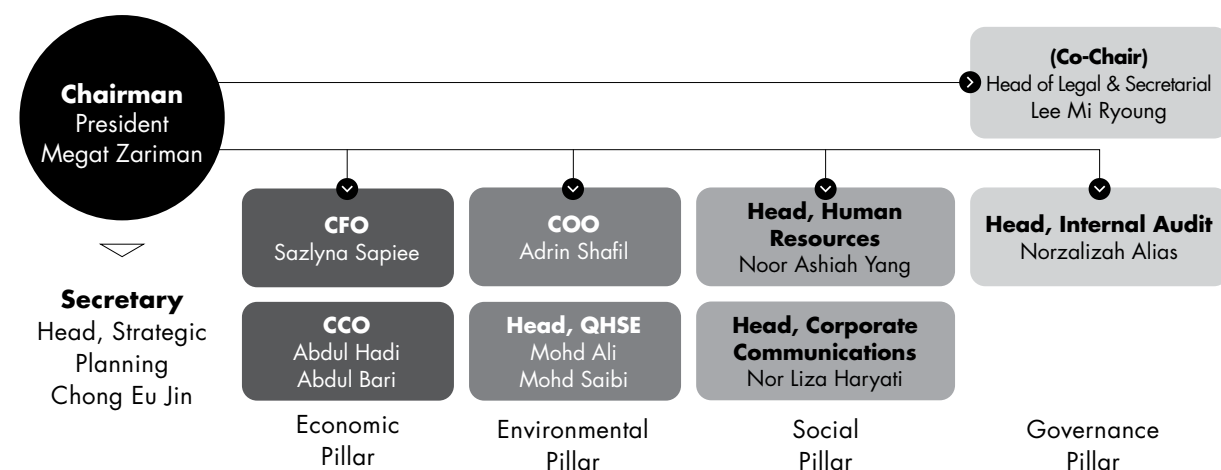
SUSTAINABILITY GOVERNANCE STRUCTURE



SSC & SWG ROLES & RESPONSIBILITIES

 SUSTAINABILITY STEERING COMMITTEE ("SSC")	 SUSTAINABILITY WORKING GROUP ("SWG")
<ul style="list-style-type: none"> The Committee members consist of Senior Management of VELESTO: <ul style="list-style-type: none"> - President (Chairman) - Head, Legal & Secretarial (Co-Chair) - Head, Strategic Planning (Secretary) - Chief Financial Officer ("CFO") - Chief Commercial Officer ("CCO") - Chief Operating Officer ("COO") - Head, Human Resources - Head, Quality, Health, Safety and Environment ("QHSE") - Head, Internal Audit - Head, Corporate Communications 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 To continuously monitor stakeholders' expectations on VELESTO's Sustainability activities through effective communication strategies 	<ul style="list-style-type: none"> The Working Group consists of representatives from Corporate and Operations that are responsible for Sustainability strategies and projects Tracks data to ensure that all outlined activities achieve defined targets

SUSTAINABILITY STEERING COMMITTEE 2022



INTEGRATING ESG MATERIAL TOPICS INTO RISK MANAGEMENT APPROACH

Increasingly, risks arising from material ESG topics are being introduced into VELESTO's overall approach to risk management.


After identifying the risks, risk owners are required to categorise the risks according to their level (impact and likelihood).

The approach is not completely new to VELESTO as several sustainability matters such as OHS has been included in the risk matrix and risk register. The scope now is being increasingly extended to include matters such as climate change and emissions, labour rights, talent management and corruption. The focus is on establishing clear linkages of financial, business and operational impacts that could arise from the aforementioned material sustainability topics.

Risk comes under the purview of the Board Risk Management Committee. Specific information on VELESTO's risk management framework, its approach to risk identification and mitigation and more is provided in the Statement on Risk Management and Internal Control ("SORMIC") of this report.

ESTABLISHED POLICIES FOR GOOD GOVERNANCE

Governance of sustainability is also strengthened through the establishment of various policies as follows. All policies can be viewed at: <https://velesto.com/quality/>.

		
HSE Policy	Anti-Bribery and Corruption Policy	Quality Policy
		
Whistleblowing Policy	Marine Operations Policy	Substance Misuse Policy
		
Human Resources Policy	Smoking Policy	Stop Work Policy

SUSTAINABILITY GOVERNANCE THROUGH OPERATIONAL SITE CERTIFICATION

All of VELESTO's JU rigs and HWUs, its Kuala Lumpur Headquarters and its operating bases in Kemaman, Terengganu and Labuan have been certified by DNV-GL to the globally recognised management system standards as below:

VELESTO has migrated from OHSAS 18001:2007 Occupational Health and Safety Management System to ISO 45001:2018 and was certified on 26 February 2021. VELESTO has also upgraded from ISO/TS 29001:2010 to ISO 29001:2020, and was certified on 14 March 2022.

ASSETS/LOCATION	CERTIFICATION
NAGA 2, NAGA 3, NAGA 4, NAGA 5, NAGA 6, NAGA 8	ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, ISO 29001:2020
GAIT 1, GAIT 2, GAIT 5, GAIT 6	ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, ISO 29001:2020
KL Headquarters, Kemaman Warehouse, Labuan Warehouse	ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, ISO 29001:2020



REINFORCING GOOD GOVERNANCE THROUGH ETHICAL CONDUCT AND CORPORATE INTEGRITY

A further aspect or component of good governance in VELESTO is the Group's Code of Business Conduct and Ethics ("CoBE"), which sets the tone for desired corporate behaviour and practices within the organisation.

Essentially, the CoBE is aimed at inculcating a Group wide, organisational culture centred on integrity, ethical behaviour, accountability, transparency and professionalism. The Code emphasises clarity on conflicts of interest and rules for corporate behaviour; in terms of the manner in which representatives of VELESTO should conduct their professional engagements between themselves, superiors and stakeholders. The latter includes vendors, suppliers, contractors, business partners and others.

Specifically, the CoBE addresses matters such as sexual harassment, racial discrimination, coercion and more. All new employees are briefed on corporate integrity and ethical conduct during their induction session. Likewise, all incoming directors are briefed on the CoBE as part of their induction.

All employees will be required to agree and declare their understanding of the Group's policy and procedures and submit their individual 'Disclosure of Conflict of Interest'.

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

In FY2021, there were zero cases of non-compliance or unethical conduct reported.



ZERO TOLERANCE STANCE TO BRIBERY AND CORRUPTION

VELESTO continues to adopt a no compromise approach with regard to any form of corruption or bribery in any aspects of its business operations. The hard stance taken against corruption and bribery is reflected in the Group's Anti-Bribery and Corruption Policy ("ABC Policy"). The ABC Policy was developed pursuant to Section 17A of the MACC Act 2009 (Amendment 2018) and can be viewed here: <https://velesto.com/quality/anti-bribery/>.

The ABC policy defines what are corrupt acts and strictly prohibits them to be carried out in any manner within the Group's organisation. However, this also extends to any dealings between external parties and VELESTO, including agents of the Group i.e. the Board, management and staff.

The policy strongly prohibits VELESTO's Board of Directors, management, employees or third parties, being involved in bribery, whether by offering, promising, soliciting, demanding, giving or accepting bribes or behaving corruptly in the expectation of a bribe or an advantage. The policy instructs the Board and employees of VELESTO on how to deal with matters pertaining to gifts, entertainments, donations and charitable activities. It also stipulates what punitive actions will be taken for anyone engaged in corrupt acts. This includes fines, suspensions, dismissal and other forms of disciplinary action which may include reporting the matter to enforcement authorities for appropriate action.

SAFEGUARDS TO DRIVE STRONG ANTI-CORRUPTION STANCE

VELESTO's ABC Policy is supported by the following safeguards towards preventing corrupt practices within the organisation and between the organisation and its supply chain.

INTERNAL AUDIT
<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> 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, 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

The Board via its Board Whistle-Blowing Committee ("BWBC") and Integrity & Governance Unit ("IGU"), maintains comprehensive oversight on VELESTO's anti-corruption agenda. BWBC is tasked with deliberating on reports/ findings brought to them by IGU pertaining to whistleblowing good corporate conduct, ethical behaviour, anti-corruption and bribery.

IGU investigates all reports and the findings are brought to the attention of BWBC, who deliberates and presents its views to the Board and advice on any action to be taken.

On a related matter, VELESTO's ABC Policy is reviewed regularly by the Board to ensure its robustness in tandem with changing regulatory requirements. The Board and Senior Management are also actively involved in a wide range of communication, internal initiatives and programmes, towards driving the ABC agenda Group wide.

BWBC is chaired by Datuk Tong Poh Keow and comprises two other members and convenes biannually.

INDEPENDENT INTEGRITY GOVERNANCE UNIT

IGU is an independent unit that reports directly to the BWBC and Malaysian Anti-Corruption Commission ("MACC") on any potential or actual incidences involving corruption or other forms of corporate wrongdoing. Administratively, IGU reports to the President's Office.

ANTI-CORRUPTION COMMUNICATION PROGRAMMES AND ACTIVITIES

As in previous years, VELESTO continues to drive a wide range of communication efforts to reinforce the message of zero tolerance towards corruption and bribery. These include electronic mediums, virtual townhalls, newsletters and others. The continued reinforcement of the iLEAP core values, is also part of the approach to Group-wide dissemination and inculcation of an organisational culture centred on integrity and ethical behaviour.

ACTIVITIES	REMARKS
Completion of IGU documentation including framework, policies and procedures	<ul style="list-style-type: none"> The following documents were established/ revised in year 2021: <ul style="list-style-type: none"> Whistle-Blowing Procedure (Revised) Governance and Business Ethic Guide (New) Anti-Bribery Management System Manual (New)
Anti-Bribery & Corruption trainings for Internal Stakeholders	<ul style="list-style-type: none"> Series of virtual and physical Anti-Bribery & Corruption trainings were held from 1 September 2021 – 13 December 2021 Participants were at HQ level, supply base and rigs As at December 2021, 90% of VELESTO's staff have attended the training
Anti-Bribery & Corruption trainings for External Stakeholders	<ul style="list-style-type: none"> Three sessions of virtual Anti-Bribery & Corruption trainings were conducted on 7, 9 & 14 December 2021 As at December 2021, 13% of VELESTO Approved Vendors List attended the training
Corruption Risk Management ("CRM")	<ul style="list-style-type: none"> Corruption Risk Assessment performed on quarterly basis
VELESTO Vendor Integrity Pledge ("VIP")	<ul style="list-style-type: none"> Established a standard pledge document and forwarded the VIP to VELESTO's approved vendors for their agreement and commitment since 2020. As at 6 December 2021, 67% of VELESTO Approved Vendors List have signed the VIP
Organisational Anti-Corruption Plan ("OACP") Workshop	<ul style="list-style-type: none"> The workshop was facilitated by Malaysia Anti-Corruption Academy ("MACA") to help VELESTO develop its Anti-Corruption plan. Seven of Senior Management members attended the workshop from 26 July to 29 July 2021.
National Integrity Day 2021 Talk	<ul style="list-style-type: none"> Topic: Tumbuk Rusuk "Pengkisahan Dari Tirai Besi" Invited speaker: Tuan Firdaus Ramlan The event was conducted on 5 November 2021 virtually
IGU e-Newsletter	<ul style="list-style-type: none"> The IGU e-Newsletter is to facilitate employees learn/understand the importance of practicing high integrity and compliance culture. The e-Newsletter were disseminated to all employees. <ul style="list-style-type: none"> 1st edition on 31 March 2021 2nd edition on 4 June 2021 3rd edition on 2 September 2021 4th edition on 17 December 2021
Reporting to Board Whistle-Blowing Committee ("BWBC") (biannually)	<ul style="list-style-type: none"> IGU reporting to BWBC conducted as follows: <ul style="list-style-type: none"> 1-2021 – 15 June 2021 2-2021 – 24 November 2021
Submission of MACC Report (biannually)	<ul style="list-style-type: none"> Report was submitted based on a standard format/ template set by MACC Report coverage period and submission date: <ul style="list-style-type: none"> January – June 2021: 30 July 2021 July – December 2021: 31 January 2022

ASSESSMENT OF CORRUPTION RISKS WITHIN OPERATIONS

VELESTO undertakes a quarterly assessment for corruption risks. During each quarterly assessment, specific departments or units of the Group will be scrutinised for weaknesses that could lead to higher risks for incidences of corruption. A system comprising approved risk rating matrix parameters is used to assess corruption risks. The system enables varying risk levels – extreme, high, medium and low to be determined based on two parameters: the likelihood and impact of risk.

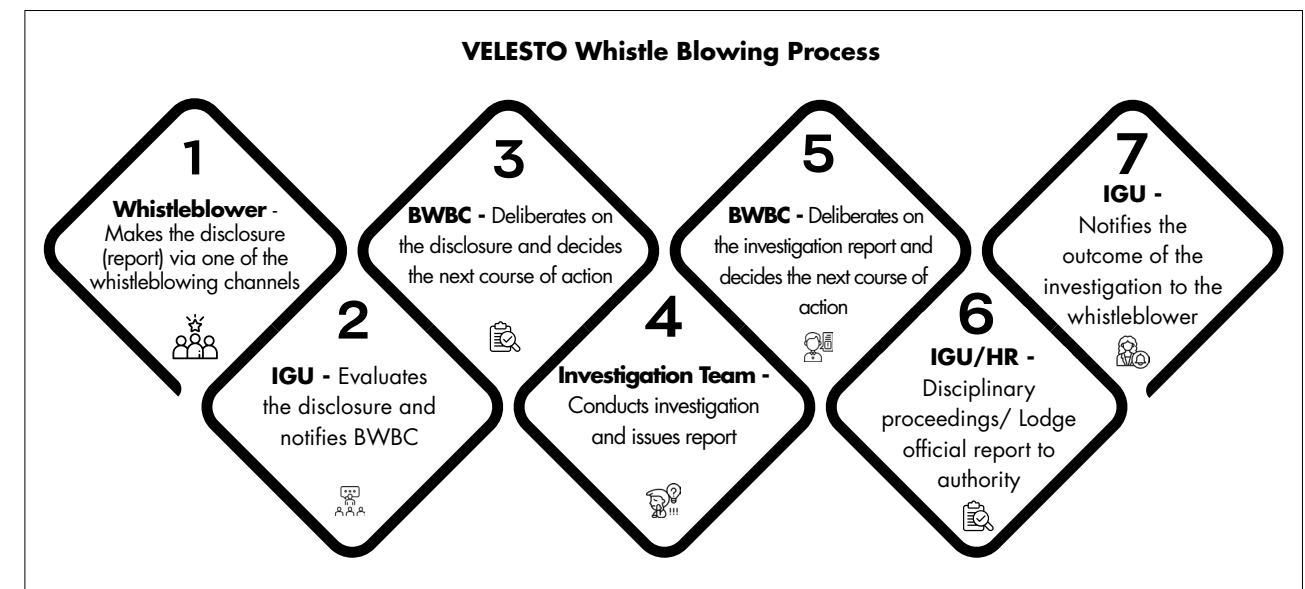
The corruption risk events will be assessed by the respective divisions/ departments and submitted to IGU on quarterly basis. Identified risk/ potential risk and Risk Action Plans ("RAPs") will be closely monitored and reviewed by IGU. In FY2021, we have conducted assessments on all divisions. Following which, risk action plans were identified to mitigate the risk events accordingly.

WHISTLEBLOWING MECHANISM

Since 2019, VELESTO has established its dedicated whistleblowing ("WB") mechanism and the whistle blower's identity and report will be protected as per the Whistleblowers Protection Act 2010.

The whistle blower is accorded immunity from any form of punitive action, intimidation or reprisal irrespective if the allegation is substantiated or proven to be unfounded provided that the report has been made in good faith. The whistle blower will be free of recrimination or reprisals and concerns of his/ her identity being divulged.

Reports can be made directly to the Head of IGU. Upon verification and notification to BWBC, the reports will be investigated by the IGU. If the reports are substantiated, appropriate actions will be taken on the offending party. This includes warnings, dismissals, and contract termination, or even reported to enforcement authorities such as MACC or the police for further action.



CASCADING THE ANTI-CORRUPTION AGENDA TO THE SUPPLY CHAIN

The Group also continues to reinforce the message of anti-corruption via specific supplier briefings.

One initiative championed by Group Procurement and IGU is the VELESTO ABC Online Training for External Parties. The programme is part of VELESTO's initiatives in combating corruption and embracing the T.R.U.S.T principles (Guidelines on Adequate Procedures).

In addition, VELESTO has established a standard pledge document and forwarded the VIP to VELESTO's approved vendors for their agreement and commitment since 2020. As at 6 December 2021, 67% of VELESTO Approved Vendors List have signed the VIP.

ENVIRONMENTAL AND SOCIAL GOVERNANCE OF THE SUPPLY CHAIN

VELESTO increasingly looks to cascade its sustainability goals and aspirations to its supply chain towards progressively driving a larger multiplier effect that will benefit the environment and society. Primarily assessment of vendors is conducted by evaluating if vendors have relevant sustainability policies such as policies on OHS, human rights, environmental performance, labour rights and others.

In addition, all tender and contract documents come with clauses that compel suppliers and vendors to abide by VELESTO's CoBE. All documents also state that VELESTO reserves right the right to take appropriate action including termination of services or reporting to the authorities in the event suppliers do not comply with the aforementioned.

Any supplier who scores below the desired quality scores will be asked by VELESTO to improve their quality levels and provided sufficient time to rectify weaknesses. If after such time, the supplier fails to address the identified weaknesses, said supplier will be removed from the vendor procurement list.

On average, about 20 physical inspection audits are conducted annually. In FY2021, there were no termination of suppliers for non-compliance.

STAKEHOLDER ENGAGEMENT

VELESTO has continued to prioritise stakeholder engagement, more so during the COVID-19 pandemic period. Consistent, two-way engagement is essential in ensuring that the Group remains aligned to the concerns and aspirations of its many and diverse stakeholder groups. This ensures that value creation, both financial and non-financial values continue to be viewed from an inclusive perspective.

Stakeholder engagement is also essential towards developing a comprehensive understanding of the Group's material topics. Beyond the view of the Board and Management, it is vital to also understand what the most material concerns are, aspirations and needs of stakeholders and thereafter, incorporating these into the materiality assessment process and overall management approach to sustainability.

Stakeholders are defined as individuals or groups that are impacted or may be potentially impacted by VELESTO's business presence and activities, or have the potential to impact or influence VELESTO's operational and/or financial performance as well as overall corporate reputation and perception.

Given that VELESTO's business model and operations as a drilling services and oilfield services provider has not changed in FY2021, the Group's stakeholder engagement activities are comparatively similar to the previous financial year.

STAKEHOLDER ENGAGEMENT

METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES / OUTCOMES
SHAREHOLDERS AND INVESTORS		
<ul style="list-style-type: none"> Analyst Briefing Annual General Meeting Annual Report Investor Briefing Announcements of corporate developments to BURSA Quarterly announcements of financial results to BURSA One-on-one meeting Updates on Investor Relations page on VELESTO's website Press Release 	<ul style="list-style-type: none"> 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 Release distributed to the media 	<ul style="list-style-type: none"> More positive coverage by analysts and media Maintained share price performance Compliance with MMLR
PETRONAS AND OTHER OIL COMPANIES		
<ul style="list-style-type: none"> Management engagement Customer feedback exercises Frequent rig/office visits Formal meetings Email queries Trade shows and exhibitions 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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
GOVERNMENT/REGULATORS/AGENCIES		
<ul style="list-style-type: none"> Annual/periodical compliance as per relevant laws and regulations Management engagement Formal and informal meetings Written and email communications 	<ul style="list-style-type: none"> Compliance to regulatory requirements Feedback on impact of policies Explore areas of mutual support from government initiatives 	<ul style="list-style-type: none"> Mutual understanding on compliance requirements and adherence Participation in initiatives/programmes Clarification on regulations Appeal or concession, if required

Sustainability Statement

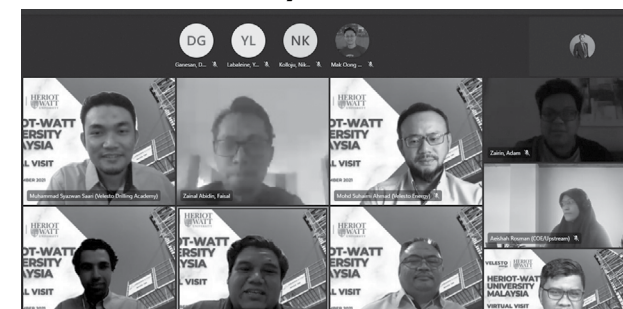
METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES / OUTCOMES
EMPLOYEES		
<ul style="list-style-type: none"> Townhall sessions Festive celebrations Internal communications emails Employee excursions/ events Management Health, Safety, and the Environment ("HSE") walkabouts Lunch with President session Talent Management Roadshow & Workshop Reskilling & Upskilling Roadshow Virtual 'Teh Tarik' Session with President HR-RIG Engagement Session 	<ul style="list-style-type: none"> Quarterly updates by the President on the position and status of 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-life balance HSE Observation Card ("HOC") winner 	<ul style="list-style-type: none"> Updated awareness on the Group Internal communications help ensure that all members of the organisation are kept up-to-date on the on-goings at VELESTO Promote safety awareness at the workplace
FINANCIAL INSTITUTIONS		
<ul style="list-style-type: none"> Annual Report Analyst Briefing Annual General Meeting Regular engagement, conference call and periodic update Site/rig visits 	<ul style="list-style-type: none"> Liquidity and investment management Financial risk management Regulatory and debt covenants compliances 	<ul style="list-style-type: none"> 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
COMMUNITIES		
<ul style="list-style-type: none"> Corporate Social Responsibility ("CSR") 	<ul style="list-style-type: none"> Implementation of VELESTO's three main CSR pillars (safety, education and environment) at selected partners/schools/communities 	<ul style="list-style-type: none"> Improvement/betterment of the participating stakeholders' understanding on safety, improved education experiences and results, and improved/better understanding of the environment

Sustainability Statement

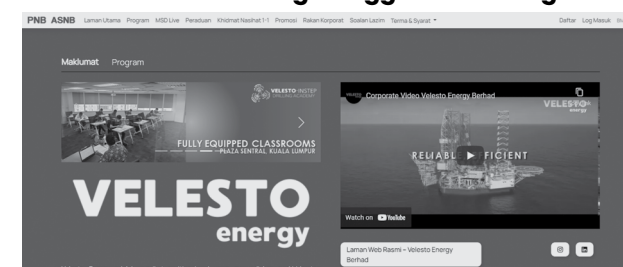
METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES / OUTCOMES
VENDORS		
<ul style="list-style-type: none"> Management engagement Vendor feedback exercise Office/site visits Site audits Document audits Formal meetings Email queries Trade shows and exhibitions Appointment of Vendor Development Programme ("VDPx") vendors 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Familiarising with vendor's capabilities Ensure VELESTO's requirements on HSE and CoBE are understood and delivered as required Negotiate 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 Ensure safety standards are upheld to prevent incidents at work site Ensure business dealings are dealt with according to VELESTO's core value Ensure vendors are technically sound and have robust HSE management systems and financial stability to carry out work seamlessly Ensure issues are resolved at the shortest possible time Continuous networking to promote local participation in VELESTO's procurement activities Actively promote local vendors to upskill and be more competitive in the international arena via VDPx initiative

Following were some of the major stakeholder engagements that VELESTO held or participated in during the financial year:

Heriot-Watt University Virtual Visit



VIDA Showcase during Minggu Saham Digital



DrillTEC – Enriching Local Talent & Company Group Discussion



DETERMINING MATERIALITY

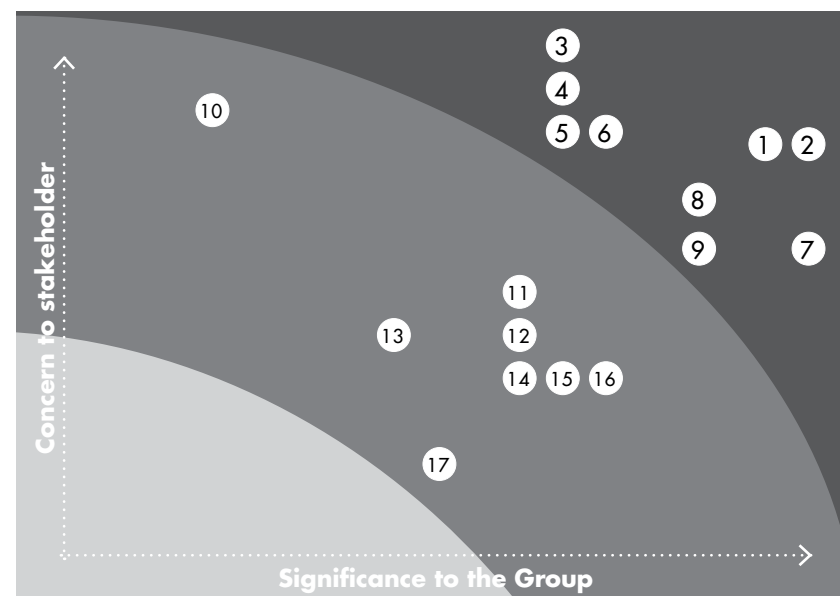
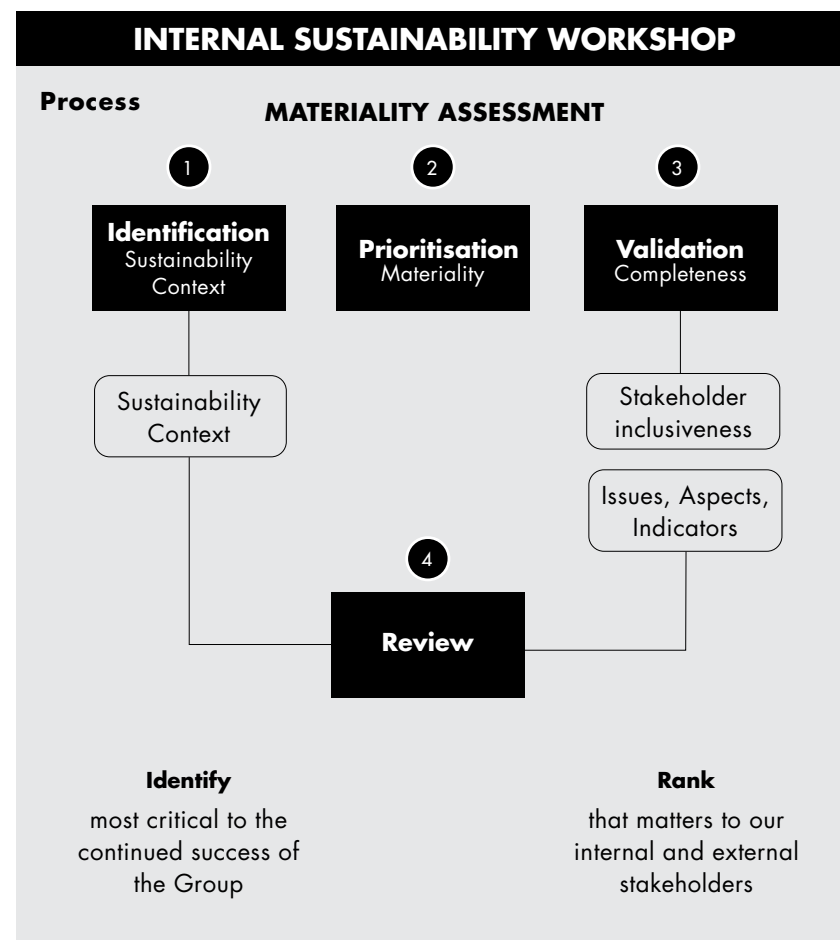
In FY2021, given the continued effects of COVID-19 on the external operating landscape, VELESTO has continued to assess its materiality topics. The assessment process is guided by the focus areas of people development, environmental footprint, health and safety and corporate governance.

A universe of potential material topics is developed by drawing from the GRI Standards 2018, the FTSE4Good Index, TCFD, SASB, as well as typical topics associated with the upstream oil and gas sector.

The topics are further refined to the most relevant to VELESTO's business model and operations by the SWG and the SSC, with the final list of topics approved by the BRMC. Where possible, external validation is obtained from significant stakeholders.

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

Our key criterion for materiality prioritisation is based on impact or significance of a particular materiality matter to VELESTO and its stakeholders. Based on the prioritisation, VELESTO develops its materiality matrix for the financial year. The developed materiality matrix is shared with Senior Management and the Board for further deliberation and subsequently validation. Following is the FY2021 materiality matrix.



Economic Performance



ECONOMIC VALUES CREATED

Economic returns such as revenues and earnings are vital for any for-profit entity. Sustainable or improving financial performance is necessary for business growth and also to drive environmental and social performance.

Often significant reductions in energy consumption and emissions or for other environmental related measurements require new investments in technology, infrastructure and systems. These are typically funded by internally generated funds, of which the availability is determined by financial performance. The same applies for debt financing, where financiers would be more willing to invest only in profitable business operations.

VELESTO's financial performance is to a large extent, dependent on the operating conditions of the oil and gas sector. Given that FY2021 was a continued year of turbulence, low rig utilisation and charter rates, the Group's financial performance as per all upstream operators, were affected. The full details of VELESTO's financial performance are provided in the Chairman's Statement and Management Discussion and Analysis ("MD&A") and Financial Statements of this IAR2021.

Revenue

RM378

mil

(2020: RM547 mil)

EBITDA

RM21

mil

(2020: RM293 mil)

Loss After Tax

(RM91)

mil

(2020: -RM492 mil)

Loss Per Share

(1.11)

sen (*)

(2020: -5.99 sen)

Despite turbulent operating conditions, VELESTO has continued to generate and distribute a wide range of economic values for stakeholders as provided:

Purchases from Local Suppliers

RM190

mil

(2020: RM120 mil)

Taxes Paid to the Government

RM20

mil

(2020: RM10 mil)

Employees Salaries and Benefits

RM117

mil

(2020: RM118 mil)

Debt Repayment and Interest to Financiers

RM547

mil

(2020: RM295 mil)



VALUE GENERATED FOR COMMUNITIES

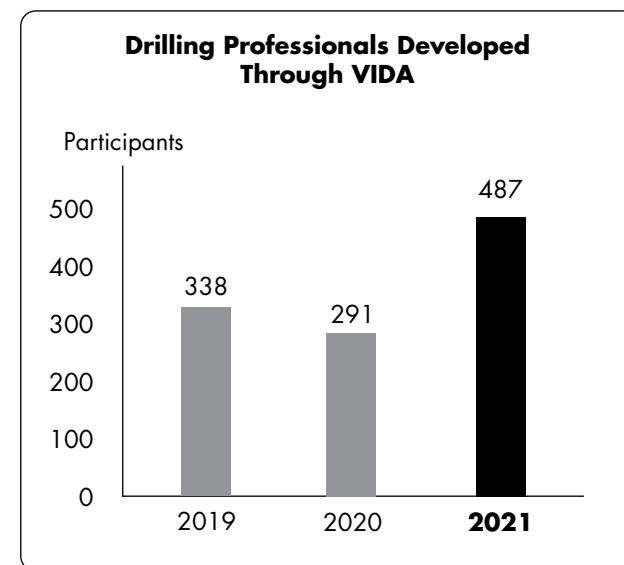
At all locations where the Group operates, VELESTO has directly or indirectly enabled the development of local business and employment opportunities, notably through local procurement (i.e. transportation, accommodation, logistics, food and beverage and others).

One of VELESTO's most significant contributions to local infrastructure is its participation in the VIDA. Now in its eight year, VELESTO's ardent support to VIDA has enabled the development of professionally qualified, local as well as foreign drilling professionals for the oil and gas sector.

VIDA has and continues to be effective in addressing the talent needs of both the oil and gas sector while contributing to national aspirations of developing a highly-skilled talent pool who can secure higher incomes; which is essential towards elevating Malaysia into a high-income per capita nation.

Through VIDA, students enrolled in the UTP MSc Drilling Engineering programme will be able to participate in the IWCF Well Control Level 4 Combined Subsea & Surface course as well as the Well Construction with Land Rig Hands-On Practice Workshop conducted by VIDA at Institut Teknologi Petroleum PETRONAS, Terengganu.

At the same time, VELESTO's subject matter experts were appointed as a visiting lecturer for Well Construction. This collaboration is intended to prepare UTP graduates for professional certification and exposure to drilling operations following their completion of the programme.



LOCAL PROCUREMENT LOCAL SUPPLY CHAINS

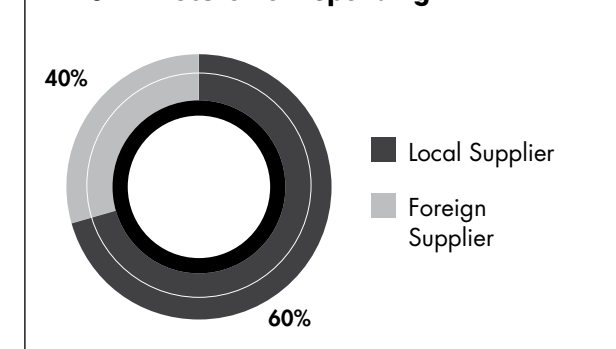
VELESTO's preference is for local suppliers unless the required goods or services are unavailable locally or cannot be procured at a competitive pricing. As much as possible, the Group continues to adopt a Local First policy for all purchases.

Benefits of local procurement include reduced environmental footprint due to less transportation requirements compared to imported goods and services, the creation of jobs for the local community, including highly skilled specialised professions, knowledge and skills development and transfer, development of local entrepreneurs and various other socio-economic multiplier effects.

VELESTO's support of local supply chains is clearly reflected via its support as an anchor partner of the PETRONAS Vendor Development Programme ("VDPx"). Based on its business requirements, VELESTO has identified the following specialty areas for the development of local suppliers: Topside Medic Support Services, Logistics & Forwarding Services Offshore Catering Services and Offshore Manpower Services.

VELESTO adopts an open tender policy, where all eligible vendors may bid for contracts. Contracts are awarded based purely on merit; that is the best value proposition offered based on costs, quality, OHS track record, any fines or censures from regulatory authorities and other factors.

FY2021 Procurement Spending



COMPREHENSIVE SUPPLY CHAIN MANAGEMENT PROCESS

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

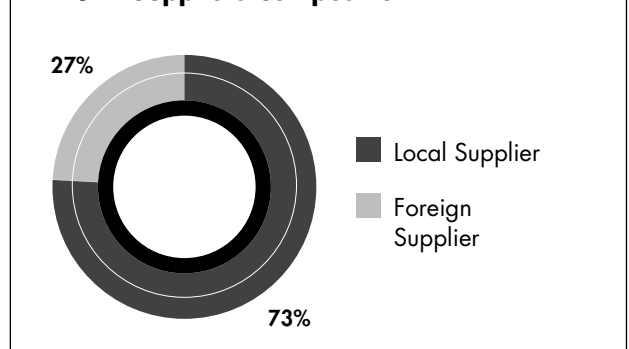
SUPPLIER DEVELOPMENT STRATEGY

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

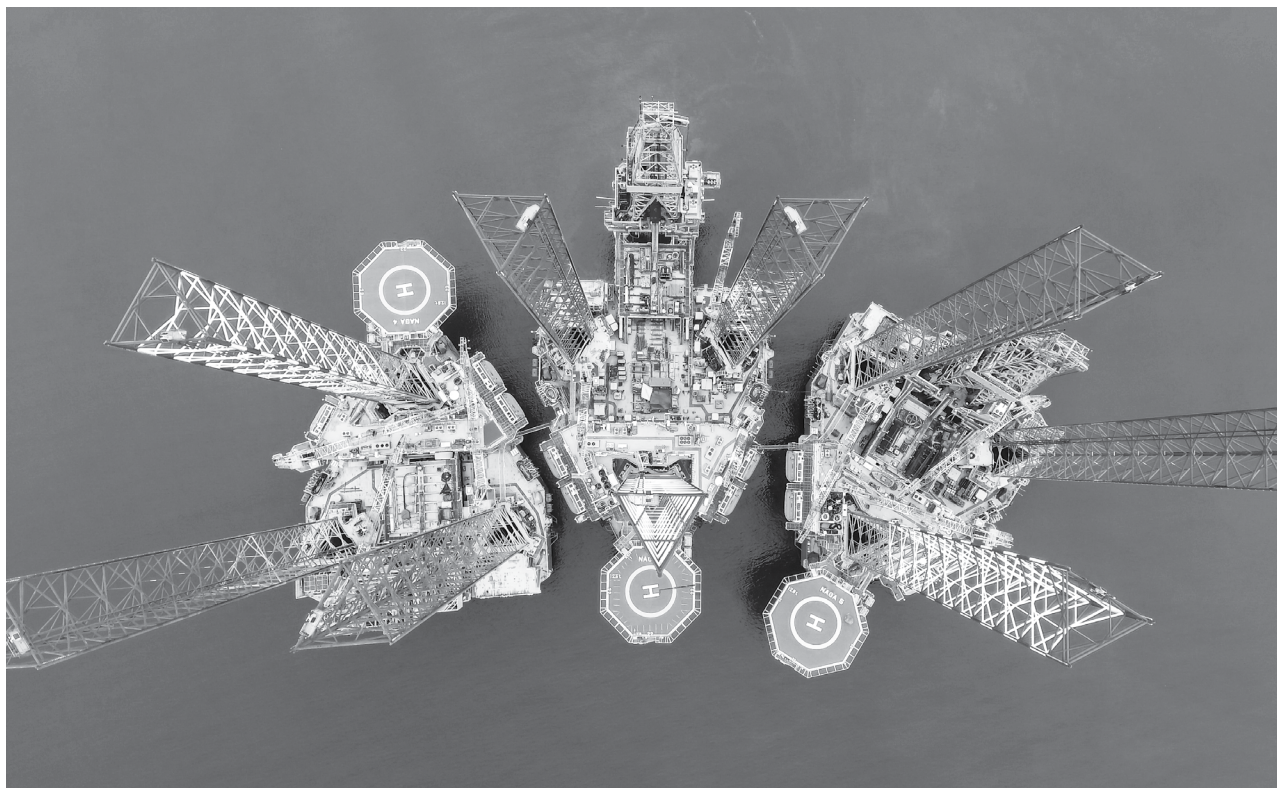
LONG TERM SUPPLIER PARTNERSHIP

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

FY2021 Suppliers Composition



Environmental Performance



In FY2021, VELESTO has continued to focus on improving its environmental footprint. Improvements are measured based on the following:

- Reduction in energy, water and resource consumption
- Improvement in energy and emissions intensity
- Reduction in waste produced.

The Group has chosen to align its disclosures with SASB recommendations in addition to existing GRI and FTSE4 Good requirements.

The Board and Senior Management maintains oversight on all material environmental topics. These include climate change and GHG emissions, energy and water consumption and waste production and disposal. We will gradually increase our disclosures in the areas of Governance, Risk Management, Strategy, Metrics and targets over the next three to five years. Ultimately, improvements in environmental performance supports medium to long-term value creation, including revenues and profits.

VELESTO's approach to managing environmental impact is also based on industry best practices as mandated by MARPOL, PETRONAS, and other industry best practices. All of VELESTO's sites have adopted the ISO 14001:2015 certification.

CLIMATE CHANGE AND EMISSIONS

In recent years, the impacts of climate change have become more severe and frequent. Rising ambient temperatures, affected weather patterns, water scarcity, biodiversity loss, increased severity of natural disasters, these are just some of the impacts attributed to climate change.

In particular, the consumption of hydrocarbons as a source of energy has been a key contributory factor to rising GHG emissions including carbon emissions, that have led to the present levels of danger and seriousness in terms of climate change and global warming impacts.

As such, the world's energy industry including the oil and gas sector has been identified as requiring a "major reset"; by transitioning towards carbon neutrality by producing cleaner, greener alternatives as opposed to hydrocarbons.

FY2021's COP26 Summit has outlined a clear path towards reversing the present trend, premised on a goal of carbon neutrality by 2050.

Veleso And Carbon Neutrality

It must be mentioned that while the consumption of oil and gas is a contributor to carbon and other GHG emissions, natural gas has an important role to play as a transition fuel, as it has a lower intensity than other carbon fuels. In addition, the process of exploration, development and production itself is differentiated in terms of intensive in carbon emissions.

As a contractor, we do not own or trade in carbon fuels – as such, we are not directly responsible for the emissions arising from the resources we help to discover or produce, or the emissions from our client's operations. However, we do have a role to reduce the emissions from our own operations, which will in turn support our clients in reducing their Scope 3 Supply Chain emissions.

Most, if not all drilling operators including VELESTO, comply with International Convention for the Prevention of Pollution from Ships ("MARPOL") standards that mandate efficient production methods and energy usage, no environment spills, environmentally friendly waste disposal and zero contamination of the environment.

However, VELESTO believes that regardless of its present performance, it can do more towards reducing its environmental footprint and achieving greater efficiency. For its part, VELESTO has been actively monitoring the potential and actual contribution to climate change. Primarily, the Group's efforts will be to reduce our consumption of fossil fuels i.e. diesel to operate its rigs and the resulting emissions released.

In terms of emissions reduction targets, VELESTO has set a goal to reduce its operating days emissions intensity by 10% and revenue emissions intensity by 30% between 2021 and 2030. By using an emissions intensity approach, the Group's environmental performance will not be as badly affected by the cyclical nature of our business operations, where fleet utilisation historically can fluctuate significantly. The targets are to be achieved from the continued implementation of energy efficiency measures, topline growth by increasing scope of our services from existing asset and the possibility of future investments that are less carbon intensive.

The Board and Senior Managements' aspirations to set more ambitious reduction targets are dependent on a sustained recovery in the oil and gas sector, which will enable improved financial results that in turn allow VELESTO to undertake the substantial CAPEX and investments required to drive larger cuts in emissions. As the Group returns to a more robust financial position, supported by a strong balance sheet, its present targets will be reviewed accordingly.

Environmental Performance

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

Our attention on addressing emissions from operations is based on the contributory effects of said emissions to climate changes and other environmental impacts. At present, the Group's emission levels comply with regulatory standards.

Board Oversight on Climate Changes and Acknowledgement of Related Risks

The Board and Senior Management have started to acknowledge the physical and transitional risks brought on by climate change, which are being assessed under the Group's risk management framework. We have included climate change elements as a root cause to certain risk events in the Group's Risk assessment process in FY2021.

Action To Address Climate Change

As a service provider in the oil and gas industry, VELESTO adopts all practical measures to ensure the types of fuel used in diesel engines on rigs produces lower amounts of carbon dioxide ("CO₂"). This corresponds with the Paris Agreement and the Kyoto Protocol of the United Nations Framework on Climate Change ("UNFCCC"). The UNFCCC encourages reduction in CO₂ emission where Malaysia is one of the Non-Annex 1 parties for both commitment periods (2008-2012 and 2013-2020).

As prior mentioned, VELESTO's primary contributors to carbon emissions is consumption of diesel (Scope 1) to operate its rigs. Electricity sourced from the national grid (Scope 2 emissions) is also consumed to power the Kemaman and Labuan supply bases and VELESTO's Headquarters in Kuala Lumpur.

The Group's management approach is driven by its Rig Power Management System ("RPMS"). Essentially, the RPMS provides each rig with five diesel powered generators with the biggest power consumer being the mud pumps followed by the Top Drive System ("TDS") and the Draw works. Fuel source consumed is diesel fuel.

The RPMS can detect when the rig equipment requires a lower power load and with that, automatically shuts or slows the engine(s) down. This enables more efficient use of energy for drilling activities.

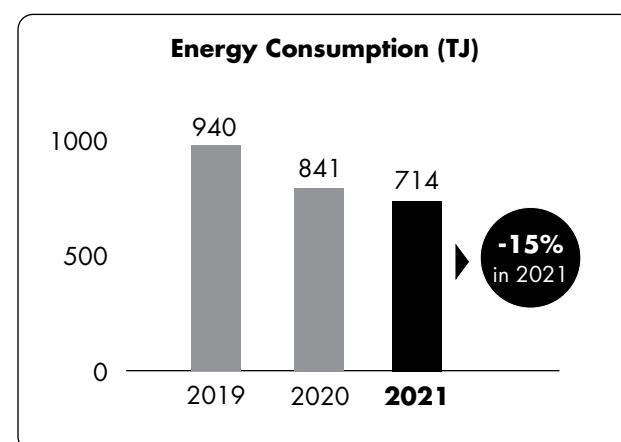
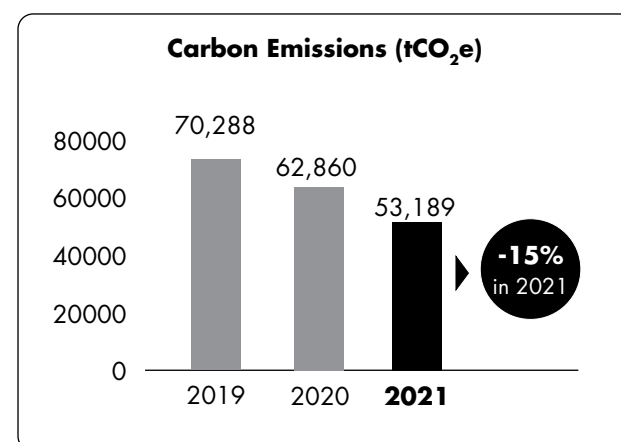
External Collaboration and Engagements in Addressing Climate Change

In FY2021, VELESTO collaborated with MPRC and MOGSC to promote the adoption of more sustainable practices among Oil & Gas services and equipment players. President, En. Rohaizad Darus took the lead by speaking at several industry engagements and events.

Further strengthening its collaborations with associations, on 2 June 2021, VELESTO became a member of UNGC.

Energy and Carbon Emissions Data

All GHG data and calculations are based on the World Resources Institute's GHG Protocol, Intergovernmental Panel on Climate Change's Emission Factors and ISO14064-1. Following are the Group's total emissions based on Scope One and Two sources in metric ton of carbon dioxide equivalent ("tCO₂e"):



Other GHG Emissions

In addition to carbon emissions, VELESTO in FY2021 has reported on other GHG emissions beyond carbon. All emissions comply with the regulations set out by the DOE of Malaysia.

EMISSIONS	METRIC	FY2021
Energy Emission (Diesel)-CH ₄	tCO ₂ eq	60
Energy Emission (Diesel)-N ₂ O	tCO ₂ eq	113

For FY2021, VELESTO has included the following ratios to reflect the Group's energy, emissions and resource efficiency as measured against financial performance:

FINANCIAL YEAR	2019	2020	2021
Revenue (RM mil)	671	547	378
Utilisation (%)	80	66	48
Operating Days	2,044	1,683	1,110
Carbon Emissions (tCO ₂ e)	70,288	62,860	53,189
Carbon emissions intensity (tCO ₂ e / Operating Days)	34.4	37.4	47.9
Carbon emissions intensity (tCO ₂ e / Revenue - RM mil)	104.8	114.9	140.9

The higher carbon emissions intensity by revenue in 2021 reflects the lower utilisation during the year.

By setting a 10% Operating Days emissions intensity reduction goal, we aim to reduce our emissions intensity from 47.9 tCO₂e per operating day to not more than 43.1 tCO₂e per operating day by 2030.

Likewise, a 30% Revenue emissions intensity reduction will require us to reduce emissions from 140.9 tCO₂e per RM mil to not more than 98.6 tCO₂e per RM mil in Group revenue.

WATER CONSUMPTION AND MANAGEMENT

The consumption of water is regarded as of being less material compared to other topics as VELESTO utilises mostly seawater for its rig operations. VELESTO does not have any operations in proximity with fresh-water bodies or water catchment areas and hence has no material impact on water security.

Seawater is available in abundance and the use of such water does not affect local communities as the rigs are mostly located far out at sea, hundreds of kilometres away from fishing villages and seaside communities.

The abundance of seawater also means that water is not being sourced from a water stressed location. About 60%-70% of seawater withdrawn is used for non-potable applications such as flushing and drilling. The remainder is filtered and distilled via reverse osmosis for potable consumption (for the crew). On some of our rigs, besides seawater, rainwater and recycled water (sourced onshore) are used. Potable water is also consumed at the Group's onshore operational sites.

The only potential risk is the disposal of wastewater, the accidental spillage of untreated effluents into seawater. VELESTO treats all wastewater in accordance to Annex IV of MARPOL 73/78 prior to being discharged into the sea. For FY2021, VELESTO has complied with all regulatory requirements. The Group has seen zero fines, warnings or censures for non-compliance for wastewater discharge in FY2021.

The reverse osmosis of seawater effectively means that VELESTO practically has a limitless water source. However, the distillation/reverse osmosis process does consume energy, which leads to increased consumption of fuel and inevitably increased emissions.

On all rigs, efforts are made to consume water efficiently. This includes various water saving features built into rigs and also constant awareness and education campaigns to remind offshore crew to conserve water.

Environmental Performance

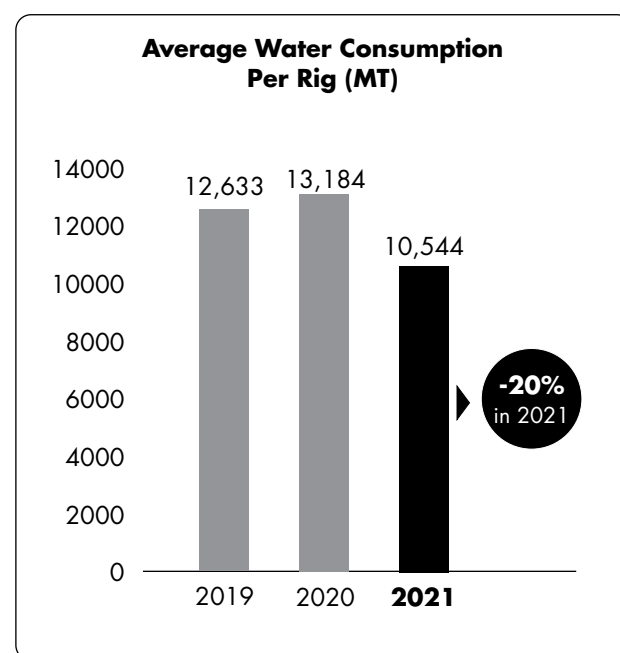
Efforts to Reduce Water Consumption/ Increase Efficiency

VELESTO's focus is to progressively reduce water sourced from onshore sources and ultimately become 100% reliant on seawater and rainwater harvesting.

However, any increased usage of seawater is likely to increase energy consumption. Hence, the preference is to increasingly tap rainwater while using more environmentally fuel sources for energy. It is possible that the usage of solar to partially power rigs may be adopted if proven commercially and operationally effective.

Water Consumption Data

Similar to energy consumption, 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.



WASTEWATER

In line with Annex 1 of 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.

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

WASTE MANAGEMENT

Waste management disclosures are scoped to our rig operations. In accordance with MARPOL 73/78, our offshore drilling platforms adhere to a dedicated waste management plan to ensure all types of waste are disposed in an environmentally friendly manner.

Licensed third-party contractors are used for waste disposal. All contractors are approved by the DOE. Waste produced from oilfield services, is disposed of accordingly to the standards set by DOE's Environmental, Quality (Schedule Waste) Regulation 2005.

Waste is managed according to the Group's stringent process and procedures which comply with DOE's regulatory standards as well as industry best practices.

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

ENVIRONMENTAL SPILLS

As prior mentioned, VELESTO has recorded one major spills in FY2021. VELESTO's rigs comply with Annex 1 of MARPOL.

In addition, our fleet is certified by regulatory bodies such as ABS and 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 continues to monitor environmental incidents as part of its monthly HSE performance reporting system. VELESTO categorises environmental spills into minor and major spills. Minor spills are defined as spills with less than, or equal to 800 litres of spillage while major spills are identified as spillages amounting to 800 litres or more.

FINANCIAL YEAR	2019	2020	2021
Major Spills	0	0	1
Minor Spills	8	0	0

None of the spills above had a material impact on the environment.

BIODIVERSITY

VELESTO relies on the Environmental Impact Assessments ("EIA") provided by clients to ascertain if its operations are in areas of high biodiversity value or in habitats for rare and endangered species including flora and fauna listed on the IUCN Red List of Threatened Species. EIAs are conducted by clients prior to any drilling activities.

Thus far, all EIAs show that the Group's rigs and HWUs are not operating at sites deemed to be biodiverse. The Group takes all precautions, as stipulated under MARPOL and DOE regulations to ensure all effluents are within permissible limits and as such, do not harm physical environments.

The Group also places its rigs in coral free areas so as to not disturb any aquatic habitats. This is achieved by referring to seabed survey reports provided by clients. These reports indicate seabed conditions which are then referenced to determine positioning of rigs.

The Group's operations do not impede the pathways of migratory species such as turtles and other marine life. Given that all EIAs have indicated no biodiversity concerns, VELESTO has not conducted any biodiversity audits in its area of operations.

All JUs are situated away from the traditional fishing areas of local fishermen. Hence, fish populations are also not disturbed by the presence of rigs.

VELESTO is also of the view that it can play a role in biodiversity conservation by mitigating its carbon footprint. That is, reducing emissions and energy consumption, as well as consumption of other resources.

However, beyond its operations, VELESTO is exploring areas of collaboration with NGOs, academic institutions and other bodies to support various biodiversity initiatives and programmes. This includes research studies and more. VELESTO's involvement is driven purely that as a responsible corporate organisation, it can contribute to the ongoing efforts to reverse biodiversity loss, which continues to be evident at alarming rates.

The importance of preserving and conserving biodiversity is evident given that biodiversity is intrinsically linked to food security, tourism, safeguarding traditional way of life and livelihoods and maintaining healthy ecosystems.

DECOMMISSIONING

VELESTO is participating in Plug and Abandonment ("P&A") decommissioning activities and is cognisant that decommissioning activities, if not managed properly can result in significant environmental impacts. These impacts include spillages of crude oil that will result in environmental pollution.

Hence, the Group is committed to ensure safe and environmentally compliant decommissioning which VELESTO complies with the local and international conventions. We adhere to and require our contractors to follow the required guidelines as below:

- 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.
- DOE Environmental Guidelines for Decommissioning of Oil and Gas Facilities in Malaysia.

Environmental Performance

Social Performance



VELESTO's material social topics revolve primarily around two stakeholder groups, that is its workforce and the local community.

The focus on talent management is vital as the retention and development of a high-calibre, professional workforce is vital to value creation.

Hence, all aspects of talent management i.e. talent recruitment, retention, training and development and remuneration is given due consideration.

With regard to local communities, VELESTO is of the view that as a responsible corporate organisation, it is in a strategic position to create a wide range of positive values for local communities as well as society. Hence, the Group continues to support local community development.

Pertaining to human rights, VELESTO's concerns/ focus areas are as follows: Occupational Health & Safety; Workers Rights, Discrimination, Fair and Safe Work Conditions and impacts of pollution from business operations on local communities.

HUMAN RIGHTS
<ul style="list-style-type: none"> Businesses should support and respect the protection of internationally proclaimed human rights; and Ensure that they are not complicit in human rights abuses.
LABOUR
<ul style="list-style-type: none"> Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; The elimination of all forms of forced and compulsory labour; The effective abolition of child labour; and The elimination of discrimination in respect of employment and occupation.
ENVIRONMENT
<ul style="list-style-type: none"> Businesses should support a precautionary approach to environmental challenges; Undertake initiatives to promote greater environmental responsibility; and Encourage the development and diffusion of environmentally friendly technologies.
ANTI-CORRUPTION
<ul style="list-style-type: none"> Businesses should work against corruption in all its forms, including extortion and bribery.



TALENT MANAGEMENT

VELESTO is guided by basic human rights principles and the Malaysian Employment Act 1995 and all other relevant labour laws of Malaysia. The Group subscribes to the International Labour Organisation ("ILO") and the Universal Declaration of Human Rights and also the 10 Principles of UNGC as follows:

Principles of the UNGC:

- Human rights, labour, environment and anti-corruption
- UN Guiding Principles on Business and Human Rights
- International Labour Law
- Prohibiting child and forced labour
- Ensuring non-discrimination and equal opportunity
- Supporting a harassment-free and violence free workplace.
- Prohibiting retaliation or any form of physical and mental disciplinary practice
- Respecting worker's right to freedom of association
- Ensuring compliance with laws governing working hours and wages

Consistent with the aforementioned, VELESTO has instituted the following policies and procedures:

Procedure on Fatigue Management and Flexible Working Hours	Elimination of excessive working hours
Minimum Wage Order 2018	Compliance with minimum wage
Policy Statement on Human Rights and Labour Standards	Right to freedom of association/ collective bargaining
Policy Statement on Recruitment Management System Procedure ("MSP") and CoBE for both employees and vendors	Prevention of child or forced labour
	Written policies that address non-discrimination, the creation of an equal opportunity workplace, gender and ethnic diversity

VELESTO subscribes to the principle that all people have the right to enjoy their own culture, to practice their religion and to speak their language. This is reflected in the Group's HR policies and in the workplace environment.

For FY2021, VELESTO continues to uphold its track record for zero reported incidents of infringements of the rights of any persons, adult or child, nor any incidence of, forced or compulsory labour. Neither has there been any violation of human rights involving the rights of indigenous people at any time in VELESTO's history.



HUMAN RIGHTS DUE DILIGENCE ON THE SUPPLY CHAIN

VELESTO is against any form of child exploitation and modern slavery, including forced labour, debt bondage and human trafficking in its supply chain. All workers, including those employed by 3rd party contractors or sub-contractors must ensure their labour force are treated with dignity and work in safe conditions.

COLLECTIVE BARGAINING

As provided in its Human Rights Policy, VELESTO supports the right of employees and workers to collective bargaining. At the moment, employees and workers have not requested the formation of a union or any other body to bargain collectively or to represent their rights. However, the management recognises the rights of employees as stipulated by law.

FREEDOM OF ASSOCIATION

VELESTO recognises employees' right of freedom of association and the right of collective bargaining, both of which are part of the four core labour standards under the ILO and the Universal Declaration of Human Rights.

Social Performance

Employees are free to join, support or participate in any legal association, cultural society, professional body or political entity so long as such associations are not illegal i.e. involvement in outlawed groups.

MINIMUM NOTICE PERIODS

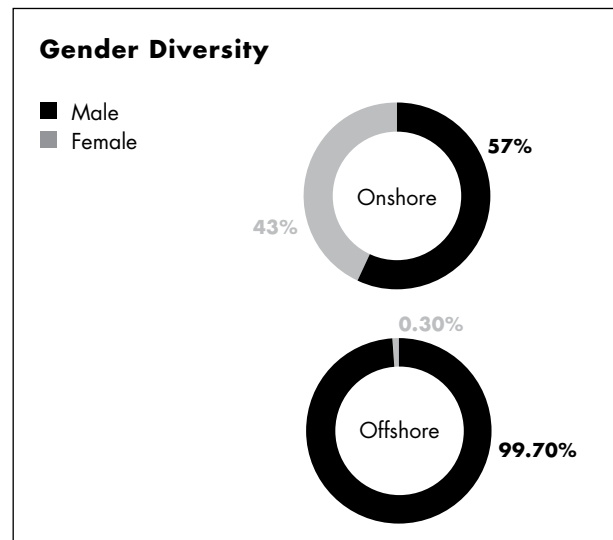
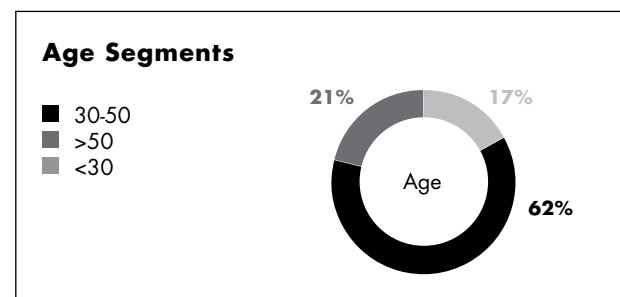
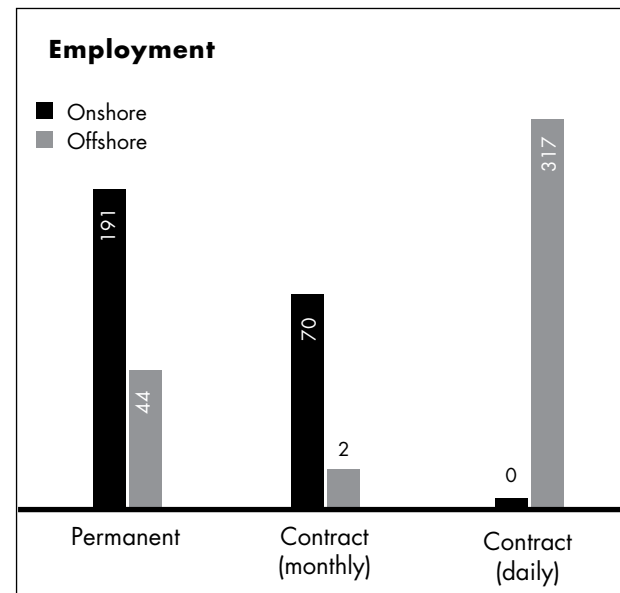
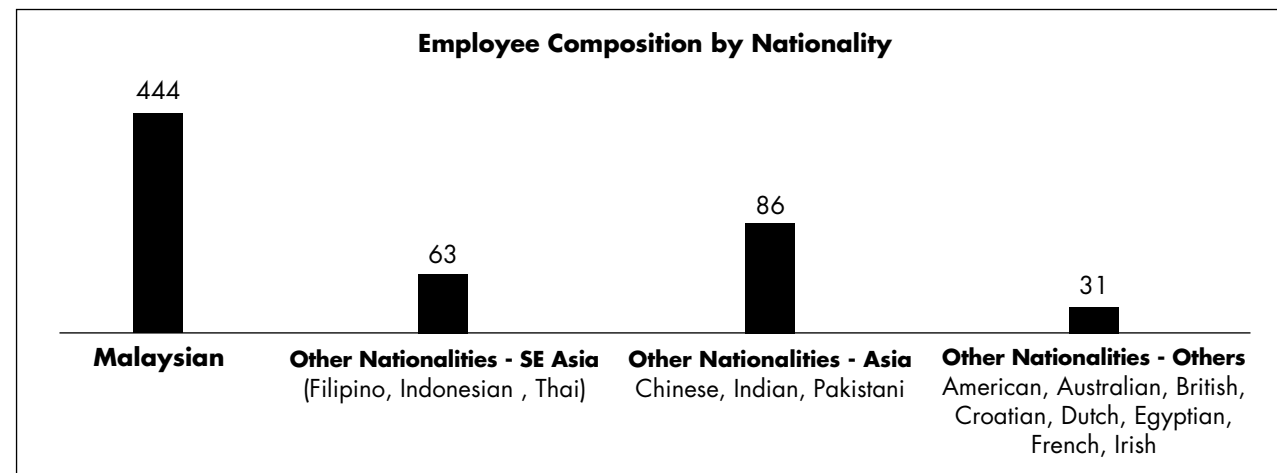
As much as possible, VELESTO strives to provide a minimum notice period for major operational changes. This is aimed at minimising any impacts arising from the change of duties, or work location. The exact notice period differs based on the specific change.

Employees are entitled to and are encouraged to seek further clarification or information regarding the change. Employees also have the right to voice any grievances or dissatisfaction arising from the change with their immediate superior or GHR.

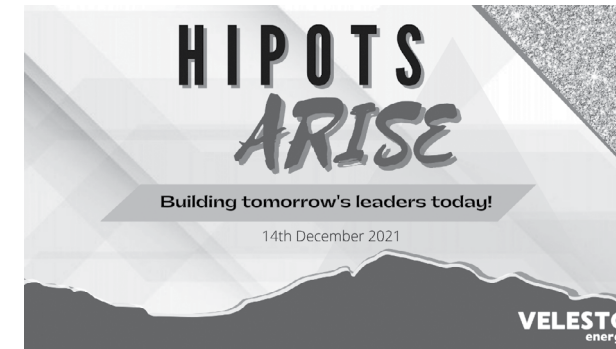
In FY2021, there were zero complaints received with regard to operational changes.

Other changes, such as changes to employees' benefits or any changes in employment conditions is conveyed to employees, one month prior to actual implementation. The one-month period provides sufficient time for employees to seek clarification or to voice their disagreements/ suggestions for improvement to the proposed change.

Social Performance



New Hires	
New Hires 2021	%
Malaysian	62%
Other Nationalities	38%
Total	100%



TALENT MANAGEMENT AND SUCCESSION PLANNING

Since the introduction of VELESTO's Talent Management Programme in 2020, the Group has identified 24 High Potentials Programme ("HiPots") who are talents that have been earmarked for fast-tracked career progression in the organisation.

The HiPots will be groomed to fill critical positions across the Group and the next echelon of leaders in VELESTO. HiPots have been grouped into two distinct talent pools - Future Leaders and Senior Leaders.

The Senior Leaders will be groomed for succession planning of critical positions. There are 64 critical positions that have been identified and career development plans ("CDP") already drawn up for each HiPots and critical positions in 2021.

The second is for Future Leaders, where a programme called mySTAR has been implemented to develop potential junior employees towards becoming the next future leaders, as senior leaders move up the organisational hierarchy to assume higher leadership roles.

The HiPots was launched virtually under the theme HiPots ARISE in December 2021, with the tagline "Building tomorrow's leaders today!".

Leadership Oversight On Talent Development

FY2021 saw the implementation of the VELESTO Talent Council ("VTC") which comprises Senior Management. The VTC was established to enable more strategic and comprehensive oversight on the material topic of talent management and development. VTC works closely with Human Resources ("HR") to establish the broad goals and strategies for talent management and provide HR with the necessary impetus and direction to address present talent gaps and challenges within the Group.

Social Performance



WORKFORCE COMPOSITION

VELESTO's workforce continues to reflect a multi-ethnic and multi-national composition from diverse backgrounds. Collectively, the men and women represent a mini-United Nations who bring to the Group a broad range of professional expertise, experience and capabilities.

The value of such diversity in the workforce is the ability to cultivate a high-performance culture based on meritorious performance, where a richness of ideas and perspectives can emerge. This supports innovative thinking and creativity.

The Board and Senior Management of VELESTO continue to actively encourage diversity based on ethnicity, gender and skills and experiences. The Group's Human Resources Policy strictly forbids any discrimination in the hiring, rewarding, remunerating of, and promotion and training of employees based on race, gender and religious background or any other socio-cultural and demographic factors. The same applies to compensation and benefits and employee communication.

All employees, or candidates for employment are judged purely on merit; that is their qualifications, experience and professional contributions and results achieved. The only exception is a group-wide preference to hire local talents as much as possible.

The Group does not intend to set any targets for gender diversity, preferring instead to focus on ensuring a fair talent recruitment process that enables qualified candidates to have an equal opportunity to apply for jobs.

40% of our Senior Management consist of women. The Board of Directors has three women directors, which exceeds the BURSA recommended composition of 30% of sitting directors on the Board to comprise women.

PROMOTING GENDER DIVERSITY VIA PARTICIPATION IN THE 30% CLUB

Of note, VELESTO has been an active participant of the Malaysian Chapter of the 30% Club, a special interest group formed to promote increased diversity, equity and inclusion ("DEI") of women in the Boards and Senior Management of public listed companies.

VELESTO's President has participated in a wide range of 30% Club activities. The direct involvement of the Group President attests to the commitment and seriousness of VELESTO in promoting greater participation of women in the highest levels of corporate Malaysia and within the oil and gas sector.

Aside from the Group, other key senior executives involved in 30% Club's activities are the Chief Commercial Officer and the Chief Financial Officer. The latter, in FY2021, participated in the Mentee Programme, towards developing future leaders.

PRACTICING GENDER EQUALITY FOR JOB RECRUITMENT, RETENTION, REWARDS AND PROMOTION

VELESTO provides both men and women equal opportunity to apply to any available job position with selection of candidates and appointment, dependent purely on merit. It remains committed to developing female talent for the oil and gas industry in Malaysia.

While the oil and gas sector has typically seen a disparity between the number of male and female employees, VELESTO has continued to promote an equal opportunity environment and to provide support to women looking to take on jobs within the industry. Notably, technical or offshore or field related jobs.

For its efforts, the Group has successfully developed several women talents in recent years. In terms of office related jobs, women comprise a significant portion of the workforce.

TALENT RECRUITMENT

The principles of equal opportunity, diversity and merit are applied to all aspects of the talent management process including recruitment. There is no preference or discrimination on the grounds of ethnicity, gender, age, marital status, disabilities, political affiliations and other socio-demographic factors. Though locals are given priority, foreigners may also apply for all advertised vacancies.

Most vacant employment positions are advertised through a wide range of channels to ensure as many candidates as possible can apply.

All new hires are briefed on their rights as an employee as provided for in the laws of the country. This includes labour and human rights and the Group policies on good governance such as CoBE and Company Policy & Procedures. New hires are also provided an induction session to enable them to acclimatise to their new work environment and organisational culture.

During this period, employees are given as much support and assistance possible to adjust to their jobs and new work environment.

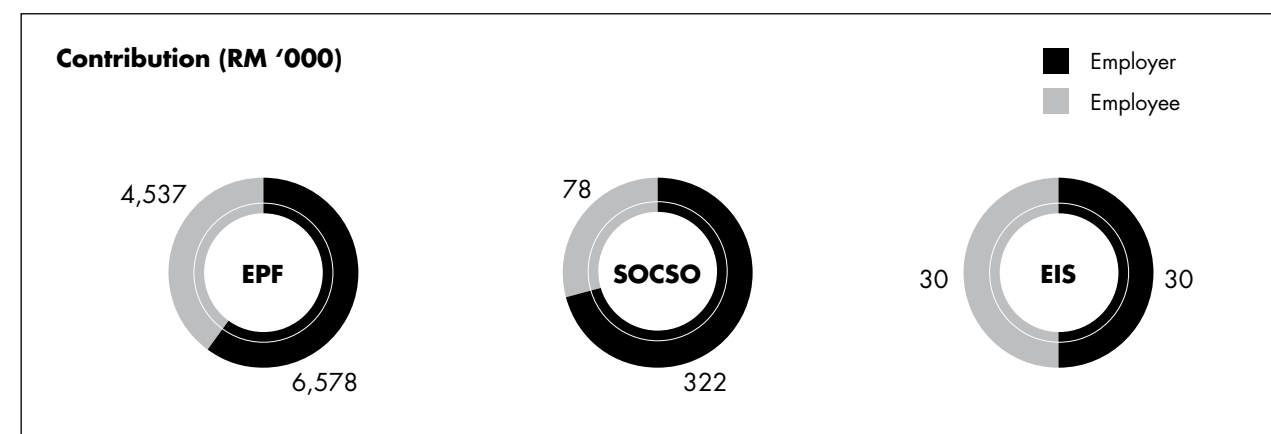
TRAINING AND DEVELOPMENT

Training and development are material to VELESTO as ensuring staff are equipped with the knowledge and skills to perform at optimum levels, is essential to achieving operational excellence and productivity.

Training and development are customised to the competency gaps and unique scenario of each individual. Their competency gaps are assessed during the annual appraisal process. A comprehensive personal development plan is developed for each employee involving HR, the individual employee and his/ her superiors. Subsequently, training Key Performance Indicators ("KPI") are established for the employee to meet, prior to the next appraisal. 100% of our employees are provided appraisals on an annual basis.

Training is paid for by the Group through its contribution to the Human Resources Development Fund ("HRDF"). Employees enjoy fully sponsored participation at professional courses, seminars, training programmes and more.

Apart from investing in external training partners, VELESTO has also identified 'subject matter experts' ("SME") who facilitate a number of soft skills or technical programs. This not only promotes knowledge sharing within the VELESTO community, but also contributes towards cost saving initiatives within the Group by tapping on our own staff capabilities.



TRAINING KPI	2019	2020	2021
Total Training Statistics Spend (RM mil)	6.0	1.2	5.0
Total Number of Training Programmes Attended by Employees	1,286	1,066	890
Average Training Spend Per Employee (RM'000)	5.0	1.2	8.0
Total Number of Training Days	5,401	1,458	935
Average Number of Training Days Per Employee	4.2	2.1	1.5

MECHANISMS TO ASSESS TRAINING EFFECTIVENESS

All trainings that employees attend are assessed for effectiveness. Post training assessment is conducted through digital Training Evaluation Forms distributed to participants. The forms assess a wide range of aspects including employees' satisfaction with the training, learning objectives and outcomes achieved and the ability to apply what has been learnt to the respective job.

RESKILLING AND UPSKILLING OPPORTUNITIES

In response to the sudden reversal or downturn in the oil and gas sector brought on by the COVID-19 pandemic, VELESTO has opted to retrain and upskill staff rather than to retrench personnel. In FY2021, 20 employees were reskilled to undertake different jobs within the organisation and, another 18 upskilled to occupy more technical roles or roles with greater management responsibilities.

Through upskilling, our employees' capabilities and potential are maximized as they grow their portfolio to take on additional roles & responsibilities to meet organisational demands.

**AZRINA SABTU**

Head, Risk Management and Senior Manager, Legal
Legal & Secretarial Division

“

I am the Senior Manager, Legal in the Legal, Secretarial and Risk Management division. As part of VELESTO's Upskilling & Reskilling programme, I was upskilled in 2021 to take on the additional role as Head of Risk Management.

In my role, risk assessment is part of the process in ensuring legal risks are highlighted when entering into an agreement. I am able to further expand my knowledge on how VELESTO manages its risks to realise its key objectives.

I am fortunate to have this opportunity as it allows me to realise that I can do more in my career as I expand my knowledge and experience.

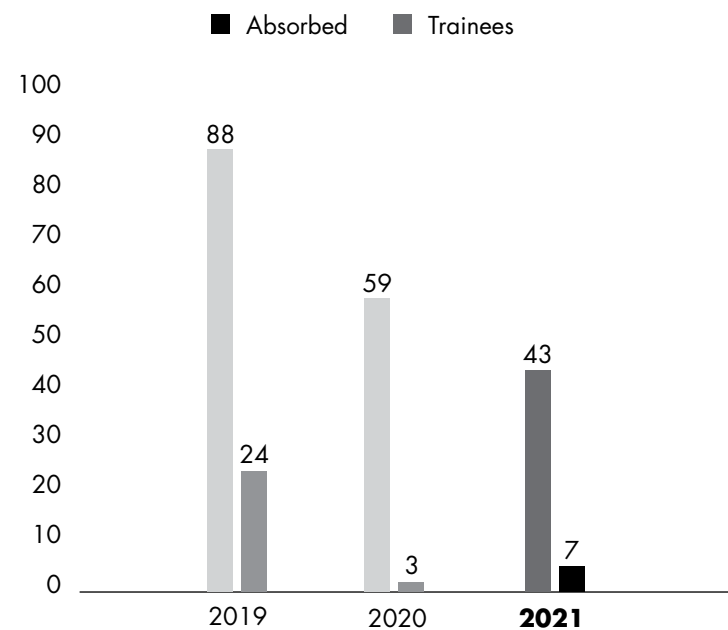
”

YOUTH UNEMPLOYMENT INITIATIVES, APPRENTICESHIPS OR GRADUATE PLACEMENTS

In FY2021, VELESTO continued to drive its VELESTO Trainee Scheme ("VTS"), subsequently rebranded to VTS Protégé RTW Programme, and internship programme.

The scheme provides unemployed youths, particularly local undergraduates first-hand exposure to work related to their chosen fields of study. It enables unemployed Malaysians to gain first-hand, work experience that will improve their employment prospects going forward.

VELESTO also provides full time employment to any VTS Protégé participants that shows good aptitude and potential. In FY2021, seven participants were absorbed by VELESTO to become full time employees.

VELESTO Trainee Scheme

COMPETITIVE REMUNERATION

VELESTO subscribes to the principle of equal work for equal pay. Remuneration, including bonuses, salary increments is determined on the principle of merit determined by the employee's work performance in the realisation of personal, Group and Company KPIs, seniority or tenure.

Other factors considered when determining remuneration include employee's skills and professional qualifications. The performance of employees is assessed during the aforementioned employee appraisal process, which is held at least once annually.



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.

INDUSTRY COMPETITIVE BENEFITS

Benefits accorded comprise both mandatory benefits as stipulated in the Employment Act 1955 of Malaysia and additional benefits provided at the volition of the Group. All full-time VELESTO employees are entitled to the following benefits:

- 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 Programme
- 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

PARENTAL LEAVE

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

TRAINING KPI	2019	2020	2021
Employees who took maternity leave	2	2	3
Return to Work Rates	100%	100%	100%

Social Performance

EMPLOYEE COMMUNICATION AND ENGAGEMENT

The Board and Senior Management continue to advocate transparent and timely communication with all employees. This is achieved through a wide range of physical and virtual communication channels that are used to ensure dissemination of information and to gauge employee sentiments and satisfaction.

In particular, the Group's committed approach to effective communication was instrumental in its management of issues and emergencies such as during the NAGA 7 incident and also during the ongoing COVID-19 pandemic. Constant two-way engagement enabled management to ensure employees were updated on developments or changes to company policies, SOPs as well as other matters pertinent to the pandemic.

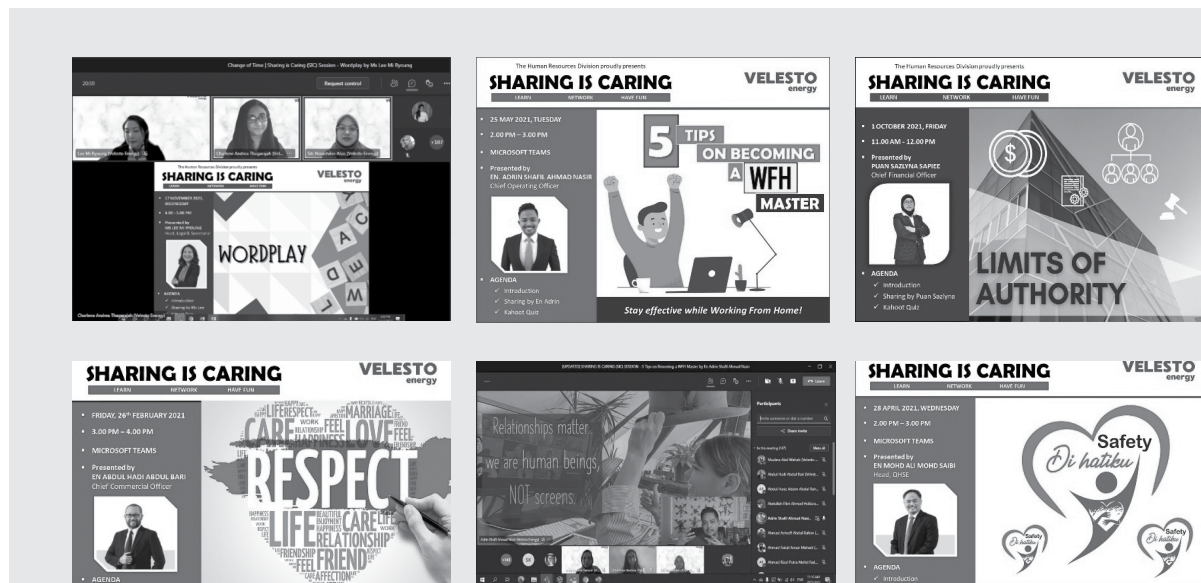
As part of its employee engagement, VELESTO initiates an annual Employee Engagement Survey ("EES"). For FY2021, the Group registered an employee satisfaction score of 79%. This is the 4th consecutive year that EES scores have been on the uptrend.

Following are some of the key employee communication channels and engagements initiated in FY2021:

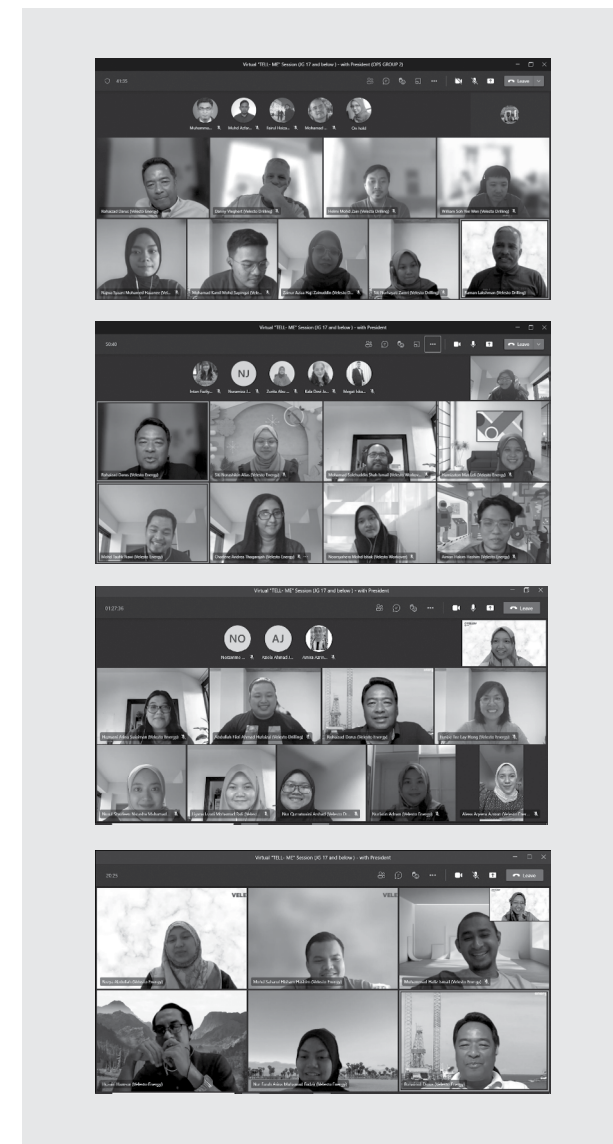
- Quarterly Townhalls



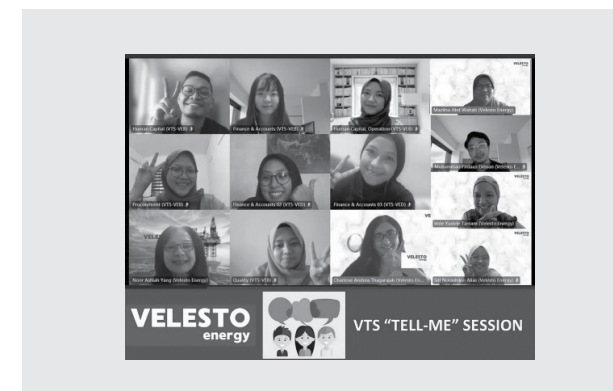
- Sharing-is-Caring knowledge sharing sessions by leaders



- Divisional Tell-Me sessions with President

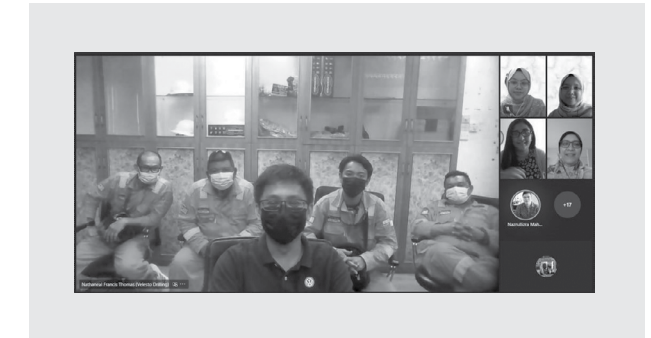


- Tell-Me sessions between HR & VTS Proteges



Social Performance

- Management Online site visits with offshore and supply base crew



- Meet the President engagement sessions for newly recruited staff

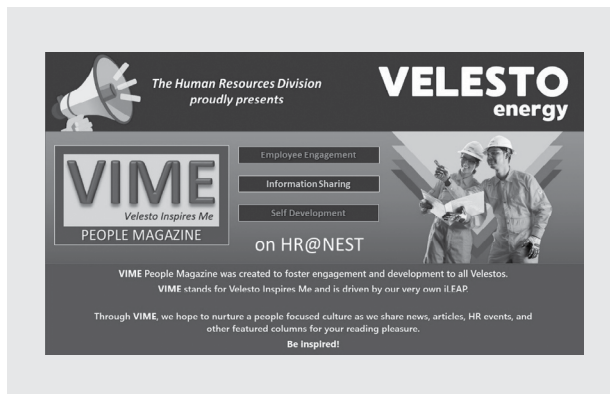


- Psychosocial Support Hotline – established during the heights of the COVID-19 pandemic to provide a counselling channel for employees.



Social Performance

- VELESTO Inspires Me ("VIME") People Magazine



TELL-ME SESSIONS

One of the key engagement channels in FY2021 was the Tell-Me Sessions between staff and Senior Management, including the President. In FY2021, the President fielded 13 Tell-Me sessions.

The Tell Me Sessions serve to provide employees opportunity to share their concerns directly to Senior Management and to elicit feedback/ responses on a wide range of issues. For Senior Management, the sessions serve as an excellent means to speak to all levels of employees and to feel the pulse and sentiment of working level employees.

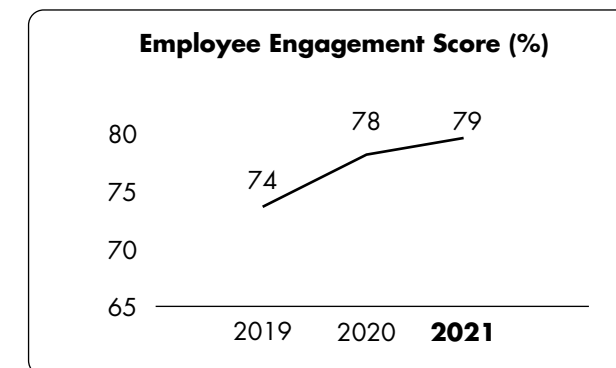
COVID-19 PREVENTION

VELESTO has continued to ensure a high level of vigilance and Standard Operating Procedure ("SOP") compliance with regard to preventing the spread of infections related to COVID-19. The task is indeed challenging given the need to take into account, quarantine measures, ensuring social distancing amidst tight working conditions, especially for offshore vessels while ensuring business continuity and continued optimum operational levels.

However, applying the many lessons and insights learnt in FY2020, the Group has continued to do the best of its abilities to safeguard staff and stakeholders from the pandemic. The Group had updated its Emergency Management Procedure with specific COVID-19 preparedness and response plans to ensure smooth and safe operations during the pandemic. Among the new and existing measures carried out in FY2021 were the following:

- Appointment of Health Advisor
- COVID-19 drills on all JU rigs
- Regular disinfection at various operational sites and office
- Provision of sufficient PPE and disinfection agent
- Regular swab test and temperature screening of employees
- Mandatory 14-day quarantine period for staff who have been infected or may have been in close contact
- Established transit centres for Quarantine Transit (Miri, Kemaman, Kota Bharu and Labuan)
- Special Day Rate for extended hitch and Meal Allowance for affected crew
- Earlier, more frequent Salary and cash advances
- Work From Home ("WFH") for all employees based in Kuala Lumpur headquarters during the Malaysian Movement Control Order ("MCO")
- Broadband lines and home internet reimbursement
- Online learning and development programmes
- Dedicated psychosocial line

Employee Engagement Score



We are proud that despite the challenging working environment during the year, the Group's Employee Engagement Score continued its upward trend, increasing to 79% in 2021.

HIRING AND RETAINING B40/ LOWER INCOME STAFF DURING COVID-19

The ongoing pandemic had led to many middle income or M40 households falling into B40 or lower-income level. In assisting such families, VELESTO invited all qualified applicants from B40 group to submit job applications online. The Group also organised a 3-day walk-in-interview from 1 until 3 December 2021 in Miri, Sarawak. Over 179 applications were received and two were hired for job positions across the Group.



CORPORATE SOCIAL RESPONSIBILITY

VELESTO continues to contribute to the development of local communities more so during the FY2021 pandemic year. As prior mentioned, the Group believes that it can contribute positively to local communities and therefore remains committed to playing a role in the betterment of society across several key aspects or pillars: education, community safety, community upliftment and the environment.

Following were the major community engagements undertaken in FY2021 with full compliance to government COVID-19 SOPs where relevant. Corporate Social Responsibility ("CSR") activities were organised via virtual mediums and also through physical events with the relaxation in restrictions, especially in the latter part of FY2021.

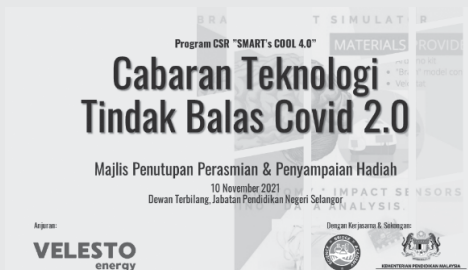
EDUCATION

FY2021 saw VELESTO continues its collaboration with Science Bridge Academy ("SBA") and Selangor State Education Department ("JPN Selangor") to organise the second edition of STEM-themed online competition - SMART's COOL: CABARAN TEKNOLOGI TINDAK BALAS COVID-19 2.0.

Building on the success of the previous year's competition, this year's edition saw the number of participating schools more than triple from 15 to 50.

The programme was given a special mention during the launch of Techlympics, a MOSTI event witnessed by Dato' Sri Dr Adham Baba, the current Minister of Science, Technology and Innovation.

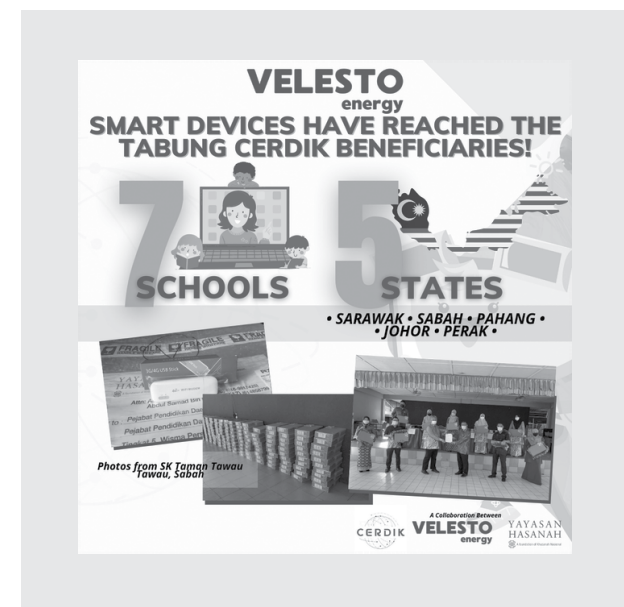
Social Performance



Separately, VELESTO participated in the CERDIK initiative as part of the PNB Group CSR programme. Jointly led by the Malaysian Ministry of Finance ("MOF") and Ministry of Education ("MOE"), the initiative aimed to provide tablets, laptops, and data connectivity to students from lower-income families across five states: Sabah, Sarawak, Pahang, Johor, and Perak.

Along with several other Government Linked Companies ("GLCs") and Government Linked Investment Companies ("GLICs"), VELESTO was proud to contribute towards a combined total of RM150 million in smart devices. These devices provided B40 families with access to digital tools to facilitate online learning, which was vital during the COVID-19 pandemic.

The programme ensures that schoolchildren from financially challenged backgrounds are not left behind and are able to continue their education during the pandemic.



ENVIRONMENT

A notable highlight is VELESTO's continued collaboration with Kloth Cares, a local NGO towards recycling textile waste. As part of the initiative, a designated recycling bin was placed outside VELESTO headquarters in Plaza Sentral where unwanted fabric items could be donated by the public. As of March 2022, more than 3,500kg was collected.



COMMUNITY

In promoting environmental awareness and enabling the media to gain a better understanding of present ESG trends and issues, VELESTO jointly organised an online workshop titled "Approaching and Writing on Sustainability" with the Malaysian Press Institute ("MPI"). The event was attended by various media houses and publications such as RTM, BERNAMA, and Sin Chew Daily.

The first half of the workshop was hosted by Joshua Rayan Communications ("JRC"), a leading Malaysian ESG Guidance and Advisory firm. JRC provided insights on how to approach and write about ESG topics. This included potential story angles, how to develop interview questions and how to read and understand sustainability reports and data.

The second half was facilitated by Edey Suresh, Director at the UN Global Compact Network Malaysia & Brunei ("UNGCMYB"). He provided an in-depth briefing of local and global sustainable development trends and concerns and role and purpose of the UNGCMYB and how companies can align themselves and support the UNSDGs.





OCCUPATIONAL HEALTH, SAFETY & ENVIRONMENT

In essence, OHS is the Group's license to operate. In the oil and gas sector, an impeccable OHS track record is a prerequisite to bid for jobs. From a business/ operational perspective, OHS is material to VELESTO as it is akin to a license to operate in the construction and property development industries.

Any OHS incident is likely to disrupt business operations which in turn impacts revenues. There may also be rectification costs. In addition, any OHS incident may also affect the Group's reputation and branding as a safe and reliable operator.

However, OHS is material to VELESTO as any injury or even fatality would be a tragedy that would affect families and society. The goal is for everyone to be able to work in a safe and secure environment confidently; to operate in environments in which they can produce their best quality work and to be productive and equally important, to be able to go home to their families and loved ones.

A strong OHS management system drives down compliance costs and reduces risks. A good OHS track record will ultimately translate into higher productivity, higher employee/ worker morale, stronger brand reputation, increased competitiveness when bidding for contracts, higher productivity and faster project completion and also reduced costs i.e. reduced need to replace damaged property and equipment.



OHS AT VELESTO: KEY FACTS AND FIGURES:

50% employee representation on OHS Committees.

OHS comes under the purview of the Board and Senior Management, including the Group President

Zero fatalities for the 4th consecutive year

In FY2021, VELESTO was recognised by clients for its excellent OHS performance through the following awards:

External Organizations Award

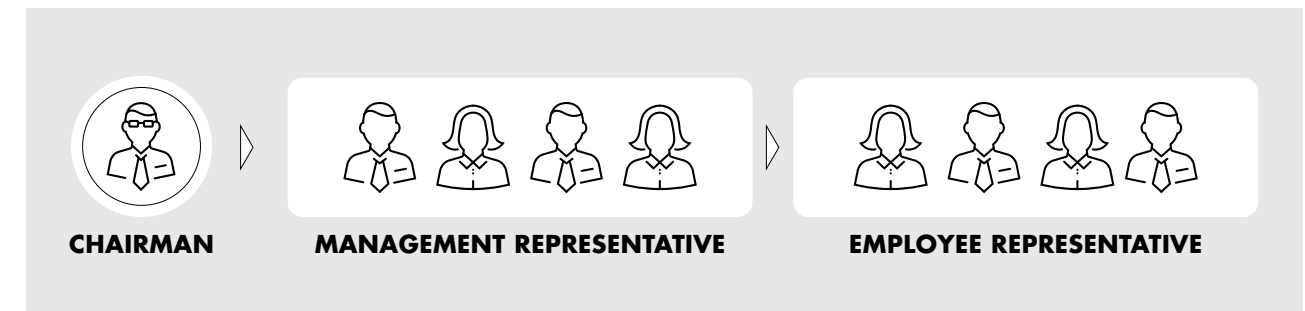
Malaysian Society for Occupational Safety and Health ("MSOSH")

Award : MSOSH OSH GOLD CLASS 1 AWARD WINNER FOR 2021

Category : Petroleum, Gas, Petrochemical & Allied Sectors



MANAGEMENT APPROACH TO OHS



VELESTO's QHSE management approach is driven by globally recognised best practices such as ISO45001:2018, ISO14001:2015, ISO9001:2015 and ISO29001:2020.

The Group has developed a comprehensive OHS policy that provides the basis for continued proliferation of a OHS First mindset across the Group. The policy meets present regulatory requirements but also extends further towards realising OHS operational excellence and the safest possible work conditions for employees and workers.



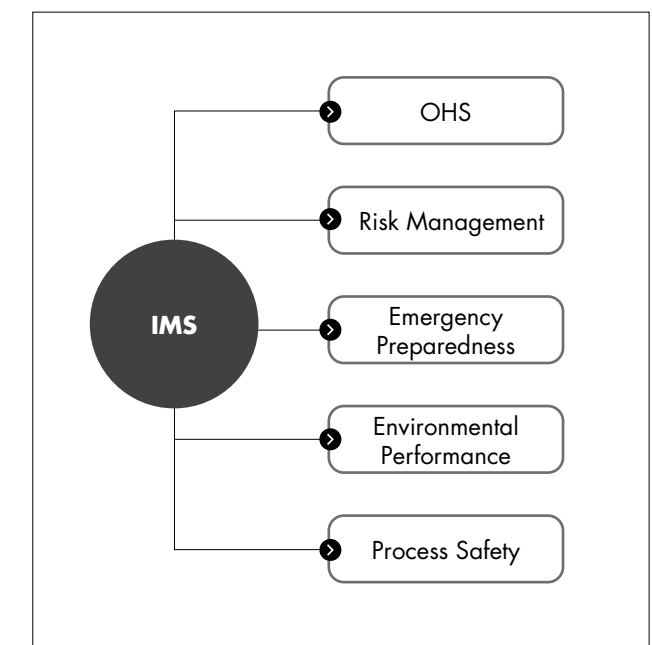
The policy is applicable to all of our business activities and premises and is compliant with Malaysia's Occupational Safety and Health Act 1994. In addition, VELESTO has established a group-wide Integrated Management System ("IMS"). The IMS covers the following as part of VELESTO's structured approach to OHS:

HSE POLICY COMMITMENTS:

VELESTO shall take reasonable and practicable steps to eliminate and prevent undue risks in line with constantly ensuring zero accidents and no damage to the environment. As such, VELESTO shall:

- Demonstrate high HSE visibility and leadership;
- Ensure competent workforce and adequate resources;
- Comply with HSE, legal and other requirements;
- Monitor and improve HSE performance;
- Implement comprehensive risk management based on a continuous review of HSE Management System's hierarchy of controls and effectiveness;
- Minimise negative impact to our environment;
- Promote effective HSE communication,
- Establish effective crisis management and consultation.

We shall ensure that this policy is communicated to and understood by all stakeholders in a clear and timely manner.



BOARD AND SENIOR MANAGEMENT OVERSIGHT ON OHS

Management's oversight on OHS is achieved through a dedicated OHS committee comprising both management and employee representatives. VELESTO's President, is the primary champion for HSE, supported by the Board as well as Senior Management.

Oversight is achieved via full Board meetings where Quality and HSE are usually discussed as part of the discussion agenda. Quality and HSE matters are also deliberated during the quarterly BRMC meetings.

Providing comprehensive oversight of the QHSE strategy is the Quality Department, HSE Division and HSE Committee. The HSE Committee, which meets on a quarterly basis, monitors and enhances the overall HSE performance for all business operations – offshore and onshore while Quality performance is managed by the Quality Department. Quality and HSE issues are deliberated, and corrective actions are implemented to prevent reoccurrences of any unnecessary incidences.

The HSE Committee is chaired by the President of VELESTO and comprises representatives from Management and the employees, both from the Operations and Corporate Divisions.

EMPLOYEES HSE COMMITTEES

VELESTO retains 100% employee representation on formal joint management employee health and safety committees. The formation of such committees enables employees who undertake frontline operations (and therefore more likely to be exposed to QHSE risks) to play an active and direct role in determining their work conditions.

The Committees enable two-way engagement with employees to share their feedbacks, concerns and suggestions to management. Essentially, this approach allows employees to assume responsibility for their own environment.

VELESTO also holds monthly HSE Operations Meeting to address prevailing HSE issues and to enable immediate rectification.

ASSET INTEGRITY

Asset integrity assurance is achieved via regularly scheduled maintenance. The asset management references are API, OEM and industry recommended practices. The system is regularly reviewed by an independent consultant and by clients.

VELESTO continues to focus on improving its asset management guidelines, its asset-tagging systems and the Special Periodical Survey Project Planning. It also continues to educate staff on the importance of asset management in preventing a major OHS incident.

IMS INTERNAL AUDIT & INTERNAL AUDITOR TRAINING

As part of VELESTO's IMS requirements, an internal audit is conducted annually across VELESTO's facilities. In FY2021, six IMS audits were conducted:

DATE	ASSET / OPERATIONAL SITE
1 - 3 Mar	NAGA 8
26 - 27 Mar	NAGA 5
28 - 29 Mar	NAGA 2
22 - 23 Apr	NAGA 7
3 - 5 May	KSB
16 - 18 Nov	ASB

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

IDENTIFICATION OF RISKS & RELATED ACTION PLANS

VELESTO continues to monitor all worksites and its value chain to identify QHSE risks. This includes occupational activities that may have high incidence or QHSE incidents.

Beyond impact to productivity and work operations, the assessments also consider the health and safety of employees. Hence, assessments conducted include exposure to chemical health risks, noise pollution and near miss incidents, potential hazards and more.

Hazard Identification, Risk Assessment and Risk Control ("HIRARC") is an integral aspect of VELESTO's approach to upholding excellent OHS performance.

Using HIRARC, hazards and risks are identified, analysed and mitigated through the implementation of appropriate control measures. In 2021, the following key HSE issues were discussed/ addressed by the Committee:

<ul style="list-style-type: none"> HSE performance and HSE programmes for FY2021 SOHELP-DIY 2021 Legal compliance across the Group HSE contractual requirements HSE training and refresher HSE training New HSE communication medium via intranet and Microsoft Teams Virtual HSE campaigns Behavioural Based Programme (PBED & Hearts and Minds) Fatigue management Mental health management talk and video series Scheduled waste management across operations on the rig and at the supply base Job enlargement of HSE Executive to support supply base Emergency and crisis management KSB and ASB Improvement Plan Warm stacked rigs HSE Plan Monsoon season preparation for onshore and offshore operations 	<ul style="list-style-type: none"> Cost and impact of property damage Inspection of dropped object on idling and working rigs Upskilling and reskilling of staff Personal protective equipment for work and COVID-19 prevention COVID-19 awareness campaign and basic essential kit COVID-19 risk and effect to the staff COVID-19 hybrid working arrangement for onshore staff COVID-19 precautions and information communications COVID-19 Management Procedure MCO instructions HOC and incident analysis Key objective and action plan for 2021 ISO 29001:2020 Certification Audit Internal Auditor Training COVID-19 Vaccination Campaign Rig & Supply Base Security Management
---	--



STOP WORK ORDER

In line with empowering employees to take control of their own safety, VELESTO has established a Stop Work Order culture

Stop Work Order provides when and how an employee can decide to cease work when face an unsafe situation. This enables employees to take charge of their own personal safety and their work environments. It also enables a swifter preventive response and reduces the possibility of OHS incidents from escalating.

25,320 Time Out For Safety ("TOFS") were issued in FY2021.

INCIDENT INVESTIGATION

When a HSE incident occurs, the said incident must be reported within 24 hours to management

Investigation activities are initiated soonest using a Root Cause Analysis process to determine the underlying factors behind the incident. All incidents, even those that are deemed minor or non-disruptive to business operations are thoroughly investigated with the investigation report submitted to the respective authority.

Investigation is conducted using VELESTO Investigation Management System Procedure and incident investigation softwares - Tripod Beta and Systematic Cost Analysis Technique, which enable users to track down the causation path, analyse weak points in current safety measures, create barrier-based improvement plans and bring immediate visibility to incidents. This approach ultimately, enables a timely and rigorous assessment to determine root causes.

Using a lesson learnt approach, the key insight from the incident is shared to all relevant teams and employees towards preventing a reoccurrence. All root causes of incidents are logged into VELESTO's Incident Management database for review and action tracking.

FY2021 QHSE PERFORMANCE

Despite the NAGA 7 incident, VELESTO has maintained its track record for zero fatalities. Unfortunately, a hand injury in another operation on 22 August 2021 has resulted to our Loss Time Incidents ("LTI") clock reset. From then until 31 December 2021, VELESTO has achieved 738,137 manhours without LTI. The Company's Integrated Management System auditor, DNV-GL, has verified the data provided during the surveillance audit.

	2019	2020	2021
Fatality	0	0	0
Lost Time Injury Frequency ("LTIF")	0.38	0.00	0.54
Total Recordable Case Frequency ("TRCF")	1.53	0.00	1.09
Lost Time Injury	1	0	1
Medical Treatment Case	2	0	0
Restricted Work Case	1	0	1
First Aid Case	7	2	4
Environmental Pollution	0	0	1
Property Damage	18	9	9
Near Miss	20	14	11

NAGA 7 INCIDENT

On 3 May 2021, NAGA 7 was preloading at Conoco-Phillip's Salam-3 location offshore Sarawak. The first stage of preloading was completed successfully, unfortunately, during the second stage of preloading, the rig experienced a stability event and, the rig listed 10 degrees to the port and 5 degrees trim by the stern.

After considering all the circumstances, the Offshore Installation Manager ("OIM") sounded the alarm for abandonment. All 101 crew were mustered and disembarked safely via lifeboats. There were no casualties.

Stakeholders were notified of the incident and developments. A standby vessel was assigned on-site to provide the necessary on-site guard and surveillance assistance. This included monitoring of possible shifting of rig position, oil spill response activities, and providing warnings to other vessels passing the area. VELESTO continues to remain involved and cooperate with all relevant stakeholders.

QHSE EMPLOYEE TRAINING

Training in FY2021 also comprised training on handling heavy machinery such as forklifts, as well as first aid training and training on COVID-19 SOPs.

Other OHS training include training on Hazardous Waste Management for OHS Practitioners, Effective Safety and Health Committee, How to Do Inspection on Site, Practical Chemical Management at Workplace - Environmental & Impact Assessment and others.

MANAGEMENT HSE VISITS

HSE visits continue to be a mainstay of VELESTO's approach to OHS despite the ongoing COVID-19 pandemic. This includes visits by both the President and Senior Management.

The visits serve to reinforce among both onshore staff and offshore crews, the Board and Senior Management's commitment to OHS and their concern for employees. This in turns improves employee morale.

In 2021, 12 President's HSE visits and 44 Management HSE visits were conducted.

HSE COMMUNICATION AND ENGAGEMENT ACTIVITIES

The message of ensuring the highest levels of HSE is constantly reinforced through various communication channels and employee engagements. HSE is regularly on the agenda of any official communication engagement i.e. townhalls, newsletters and others.

HEALTH AND SAFETY CAMPAIGN

In retrospect, VELESTO's annual Health and Safety Campaign was perhaps more significant given the prevailing impact of COVID-19 across the financial year. The focus was on personal safety and to constantly maintain strict SOP compliance and discipline towards preventing the spread of the virus outbreak across VELESTO as well as externally to other stakeholders.

The importance of staying safe and healthy was also approached from the angle of keeping one's family and loved ones safe. In many ways, the general premise is similar to VELESTO's HSE approach - everyone goes home safely to their families. A significant portion of the campaign however, comprised online activities and digital engagements:

- Virtual QHSE Week 2021
- Virtual HSE Engagement
- Quarterly HSE Campaign
- Mental Health Campaign
- Monsoon Campaign 2021
- Behavioural In Focus ("BIF") Campaign
- Virtual QHSE Advisor & Medic Engagement
- Velesto Wellness programme 2021
- Mobile Crane Lifting Safety Awareness
- Scheduled Waste Training for Base
- Safe Riding Motorcycle Training for Workers

Aside from internal events, VELESTO also organised Virtual Management Engagements with clients. This was to demonstrate the commitment, concern and proactiveness of the VELESTO leadership to clients and crew amidst the COVID-19 pandemic.

EMERGENCY RESPONSE & CRISIS PREPAREDNESS

VELESTO's Emergency Response & Crisis Preparedness was strengthened by including new SOPs for COVID-19. In particular, enhancements were made to strengthen protocols for working from remote locations, given the need to work from home during MCO and subsequently with the implementation of a Team A/ Team B system for employees to ensure adherence to social distancing.

As part of the Emergency Response & Crisis Preparedness, VELESTO has established its Group level Emergency Control Centre ("ECC") located at Level 18, Block 3A, Plaza Sentral. In FY2021, several mock ECC simulations or scenarios were conducted to test VELESTO's preparedness to manage and counter any major disruptions to business operations.

Other emergency measures include:

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

HSE ALERT

VELESTO's HSE Division have conducted a series of monthly HSE Operations Meetings to continuously update and monitor any HSE issues. All HSE issues will be highlighted and discussed throughout this meeting. The meeting was chaired by the Chief Operating Officer and attended by respective Rig Managers, HSE Head and HSE Manager.

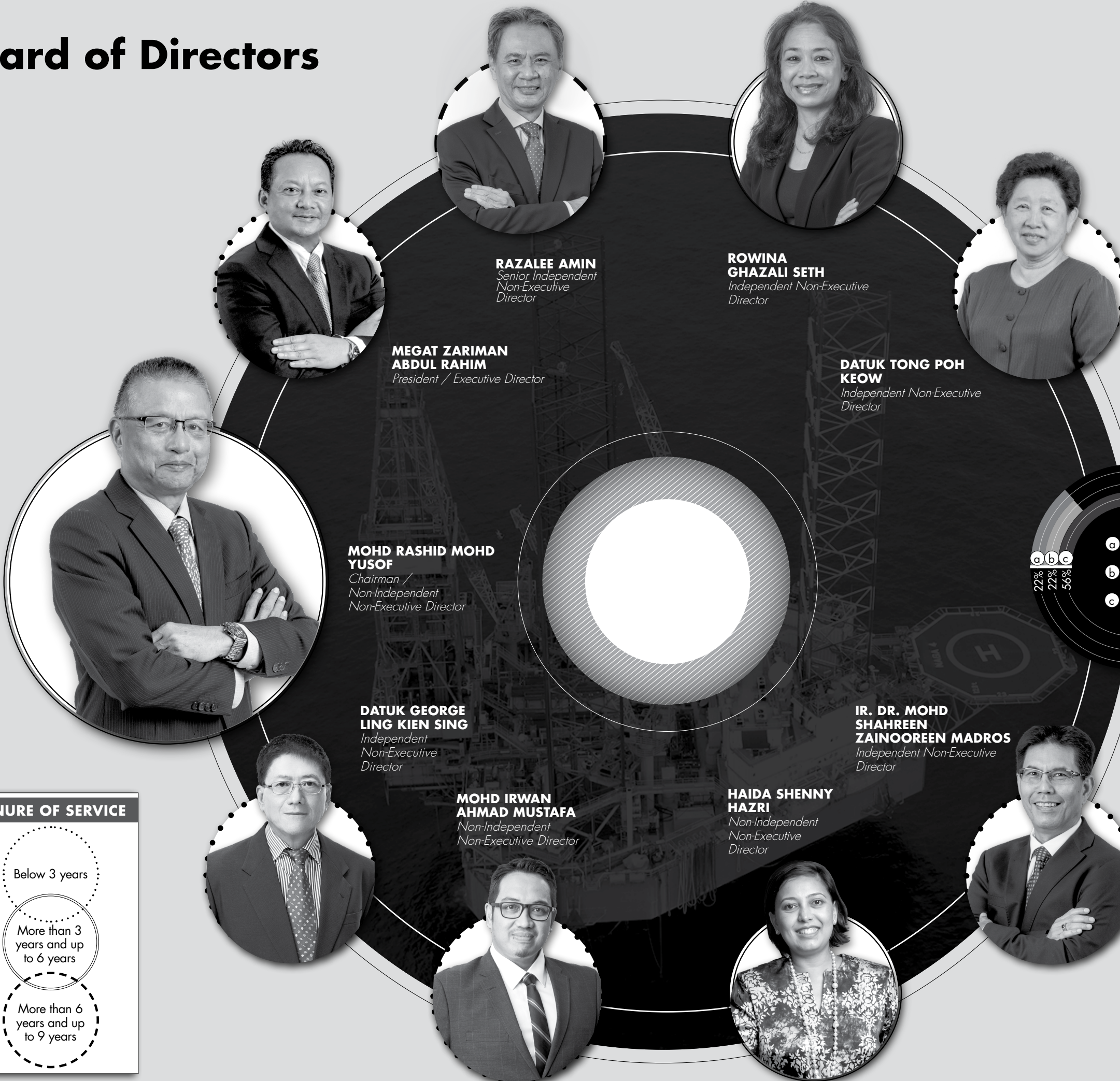
The HSE Alert is an ongoing initiative to communicate HSE Incidents and lessons learnt. The VELESTO Safety and Maintenance Action Tracking ("SMAT") System is used to track the communication of the HSE Alert and the implementation of the lesson learned actions.

Through SMAT system, in FY2021, six HSE Alerts were registered in SMAT. Upon receiving a HSE Alert through SMAT, the OIM/ Rig Superintendent/ Project Manager or representative will ensure that a copy of the HSE Alert is distributed to all line supervisors for discussion and deliberation during toolbox or HSE meetings.

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

Board of Directors

Board of Directors





MOHD RASHID MOHD YUSOF

Chairman
Non-Independent Non-Executive Director

66 | Male | Malaysian

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

Qualification:

- Fellow of Association of Chartered Certified Accountants (ACCA), Chartered Association of Certified Accountants, UK
- Advanced Management Program, Wharton Business School, Pennsylvania, USA

Length of Service (as at 31 March 2022):

4 years and 9 months

Membership of Associations:

- Member of Chartered Association of Certified Accountants, UK
- Member of Malaysian Institute of Accountants (MIA)

Number of Board of Directors meetings attended in the financial year:

11/11

Membership of Board Committees:

Nil

Any other board directorships in public companies:

Listed Entity:
None

Other Public Companies:

- Standard Chartered Bank Malaysia Berhad
- SIRIM Berhad

Working Experience:

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

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

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 FY2021.



RAZALEE AMIN

Senior Independent Non-Executive Director

68 | Male | Malaysian

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

Qualification:

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

Length of Service (as at 31 March 2022):

8 years 10 months

Membership of Associations:

- Malaysian Institute of Accountants (MIA)
- Malaysian Institute of Certified Public Accountants
- Financial Planning Association of Malaysia

Number of Board of Directors meetings attended in the financial year:

11/11

Membership of Board Committees:

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

Any other board directorships in public companies:

Listed Entity:

- Duopharma Biotech Berhad
- UMW Holdings Berhad
- HeiTech Padu Berhad

Other Public Companies:

None

Working Experience:

Razalee Amin (Razalee) is a licensed auditor and an approved liquidator, who has more than 44 years' experience in various management positions and directorships in public listed companies with areas of expertise in audit, corporate recovery, finance, banking and investment acquisition.

He started his career at Messrs. Hanafiah Raslan & Mohamad, a Chartered Accountants firm. In 1983, he joined Sateras Resources (Malaysia) Berhad as the Group Financial Controller before being appointed as the Senior Vice President of the Investment and Acquisition Division at MBF Finance Berhad in 1987. He subsequently served Damansara Realty Berhad as its Senior General Manager from 1994 until 1996, when he set up his own Chartered Accountants firm, Razalee & Co., where he is presently the Managing Partner.

Razalee is a Fellow member of the Institute of Corporate Directors 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 FY2021.



ROWINA GHAZALI SETH

Independent Non-Executive Director

61 | Female | Malaysian

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

Qualification:

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

Length of Service (as at 31 March 2022):

4 years and 9 months

Membership of Associations:

None

Number of Board of Directors meetings attended in the financial year:

11/11

Membership of Board Committees:

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

Any other board directorships in public companies:

Listed Entity:

- UEM Edgenta Berhad

Other Public Companies:

- Hong Leong Islamic Bank Berhad

Working Experience:

Rowina Ghazali Seth (Rowina) began her 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 programmes.

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 (BCSDM), and an active mentor in the Young Corporate Malaysia programme.

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 FY2021.



DATUK TONG POH KEOW

Independent Non-Executive Director

67 | Female | Malaysian

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

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 2022):

2 years 7 months

Membership of Associations:

- Fellow of the Association of Chartered Certified Accountants, UK
- Member of the Malaysian Institute of Accountants (MIA)

Number of Board of Directors meetings attended in the financial year:

10/11

Membership of Board Committees:

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

Any other board directorships in public companies:

Listed Entity:

- Sunway Berhad

Other Public Companies:

None

Working Experience:

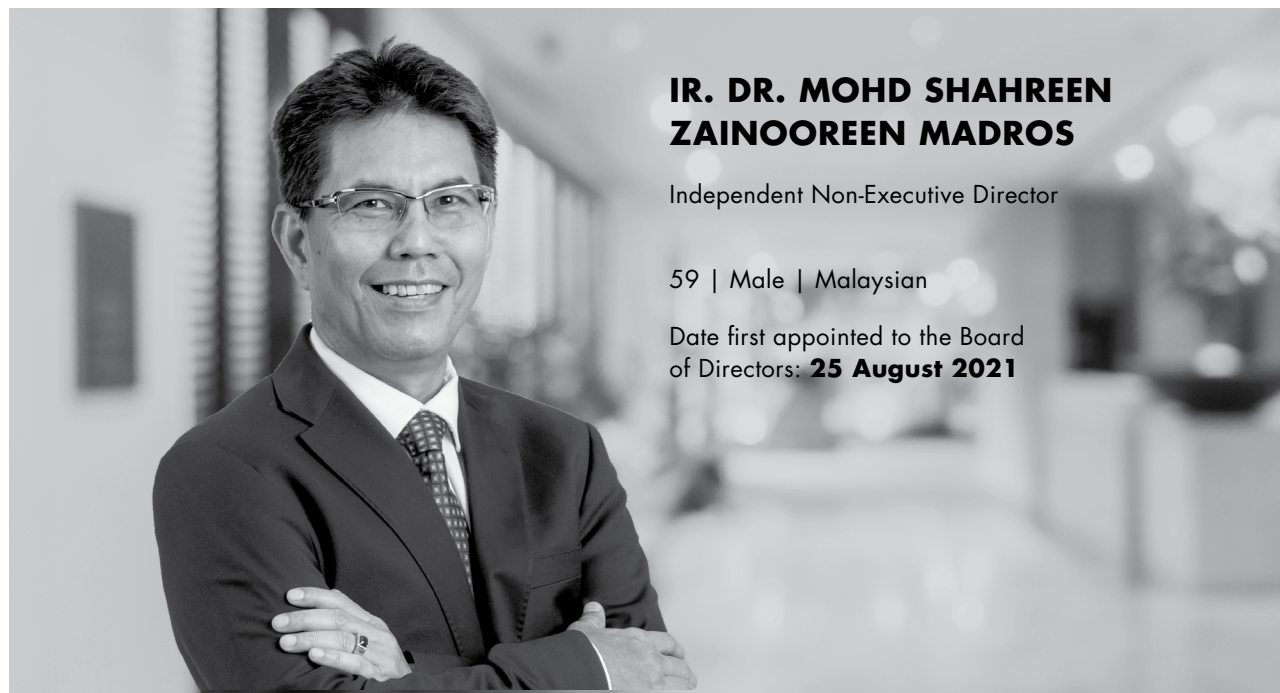
Datuk Tong Poh Keow (Datuk Tong) began her career as secretarial assistant with Siva, Heng & Monteiro in 1978 and was promoted to manager of secretarial services and audit in 1980. She left the firm in 1981 to join Shapadu Holding Sdn Bhd as an accountant and company secretary until March 1983.

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 FY2021.



IR. DR. MOHD SHAHREEN ZAINOOREEN MADROS

Independent Non-Executive Director

59 | Male | Malaysian

Date first appointed to the Board of Directors: **25 August 2021**

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 2022):

7 months

Membership of Associations:

- Board of Engineers Malaysia

Number of Board of Directors meetings attended in the financial year:

5/5

Membership of Board Committees:

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

Any other board directorships in public companies:

Listed Entity:

- E.A. Technique (M) Berhad

Other Public Companies:

None

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 FY2021.



HAIDA SHENNY HAZRI

Non-Independent Non-Executive Director

48 | Female | Malaysian

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

Qualification:

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

Length of Service

(as at 31 March 2022):

4 years and 9 months

Membership of Associations:

None

Number of Board of Directors meetings attended in the financial year:

11/11

Membership of Board Committees:

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

Any other board directorships in public companies:

Listed Entity:

- Privasia Technology Berhad

Other Public Companies:

- Keyfield International Berhad

Working Experience:

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

Haida commenced her career with PETRONAS and she undertook legal and commercial roles in PETRONAS E&P, LNG and Technology businesses. Her last post in PETRONAS was Chief Executive Officer (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 (previously known as SapuraKencana), she held the position of Vice President of Strategy and New Ventures E&P and was involved in the building up of the E&P business for Sapura.

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 operationalization 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.

Haida is a member of the Industry Advisory Panel under Malaysia Petroleum Resources Corporation. She is also a member of the Institute of Corporate Directors Malaysia. Haida has also been recently appointed to the University of Melbourne Alumni Council.

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 FY2021.



MOHD IRWAN AHMAD MUSTAFA

Non-Independent Non-Executive Director

42 | Male | Malaysian

Date first appointed to the Board of Directors: **25 August 2021**

Qualification:

- Masters in Finance, Australian National University, Australia
- Bachelor of Commerce, Australian National University, Australia

Length of Service

(as at 31 March 2022):

7 months

Membership of Associations:

- Member, Chartered Accountants, Australia and New Zealand

Number of Board of Directors meetings attended in the financial year:

5/5

Membership of Board Committees:

- Member of Board Nomination & Remuneration Committee

Any other board directorships in public companies:

Listed Entity:
None

Other Public Companies:

- Maybank Asset Management Group Berhad

Working Experience:

Mohd Irwan Ahmad Mustafa is currently the Group Head, Private Markets of Permodalan Nasional Berhad (PNB) overseeing Private and Infrastructure asset classes. Prior to joining PNB, he was with Ekuiti Nasional Berhad as a Director of Investment from December 2011 to July 2017.

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 Permodalan Nasional Berhad.
- Has never been convicted for any offence for the past 5 years nor any public sanction or penalty by any relevant regulatory bodies during FY2021.



DATUK GEORGE LING KIEN SING

Independent Non-Executive Director

66 | Male | Malaysian

Date first appointed to the Board of Directors: **29 November 2021**

Qualification:

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

Length of Service

(as at 31 March 2022):

4 months

Membership of Associations:

None

Number of Board of Directors meetings attended in the financial year:

1/1

Membership of Board Committees:

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

Any other board directorships in public companies:

Listed Entity:
None

Other Public Companies:

None

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 Programme' 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 FY2021.



MEGAT ZARIMAN ABDUL RAHIM

President
Executive Director

54 | Male | Malaysian

Date first appointed to the Board of Directors: **25 February 2022**

Qualification:

- Bachelor of Science in Engineering, Worcester Polytechnic Institute, Massachusetts, USA

Length of Service (as at 31 March 2022):

2 months

Membership of Associations:

- Board of Engineers Malaysia
- Institute of Engineers Malaysia
- Malaysian Oil and Gas Services Council
- Malaysian Board of Technologists

Number of Board of Directors meetings attended in the financial year:

N/A

Membership of Board Committees:

Nil

Any other board directorships in public 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 Schlumberger Limited (Schlumberger) until 2013. During his 21 years with Schlumberger, 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 FY2021.



ROHAIZAD DARUS

President
Executive Director

57 | Male | Malaysian

Date first appointed to the Board of Directors on **31 January 2012** and retired on **25 February 2022**

Qualification:

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

Length of Service (as at 25 February 2022):

10 years

Membership of Associations:

- Board of Engineers Malaysia
- Institute of Engineers Malaysia

Number of Board of Directors meetings attended in the financial year:

11/11

Membership of Board Committees:

None

Any other board directorships in public companies:

Listed Entity:
None

Other Public Companies:
None

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 FY2021.

Working Experience:

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

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

From 1998 to 2001, he worked for Sarku Engineering Services Sdn Bhd and rose to become its Chief Executive Officer. Sarku Engineering later became a subsidiary of SapuraCrest Petroleum Berhad (SapuraCrest), a predecessor of Sapura Energy Berhad.

In SapuraCrest, he held various positions including that of the Executive Director of a number of local and foreign subsidiaries of the Group which were involved in offshore and onshore soil investigation, marine surveying and hydrographic activities. He was also responsible for overseeing the management of the Group's marine vessels and other major assets.

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

In 2008, he was appointed as the Chief Operating Officer of the Group, a position he held until 2010 when he was appointed as the Chief Executive Officer. During his tenure, he was appointed to the board of Tioman Drilling Company Sdn Bhd, a company involved in all offshore drilling operations under SapuraCrest Group.

Rohaizad joined UMW Oil & Gas Corporation Berhad (now known as Velesco Energy Berhad) in January 2012.

Apart from holding corporate positions, Rohaizad is an Advisor of Malaysian Oil & Gas Services Council, a member of Industry Advisory Panel of Malaysian Petroleum Resource Corporation and an Adjunct Professor at Universiti Teknologi Petronas.

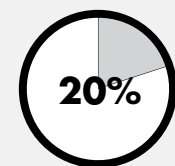
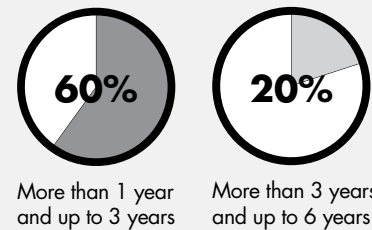
Rohaizad Darus officially retired as the President / Executive Director of Velesco Energy Berhad effective 25 February 2022.

Our Leaders

Our Leaders

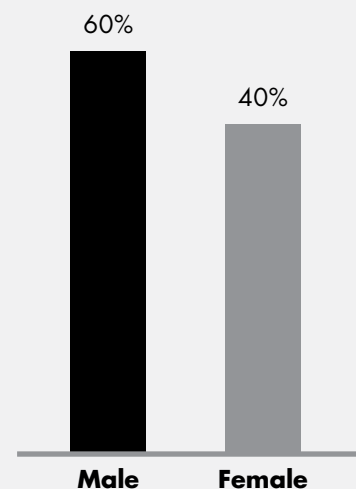


TENURE OF SERVICE

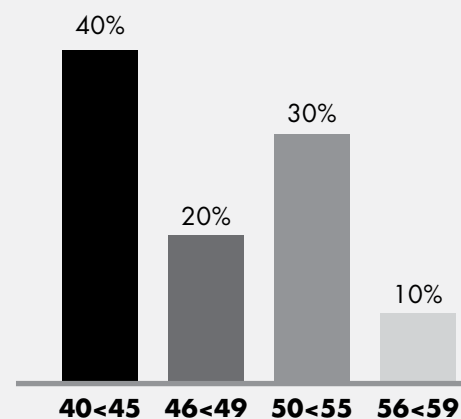


More than 6 years and up to 9 years

GENDER



AGE



1 MEGAT ZARIMAN ABDUL RAHIM President / Executive Director

Aged 54 | Male | Malaysian

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

2 SAZLYNA SAPIEE Chief Financial Officer

Aged 56 | Female | Malaysian

Qualifications:

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

Past Employment:

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

Membership of Association:

- Association of Chartered Certified Accountants (ACCA)
- Malaysian Institute of Accountants (MIA)
- Institute of Internal Auditors (IIA)

Date appointed to the current position:
1 June 2020

3 ABDUL HADI ABDUL BARI Chief Commercial Officer

Aged 46 | Male | Malaysian

Qualifications:

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

Past Employment:

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

Membership of Association:

- Nil

Date appointed to the current position:
01 December 2018

4 ADRIN SHAFIL AHMAD NASIR Chief Operating Officer

Aged 44 | Male | Malaysian

Qualifications:

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

Past Employment:

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

Membership of Association:

- Nil

Date appointed to the current position:
01 July 2019

Declaration

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past 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 FY2021.

Our Leaders

5 CHONG EU JIN*Head, Strategic Planning*

Aged 45 | Male | Malaysian

Qualifications:

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

Past Employment:

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

Membership of Association:

- Nil

Date appointed to the current position:

15 April 2020

6 NOOR ASHIAH YANG*Head, Human Resources*

Aged 53 | Female | Malaysian

Qualifications:

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

Past Employment:

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

Membership of Association:

- Nil

Date appointed to the current position:

02 December 2019

8 MOHD ALI MOHD SAIBI*Head, Quality, Health, Safety & Environment (QHSE)*

Aged 50 | Male | Malaysian

Qualifications:

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

Past Employment:

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

Membership of Association:

- Malaysian Society for Occupational Safety & Health
- Malaysia AGT Association
- DOSH Registered Safety & Health Officer

Date appointed to the current position:

17 December 2018

10 MOHAMMAD HAFIZ SAPARANI*Head, Integrity Governance Unit*

Aged 44 | Male | Malaysian

Qualifications:

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

Past Employment:

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

Membership of Association:

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

Date appointed to the current position:

01 January 2020

7 LEE MI RYOUNG*Head, Legal & Secretarial*

Aged 45 | Female | Malaysian Permanent Residence

Qualifications:

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

Past Employment:

- British American Tobacco (Malaysia) Berhad
- Petroliaam 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

Membership of Association:

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

Date appointed to the current position:

15 July 2019

Declaration

- Not holding any directorship in public companies and listed issuers.
- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and never been convicted for any offence for the past 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 FY2021.

Our Leaders

Corporate Governance Overview Statement

The Board of Directors (Board) believes that good corporate governance is the foundation for the Group's sustainable business and operations that translate into positive reputation with stakeholders and enhance shareholders' value.

The Board of Velesto Energy Berhad (VELESTO or Company) presents this Corporate Governance (CG) Statement that provides an overview of the CG practices of the Company during FY2021. The CG Statement shall be read together with the Corporate Governance Report (CG Report) published in the Company's corporate website at <https://www.velesto.com>. The CG Report provides the details on how the Company has applied each Malaysian Code on Corporate Governance 2012 (MCCG 2012) practices as well as the departures and alternative measures in place within the Company during the FY2021 and demonstrates the commitment of the Board and Management of the Group in applying and embracing the high standards of CG in the Group.

VELESTO's governance measures are aligned with the principles of good governance in accordance with the MCCG 2012 and references are made to the three (3) key CG principles in the MCCG 2012:

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 August 2021:-

- Industry Excellence Award – Energy Sector.
- Excellence Award for CG Disclosure – Market Cap Above RM300 million to RM1 billion.
- Ranked 21 out of the top 100 public listed companies (PLCs) listed for the 'EXCELLENCE AWARD FOR CG DISCLOSURE'.

BOARD AT A GLANCE 2021

MOHD RASHID MOHD YUSOF

11/11 (100%)

RAZALEE AMIN

11/11 (100%)

ROWINA GHAZALI SETH

11/11 (100%)

DATUK TONG POH KEOW

10/11 (90%)

HAIDA SHENNY HAZRI

11/11 (100%)

IR. DR. MOHD SHAHREEN ZAINOOREEN MADROS

(Appointed on 25 August 2021)

5/5 (100%)

MOHD IRWAN AHMAD MUSTAFA

(Appointed on 25 August 2021)

5/5 (100%)

DATUK GEORGE LING KIEN SING

(Appointed on 29 November 2021)

1/1 (100%)

ROHAIZAD DARUS

11/11 (100%)

DATO' IBRAHIM MARSIDI

(Retired on 28 June 2021)

5/5 (100%)

RIZAL RICKMAN RAMLI

(Retired on 28 June 2021)

5/5 (100%)

DATO' DAYANG FATIMAH JOHARI

(Resigned on 31 July 2021)

5/5 (100%)

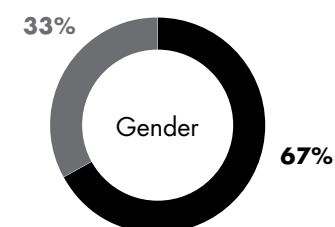
● Chairman ● Member

BOARD COMMITTEES AT A GLANCE 2021

BAC	BNRC	BRMC	BWBC
RAZALEE AMIN 	IR. DR. MOHD SHAHREEN ZAINOOREEN MADROS (Appointed on 25 August 2021) 	ROWINA GHAZALI SETH 	DATUK TONG POH KEOW
DATUK TONG POH KEOW 	ROWINA GHAZALI SETH 	RAZALEE AMIN 	RAZALEE AMIN
HAIDA SHENNY HAZRI (Appointed on 16 August 2021) 	DATUK TONG POH KEOW (Appointed on 25 August 2021) 	HAIDA SHENNY HAZRI 	HAIDA SHENNY HAZRI
IR. DR. MOHD SHAHREEN ZAINOOREEN MADROS (Appointed on 25 August 2021) 	MOHD IRWAN AHMAD MUSTAFA (Appointed on 25 August 2021) 	DATUK TONG POH KEOW (Resigned on 8 December 2021) 	DATUK GEORGE LING KIEN SING (Appointed on 8 December 2021)
DATO' IBRAHIM MARSIDI (Retired on 28 June 2021) 	DATO' IBRAHIM MARSIDI (Retired on 28 June 2021) 	DATUK GEORGE LING KIEN SING (Appointed on 8 December 2021) 	
DATO' DAYANG FATIMAH JOHARI (Resigned on 31 July 2021) 	RIZAL RICKMAN RAMLI (Retired on 28 June 2021) 		
	DATO' DAYANG FATIMAH JOHARI (Resigned on 31 July 2021) 		

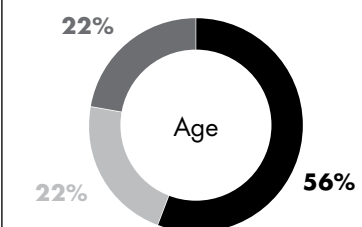
Gender

■ Male
■ Female



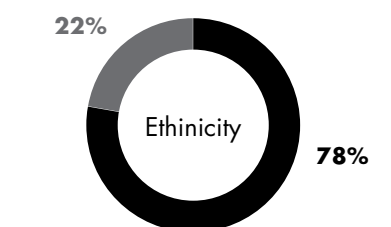
Age

■ 40 - 49 years
■ 50 - 59 years
■ 60 years and above



Ethnicity

■ Malay
■ Chinese



PRINCIPLE A

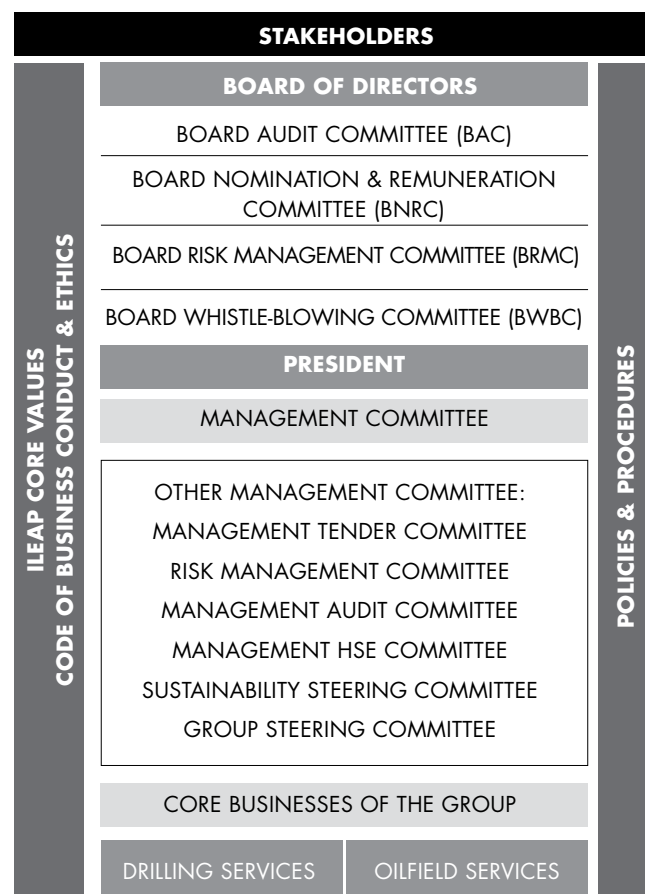
LEADERSHIP AND EFFECTIVENESS

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



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 corporate governance. This statement will explain how CG Framework is structured and implemented across the Group.

DEMARICATION 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 to reflect relevant changes to the policies, procedures and processes as well as amendments as directed by the regulators to ensure the document remains relevant and consistent with the applicable rules and 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 i.e strategic directions of the Group, Board appointments and succession planning, establishment of Board Committees, stakeholder communication, risk management.

Featuring therein, the 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.

Although specific authorities have been delegated to various Board Committees, the Board keeps itself abreast of key issues and/or decisions made by the respective Board Committees, through reports made by the Chairman from each Board Committee and also through the tabling of minutes of the Board Committees at the Board level. It is the general policy of the Company that all major decisions be considered by the Board as a whole.

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 best interest of the Company.

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;
- Reviews the business plan and budget, and sets targets for the Management to ensure integration of sustainability considerations in upholding its underlying environmental, social as well as 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, understands the pool of future leaders as well as reviewing the philosophy of the Company;
- 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.
- 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.

THE BOARD'S 2021 KEY FOCUS AREAS & PRIORITIES

During the FY2021, the Board deliberated on the following range of areas with focus on key areas and priorities.

Strategy, Risk Management, and overall Group's performance

- The economic and industry outlook;
- The performances of VELESTO's core businesses i.e. Drilling and Oilfield Services;
- Strategic business plan of the Group, including its People-Focused strategy and Sustainability agendas;
- Setting of corporate KPIs and targets;
- Considerations of emerging opportunities and value creation;
- The Group's Quality, Health, Safety and Environmental performances and associated matters;
- Management of NAGA 7 incident;
- Assimilation and oversight over Enterprise Risk Management (ERM) Framework and practices;
- IT and operational platform enabling flexible working arrangements.

Financial

- The Group's financial results, resources planning and budget;
- Enhancements to the Group's Limits of Authority;
- Related Party Transactions and Recurrent Related Party Transactions by the Group;
- Tax updates;
- Corporate restructuring strategies to streamline reporting lines, financial and operating structure;
- Compliance with the Malaysian Accounting Standards Board and other relevant legal and regulatory requirements with regards to the financial statements.

- Evaluate the performance of President and Direct Reports;
- 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 position.

Prior to the Board meetings, Directors received the meeting materials five (5) days 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. 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 FY2021 is disclosed in the BAC Report of this Annual Report.

The composition and attendance of BAC Meetings held during FY2021 is displayed under "Board Committees at a Glance 2021" 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>

Governance

- Oversight on regulatory compliance and governance;
- Compliance with the MCGG 2021 and Companies Act 2016;
- Updates to the Listing Requirements;
- MCGG 2021 gap assessment and action plans therefrom;
- 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;
- Recommendation for the fees and benefits to be paid to the Non-Executive Directors;
- Recommendation on re-appointment of Directors and Auditors;

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.

Meeting Attendance

The composition and attendance of BNRC meetings held during FY2021 are displayed under "Board Committees at a Glance 2021" of this CG Overview Statements.

Composition

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 three (3) INED and one (1) NINED:-

DIRECTOR	DESIGNATION
IR. DR. MOHD SHAHREEN ZAINOOREEN MADROS (Appointed on 25 August 2021)	Chairman (INED)
ROWINA GHAZALI SETH	Member (INED)
DATUK TONG POH KEOW (Appointed on 25 August 2021)	Member (INED)
MOHD IRWAN AHMAD MUSTAFA (Appointed on 25 August 2021)	Member (NINED)

Summary of BNRC's activities

During the FY2021, 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 MCGG 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 and Board Committees, Board (self and peers assessment) and President;
- Conducted an evaluation of the effectiveness of the Board as a whole, Board Committees and the contributions of individual Directors including the President and recommended improvement plan, where applicable;
- Provided oversight of the ESOS subject to the By-Laws.

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>

With oversight of risks at the enterprise wide level and with responsibility to review, monitor and guide on the effectiveness of VELESTO Group's ERM and Business Continuity Plan (BCP). The 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 FY2021, 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 FY2021;
- Received the quarterly progress report on Quality, Health, Safety and Environment;
- Reviewed the Emergency and Crisis Management of the Group;
- Updated the Business Continuity Management (BCM) and its related activities;
- Endorsed the simulation scenarios for BCM exercises for the year 2021;
- Endorsed the revision to the Risk Rating Matrix;
- Guided on the communication and awareness/ refresher sessions on ERM 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 2021.

Further details on BRMC's activities during FY2021, is disclosed in SORMIC of this Annual Report.

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 TORs, 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:-

MANAGEMENT COMMITTEE	
RISK MANAGEMENT COMMITTEE	MANAGEMENT AUDIT COMMITTEE
MANAGEMENT HSE COMMITTEE	MANAGEMENT TENDER COMMITTEE
GROUP STEERING COMMITTEE	SUSTAINABILITY STEERING COMMITTEE

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 and projects.

The Management Committee Meetings chaired by the President, deliberate on overall management of the Group with reports from the following divisions:-

- Operations (Drilling Services and Velesto Drilling Academy)
- Strategic Planning (Oilfield Services, Investor Relations and Sustainability, and Corporate Communications)
- Finance and Accounts (including Business Systems)
- Commercial (including Commercial & Contracts and Supply Chain)
- Human Resources (including Business Process)
- Legal & Secretarial (including Risk Management)
- Quality, Health, Safety and Environment

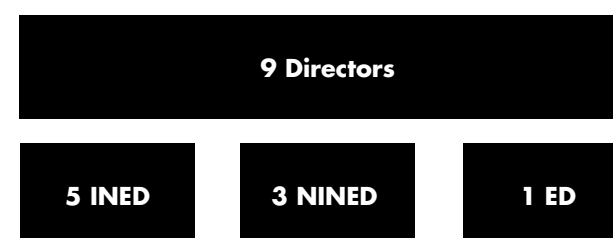
Other Management Sub-Committees met regularly or periodically, to effectively discharge their functions, in tandem with the requirements of the Group's activities and operations.

BOARD BALANCE AND COMPOSITION

During the FY2021, the composition of the Board changed with retirement/resignation of Dato' Ibrahim Marsidi, Rizal Rickman Ramli and Dato' Dayang Fatimah Johari; and welcomed appointments of Ir. Dr. Mohd Shahreen Zainooreen Madros, Mohd Irwan Ahmad Mustafa and Datuk George Ling Kien Sing.

With the retirement of Rohaizad Darus as President / Executive Director of VELESTO effective 25 February 2022, Megat Zariman Abdul Rahim was appointed as the President to helm the Group.

As at the date of this CG Overview Statement, the Board comprise of nine (9) members, with eight (8) NEDs and one (1) Executive Director. There are five (5) Independent Non-Executive Directors (INED), three (3) Non-Independent Non-Executive Directors (NINED), including the Chairman and one (1) Executive Director (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 BEE exercise for the FY2021, the INEDs conducted self-assessment of independence based on the criteria on 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 2021.

Derived from BEE 2021 results, 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 FY2021.

In addition to annual assessment, throughout the year, Independent Directors are required to declare any conflict or situation that may impact their independency.

TENURE OF INDEPENDENT DIRECTOR

The Board Charter limits the tenure of its INEDs up to nine (9) years. As at FY2021, none of the INEDs have served the Board more than nine (9) years.

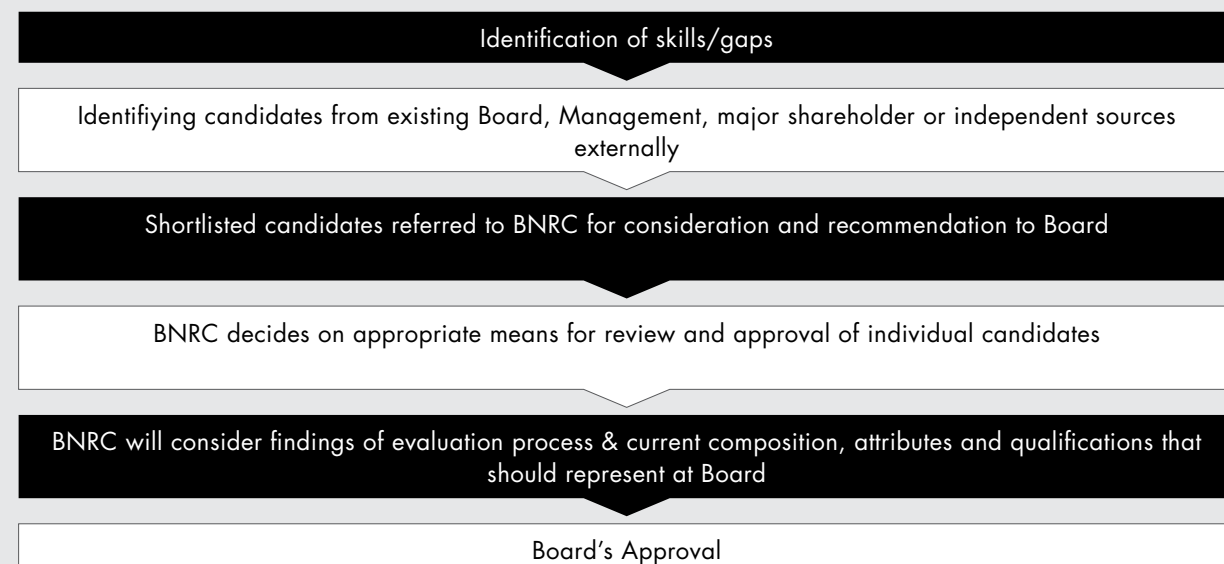
APPOINTMENT OF A DIRECTOR & SENIOR MANAGEMENT

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;
- Time availability and commitment to serve the board effectively;
- His/her existing board positions;
- Information on his/her integrity and governance practices.

Appointment of Directors

In accordance with the Board Charter, the following process of appointment of Directors is 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 made solely based on recommendations made by existing Board members, Management or major shareholders, BNRC shall explain why other sources are not used.

During FY2021, 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 his/her ability to act in the best interest of the Company. The Board at its meeting held on 1 April 2022 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 12th Annual General Meeting (AGM).

In accordance with the Article 96 of the Company's Constitution, at the forthcoming AGM, Datuk Tong Poh Keow is due for retirement and being eligible have offered herself for re-election.

In accordance with the Article 103 of the Company's Constitution, at the forthcoming AGM, the following Directors are due for retirement and being eligible has offered themselves for re-election:-

- Ir. Dr. Mohd Shareen Zainooreen Madros
- Mohd Irwan Ahmad Mustafa
- Datuk George Ling Kien Sing
- Megat Zariman Abdul Rahim

Appointments to 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 Head of Human Resources and then tabled to BNRC for their deliberations 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 FY2021 were arranged and circulated to the Board members in Q3 FY2020 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 FY2021, 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, none of the members of the Board holds more than five (5) 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 strategy into the future.

Industry Background:

- Oil and Gas
- Engineering

Functional Experience:

- Legal/Regulatory
- Commercial/Marketing
- Operations
- Economics
- Capital Market
- Finance
- Audit
- Risk Management
- Sustainability
- Corporate Strategy
- Project Management



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 three (3) women Directors, VELESTO has complied with the requirement by having 33% women directors in its Board for FY2021.

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, experiences and expertise to complement the Board. Diversity of experiences in business, professionalism, corporate industry standing, integrity as well as academic background, age, gender and ethnicity/cultural background are also considered by the Board, prior to 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. The Group promotes hiring of local talents based on merit, provided such talents match the required job scope.

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 FY2021, VELESTO is proud that the Company's Senior Management Team comprises of 40% women.

BOARD EFFECTIVENESS EVALUATION (BEE)

The BNRC carries out the annual process for assessing and evaluating the effectiveness of the Board as a whole, the performance and contribution of the Chairman and individual Directors, including INEDs, as well as the President of the Company, and to identify areas for improvement.

In compliance with the Board Charter, an external consultant is engaged once every three (3) years to assist the BNRC to facilitate an objective and candid board evaluation. For FY2021, BEE exercise was assisted by KPMG Management & Risk Consulting Sdn Bhd (KPMG) and conducted based on the following evaluation process:-

- The enhanced questionnaires were circulated to the Directors and based on Board committee membership;
- Interview sessions were conducted with all board members to obtain candid feedback;
- Reviewed documentation including Board Charter and TOR; and
- The responses from the completed questionnaires and feedbacks from interviews together with results of the documentation review were consolidated and assessed for the development of insights and completion of report.

The scope of BEE covered the effectiveness of the Board, Board Committees, Individual Directors and Executive Director, in the following areas:-

- The performance of the Board;
- Directors' Skill Matrix;
- Directors' Self and Peer Assessment;
- Fit and Proper Assessment;
- Independence Assessment on Independent Directors; and
- Performance of BAC, BNRC, BRMC and BWBC.

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 (5) sections, as follows:

- Board mix and composition;
- Quality of information and decision-making;
- Boardroom activities;
- Board Chairman's role; and
- Oversight by the Board on COVID-19 implications.

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.

Directors' Self and Peer Assessment

The Directors' Self and Peer Assessment facilitated self-assessment by each Director as well as the assessment of their peers on the Board in the following areas of assessment:

- Contribution and performance;
- Calibre and personality;
- Executive Director/President; and
- Senior Independent Director

Fit and Proper Assessment

The fit and proper assessment covered in the following areas:-

- Probity;
- Personal integrity;
- Financial integrity and reputation; and
- Time and commitment

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.

Consolidated Board Committee Assessment

The segment saw evaluation that covered the following areas of assessment for BAC, BNRC, BRMC and BWBC:-

- Composition and Governance;
- Meeting administration and conduct;
- Group synergy and reporting line;
- Skills, competencies and professional development;
- Oversight of financial reporting process, including internal controls and audit function; and
- Duties and responsibilities in relation to the matters on nomination and remuneration, risk management and sustainability, providing guidance to Management, supporting the Board in reviewing VELESTO strategies and whistle-blowing.

All the Board submitted the written questionnaires and completed the one-to-one interview sessions.

KPMG prepared a report on the performance of the Board, Board Committees and individual Directors, assessed against other large companies in their benchmark repository covering a wide cross-section of industries. The results of the BEE 2021 were presented to the Board in February 2022 where the Board noted the findings and areas for improvements.

Board and BNRC were satisfied with VELESTO's overall score of 89% exceeded the market average score of 88% (based on 41 entities comprised of mainly Large Companies). The resultant insights and findings of the evaluation confirmed that the Group has a good composition of the Board and Board Committees with dedicated members who functions well through mutual respect and esteem.

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. Concurrently, he maintains effective communications with shareholders and other stakeholders.

PRESIDENT

The President 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 programmes.

During the year under review, Rohaizad Darus helmed the position of President until his retirement on 25 February 2022. He is succeeded by Megat Zariman Abdul Rahim as the President of VELESTO Group effective 25 February 2022.

SENIOR INED

As Senior INED, Razalee Amin is 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

Following the Board Charter limiting the tenure of INEDs up to nine (9) years, Razalee Amin on reaching his nine (9) years serving as INED of VELESTO in FY2022 will be resigning upon completion of such period.

NED

The NEDs 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.

Board Administration**COMPANY SECRETARIES**

The Company Secretaries, namely Lee Mi Ryoung and Sazlyna Sapiee support the Board by providing corporate governance advices, ensure adherence to rules and procedures, and advocate good CG practices. As a conduit, they ensure the information flows amongst the Board, the Board Committees and the Management, whilst establishing good communications with shareholders and stakeholders. All the Board members have unrestricted access to the Company Secretaries. Their profiles are available under Our Leaders section of this 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 five (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 meetings. Relevant information is made available in the board papers welcoming any clarifications to assist the Board 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 papers online, through a secured software platform. This software eases the process of distribution of meeting papers to the Board 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 (COBE)

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 and 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
- 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 (IGU) is responsible to ensure that integrity is upheld and dissemination of highest standards of compliance within VELESTO Group. IGU reports to the BWBC and is governed by its TOR and Integrity Framework approved by the Board.

Corporate Governance Overview Statement

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 recognize 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 IGU
- +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>

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 2021.

Onboarding and Continuing Development Programme for Directors

Newly appointed Directors receive a comprehensive and structured induction, which were tailored to their individual requirements. The induction programme, which is arranged by the Company Secretaries, includes the Mandatory Accreditation Training Programme, as prescribed by Bursa Malaysia and visits to the Group's businesses and engagement with Senior Management. The programme 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 programmes 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.

Corporate Governance Overview Statement

During the FY2021, the Board has participated in the following continuing education programmes:-

DIRECTOR	TRAINING PROGRAMME ATTENDED	ORGANISER
MOHD RASHID MOHD YUSOF	16 th Kuala Lumpur Islamic Finance Forum 2021	Kuala Lumpur Islamic Finance Forum (KLIFF)
	Audit Committee Conference 2021	Malaysian Institute of Accountants (MIA)
	MIA Conference 2021	MIA
	PNB Summit	Permodalan Nasional Berhad (PNB)
	Enterprise Risk Management	MIA
RAZALEE AMIN	Directors and Senior Management Training (Training No. 01/2021) on "Risk Appetite" by Ernst & Young (EY)	Duopharma Biotech Berhad
	Directors and Senior Management Training (Training No. 02/2021) on "An Appropriate Patent System for the Malaysian Pharmaceutical Industry and Public Health" by Third World Network (TWN)	Duopharma Biotech Berhad
	Directors and Senior Management Training (Training No. 03/2021) on "The COVID-19 Vaccine Landscape" by Dr. Khor Swee Keng, an Independent Consultant for the World Health Organisation	Duopharma Biotech Berhad
	Directors and Senior Management Training (Training No. 04/2021) on "Positive Climate Actions for Business Advantage" by UN Global Compact Network Malaysia	Duopharma Biotech Berhad
	Directors & Senior Management Training (Training No. 05/2021) on "Workshop on Risk Appetite for the Board of Directors and Senior Management" by EY	Duopharma Biotech Berhad
	Directors & Senior Management Training (Training No. 06/2021) on "Global Islamic Economy ("IE") Opportunity in Duopharma Biotech Berhad Context" by Mr Rafiuddin Shikoh from Dinarstandard, Dubai UAE and Ms. Norhariti Jalil from Dinarstandard, Malaysia/ASEAN	Duopharma Biotech Berhad
	MIA Webinar Series: Deferred Tax under MFRS 112	MIA
ROWINA GHAZALI SETH	Corporate Restructuring & Turnaround for Company Directors	Institute of Corporate Directors Malaysia (ICDM)
	Risk Management Conference	MIA
	Malaysia Economic Monitor	Financial Institutions Directors' Education (FIDE)
	"The Tree, The Sky, The Sun" Sustainability Forum	SHELL Malaysia
	Malaysian Board Practices	ICDM
	Beyond Box-ticking and Enhanced Effectiveness for Nomination and Remuneration Committee	Asia School of Business (ASB)
	Khazanah Megatrends Forum 2021	Khazanah Nasional Berhad
	SIDC's Business Foresight Forum (BFF) 2021	Securities Industry Development Corporation (SIDC)
	Let's Talk About Tax	HSBC

Corporate Governance Overview Statement

DIRECTOR	TRAINING PROGRAMME ATTENDED	ORGANISER
DATUK TONG POH KEOW	Webinar on MOGSC Sustainable Development	Malaysian Oil & Gas Services Council (MOGSC)
	MIA Virtual Conference	MIA
	Women's Empowerment Principles (WEPs) Awareness	LeadWomen
	MFRS Update 2020/2021	ACCA Malaysia
	Preparing the Board for Digital Disruption	ICDM
	IR – Integrated Reporting, The ASEAN Experience	MIA
	Risk Management Conference 2021 - Navigating Challenges in Unprecedented Times	MIA
	Innovate for Exponential Growth in the Disruptive Era	ICDM
	ACCA Singapore Annual Conference - Reshaping Finance : Digitally Enabled Sustainability Focused	ACCA Singapore
	Reimaging Your Business Using AI	McKinsey & Co
	Directors' Duties and Climate Change	Malaysian Bar Council
	SDG: Spurring Malaysia's Economic Recovery to end Malnutrition	Jeffrey Sachs Center
	Corporate Liability S17A of the MACC Act – The Ultimate Vaccine for Corruption in Private Sector	Malaysian Institute of Management (MIM)
	Environmental, Social and Governance (ESG)	ICDM
	SIDC Conference - BFF 2021: Transformative Innovation - Reshaping Business Realities in Extraordinary Times	SIDC
	ACCA Technical Symposium 2021: Business Strategy and Financial Reporting – Considerations in respect to the impact of COVID-19 and Post Pandemic Recovery	ACCA Malaysia
	Post Budget 2022 – Rebuilding National Resilience	MIM
	Capital Market Advisory Committee - Guidance Note for Issuers of Proforma Financial Information	MIA
	Audit Oversight Board Conversation with Audit Committees	Securities Commission Malaysia (SC)
	MSWG - The Updated Malaysian Code of Corporate Governance	MSWG
	Fraud Risk Management Workshop 2021	PwC Malaysia/ SC
HAIDA SHENNY HAZRI	Women Empowerment Principles (WEP) Malaysia Activator Campaign Launch	LeadWomen Sdn Bhd
	Malaysia Bidding Round (MBR) 2021 - PETRONAS Webinar 1	PETRONAS
	MBR 2021 - PETRONAS Launch Asia Pacific	PETRONAS

Corporate Governance Overview Statement

DIRECTOR	TRAINING PROGRAMME ATTENDED	ORGANISER
	Abu Dhabi International Petroleum Exhibition and Conference (ADIPEC) Technology as A Key Enabler for Energy Transition	ADIPEC
	Oil Markets and the Middle East	Dubai International Financial Centre (DIFC) and Dubai Mercantile Exchange (DME)
	Leadership Lessons: Realising the Value of CG in ASEAN in conversation with Emeritus Dr Jesus Estanislao	ICDM
	RESET 2021 PETRONAS	PETRONAS
	MBR 2021 - PETRONAS Webinar 3	PETRONAS
	MIA Virtual Conference Series: Capital Market Conference 2021	MIA
	Moving South-East Asia to Clean Energy	University of Melbourne
	PNB Knowledge Forum 2021	PNB
	GCC Board Directors Institute (BDI) Members Online Networking Event - Cryptocurrency, What Directors Need to Know	GCC BDI
	GasTech 2021 Dubai	DMG Events
	SPE Annual Technical Exhibition (ATCE) Dubai 2021	SPE
	PNB Knowledge Forum 2021	PNB
	ADIPEC 2021	DMG Events
IR. DR. MOHD SHAHREEN ZAINOOREEN MADROS	Directors Induction Session	VELESTO
	Audit Oversight Board Conversation with Audit Committees	SC
	SIRIM Presentation at Port Dickson - Rising above the Thundering Storm	SIRIM Berhad
	Catalysing Transformation Through Innovation and Talent Confirmation	Performance Management and Delivery Unit (PEMANDU) Associates
	IoT Asia+ Malaysia Roadshow	MESSE and Constellar Exhibitions Malaysia Sdn Bhd
	Regional Order and Global Transformation: Asia and China in the changing geopolitical economy	University of Malaya
	IASS-ISIS-ASB Workshop for the Malaysian Energy Transition	Institute of Strategic and International Studies
	Resetting Business with Digital Transformation	Malaysia Productivity Corporation
	The Evolving Economic and Geopolitical Landscape in the Indo Pacific: CPTPP, RCEP, and Beyond.	York Center for Asian Research
	ESG at The Forefront, PNB Knowledge Forum	PNB

DIRECTOR	TRAINING PROGRAMME ATTENDED	ORGANISER
MOHD IRWAN AHMAD MUSTAFA	Directors Induction Session	VELESTO
	Mandatory Accreditation Program for Directors of Public Listed Companies	ASB
	PNB Management Virtual Retreat: 2021 Kick-Off	DJUNGLE PEOPLE
	Prolintas Project Site Visit (DUKE, DASH Project)	Prolintas
	iRAC Week 2021: Track 3 - Global Risk Outlook and Emerging Trends	PwC Consulting Services (M) Sdn Bhd (PwC)
	Operationalization of the Due Diligence Process for Third-party/Counterparty	PNB
	ONLINE TRAINING - Responsible Investments and the Sustainability Agenda	PNB
	Invest ASEAN 2021 - ASEAN Exchanges: Beyond the Pandemicrisis	Maybank Investment Bank Berhad
	Anti-Money Laundering / Counter Financing Terrorism and Targeted Financial Sanctions (AML/CFT & TFS): COMPLIANCE A NEED TO PROTECT BUSINESS - For Senior Management	Visioon Business Solutions Sdn.Bhd
	Digital PNB Group Innovation Challenge 2021	PNB
	Digital PNB Innovation Challenge (PIC) 2021 - Final	PNB
	PNB House View Workshop - Real Estate	PNB
	PNB House View Workshop - Private Market	PNB
	PNB House View Workshop - UIC Growth	PNB
	PNB KNOWLEDGE FORUM 2021 - Climate Change: A New Green Deal for Malaysia	PNB
	Anti-Money Laundering (AML) /Counter-Terrorism Financing (CTF) and Compliance Policies Virtual Roadshow	PNB
	ICLIF 2021 Corporate Governance Program - Nominating and Remuneration Committees	ICLIF
	Sustainability Framework Visioning Workshop	PwC
	Rising from COVID 19 - Reimagining Work in Malaysia and beyond	PNB
	PNB - Sustainability Framework	PNB
DATUK GEORGE LING KIEN SING	Directors Induction Session	VELESTO
	Malaysia Budget 2022	Boardroom Limited
	Mandatory Accreditation Program for Directors of Public Listed Companies	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 provide oversight on the businesses of the Company.

The BNRC is responsible of providing recommendation on the fees and benefits for NED 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 in setting remuneration and reward propositions as set forth in its TOR.

Remuneration of Directors

For FY2021, the breakdown of the detailed Board remuneration paid is disclosed in the Corporate Governance Report 2021 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 12th AGM until the conclusion of the next AGM will be tabled at the forthcoming 12th AGM for shareholders' approval. Please refer to "Other Information" section of this Annual Report under Notice of 12th AGM, for more details.

Remuneration of Top Five Senior Management

On the disclosure of remuneration of top five 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 five Senior Management on a group basis for FY2021, which amounted to RM4.70 million. For further explanation on the remuneration for the top five Senior Management, please refer to the CG Report 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.

Separation of the Chairman of the Board and BAC

BAC is chaired by Razalee Amin, who is also the Senior INED, which is separate from the Chairman of the Board, Mohd Rashid Mohd Yusof. BAC comprises of NEDs and is positioned to rigorously challenge and ask probing questions on the Group's financial reporting process, internal controls, risk management and governance.

No appointment of former key audit partner as BAC member

The BAC's TOR provides the requirement for a former key audit partner to observe cooling period of at least three (3) years before being appointed as a member of BAC.

Further information on the composition, roles and responsibilities of BAC and activities during the FY2021 are available in the "Our Governance" section, under the BAC Report of this Annual Report.

Financial Reporting

The Board is committed to providing a fair and objective assessment of the financial position and prospects 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 on its responsibilities for preparing the financial statements is set out in the Audited Financial Statements for the financial year ended 31 December 2021.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is accountable for 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 its 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.

ERM Framework and the 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**

The Board considers the Annual Report, taken as a whole to be fair, balanced and comprehensive. It also provides the necessary information required for shareholders to assess the Company's position, performances, business model and strategies, and that the businesses continue to operate as a going concern. The co-ordination together with the review of the Annual Report follows a well-established and documented process, which is conducted in parallel with the formal audit process undertaken by the External Auditors and the review by the Board and Board Committees.

COMMUNICATING EFFECTIVELY WITH STAKEHOLDERS AND INVESTORS

VELESTO recognise the importance of clear communication and proactive engagements with stakeholders, for the sustainable growth of the business. The Group is committed and takes effort to maintain open and transparent engagements and communications with stakeholders.


The President and Senior Management are closely involved in Investor Relations and managed by the Strategic Planning 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 FY2021 is disclosed in the Sustainability Report 2021, of this 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, Corporate Development

 +603-2096 8788

 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 AGM. The Notice of the 11th AGM on 28 June 2021 was circulated to shareholders on 28 May 2021.

The Company had notified the shareholders on the conduct of the AGM virtually via the Remote Participation and Voting Facilities (RPV) application, 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.

However, in view of the sudden nationwide lockdown imposed by the Malaysian government effective 1 June 2021 to prevent the spread of COVID-19, the Securities Commission Malaysia revised its Guidance Note and FAQs on the conduct of General Meetings for Listed Issuers to state that effective 1 June 2021, general meetings held during Full Movement Control Order to be fully virtual.

The Company had on 22 June 2021, issued a revised Notice of AGM informing shareholders on the change of mode of AGM to be conducted fully virtual through RPV facilities via Securities Services ePortal's platform at <https://sshb.net.my>, there was no Broadcast Venue for the AGM.

The proceedings of 11th AGM saw remote participations by registered shareholders and proxyholders, included presentations of financial statements for FY2020, 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 11th AGM were all voted by poll electronically.

The minutes of the 11th AGM of the Company was made available on the Company's website.

CONCLUSION

The Board is satisfied that for FY2021, the Group complies substantially with the principles and guidance of the MCGG 2021.

This Corporate Governance Overview Statement is made in accordance with a resolution of the Board of Directors passed on 21 April 2022.

Statement on Risk Management and Internal Control

During the FY2021, the Group navigated with resilience and agility in the face of challenges posed by the COVID-19 pandemic entering its second year. While the increased vaccination rates in Malaysia and around the world eased pandemic-related lockdowns, the FY2021 saw continued uncertainties with dynamic changing business and operating environments, market shifts and volatility in the oil & gas industry.

Through the Group's enterprise risk management (ERM) system, the Group kept abreast with the ever-changing 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.

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 FY2021 which has been prepared in accordance with the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers endorsed by Bursa Malaysia and pursuant to Paragraph 15.26(b) of the Main Market Listing Requirement (MMLR) of Bursa Malaysia and the requirements of Malaysian Code of Corporate Governance 2021 (MCCG 2021).

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. The Board sets the tone and provides an oversight function on the risk management and internal control system which 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 and matters pertaining to Health, Safety and Environment.

- **Board Audit Committee (BAC)**

BAC oversees the effectiveness of the Group's internal control structures and assists 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, 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. With BAC monitoring the Group's internal control environment and evaluation of internal audit functions and external audit process, the BAC assesses the adequacy and effectiveness of the internal control systems, further details of which 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 goals and objectives;
- 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 inculcation and dissemination 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 systems 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 following activities were carried out by the RMD:

- Enhanced the Group's ERM Policy and Framework;
- Conducted ERM awareness, refresher and training sessions, which reinforced the elements of ERM to participants;
- Quarterly risk review sessions were held with risk owners to facilitate analysis and process of identifying and minimizing risks impacting the Group's operations;
- Risk advisory and independent assessments on ERM and BCM documents; and
- Administered risk assessment for the Group's project.

E. Integrity and Governance Unit (IGU)

IGU promotes the inculcation of ethical practices at work with strong integrity and compliance including promoting anti-corruption, curbing abuse of power and malpractice. The Head of IGU reports directly to the BWBC and administratively to the President. IGU is supervised by MACC via the Agency Integrity Management Division (also known as Bahagian Pengurusan Integriti Agensi - BPIA) which requires IGU to submit reports on the implementation of its activities every six months to BPIA. IGU's five core functions are as follows:

- Good Governance: To strengthen the implementation of good corporate governance
- Integrity Enhancement: To elevate acculturation, institutionalisation and implementation of integrity within the organisation
- Detection and Verification:
 - To verify and investigate any criminal misconduct, violation of code of conduct and organisational ethics
 - To report criminal misconduct to responsible enforcement agencies
- Complaints Management: To receive and respond to all complaints/information concerning criminal misconduct, violation of code of conduct and organisational ethics
- Compliance: To monitor the compliance of policies and procedures

INTEGRITY GOVERNANCE FRAMEWORK

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.

The Group through its IGU conducts comprehensive programmes, activities and initiatives, coordinate the formulation and continuous enhancements of a culture of integrity and high standards of corporate governance at all times and all levels of operations.

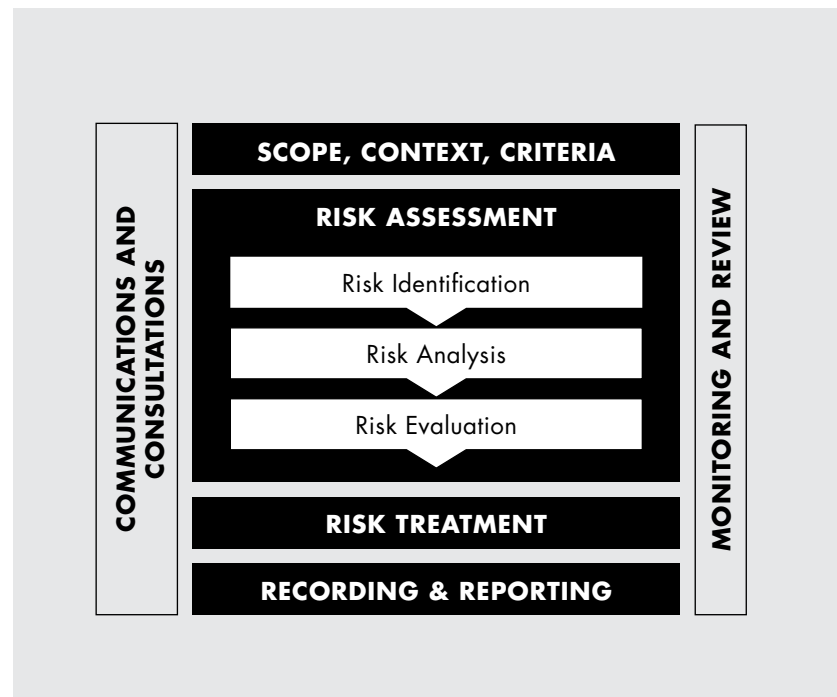
These programmes, activities and initiatives are in line with the requirements of Section 17A of the Malaysian Anti-Corruption Commission Act 2009 (Amendment 2018) in adopting the five (5) main "T.R.U.S.T." principles that act as a defense mechanism against Corporate Liability Provision.

Statement on Risk Management and Internal Control

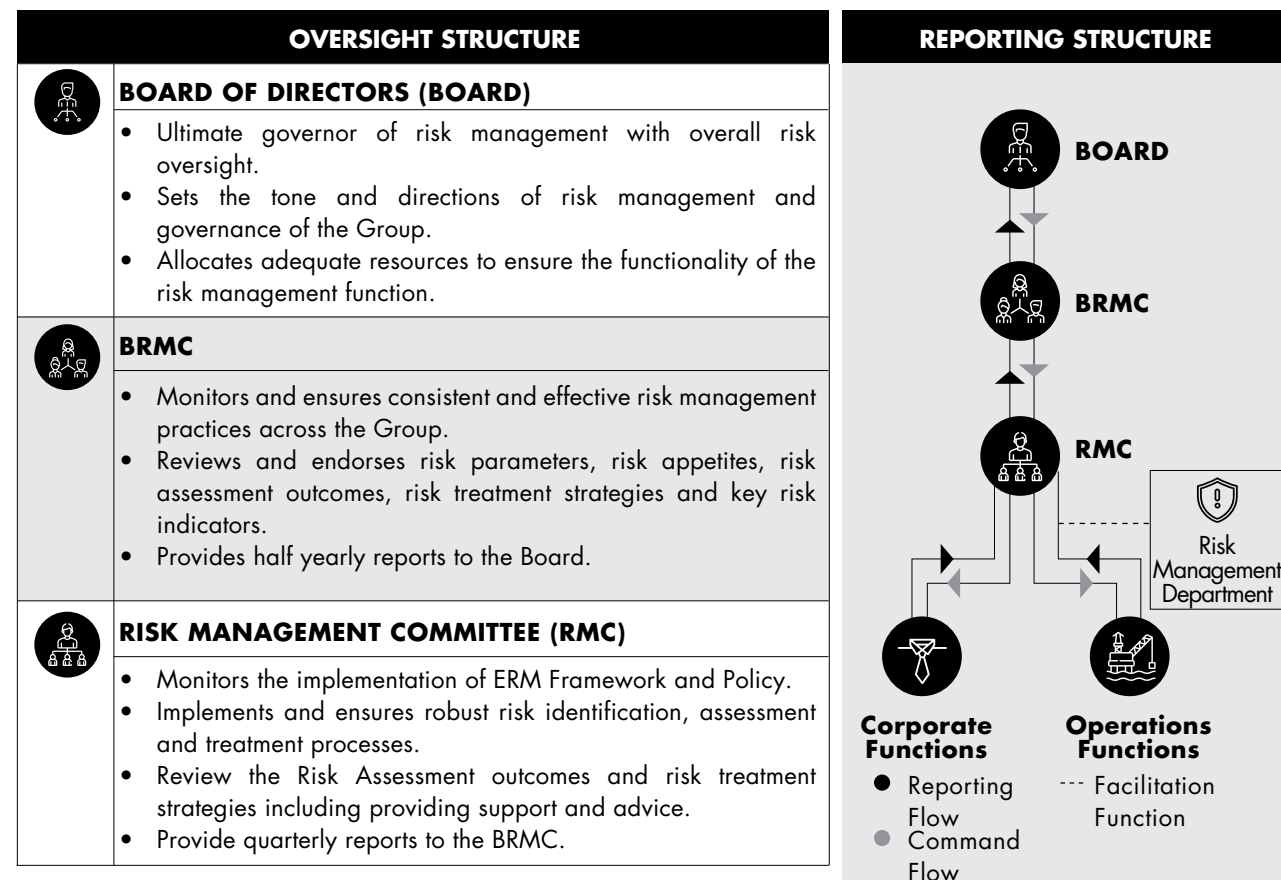
ENTERPRISE RISK MANAGEMENT (ERM)**A. ERM Framework**

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 reference to the 'ISO 31000 Risk Management – Guidelines Standard' saw continuous improvements over the years in practices and operations of the Group's ERM Framework as illustrated in the next diagram.

**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.



Statement on Risk Management and Internal Control

The RMC is assisted by the RMD, whose primary roles include, but not limited to, overseeing effective implementation of risks management and business continuity management framework, programmes and education across the 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 risk management framework, is implementation of the Three Lines of Defence Model which distinguishes the three (3) groups which are involved in the process of adequate risk management:-

BOARD OF DIRECTORS		
BRMC, BAC & BWBC		
LINES OF DEFENCE		
1 st Line: Risk-Taking Units	2 nd Line: Risk-Control Units	3 rd Line: Assurance Units
Strategic Business Units, Divisions & Departments	RMC & RMD	IAD & IGU
<ul style="list-style-type: none"> Manage risks that exist in day-to-day operations and projects diligently. Ensure the business operates 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: <ul style="list-style-type: none"> Risk management frameworks policies and tools are sufficiently robust and consistent, compliant to regulatory standards. Controls to mitigate risks are adequate.

C. The Group's Top Risks

For the FY2021, the following table sets out the Group's Top Risks, key risk action plans and initiatives undertaken to address the six (6) top risk events:

RISK EVENT	RESPONSE
Inability to meet the targeted rig utilisation rate / Hydraulic Workover Unit	The Group continued to tender and bid in local and international markets to market its services and increase rig utilisation. The competitive operating landscape and changes in clients' preference for enhanced rigs features require the upgrading of the Group's fleet of rigs with offline capabilities, continuous improvement of services and focused delivery that promote the Group as the service provider of choice.
Inability to continue operations due to insufficient rig personnel	The Group was actively involved in addressing this risk to avoid disruption to operations through proactive talents sourcing and retention. Monitored numbers of staff especially offshore crews aligned with Sarawak immigration requirements.
Changes in Government policies affecting the local oil and gas industry	The Group continued to keep abreast of developments of government policies at the national state level, monitored its impact on the Group's operations and services and ensured adherence to such policies.
Volatility of global crude oil prices, affecting the offshore drilling services industry	Macroeconomics, geopolitical and technological uncertainties, governmental actions and other factors impact the global crude oil prices, which in turn impact the spending pattern of oil majors and the demand for offshore drilling services. The Group continuously monitor the movement in oil prices, market shifts and trends. The Group explored to increase presence in South East Asia and expand internationally. The Group continued to explore business diversification opportunities, instituted effective cost efficiency and focused on high rig utilisation.
Higher tax exposure resulting from changes in methodology and policies	The Group continued to drive tax compliance by enhancement of tax knowledge of the employees, kept abreast of developments of changing tax legislations and engaged with tax advisors and tax authorities.
Pandemic outbreak at VELESTO's facility(ies)	The Group kept abreast with the latest requirements and regulations in relation to pandemic outbreak control measures. Aligned with the Group's HSE practices, the Group continued to review its mode of work arrangements including the adoption of Work-From-Home (WFH) initiatives and implemented strict procedures for working on-site i.e. offices, warehouses and rigs.

Statement on Risk Management and Internal Control

COVID-19 Management and Moving into 2022

FY2021 saw the Group adaption to the new norm of implementation of Standard Operating Procedures as well as implementing a variety of modes of working arrangements to ensure business continuity while the situation normalises. The Group's policies, risk management controls, system and implementation of procedures have allowed the Group to continue business operations including adoption of public health measures, effective communication on COVID-19 vaccines and booster shot to the employees. As of 3 November 2021, all the employees of the Group are fully vaccinated.

Moving into the third year of COVID-19 pandemic in 2022, where the environments are evolving while Malaysia transitions into endemic phase, the Group takes a cautious view as COVID-19 risks remain disruptive and continue to unfold bringing about volatility to risks trend and movements. 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.

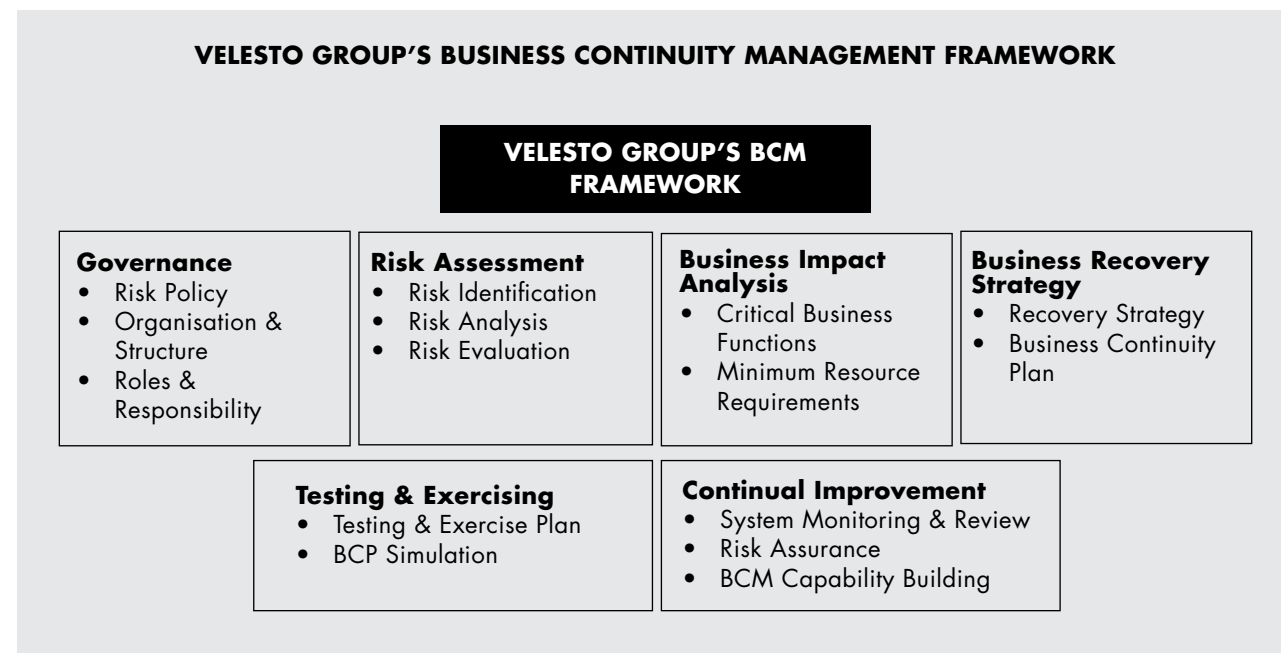
Business Continuity Management (BCM)

The Group's ongoing effort and commitment towards ensuring preparedness in addressing risks in changing operating environments is constantly reinforced in BCM programmes conducted throughout 2021. The Group's BCM Framework, which refers to the ISO 22301:2019 Business Continuity Management System Standard, 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 (4) 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 Programme which identifies key milestones within practical timelines to assist the business continuity capabilities of the Group.

A. BCM Framework

The diagram below illustrates the Group's BCM Framework which provides comprehensive guidelines to protect the Group's resilience.



Statement on Risk Management and Internal Control

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 eight (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 storages
PREMISES	WFH initiative and physical alternate sites
EQUIPMENT AND CONSUMABLES	Emergency procurement arrangement and services
INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT) SYSTEMS	Cloud backups, data replication and IT Disaster Recovery sites
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

In FY2021, with the challenges of the ongoing pandemic, the Group remained focus on the employees well-being while ensuring business continuity with the implementation of Standard Operating Procedures (SOP) of Movement Control Order imposed by relevant authorities, enabling the employees to work under flexible working arrangements remotely. The employees were informed and updated of changes to the SOP as and when implemented by the relevant authorities.

The Crisis Management Team (CMT) activated in 2020 continued to provide oversight on the responses, planning and adoption of the Group's processes to navigate the challenges brought by the new reality of the COVID 19 pandemic. The CMT's responses and recovery approaches were focused on remote technology support for flexible working arrangement, strengthening information security and protection of confidential information, monitoring employees' morale, providing alternative options to clients due to the impact of international and domestic lockdowns including upskilling and redeployment of teams to accommodate continued service delivery. The adoption of WFH initiatives have incidentally stress tested the Group's existing BCM recovery strategies enterprise-wide, and proven reliable in preventing prolonged business disruptions.

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. The committee comprises selected senior division heads and chaired by the Chief Commercial Officer (CCO).

The Group Steering Committee is established to monitor and provide guidance on selected major initiatives of the Group. This committee is chaired by the President and comprises the CFO, CCO and COO.

Statement on Risk Management and Internal Control

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 reported 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 (CoBE)

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:

- (i). ISO 9001:2015 – Quality Management System
- (ii). ISO 14001:2015 – Environmental Management System
- (iii). ISO 45001:2018 – Occupational Health and Safety Management System
- (iv). ISO 29001:2020 – 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) Limit of Authority Matrix serves as a tool of 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 strongly prohibits employees and the Board of VELESTO from committing a corrupt act. It outlines the 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 Malaysian Anti-Corruption Commission (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 interest. 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 and development, performance and consequence management to cessation of employment. Disciplinary procedures are established to ensure that structured disciplinary actions are taken fairly, consistently and in line with the prevailing labour laws and employment regulations.

Statement on Risk Management and Internal Control

(vi) Corporate Gifts, Gift, Entertainment and Hospitality Procedures (CGGEH)

The procedures set out the standard of conduct and procedures to guide employees and the Board members in dealing with CGGEH. Covering legal, ethical and cultural considerations involved when dealings in CGGEH, it establishes a framework to ensure the 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 FY2021 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' interests 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' interests 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 21 April 2022.

Board Audit Committee Report

The Board Audit Committee (BAC) Report provides insights into the manner in which BAC discharged its functions for the Group in FY2021

COMPOSITION

The BAC comprises of four (4) members, all of whom are Non-Executive Directors (NEDs). Majority of the members are 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 Principle B of the Malaysian Code on Corporate Governance 2021 (MCCG 2021).

NON EXECUTIVE DIRECTORS	MAJORITY INDEPENDENT	MIA MEMBERSHIP	INDEPENDENT CHAIRMAN	ALTERNATE DIRECTOR	TERMS OF REFERENCE
4	✓	2	✓	0	✓

The members of BAC comprise of the following:-

RAZALEE AMIN

Chairman, Senior INED

DATUK TONG POH KEOW

INED

IR. DR. MOHD SHAHREEN ZAINOOREEN MADROS

appointed on 16 August 2021

INED

HAIDA SHENNY HAZRI

appointed on 16 August 2021

NINED

DATO' IBRAHIM MARSIDI

retired on 28 June 2021

INED

DATO' DAYANG FATIMAH JOHARI

resigned on 31 July 2021

INED

COMMUNICATIONS

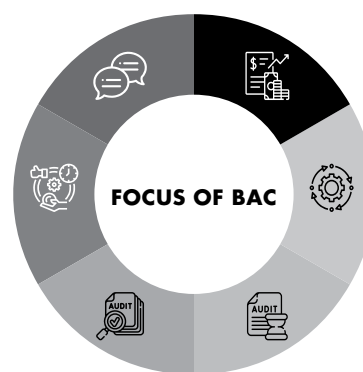
- Deep engagements with the Management
- Updates & recommendations to the Board
- Oversight on reports to the Board & shareholders

EFFECTIVENESS ASSESSMENT

- Review the adequacy & effectiveness of financial reporting & internal control systems

EXTERNAL AUDIT

- Appointment and remuneration
- Scope of work
- Audit findings and recommendations
- Review performance of external auditors
- Independence assessment



FINANCIAL REPORTING

- Compliance with accounting policies, accounting standards & statutory requirements
- Assess financial position and reporting

INTERNAL CONTROL

- Conflict of interest management & related party transactions review
- Assess internal control environment
- Limits of Authority
- Consider findings of Internal & External Audits

INTERNAL AUDIT

- Evaluate Internal Audit Process
- Scope of work
- Assess and recommend on effectiveness of Internal Audit

BAC has six (6) focus areas that are distinct yet holistically complement each other to fulfil 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 Chairman of the BAC, Razalee Amin, is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants, and is also a member of the Financial Planning Association of Malaysia. Accordingly, the BAC complies with the requirement of paragraph 15.09(1) (c)(i) of MMLR.

The Board Nomination & Remuneration Committee (BNRC) had conducted the annual performance evaluation of the BAC and its members for the FY2021, 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 FY2021, 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 FY2021 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 TOR is the vital conduit amongst the Board, the Management, Internal Auditor and External Auditors.

TERMS OF REFERENCE (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>

MEETINGS AND ATTENDANCE

The BAC held seven (7) meetings in FY2021 and the members' attendance records are outlined in Corporate Governance Overview Statement of this Annual Report. Due to the COVID-19 pandemic, the BAC meetings continued to be held virtually. The BAC meetings for the year under review were pre-scheduled in FY2020 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, Head of Legal & Secretarial, Head of Internal Audit, as well as the External Auditors were invited to attend BAC meetings to present, facilitate and furnish information and clarifications to relevant items on the agenda.

The Chairman 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 (5) 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 Head of Legal & Secretarial, acts as secretary to the BAC and the records and proceedings of each meeting are kept by the Company Secretary as evidence that the BAC has discharged its functions. After each meeting, the Chairman of BAC reports to the Board. The approved minutes of BAC meetings were tabled to 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. The list of trainings attended are in the Corporate Governance Overview Statement of this Annual 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:-

A. Financial Reporting

1. During the following meetings, BAC reviewed the following:-
 - (i) On 22 March 2021 - Unaudited fourth quarter financial results of FY2020;
 - (ii) On 24 May 2021 - Unaudited first quarter financial results of FY2021;
 - (iii) On 23 August 2021 - Unaudited second quarter financial results of FY2021;
 - (iv) On 26 November 2021 - Unaudited third quarter financial results of FY2021;
 - (v) On 28 February 2022 - Unaudited fourth quarter financial results of FY2021.

The quarterly financial results for FY2021, 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 FY2021 were presented for approval at the respective Board meetings.

2. On 10 May 2021, BAC reviewed the Audited Financial Statements for FY2020, prior to the approval by the Board on 11 May 2021. In reviewing the above, the BAC also focused on the following:-
 - (i) Impairment Assessment of Assets for FY2020;
 - (ii) Updates on Loan Covenants; and
 - (iii) Report by Internal Audit Division.
3. On 18 April 2022, BAC reviewed and recommended for the Board's approval on the Audited Financial Statements for FY2021.

B. Other Financial Reporting & Other Matters

1. Reviewed and deliberated on related party transactions and recurrent related party transactions for FY2021 for each quarter in accordance with VELESTO Management System Procedure on Related Party Transactions and Recurrent Related Party Transactions.
2. The updates on the loan covenants of the Group for each quarter were presented for notation by BAC.
3. On 24 May 2021, the Management presented to BAC on the proposed engagement of Messrs Ernst & Young PLT (EY) Affiliates as tax agent.
4. On 23 August 2021, the BAC reviewed and deliberated on the structure of VELESTO's Labuan Companies and enhancement of the External Auditors Assessment Policy. In addition, provided guidance on resources management for Finance Division and noted the report by Internal Audit Division.
5. On 26 November 2021, the BAC reviewed and deliberated on the following matters:-
 - (i) Proposed Audit Plan for FY2021;
 - (ii) Impairment Assessment for FY2021;
 - (iii) Update on Enterprise Resources Planning;
 - (iv) Limits of Authority for Labuan Operations;
 - (v) Capitalisation of Intercompany Advances for Velesto Drilling Sdn Bhd;
 - (vi) Tax Updates.

C. Annual Reporting

On 22 March 2021, the BAC reviewed and endorsed the Statement on Risk Management & Internal Control (SORMIC), Corporate Governance Overview Statement, BAC Report and Additional Compliance Information for Board's approval and inclusion in Annual Report 2020.

D. Internal Control

1. Reviewed the effectiveness of the system of internal controls from the findings of Internal and External Audit reports.
2. On 23 August 2021, BAC reviewed the Group's Limits of Authority, which was further enhanced to reflect the current business processes and requirements for improved internal control, governance and operational efficiency.

E. Review of BAC TOR

1. On 26 November 2021, BAC reviewed its TOR as part of periodic review and to ensure it is aligned with MCCG 2021. The revised TOR of BAC was approved by the Board at its meeting on 8 December 2021, which is available on the Company's website.

F. External Audit

1. On 17 February 2021, the External Auditors, EY presented their report on Audit matters arising from the audit for FY2020. On 10 May 2021, BAC deliberated on External Auditors' report on the Audited Financial Statements for FY2020.

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.

2. The BAC at its meeting on 22 March 2021 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.
3. The BAC had two (2) private meetings with the External Auditors on 17 February 2021 and 10 May 2021, 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 recommendations raised by External Auditors and Management's responses and follow up actions thereto. The BAC Chairman welcomed External Auditors to coordinate with the Management to ensure audit efficiency.

4. On 26 November 2021, the BAC reviewed and approved the External Auditors' Audit Plan Memorandum which outlined their scope of work and audit strategy and plans for FY2021, 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.

G. Internal Audit

1. The BAC had on 17 February 2021, reviewed and endorsed the Internal Audit Division's (IAD) 2020 key performance result.

The 2022 Annual Internal Audit Plan was reviewed and approved on 26 November 2021. 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 FY2022 to ensure the adequacy of resources, competencies and coverage of areas to be audited.

2. The Head of IAD, presented the IAD reports at each of the BAC meetings during the year. The Annual Audit Plan was reviewed on a quarterly basis and Head of IAD reported on the following:-
 - (i) The progress of the annual internal audit plan, special review and its key initiatives;
 - (ii) Adequacy of the Management's responses to the audit findings and recommendations; and
 - (iii) Adequacy of IAD resources, training and development.

G. Internal Audit (cont.)

3. The BAC at its quarterly meetings considered the major findings, recommendations and Management's responses and implementation of internal audit issues. All findings from the internal audit reviews were reported to the BAC, Senior Management and the relevant Management of the audited entities.

The respective Management of the audited entities is accountable to ensure proper handling of the audit issues and implementation of their action plans within the time-frame specified. Actions taken by the audited operating units were followed-up by IAD together with the 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. The Division's primary responsibility is to provide an independent and reasonable assurance on the adequacy and effectiveness of the Group's overall system of internal control, risk management, anti-corruption, whistleblowing 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, which was revised and reviewed by the BAC on 23 August 2021 and subsequently approved by the Board on 8 December 2021. The revised Internal Audit Charter incorporate the latest requirement stated in the MCCG 2021. 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 2021 stood at five (5) staff and a total of RM0.76 million (2020:RM0.8 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.

Internal Control Oversight Structure of which IAD is included, is further described under SORMIC of this Annual Report.

RELATED PARTY TRANSACTIONS (RPT) & RECURRENT RPT (RRPT)

The Company has in place a Management System Procedure on RPT and RRPT (MSP RPT) 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, the RPT Secretariat, 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 Report is made in accordance with the resolution passed at the BAC meeting held on 18 April 2022.

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

The amount of audit and non-audit fees incurred by the Company and the Group for the FY2021 is set out in "Directors' Report" under the "Financial Statements" section of this Annual Report.

3. MATERIAL CONTRACTS

There were no material contracts entered into by the Group involving the interest of Directors and/or Major Shareholders, either still subsisting at the end of the FY2021 or entered into since the end of the previous financial year.

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

The Company did not seek any mandate from its shareholders on any recurrent related party transactions of a revenue or trading nature as there was no mandate required for FY2021.

5. 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 Exercised
ESOS Granted to eligible employees of the Group						
1 st ESOS Grant	2019	RM 0.33	130,330,000	109,660,000	0*	0
ESOS Granted to Executive Director of the Company						
1 st 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)						
1 st ESOS Grant	2019	RM 0.33	35,450,000	35,450,000	0*	0

* Subject to vesting condition at the discretion of the ESOS Committee.

Note: The Non-Executive Directors are not eligible to participate in the ESOS.

There was no subsequent ESOS grant in FY2021.

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 five (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.

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 2021.

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 2021 are as follows:

	Group RM'000	Company RM'000
(Loss)/profit for the year	(90,824)	(51,865)
Attributable to:		
Equity holders of the Company	(90,824)	(51,865)
Non-controlling interests	-	-
	(90,824)	(51,865)

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.

FINANCIAL STATEMENT

Directors' Report	147
Statement by Directors	153
Statutory Declaration	153
Independent Auditors' Report	154
Consolidated Statement of Financial Position	159
Consolidated Statement of Comprehensive Income	160
Consolidated Statement of Changes in Equity	161
Consolidated Statement of Cash Flows	163
Statement of Financial Position	165
Statement of Comprehensive Income	166
Statement of Changes in Equity	167
Statement of Cash Flows	168
Notes to the Financial Statements	170

Directors' Report

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
 Razalee Amin
 Rowina Ghazali Seth
 Datuk Tong Poh Keow
 Haida Shenny Hazri
 Dr. Mohd Shahreen Zainooreen Madros (appointed on 25 August 2021)
 Mohd Irwan Ahmad Mustafa @ Mustafa (appointed on 25 August 2021)
 Datuk Ling Kien Sing (appointed on 29 November 2021)
 Megat Zariman Abdul Rahim # (appointed on 25 February 2022)
 Dato' Ibrahim Marsidi (retired on 28 June 2021)
 Rizal Rickman Ramli (retired on 28 June 2021)
 Dato' Dayang Fatimah Johari (resigned on 31 July 2021)
 Rohaizad Darus # (retired on 25 February 2022)

Director of the Company and certain of its subsidiaries.

DIRECTORS OF THE COMPANY'S SUBSIDIARIES

The names of the Directors of the Company's subsidiaries since the beginning of the financial year to the date of this report, excluding those who are already the Directors of the Company, are:

Abdul Hadi Abdul Bari
 Sazlyna Sapiee
 Adrin Shafil Ahmad Nasir
 Kok Chong Mun
 Chong Eu Jin (appointed on 22 February 2021)
 Ong Kok Eng (appointed on 22 February 2021)
 Thum Sook Fun
 Syed Rozhan Syed Hassan *
 Kenzo Yamada *
 Yoichi Onoe *
 Satoru Umezu *
 Mohd Hagitar Awang *
 Rafiza Ghazali *
 Abdul Mutalib Idris (resigned on 22 February 2021)
 Antony Alexander Elliott ^
 Yeo Kiong Pung, George ^

* Ceased to be a director on 5 April 2022 due to dissolution of UMW JDC Drilling Sdn. Bhd.

^ Ceased to be a director on 21 April 2021 due to dissolution of UOT (Thailand) Limited.

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.

Directors' Report

DIRECTORS' BENEFITS (CONT'D.)

The directors' benefits are as follows:

	Group RM'000	Company RM'000
Salaries and other emoluments	1,378	1,378
Fees	700	700
Bonus	108	108
Pension costs - defined contribution plan	219	219
Share options granted under ESOS *	695	695
Benefits-in-kind	155	155
Insurance effected to indemnify directors	46	46
	3,301	3,301

* Eligible to exercise ESOS from 31 October 2022 (subject to Board's approval) to 31 October 2024.

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 2021	Bought	31 December 2021
The Company			
Direct interest			
Razalee Amin	203,000	-	- 203,000
Datuk Ling Kien Sing (appointed on 29 November 2021)	103,700	-	- 103,700
Rohaizad Darus	3,800,000	-	- 3,800,000

	Number of Warrants		
	1 January 2021	Bought	31 December 2021
The Company			
Direct interest			
Rohaizad Darus	100,000	-	- 100,000

DIRECTORS' INTERESTS (CONT'D.)**Employees' Share Option Scheme**

	1 January 2021	Number of Options		31 December 2021
		Vested	Exercised	
The Company				
Direct interest				
Rohaizad Darus	11,400,000	-	-	11,400,000

None of the other Directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

EMPLOYEES' SHARE OPTION SCHEME

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 2021 are as follows:

Expiry date	Exercise price (RM)	Number of options
31 October 2024	0.33	130,330,000

Details of options granted to Directors are disclosed in the section on Directors' Interests in this report.

DIRECTORS' AND OFFICERS' INDEMNITY

The Company maintained a Directors' and Officers' Liability Insurance for the purpose of Section 289 of the Companies Act 2016 in Malaysia, throughout the year, which provide appropriate insurance cover for Directors and officers of the Company. The amount of insurance premium effected for the Directors and officers of the Company during the financial year was RM101,822, and the portion related to Directors only was RM45,820. 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

OTHER STATUTORY INFORMATION (CONT'D.)

- (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: (cont'd.)
- (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) 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.

Directors' Report

AUDITORS (CONT'D.)

Auditors' remuneration is as follows:

	Group RM'000	Company RM'000
Statutory audit		
- Ernst & Young PLT	662	185
- Other auditors	48	-
Other services		
- Ernst & Young PLT	6	6

Signed on behalf of the Board in accordance with a resolution of the directors dated 22 April 2022.

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 159 to 236 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 2021 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 22 April 2022.

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 159 to 236 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed SAZLYNA SAPIEE
at Kuala Lumpur in the Federal Territory
on 22 April 2022.

SAZLYNA SAPIEE
MIA Membership No. 19254

Before me,

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 2021 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 159 to 236.

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 2021, 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 Notes 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 2021 are assets related to the drilling services segment and hydraulic workover operation ("drilling services and hydraulic workover assets") of RM2,265.7 million and RM4.9 million respectively, which collectively represents 76% of the Group's total assets. The accumulated impairment loss on drilling services and hydraulic workover assets as at 31 December 2021 is RM1,929.8 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 uncertainty in the oil and gas industry, significant fluctuations in oil prices observed and impact of COVID-19 pandemic during the financial year, 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.

Independent Auditor's Report to the Members of

VELESTO ENERGY BERHAD (INCORPORATED IN MALAYSIA)

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 2021, 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 2021, the carrying amount of the investment in subsidiaries companies of the Company amounted to RM 997.3 million, representing 44% of the Company's total assets. The accumulated impairment loss on cost of investments in subsidiaries as at 31 December 2021 is RM 2,559.6 million.

As disclosed in Notes 5 to the financial statements, during the financial year, certain subsidiaries with a carrying amount of RM974.4 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;

Independent Auditor's Report to the Members of

VELESTO ENERGY BERHAD (INCORPORATED IN MALAYSIA)

Key audit matters (cont'd.)

Impairment assessment of investments in subsidiaries (cont'd.)

In addressing the matter above, we have performed amongst others the following audit procedures: (cont'd.)

- 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 2021, but does not include the financial statements of the Group and of the Company and our auditors' report thereon. The Group's 2021 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.

Independent Auditor's Report to the Members of

VELESTO ENERGY BERHAD (INCORPORATED IN MALAYSIA)

Auditors' responsibilities for the audit of the financial statements

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

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

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

We communicate with 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.

Independent Auditor's Report to the Members of

VELESTO ENERGY BERHAD (INCORPORATED IN MALAYSIA)

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

Ng Yee Yee

No. 03176/05/2023 J
Chartered Accountant

Kuala Lumpur, Malaysia
22 April 2022

Consolidated Statement of Financial Position

As at 31 December 2021

	Note	2021 RM'000	2020 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	2,294,319	2,720,739
Investment in an associate	6	1,077	1,877
Right-of-use assets	8	8,899	9,990
		2,304,295	2,732,606
Current assets			
Inventories	9	173,518	199,614
Receivables	10	198,687	157,294
Tax recoverable		13,463	5,522
Other investments	12	22,531	97,938
Deposits, cash and bank balances	13	293,512	261,234
		701,711	721,602
TOTAL ASSETS		3,006,006	3,454,208
EQUITY AND LIABILITIES			
Non-current liabilities			
Long term borrowings	14	302,110	871,139
Lease liabilities	8	4,928	5,719
		307,038	876,858
Current liabilities			
Short term borrowings	15	279,916	182,663
Lease liabilities	8	2,742	5,577
Payables	16	154,345	110,401
Tax payable		3,863	7,903
		440,866	306,544
Total liabilities		747,904	1,183,402
Equity			
Equity attributable to equity holders of the Company			
Ordinary share capital	17	1,844,817	1,844,817
Other reserves	18	932,279	852,948
Accumulated losses		(518,994)	(428,170)
		2,258,102	2,269,595
Non-controlling interests		-	1,211
Total equity		2,258,102	2,270,806
TOTAL EQUITY AND LIABILITIES		3,006,006	3,454,208

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 2021

	Note	2021 RM'000	2020 RM'000
Revenue	19	377,509	546,936
Other operating income	20	563,857	10,571
Finished goods purchased		(1,968)	-
Raw materials and consumables used		(50,529)	(37,495)
Employee benefits	21	(117,049)	(117,729)
Depreciation and amortisation		(157,013)	(242,651)
Reversal of/(impairment provisions)	22	359	(461,755)
Other operating expenses	23	(660,145)	(116,898)
Loss from operations		(44,979)	(419,021)
Finance costs	24	(40,268)	(65,089)
Investment income	25	2,395	6,910
Share of results of associate		153	227
Loss before tax		(82,699)	(476,973)
Income tax expense	26	(8,125)	(14,759)
Loss net of tax for the year		(90,824)	(491,732)
Other comprehensive loss:			
Foreign currency translation		76,014	(44,558)
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods, net of tax:		76,014	(44,558)
Total comprehensive loss for the year		(14,810)	(536,290)
Loss attributable to:			
Equity holders of the Company		(90,824)	(491,732)
Non-controlling interests		-	-
		(90,824)	(491,732)
Total comprehensive loss attributable to:			
Equity holders of the Company		(14,810)	(536,241)
Non-controlling interests		-	(49)
		(14,810)	(536,290)
Loss per share attributable to equity holders of the Company (sen per share)			
- Basic	27	(1.11)	(5.99)
- Diluted	27	(1.11)	(5.99)

Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2021

	Ordinary share capital RM'000 (Note 17)	Warrant reserve RM'000 (Note 18)	Share options reserve RM'000 (Note 18)	Capital reserve RM'000 (Note 18)	Gain on derecognition of financial liabilities RM'000 (Note 18)	Foreign currency translation reserve RM'000 (Note 18)	Accumulated losses RM'000 (Note 18)	Non-controlling interests RM'000	Total equity RM'000
At 1 January 2021	1,844,817	211,876	7,525	698	78,145	554,704	(428,170)	1,211	2,270,806
Transactions with owners									
Share options granted under ESOS (Note 18)	-	-	3,317	-	-	-	-	-	3,317
Liquidation of subsidiaries (Note 30)	-	-	-	-	-	-	-	(1,211)	(1,211)
Total transactions with owners	-	-	3,317	-	-	-	-	(1,211)	2,106
Loss for the year	-	-	-	-	-	-	(90,824)	-	(90,824)
Other comprehensive income for the year	-	-	-	-	-	76,014	-	-	76,014
Total comprehensive income/(loss) for the year	-	-	-	-	-	76,014	(90,824)	-	(14,810)
At 31 December 2021	1,844,817	211,876	10,842	698	78,145	630,718	(518,994)	-	2,258,102

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

For the financial year ended 31 December 2021

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

For the financial year ended 31 December 2021

OUR FINANCIAL PERFORMANCE

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2021

	2021 RM'000	2020 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term borrowings	(707,169)	-
Net movement in short term borrowings	195,468	(235,454)
Net movement of restricted cash deposits in licensed banks	54,967	13,801
Payment of lease liabilities	(6,631)	(1,235)
Net cash used in financing activities	(463,365)	(222,888)
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,258	37,460
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	203,331	168,279
EFFECTS OF EXCHANGE RATE CHANGES	8,911	(2,408)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	244,500	203,331
Cash and cash equivalents comprise:		
Deposits with licensed banks (Note 13)	239,826	176,421
Cash and bank balances (Note 13)	53,686	84,813
	293,512	261,234
Less: Restricted cash (Note 13)	(2,936)	(57,903)
Less: Deposits with a maturity of more than 3 months (Note 13)	(46,076)	-
	244,500	203,331

Statement of Financial Position

As at 31 December 2021

	Note	2021 RM'000	2020 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	12,668	6,658
Investments in subsidiaries	5	997,328	998,876
Due from related companies	11	935,369	874,428
Right-of-use assets	8	2,113	2,622
		1,947,478	1,882,584
Current assets			
Receivables	10	664	820
Tax recoverable		7,877	5,280
Due from related companies	11	288,281	298,656
Other investments	12	-	45,263
Deposits, cash and bank balances	13	47,150	4,281
		343,972	354,300
TOTAL ASSETS		2,291,450	2,236,884
EQUITY AND LIABILITIES			
Non-current liability			
Due to related company	11	328,986	453,184
Lease liabilities	8	426	475
		329,412	453,659
Current liabilities			
Payables	16	5,763	3,664
Due to related companies	11	124,196	2,109
Lease liabilities	8	1,647	2,202
		131,606	7,975
Total liabilities		461,018	461,634
Equity			
Equity attributable to equity holders of the Company			
Ordinary share capital	17	1,844,817	1,844,817
Other reserves	18	297,676	294,359
Accumulated losses		(312,061)	(363,926)
Total equity		1,830,432	1,775,250
TOTAL EQUITY AND LIABILITIES		2,291,450	2,236,884

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

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 2021

	Note	2021 RM'000	2020 RM'000
Revenue	19	11,524	11,706
Other operating income	20	42,939	955
Employee benefits	21	(24,761)	(25,089)
Depreciation and amortisation		(3,021)	(3,096)
Impairment losses	22	(1,720)	(406,860)
Other operating expenses	23	(7,395)	(24,339)
Profit/(loss) from operations		17,566	(446,723)
Finance costs	24	(84)	(193)
Investment income	25	34,499	47,478
Profit/(loss) before tax		51,981	(399,438)
Income tax expense	26	(116)	(6)
Profit/(loss) for the year, representing total comprehensive income/(loss) for the year		51,865	(399,444)

Statement of Changes in Equity

For the financial year ended 31 December 2021

	Non-distributable				(Accumulated losses)/ distributable retained profit	Total equity
	Ordinary share capital RM'000 (Note 17)	Warrant reserve RM'000 (Note 18)	Share options reserve RM'000 (Note 18)	Gain on derecognition of financial liabilities RM'000 (Note 18)	RM'000	RM'000
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
At 1 January 2020	4,054,817	211,876	718	78,145	(2,174,482)	2,171,074
Transactions with owners						
Share options granted under ESOS (Note 18)	-	-	3,620	-	-	3,620
Share capital reduction (Note 17)	(2,210,000)	-	-	-	2,210,000	-
Total transactions with owners	(2,210,000)	-	3,620	-	2,210,000	3,620
Total comprehensive loss for the year	-	-	-	-	(399,444)	(399,444)
At 31 December 2020	1,844,817	211,876	4,338	78,145	(363,926)	1,775,250

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

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 2021

	2021 RM'000	2020 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	51,981	(399,438)
Adjustments for:		
Depreciation and amortisation	3,021	3,096
Interest expense	84	193
Investment income	(34,499)	(47,478)
Net unrealised foreign exchange (gain)/loss	(40,384)	20,393
Share options granted under ESOS	3,317	3,620
Property, plant and equipment written off	136	-
Gain on liquidation of subsidiaries	(1,597)	-
Net fair value gain on investments in money market fund	-	33
(Reversal of)/provision for unutilised leave	(12)	285
Provision for impairment losses in investments in subsidiaries	-	377,205
Provision for impairment losses in amount due from subsidiaries	1,720	29,655
Operating loss before working capital changes	(16,233)	(12,436)
Decrease/(increase) in other receivables	156	(144)
Increase/(decrease) in other payables	2,111	(2,152)
Net changes in related companies' balances	21,781	2,802
Net cash generated from/(used in) operations	7,815	(11,930)
Tax paid	(2,713)	(3,669)
Net cash generated from/(used in) operating activities	5,102	(15,599)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from deposits with licensed banks	80	163
Advances to subsidiary	-	(138,057)
Repayment of advances from subsidiary	-	74,399
Purchase of plant and equipment	(6,778)	(5,277)
Proceeds from disposal of investment in subsidiaries	1,028	-
Withdrawal of investments in money market fund	45,263	74,725
Dividends received from other investments	742	2,040
Movement in deposits placement with maturity of more than 3 months	(46,076)	-
Net cash (used in)/generated from investing activities	(5,741)	7,993

Statement of Cash Flows

For the financial year ended 31 December 2021

	2021 RM'000	2020 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of lease liabilities, representing net cash used in financing activities	(2,568)	(26)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,207)	(7,632)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	4,281	11,913
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	1,074	4,281
Cash and cash equivalents comprise:		
Deposits with licensed banks (Note 13)	46,676	3,900
Cash and bank balances (Note 13)	474	381
	47,150	4,281
Less: Deposits with a maturity of more than 3 months	(46,076)	-
	1,074	4,281

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

Notes to the Financial Statements

31 December 2021

1 CORPORATE INFORMATION

Velesto Energy Berhad ("VEB") is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia"). The registered office of VEB is located at Level 18, Block 3A, Plaza Sentral, Jalan Stesen Sentral 5, 50470 Kuala Lumpur.

The principal activity of the Company is to carry on the business of an investment holding company and to provide full corporate management, administrative and professional services as well as financial support to its subsidiary companies. The principal activities of the subsidiaries and associate are described in Notes 30 and 6, respectively.

The Group is principally engaged in:

- (a) the provision of drilling services for exploration, development and production wells and workover services to the upstream sector of the oil and gas industry; and
- (b) the provision of threading, inspection and repair services for Oil Country Tubular Goods ("OCTG") in overseas, with a focus on premium connections used in high-end and complex wells.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 22 April 2022.

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 2021, 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 2021 as described fully in Note 2.3.

MASB has also issued new and revised MFRSs which are not yet effective for the Group and the Company and therefore, have not been implemented by the Group and the Company in these financial statements as set out in Note 2.4.

The financial statements of the Group and of the Company have been prepared on a historical cost basis unless otherwise indicated in the accounting policies below.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

The preparation of financial statements in conformity with the provisions of the Companies Act 2016 and MFRSs in Malaysia, requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported year. Actual results could differ from those estimates. There are no areas involving a higher degree of judgement or complexity, or areas where estimates and assumptions are significant to the financial statements other than as disclosed in Note 3.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies

(a) Basis of consolidation, subsidiaries and associate

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the Company and its subsidiaries used in the preparation of the consolidated financial statements are prepared as of the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The Company controls an investee if and only if the Company has all the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its investment with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting rights of an investee, the Company considers the following in assessing whether or not the Company's voting rights in an investee are sufficient to give it power over the investee:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Subsidiaries are consolidated from the effective date of acquisition, being a date on which the Group obtains control, and continue to be consolidated until the date that such control ceases, being the effective date of disposal.

Intragroup transactions, balances and resulting unrealised gains are eliminated in full on consolidation. The consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless the cost cannot be recovered.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of significant accounting policies (cont'd.)****(a) Basis of consolidation, subsidiaries and associate (cont'd.)****(i) Basis of consolidation (cont'd.)****Loss of control**

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets and liabilities of the subsidiary and any goodwill outstanding (net of any non-controlling interest) at the date the Group loses control, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of an investment in an associate.

Business combinations

Business combinations, other than business combinations under common control, are accounted for using the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. For business combinations after 1 January 2011, acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 9 Financial Instruments is measured at fair value with the changes in fair value recognised in profit or loss in accordance with MFRS 9. Other contingent consideration that is not within the scope of MFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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

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

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.)**

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.

(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).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of significant accounting policies (cont'd.)****(a) Basis of consolidation, subsidiaries and associate (cont'd.)****(iv) Equity method of accounting**

Under the equity method, the investments in associate are carried in the consolidated statement of financial position at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in profit or loss. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes.

In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss. An associate is equity accounted for from the date on which the investee becomes an associate.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the year in which the investment is acquired.

When the Group's share of losses in the associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available audited financial statements of the associate are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting year of the Group. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

(v) Separate financial statements

In the separate financial statements of the Company, investments in subsidiaries and associate are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of significant accounting policies (cont'd.)****(b) Property, plant and equipment (cont'd.)**

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. The useful lives of certain property, plant and equipment were revised in the previous financial year (see Note 4).

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of significant accounting policies (cont'd.)****(c) Financial assets (cont'd.)****Subsequent measurement (cont'd.)****(ii) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statements of financial position at fair value with the net changes in fair value recognised in the statements of profit or loss.

The Group's and the Company's financial assets at fair value through profit or loss include investment in money market fund.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of significant accounting policies (cont'd.)****(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).

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of significant accounting policies (cont'd.)****(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 consumables - Weighted average

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of significant accounting policies (cont'd.)****(h) Foreign currencies (cont'd.)****(ii) Foreign currency transactions**

Transactions in currencies other than the Company's and its subsidiaries' functional currency ("foreign currencies") are initially converted into functional currency at rates of exchange ruling at the transaction dates.

Non-monetary items

At each 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of significant accounting policies (cont'd.)****(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of significant accounting policies (cont'd.)****(n) Revenue and other income recognition (cont'd.)****(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.

(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.

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.)****(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).

(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.

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.)****(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of significant accounting policies (cont'd.)****(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of significant accounting policies (cont'd.)****(s) Fair value measurement (cont'd.)****Financial instruments**

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

(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 transaction (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 2021, 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 2021.

Description	Effective date
Amendments to MFRS 4 Insurance Contracts (Interest Rate Benchmark Reform-Phase 2)	1 January 2021
Amendments to MFRS 7 Financial Instruments: Disclosures (Interest Rate Benchmark Reform-Phase 2)	1 January 2021
Amendments to MFRS 9 Financial Instruments (Interest Rate Benchmark Reform-Phase 2)	1 January 2021
Amendments to MFRS 16 Leases (Interest Rate Benchmark Reform-Phase 2)	1 January 2021
Amendments to MFRS 139 Financial Instruments: Recognition and Measurement (Interest Rate Benchmark Reform-Phase 2)	1 January 2021
Amendments to MFRS 16 Leases (Covid-19-Related Rent Concessions beyond 30 June 2021)	1 April 2021

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. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective

The pronouncements that are issued but not yet effective up to the date of issuance of the Group's and 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.

Description	Effective for annual periods beginning on or after
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 (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
MFRS 17 Insurance Contracts	1 January 2023
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
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.

(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 expectancies applied in the respective industries. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amount of the Group's 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 with forward-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.

Notes to the Financial Statements

31 December 2021

4. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings RM'000	Rigs, HWUs and drilling equipment RM'000	Plant and machinery RM'000	Assets-in- progress RM'000	**Other assets RM'000	Total RM'000
Cost						
At 1 January 2020	20,042	6,614,043	23,640	11,571	33,155	6,702,451
Exchange differences	1,048	(119,498)	554	(182)	4,812	(113,266)
Additions	-	40,912	-	16,430	1,444	58,786
Write-offs	-	(912)	-	-	(26)	(938)
Disposals	-	(1,043)	-	-	-	(1,043)
Reclassification	-	8,522	-	(8,522)	-	-
At 31 December 2020/1 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	22,363	5,824,563	24,815	41,101	39,439	5,952,281
Accumulated depreciation						
At 1 January 2020	2,238	1,458,088	9,987	-	28,000	1,498,313
Exchange differences	121	(38,427)	395	-	4,478	(33,433)
Depreciation charge for the year	398	236,596	232	-	1,262	238,488
Write-offs	-	(354)	-	-	(26)	(380)
Disposals	-	(800)	-	-	-	(800)
At 31 December 2020/1 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	3,349	1,660,859	11,345	-	34,523	1,710,076

Notes to the Financial Statements

31 December 2021

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Group (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
Accumulated impairment losses						
At 1 January 2020	6,637	1,774,225	10,863	-	1,797	1,793,522
Exchange differences	-	(31,109)	-	-	174	(30,935)
Impairment losses (Note 22)	-	460,559	-	-	-	460,559
Disposals	-	(83)	-	-	-	(83)
At 31 December 2020/1 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	6,637	1,928,412	10,863	-	1,974	1,947,886
Net carrying amount						
At 31 December 2021	12,377	2,235,292	2,607	41,101	2,942	2,294,319
At 31 December 2020	11,696	2,683,329	2,717	19,297	3,700	2,720,739
Company				**Other assets RM'000	Assets-in- progress RM'000	Total RM'000
Cost						
At 1 January 2020				7,497	171	7,668
Additions				598	4,679	5,277
At 31 December 2020/1 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				8,367	10,902	19,269
Accumulated depreciation						
At 1 January 2020				5,642	-	5,642
Depreciation charge for the year				645	-	645
At 31 December 2020/1 January 2021				6,287	-	6,287
Depreciation charge for the year				632	-	632
Write-offs				(318)	-	(318)
At 31 December 2021				6,601	-	6,601
Net carrying amount						
At 31 December 2021				1,766	10,902	12,668
At 31 December 2020				1,808	4,850	6,658

** included in the other assets are office equipment, furniture and fittings, renovation, improvements and motor vehicles.

Notes to the Financial Statements

31 December 2021

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Whilst crude oil price has improved compared to the end of the previous financial year, the oil companies continue to be prudent with capital expenditure. During the financial year, certain subsidiaries of the Group within the drilling services segment, 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 RM2,265.7 million (2020: RM2,698.3 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 10.8%. For the financial year ended 31 December 2021, no impairment loss was recognised (2020: impairment loss of RM460,559,000).

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. Adjustments to the discount rates are made to factor in the specific amount and timing of the future cash flows in order to reflect a pre-tax discount rate.

The calculation of value-in-use is most sensitive to the utilisation rates, time charter rates and discount rate assumptions. Any adverse change in the key assumptions used in value-in-use calculations would result in further impairment.

Recoverable amount determined based on fair value less costs to sell

The fair value of certain building was determined based on the valuation performed by an independent valuer using the comparable approach. The fair value measurement is derived from inputs based on level 3 of the fair value hierarchy. Further details of the fair value hierarchy are disclosed in Note 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.

Notes to the Financial Statements

31 December 2021

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Sensitivity to changes in assumptions (cont'd.)

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%	(20,686)
	- Decrease by 0.1%	20,686
HWUs		
Discount rate	- Increase by 0.5%	(90)
	- Decrease by 0.5%	90

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 RM721,000.

Change in the useful lives of rigs and drilling equipments

In the previous financial year, the Group revised the useful lives of its rigs and drilling equipment based on the common life expectancies applied in the industries. The effect of the change increase the previous financial year's depreciation by RM22,632,000. There is no revision on useful life during the current financial year.

5. INVESTMENTS IN SUBSIDIARIES

	Company	
	2021 RM'000	2020 RM'000
Unquoted shares, at cost		
In Malaysia	3,087,009	3,088,557
Outside Malaysia	22,902	22,902
Capitalisation of amounts due from subsidiaries	447,031	447,031
	3,556,942	3,558,490
Less: Impairment losses	(2,559,614)	(2,559,614)
	997,328	998,876

The Company performed an impairment review of its investments in certain subsidiaries, where the carrying amount of investments exceeded its recoverable amount in the respective subsidiaries at the reporting date. The review gave rise to the recognition of an impairment loss of investment in subsidiaries of RM Nil (2020: RM377,205,000) as disclosed in Note 22.

Details of the subsidiaries are set out in Note 30.

Notes to the Financial Statements

31 December 2021

5. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

If recoverable amount increase of 5%, this will result in RM22,040,000 (2020: RM42,725,000) decrease in impairment loss of investment in subsidiaries.

6. INVESTMENT IN AN ASSOCIATE

	Group	
	2021 RM'000	2020 RM'000
Unquoted shares, at cost	1,090	1,090
Share of post-acquisition reserves	(13)	787
	1,077	1,877

Details of the associate are as follows:

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2021 %	2020 %
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.

Notes to the Financial Statements

31 December 2021

6. INVESTMENT IN AN ASSOCIATE (CONT'D.)

The financial statements of the associate are not coterminous with that of the Group as its financial year end is 31 March. For the purpose of applying the equity method of accounting, the management accounts for the 12-month period ended 31 December 2021 and 2020 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:

	2021 RM'000	2020 RM'000
Assets and liabilities:		
Current assets	5,407	10,230
Non-current assets	213	10
Total assets	5,620	10,240
Current liabilities, representing total liabilities	2,137	1,608
Results		
Revenue	8,624	8,427
Profit for the year	751	1,135
Total comprehensive income	1,451	1,346

Reconciliation of the summarised financial information presented above to the carrying amount of the Group's interest in associate is as follows:

	2021 RM'000	2020 RM'000
Net assets at 1 January	9,150	9,687
Profit for the year	751	1,135
Dividend paid	(5,452)	(1,883)
Other comprehensive income	700	211
Net assets at 31 December	5,149	9,150
Share of net assets	1,030	1,830
Goodwill	47	47
Carrying value of the Group's interest in associate	1,077	1,877

Notes to the Financial Statements

31 December 2021

7. DEFERRED TAXATION

	Group	
	2021 RM'000	2020 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	2,306	2,381
Deferred tax assets	(2,306)	(2,381)
	-	-

The components and movements of deferred tax liabilities and assets during the financial year, prior to offsetting are as follows:

Deferred tax liabilities:

Group	Accelerated capital allowances RM'000
At 1 January 2020	-
Recognised in profit or loss	2,381
At 31 December 2020/1 January 2021	2,381
Recognised in profit or loss	(75)
At 31 December 2021	2,306

Notes to the Financial Statements

31 December 2021

7. DEFERRED TAXATION (CONT'D.)

Deferred tax assets:

Group (cont'd.)	Unabsorbed capital allowances RM'000	Unutilised tax losses RM'000	Total RM'000
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)
At 1 January 2020	-	-	-
Recognised in profit or loss	(2,226)	(155)	(2,381)
At 31 December 2020	(2,226)	(155)	(2,381)

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Unutilised tax losses	181,086	82,172	68,168	62,808
Unabsorbed capital and reinvestment allowances	45,151	50,033	6,363	5,197
Others	55,416	42,790	4,213	2,051
	281,653	174,995	78,744	70,056

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.

Notes to the Financial Statements

31 December 2021

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 2020	2,573	6,878	297	8,619	18,367
Addition	112	-	140	-	252
Remeasurement	-	660	-	-	660
Exchange differences	25	-	-	-	25
At 31 December 2020/1 January 2021	2,710	7,538	437	8,619	19,304
Addition	-	330	-	-	330
Remeasurement	-	1,831	-	445	2,276
Exchange differences	131	-	-	-	131
At 31 December 2021	2,841	9,699	437	9,064	22,041
Accumulated depreciation					
At 1 January 2020	446	2,294	150	1,434	4,324
Depreciation	54	2,493	147	1,469	4,163
Exchange differences	24	-	-	-	24
At 31 December 2020/ 1 January 2021	524	4,787	297	2,903	8,511
Depreciation	56	2,404	140	1,228	3,828
At 31 December 2021	580	7,191	437	4,131	12,339
Accumulated impairment					
At 1 January 2020/31 December 2020	803	-	-	-	803
At 1 January 2021/31 December 2021	803	-	-	-	803
Net carrying amount					
At 31 December 2021	1,458	2,508	-	4,933	8,899
At 31 December 2020	1,383	2,751	140	5,716	9,990

Included in the right-of-use assets are RM4,933,000 relating to warehouses which is under drilling services segment.

Notes to the Financial Statements

31 December 2021

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 2020	6,642	227	6,869
Additions	-	140	140
Remeasurement	369	-	369
At 31 December 2020/1 January 2021	7,011	367	7,378
Remeasurement	1,852	28	1,880
At 31 December 2021	8,863	395	9,258
Accumulated depreciation			
At 1 January 2020	2,193	112	2,305
Depreciation	2,336	115	2,451
At 31 December 2020/1 January 2021	4,529	227	4,756
Depreciation	2,221	168	2,389
At 31 December 2021	6,750	395	7,145
Net carrying amount			
At 31 December 2021	2,113	-	2,113
At 31 December 2020	2,482	140	2,622
Lease liabilities			

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
At 1 January	11,296	11,987	2,677	4,487
Accretion of interest (Note 24)	399	544	84	193
Additions	330	252	-	140
Remeasurement	2,276	660	1,880	369
Payments	(6,631)	(2,147)	(2,568)	(2,512)
At 31 December	7,670	11,296	2,073	2,677
Current	2,742	5,577	1,647	2,202
Non-current	4,928	5,719	426	475
Total	7,670	11,296	2,073	2,677

Notes to the Financial Statements

31 December 2021

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	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Depreciation expense of right-of-use assets	3,828	4,163	2,389	2,451
Interest expense on lease liabilities (Note 24)	399	544	84	193
Rental of leases of low-value assets and short-term leases (Note 23)	364	69	99	26
Total amount recognised in profit or loss	4,591	4,776	2,572	2,670

9. INVENTORIES

	Group	
	2021 RM'000	2020 RM'000
At cost:		
Raw materials, spare parts and consumables	173,518	199,614

The cost of inventories recognised as an expense during the financial year amounted to RM52,497,000 (2020: RM37,495,000).

Notes to the Financial Statements

31 December 2021

10. RECEIVABLES

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Trade receivables (Note (a))	177,579	147,092	-	-
Other receivables (Note (b))	21,108	10,202	664	820
Total trade and other receivables	198,687	157,294	664	820
Total trade and other receivables	198,687	157,294	664	820
Less:				
Accrued income (Note (a))	(63,451)	(63,673)	-	-
Prepayments (Note (b))	(18,015)	(5,422)	(315)	(301)
	117,221	88,199	349	519
Add:				
Deposits, cash and bank balances (Note 13)	293,512	261,234	47,150	4,281
Due from subsidiaries -				
Non-current (Note 11)	-	-	935,369	874,428
Current (Note 11)	-	-	288,281	298,656
Total financial assets at amortised cost	410,733	349,433	1,271,149	1,177,884

(a) Trade receivables

	Group	
	2021 RM'000	2020 RM'000
Third parties	114,964	84,596
Allowance for impairment (Note (i))	(836)	(1,177)
	114,128	83,419
Accrued income	63,451	63,673
	177,579	147,092

The Group's normal trade credit terms for the financial year ended 31 December 2021 range from 30 days to 60 days (2020: 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.

Notes to the Financial Statements

31 December 2021

10. RECEIVABLES (CONT'D.)

(a) Trade receivables (cont'd.)

The Group has concentration of credit risk in the form of outstanding balances due from 9 (2020: 9) debtors representing 98% (2020: 98%) of the total net trade receivables.

(i) Receivables that are impaired

	Group	
	2021 RM'000	2020 RM'000
Individually impaired		
Trade receivables	836	1,177
Less: Allowance for impairment	(836)	(1,177)
	-	-
Movement in allowance for impairment		
At 1 January	1,177	9
Exchange differences	18	(28)
(Reversal)/charged for the year (Note 22)	(359)	1,196
At 31 December	836	1,177

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	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Deposits	1,147	1,252	295	368
Prepayments (Note (i))	18,015	5,422	315	301
Sundry receivables	1,946	3,528	54	151
	21,108	10,202	664	820

(i) Prepayments mainly comprise insurance premium and advance payments to vendors in respect of certain services.

Notes to the Financial Statements

31 December 2021

11. DUE FROM/(TO) RELATED COMPANIES

	Company	
	2021 RM'000	2020 RM'000
Non-current:		
Due from subsidiaries		
- interest bearing at 2.71% to 3.02% (2020: 3.04% to 4.67%) per annum	1,081,390	1,020,449
Less: Allowance for impairment losses (Note (i))	(146,021)	(146,021)
	935,369	874,428
Current:		
Due from subsidiaries		
- interest bearing at 2.71% to 4.69% (2020: 3.04% to 6.06%) per annum	252,210	393,226
- non-interest bearing	135,917	3,556
	388,127	396,782
Less: Allowance for impairment losses (Note (i))	(99,846)	(98,126)
	288,281	298,656
Total amount due from related companies	1,223,650	1,173,084
Non-current:		
Due to subsidiaries		
- non-interest bearing	(328,986)	(453,184)
Current:		
Due to subsidiaries		
- non-interest bearing	(124,196)	(2,109)
Total amount due to related companies	(453,182)	(455,293)

Amounts due from subsidiaries that are not expected to be realised within twelve months after the reporting period are classified as non-current.

At the reporting date, the Company has provided an allowance of RM1,720,000 (2020: RM29,655,000) for impairment losses of the amount due from subsidiaries as disclosed in Note 22.

(i) Amount due from subsidiaries that are impaired

	Company 2021 RM'000
Movement in allowance for impairment	
At 1 January	244,147
Charged for the year (Note 22)	1,720
At 31 December	245,867

Notes to the Financial Statements

31 December 2021

12. OTHER INVESTMENTS

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Investment in money market fund at fair value through profit or loss	22,531	97,938	-	45,263

13. DEPOSITS, CASH AND BANK BALANCES

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Current:				
Deposits with licensed banks	239,826	176,421	46,676	3,900
Cash and bank balances	53,686	84,813	474	381
	293,512	261,234	47,150	4,281
Less: Restricted cash	(2,936)	(57,903)	-	-
Less: Deposits with a maturity of more than 3 months	(46,076)	-	(46,076)	-
Cash and cash equivalents	244,500	203,331	1,074	4,281

Cash and bank balances amounting to RM2,936,000 (2020: RM57,903,000) are not available for general use by the Group due to restrictions by the lender in respect of the term loan of USD73,800,000 (2020: USD244,272,000) obtained by the Group as disclosed in Note 14.

The range of interest rates per annum of deposits as at the reporting date were as follows:

	Group		Company	
	2021 %	2020 %	2021 %	2020 %
Deposits with licensed banks	0.06 - 2.35	0.08 - 1.80	1.65 - 2.35	1.60 - 1.70

The range of maturities of deposits as at the reporting date were as follows:

	Group		Company	
	2021 Days	2020 Days	2021 Days	2020 Days
Deposits with licensed banks	3 - 174	4 - 81	6 - 174	6 - 22

Notes to the Financial Statements

31 December 2021

14. LONG TERM BORROWINGS

	Group	
	2021 RM'000	2020 RM'000
Secured (Floating rate)		
Term loan	308,189	984,661
Less: Unamortised transaction costs	(6,079)	(11,479)
	302,110	973,182
Less: Amount payable within one year (Note 15)	-	(102,043)
Total long term borrowings	302,110	871,139

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 2021					
Secured					
- Revolving credit	279,916	-	-	-	279,916
- Term loan	-	-	220,493	87,696	308,189
31 December 2020					
Secured					
- Revolving credit	80,620	-	-	-	80,620
- Term loan	105,410	58,942	199,535	620,774	984,661

Notes to the Financial Statements

31 December 2021

14. LONG TERM BORROWINGS (CONT'D.)

Changes in liabilities arising from financing activities:

	Revolving credit RM'000	Group Secured term loan RM'000	Total RM'000
At 1 January 2020	205,050	1,088,202	1,293,252
Drawdown	29,427	-	29,427
Repayment	(155,541)	(109,929)	(265,470)
Amortisation of transaction costs	-	9,320	9,320
Effect of changes in foreign exchange rate	1,684	(14,411)	(12,727)
At 31 December 2020/1 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	279,916	302,110	582,026

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 2021 RM'000	2020 RM'000
Secured (Floating rate)		
Revolving credits	279,916	80,620
Term loans payable within one year (Note 14)	-	105,410
Less: Unamortised transaction costs	-	(3,367)
	-	102,043
Total short term borrowings	279,916	182,663

The range of weighted average effective interest rates per annum at the reporting date for borrowings were as follows:

	Group 2021 % per annum	2020 % per annum
Term loan	3.71	3.26 - 5.44
Revolving credits	2.70 - 4.39	2.50 - 4.90

Notes to the Financial Statements

31 December 2021

16. PAYABLES

	Group 2021 RM'000	2020 RM'000	Company 2021 RM'000	2020 RM'000
Trade payables:				
Third parties	29,414	36,310	-	-
Accruals	65,802	53,206	-	-
	95,216	89,516	-	-
Other payables:				
Accruals	50,434	16,242	4,392	1,872
Provision for unutilised leave	1,300	1,187	768	780
Sundry payables	7,395	3,456	603	1,012
	59,129	20,885	5,763	3,664
Total trade and other payables	154,345	110,401	5,763	3,664
Total trade and other payables	154,345	110,401	5,763	3,664
Less:				
Provision for unutilised leave	(1,300)	(1,187)	(768)	(780)
Add:				
Lease liabilities (Note 8)	7,670	11,296	2,073	2,677
Long term borrowings (Note 14)	302,110	871,139	-	-
Short term borrowings (Note 15)	279,916	182,663	-	-
Due to subsidiaries (Note 11)	-	-	453,182	455,293
Total financial liabilities carried at amortised cost	742,741	1,174,312	460,250	460,854

Trade payables are non-interest bearing and are normally settled within 30 days to 60 days (2020: 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 (2020: 30 days to 90 days).

Notes to the Financial Statements

31 December 2021

17. ORDINARY SHARE CAPITAL

	Group and Company	
	Number of ordinary shares '000	Share capital RM'000
At 1 January 2020	8,215,600	4,054,817
Share capital reduction	-	(2,210,000)
At 31 December 2020/1 January 2021/31 December 2021	8,215,600	1,844,817

On 29 June 2020, the shareholders of the Company has approved the Proposed Share Capital Reduction, which entailed the reduction and cancellation of RM2,210,000,000 of its issued share capital pursuant to Section 116 of the Companies Act, 2016 ("Act") ("Share Capital Reduction"). The reduction in share capital was made against the accumulated losses of the Company.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction and rank equally with regards to the Company's residual assets.

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.

18. OTHER RESERVES (CONT'D.)

(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.
- (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.

Notes to the Financial Statements

31 December 2021

Notes to the Financial Statements

31 December 2021

18. OTHER RESERVES (CONT'D.)

(b) Share options reserve (cont'd.)

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 2020	0.33	109,580
Adjusted *	-	(15,460)
Outstanding at 31 December 2020/1 January 2021	0.33	94,120
Adjusted *	-	(11,490)
Outstanding at 31 December 2021	0.33	82,630

* Adjustment on termination of employment.

The remaining contractual life for these options outstanding as at 31 December 2021 was 3 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

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.

Notes to the Financial Statements

31 December 2021

18. OTHER RESERVES (CONT'D.)

(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	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Revenue from lease contracts:				
Leasing of drilling rigs and hydraulic workover units	183,516	251,420	-	-
Revenue from contracts with customers:				
Drilling and workover services	142,886	224,620	-	-
Sale of goods	15,012	18,727	-	-
Rendering of services	36,095	52,169	-	-
Revenue from other sources:				
Management fees from subsidiaries	-	-	11,524	11,706
	377,509	546,936	11,524	11,706

Timing of recognition

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Goods and services transferred at a point in time	15,012	19,362	-	-
Services transferred over time	362,497	527,574	11,524	11,706
	377,509	546,936	11,524	11,706

Notes to the Financial Statements

31 December 2021

20. OTHER OPERATING INCOME

Included in other operating income are:

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Insurance claim (Note 35)	560,850	-	-	-
Gain on sale of investment	2,102	12	1,597	12
Gain on disposal of property, plant and equipment	163	31	-	-
Rental income	254	40	800	792
Net fair value gain on investments in money market fund	19	-	-	-
Net foreign exchange gain	-	10,311	40,430	-

21. EMPLOYEE BENEFITS

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Wages and salaries	81,298	83,543	16,782	16,857
Social security costs	502	561	85	94
Provision for/(reversal of) unutilised leave	208	409	(12)	285
Pension costs - defined contribution plan	6,562	6,765	2,688	2,454
Share options granted under ESOS	3,317	3,620	3,317	3,620
Other employee related expenses	25,162	22,831	1,901	1,779
	117,049	117,729	24,761	25,089

Included in employee benefits is executive director's remuneration as follows:

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Salaries and other emoluments	1,275	1,475	1,275	1,475
Pension costs - defined contribution plan	219	219	219	219
Share options granted under ESOS	695	695	695	695
Benefits-in-kind	106	137	106	137

Notes to the Financial Statements

31 December 2021

22. (REVERSAL OF)/IMPAIRMENT LOSSES

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Property, plant and equipment (Note 4)	-	460,559	-	-
Investment in subsidiaries (Note 5)	-	-	-	377,205
Trade receivables (Note 10)	(359)	1,196	-	-
Amount due from subsidiaries (Note 11)	-	-	1,720	29,655
	(359)	461,755	1,720	406,860

23. OTHER OPERATING EXPENSES

Included in other operating expenses are:

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Non-executive directors' remuneration:				
- fees	781	860	781	860
- meeting allowances	210	223	210	223
- other emoluments	72	28	72	28
Rental of premises	716	628	74	293
Rental of leases of low-value assets and short-term leases (Note 8)	364	69	99	26
Rental of equipment, barge and rig	1,492	5,505	88	75
Repair and maintenance of equipment and rigs	31,481	18,792	13	49
Auditors' remuneration:				
Statutory audit				
- auditors of the Company	662	703	185	185
- other auditors	48	43	-	-
Other services				
- auditors of the Company	6	235	6	71
Net fair value loss on investments in money market fund	-	33	-	33
Property, plant and equipment written off	438,981	558	136	-
Net foreign exchange loss	4,990	-	-	20,362
Trade receivables written off	359	-	-	-
Inventories written off	28,288	2,361	-	-

Both property, plant and equipment as well as inventories written off includes items related to Naga 7.

Notes to the Financial Statements

31 December 2021

23. OTHER OPERATING EXPENSES (CONT'D.)

	Directors' fees		*Other emoluments	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Group and Company				
Non-executive directors:				
Dato' Abdul Rahman Ahmad (resigned on 10 June 2020)	-	53	-	8
Razalee Amin	110	107	38	36
Dato' Ibrahim Marsidi (retired on 28 June 2021)	53	105	15	37
Mohd Rashid Mohd Yusof	120	109	66	24
Haida Shenny Hazri	98	91	26	24
Rowina Ghazali Seth	105	102	36	33
Rizal Rickman Ramli*** (retired on 28 June 2021)	48	95	10	25
Dato' Dayang Fatimah Johari (resigned on 31 July 2021)	58	100	14	33
Datuk Tong Poh Keow	110	98	40	31
Dr. Mohd Shahreen Zainooreen Madros (appointed on 25 August 2021)	37	-	22	-
Mohd Irwan Ahmad Mustafa @ Mustafa*** (appointed on 25 August 2021)	34	-	14	-
Datuk Ling Kien Sing (appointed on 29 November 2021)	8	-	1	-
	781	860	282	251

	Directors' fees		**Other emoluments	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Group and Company				
Executive director:				
Rohaizad Darus	-	-	1,600	1,831

* 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.

Notes to the Financial Statements

31 December 2021

24. FINANCE COSTS

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Interest expenses				
- Bank borrowings	39,441	63,835	-	-
- Lease liabilities (Note 8)	399	544	84	193
- Others	428	710	-	-
	40,268	65,089	84	193

25. INVESTMENT INCOME

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Distribution income from:				
- Money market fund	1,555	3,676	742	2,040
Interest income from:				
- Deposits with licensed banks	840	3,234	80	163
- Subsidiaries	-	-	33,677	45,275
	2,395	6,910	34,499	47,478

26. INCOME TAX EXPENSE

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Income tax:				
Malaysian income taxes	3,718	11,183	2	6
Foreign income taxes	3,014	382	-	-
	6,732	11,565	2	6
Under provision in prior years:				
Malaysian income taxes	1,352	3,104	114	-
Foreign income taxes	41	90	-	-
	1,393	3,194	114	-
Total income tax expense	8,125	14,759	116	6

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2020: 24%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Notes to the Financial Statements

31 December 2021

26. INCOME TAX EXPENSE (CONT'D.)

Reconciliations between tax expense and the accounting (loss)/profit multiplied by the applicable corporate tax rate for the years ended 31 December 2021 and 2020 are as follows:

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
(Loss)/profit before tax	(82,699)	(476,973)	51,981	(399,438)
Taxation at Malaysian statutory rate of 24% (2020: 24%)	(19,848)	(114,474)	12,475	(95,865)
Effect of different tax rates in other jurisdictions	(17,342)	105,382	-	-
Income not subject to tax	(23,593)	(9,569)	(16,384)	(9,077)
Expenses not deductible for tax purposes	41,954	26,049	1,824	103,552
Utilisation of previously unrecognised unabsorbed capital allowances	-	(1,022)	-	-
Deferred tax assets recognised on previously unrecognised tax losses	-	(113)	-	(113)
Deferred tax assets not recognised	25,598	5,366	2,085	1,509
Under provision of income tax in prior years	1,393	3,194	116	-
Share of results of associate	(37)	(54)	-	-
Tax expense for the year	8,125	14,759	116	6

27. LOSS PER SHARE

	Group	
	2021	2020
Net loss attributable to equity holders (RM'000)	(90,824)	(491,732)
Weighted average number of ordinary shares in issue ('000)		
- Basic/diluted	8,215,600	8,215,600
Loss per share (sen):		
- Basic	(1.11)	(5.99)
- Diluted	(1.11)	(5.99)

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 (2020: 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.

Notes to the Financial Statements

31 December 2021

28. COMMITMENTS

	Group		Company	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
(a) Capital commitments				
Approved and contracted for:				
- equipment, plant and machinery	61,308	11,617	-	-
- others	6,401	8,712	6,236	8,708
	67,709	20,329	6,236	8,708
Approved but not contracted for:				
- land and buildings	4,431	4,277	-	-
- equipment, plant and machinery	96,720	78,442	-	-
- others	4,790	2,666	4,561	2,312
	105,941	85,385	4,561	2,312
Total capital commitments	173,650	105,714	10,797	11,020

29. SEGMENT REPORTING

For management purposes, the Group is organised into business segments based on the nature of services and has 3 operating segments as follows:

- 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;
- The oilfield services segment principally provide hydraulic workover operation, premium OCTG threading, repair and inspection services. 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; and
- 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.

There has been no differences in the basis of segmentation or the basis of measurement of segment profit or loss as compared to the previous financial year.

Notes to the Financial Statements

31 December 2021

29. SEGMENT REPORTING (CONT'D.)

(a) Business segments

31 December 2021	Drilling services RM'000	Oilfield services RM'000	Others RM'000	Eliminations RM'000	Note	Per consolidated financial statements RM'000
Revenue:						
External customers	359,294	17,074	1,141	-		377,509
Inter-segment	-	-	1,297	(1,297)	i	-
Total revenue	359,294	17,074	2,438	(1,297)		377,509
Results:						
Depreciation and amortisation	(149,562)	(4,235)	(3,216)	-		(157,013)
Reversal of impairment provision	359	-	-	-		(359)
Finance costs	(40,268)	-	-	-		(40,268)
Investment income	680	566	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 before tax	(40,609)	(4,262)	(36,531)	(1,297)		(82,699)
Income tax expense	(8,056)	(356)	287	-		(8,125)
Segment loss after tax	(48,665)	(4,618)	(36,244)	(1,297)		(90,824)
Assets:						
Investment in an associate	-	1,077	-	-		1,077
Additions to non-current assets	64,905	48	6,777	203	iii	71,933
Segment assets	2,804,462	91,584	109,960	-		3,006,006
Liabilities:						
Segment liabilities	710,772	12,304	24,828	-		747,904

Notes to the Financial Statements

31 December 2021

29. SEGMENT REPORTING (CONT'D.)

(a) Business segments (cont'd.)

31 December 2020	Drilling services RM'000	Oilfield services RM'000	Others RM'000	Eliminations RM'000	Note	Per consolidated financial statements RM'000
Revenue:						
External customers	535,622	10,479	835	-		546,936
Inter-segment	-	-	427	(427)	i	-
Total revenue	535,622	10,479	1,262	(427)		546,936
Results:						
Depreciation and amortisation	(235,148)	(4,235)	(3,268)	-		(242,651)
Impairment losses	(461,206)	(549)	-	-		(461,755)
Finance costs	(65,074)	(15)	-	-		(65,089)
Investment income	2,894	662	3,354	-		6,910
Share of results of associate	-	227	-	-		227
Other material non-cash items	819	-	(2,253)	-	ii	(1,434)
Segment loss before tax	(444,717)	(4,846)	(26,983)	(427)		(476,973)
Income tax expense	(14,367)	(412)	20	-		(14,759)
Segment loss after tax	(459,084)	(5,258)	(26,963)	(427)		(491,732)
Assets:						
Investment in an associate	-	1,877	-	-		1,877
Additions to non-current assets	53,495	71	5,220	-	iii	58,786
Segment assets	3,181,662	116,160	156,386	-		3,454,208
Liabilities:						
Segment liabilities	1,117,985	35,398	30,019	-		1,183,402

Notes to the Financial Statements

31 December 2021

29. SEGMENT REPORTING (CONT'D.)

(a) Business segments (cont'd.)

The following are the nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements:

- i. Inter-segment revenue are eliminated on consolidation.
- ii. Other material non-cash income/(expenses) consist of the following items as presented in the respective notes to the consolidated financial statements:

	Note	2021 RM'000	2020 RM'000
Net gain on disposal of property, plant and equipment	20, 23	163	31
Net fair value gain/(loss) on investments in money market fund	20, 23	19	(33)
Net unrealised foreign exchange (loss)/gain		(3,142)	2,746
Property, plant and equipment written off	23	(438,981)	(558)
Share options granted under ESOS	21	(3,317)	(3,620)
		(445,258)	(1,434)

- iii. Additions to non-current assets consist:

	Note	2021 RM'000	2020 RM'000
Property, plant and equipment	4	71,933	58,786

(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 2021			
Revenue from external customers	367,067	10,442	377,509
Non-current assets	2,286,945	16,273	2,303,218
31 December 2020			
Revenue from external customers	538,056	8,880	546,936
Non-current assets	2,714,914	15,815	2,730,729

Non-current assets information presented above consist of the following items as presented in the consolidated statement of financial position:

	2021 RM'000	2020 RM'000
Property, plant and equipment	2,294,319	2,720,739
Right-of-use assets	8,899	9,990
	2,303,218	2,730,729

Notes to the Financial Statements

31 December 2021

30. SUBSIDIARIES

			Proportion of ownership interest	
Name of company	Country of incorporation	Principal activities	2021 %	2020 %
Subsidiaries of the Company:				
UMW JDC Drilling Sdn. Bhd. ¹	Malaysia	Provision of drilling operations for the oil and gas industry	-	85
Velesto Malaysian Ventures Sdn. Bhd.	Malaysia	Investment holding	100	100
Velesto Singapore Ventures Pte. Ltd.	Singapore	Investment holding	100	100
Velesto Rig Asset (L) Ltd.	Malaysia	Investment holding	100	100
Sumber Ribu Sdn. Bhd.	Malaysia	Provision for treasury management services	100	100
Sumber Wang (L) Ltd.	Malaysia	Provision for treasury management services	100	100
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

Notes to the Financial Statements

31 December 2021

30. SUBSIDIARIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2021 %	2020 %
Subsidiaries of: (cont'd.) Velesto Malaysian Ventures Sdn. Bhd. Velesto Singapore Ventures Pte. Ltd. Velesto Rig Asset (L) Ltd.				
Velesto Drilling 5 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 6 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 7 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling 8 (L) Ltd.	Malaysia	Ownership and leasing of rig	100	100
Velesto Drilling Academy Sdn. Bhd.	Malaysia	Provision of training and courses in relation to oil and gas drilling activities	100	100
Velesto 1 Pte. Ltd.	Singapore	Ownership and leasing of rig	100	100
Velesto 3 Pte. Ltd.	Singapore	Dormant	100	100
Velesto Drilling Ltd.	Cayman Islands	Contract drilling operations and other engineering services for oil and gas exploration, development and production	100	100
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
UOT (Thailand) Limited ²	Thailand	Provision of threading, inspection, repair and maintenance services for OCTG	-	58.8

Notes to the Financial Statements

31 December 2021

30. SUBSIDIARIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2021 %	2020 %
Subsidiaries of: (cont'd.) Velesto Malaysian Ventures Sdn. Bhd. Velesto Singapore Ventures Pte. Ltd. Velesto Rig Asset (L) Ltd.				
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 2022.² The company was dissolved on 21 April 2021.

* Audited by firms other than Ernst & Young PLT.

(a) Liquidation of subsidiaries

The Group completed liquidation of subsidiaries in 2021 as detailed below:

Name of company	Country of incorporation	Principal activities	Previous equity interest %
UMW JDC Drilling Sdn. Bhd.	Malaysia	Provision of drilling operations for the oil and gas industry	85
UOT (Thailand) Limited	Thailand	Provision of threading, inspection, repair and maintenance services for OCTG	58.8

Notes to the Financial Statements

31 December 2021

30. SUBSIDIARIES (CONT'D.)

(b) Subsidiaries with non-controlling interests

Details and summarised financial information of subsidiaries which have non-controlling interests that are material to the Group in previous financial year are set out below. The summarised financial information presented below is the amount before inter-company elimination.

(i) Details of subsidiaries

Name of company	Proportion of ownership interest held by non-controlling interests	
	2021 %	2020 %
UMW JDC Drilling Sdn. Bhd.	-	15
UOT (Thailand) Limited	-	41.2

(ii) Summarised statements of financial position

	2021 RM'000	2020 RM'000
Current assets	-	7,148
Current liabilities	-	(475)

(iii) Summarised statements of comprehensive income

	2021 RM'000	2020 RM'000
Loss for the year, representing total comprehensive loss	-	(310)

(iv) Summarised statements of cash flows

	2021 RM'000	2020 RM'000
Cash and cash equivalents at end of year	-	4,140

Notes to the Financial Statements

31 December 2021

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	
	2021 RM'000	2020 RM'000
Management fees income	(11,524)	(11,706)
Interest income	(33,677)	(45,275)
Rental income	(800)	(792)
Services rendered income	(112)	(24)

- (b) Compensation of key management personnel

The aggregate compensation of key management personnel, including the executive director of the Company is as follows:

	2021 RM'000	2020 RM'000
Salaries and wages	6,349	5,695
Social security cost	10	11
Pension costs - defined contribution plan	1,080	972
Share options granted under ESOS	1,832	1,957
Other staff related costs	669	667
	9,940	9,302

Notes to the Financial Statements

31 December 2021

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.

Notes to the Financial Statements

31 December 2021

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	
	2021 RM'000	2020 RM'000
Assets		
Investments in money market fund (Note 12)	22,531	97,938

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	
	2021 RM'000	2020 RM'000
Loans and borrowings	582,026	1,053,802
Lease liabilities	7,670	11,296
Less:		
Deposits, cash and bank balances	(293,512)	(261,234)
Other investments	(22,531)	(97,938)
Net debt	273,653	705,926
Total equity	2,258,102	2,270,806
Total capital	2,531,755	2,976,732
Gearing ratio	0.11	0.24

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.

34. FINANCIAL RISK MANAGEMENT (CONT'D.)

The Group's financial risk management strategies include using:

- (i) credit controls that include evaluation, acceptance, monitoring and feedback to ensure that only reasonably creditworthy customers are accepted; and
- (ii) money market instruments, short term deposits and bank borrowings to manage liquidity risks.

The Group's strategies and practices in dealing with its major financial risks are set out below:

(a) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The functional currency of a majority of the companies within the Group is United States Dollar ("USD"). The Group relies primarily on the natural hedge between its USD-denominated revenue and USD-denominated borrowings and other liabilities to minimise its exposures to foreign currency risk.

The Group's exposures to foreign currency risk primarily consist of trade receivables, trade payables, loans and borrowings, and deposits, cash and bank balances, as a result of transactions entered into in currencies other than the functional currencies.

As at 31 December 2021, approximately 3.2% (2020: 17.0%) of the Group's trade receivables and approximately 19.0% (2020: 34.3%) 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 2021, the Group has such balances amounting to RM60,801,000 (2020: RM89,256,000).

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 Increase/(decrease)		Effect on profit/(loss) after taxation (Decrease)/increase	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
US Dollar/RM				
- strengthened 5% (2020: 5%)	1,732	50	(56,895)	(53,320)
- weakened 5% (2020: 5%)	(1,732)	(50)	56,895	53,320

Notes to the Financial Statements

31 December 2021

34. FINANCIAL RISK MANAGEMENT (CONT'D.)

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk in respect of its placements with financial institutions and bank borrowings at floating rates. Its policy is to:

- (i) have an optimal mixture of short term deposits or placements; and
- (ii) manage its interest cost using a combination of fixed and floating rate debts.

The Group monitors interest rates prior to making deposits and bank borrowings to ensure that the applicable rates are established at acceptable levels. Interest rate swaps may be used to hedge against fluctuation in interest rate where appropriate.

Sensitivity analysis for interest rate risk

The table below demonstrates the sensitivity of the Group's and the Company's (loss)/profit after taxation, to possible reasonable changes in interest rates with all other variables held constant, through impact on interest income from placement of surplus funds and interest expense on floating rate borrowings.

	Basis points	Group		Company	
		Effect on loss after taxation		Effect on loss after taxation	
		Increase/(decrease)		(Decrease)/increase	
		2021	2020	2021	2020
		RM'000	RM'000	RM'000	RM'000
London					
Interbank	+ 50	1,541	4,923	-	-
Offered Rate	- 50	(1,541)	(4,923)	-	-
Cost of funds of	+ 50	1,400	403	(5,457)	(5,302)
lenders	- 50	(1,400)	(403)	5,457	5,302

(c) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligation. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including deposits, cash and bank balances), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

Credit risk of the Group is managed during the tendering stage where the credit worthiness of a potential customer or the payment records of an existing customer is evaluated prior to participating in a tender. The Group's customers are mainly local and overseas national oil companies, subsidiaries of credit-worthy international oil and gas companies or established international companies. For less established companies, credit risk is managed by obtaining advance payment and/or a collateral in the form of a bank guarantee.

Notes to the Financial Statements

31 December 2021

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

(c) Credit risk (cont'd.)

Set out below is the information about the credit risk exposure on the Company's trade receivables and accrued income:

	Group	
	2021	2020
	RM'000	RM'000
Accrued income	63,451	63,673
Trade receivables:		
Neither past due nor impaired	90,354	41,842
1 to 30 days past due not impaired	16,476	28,281
31 to 60 days past due not impaired	562	5,961
61 to 90 days past due not impaired	448	2,375
More than 90 days past due not impaired	6,288	4,960
	114,128	83,419
Impaired	836	1,177
	178,415	148,269

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.

Notes to the Financial Statements

31 December 2021

34. FINANCIAL RISK MANAGEMENT (CONT'D.)

(d) Liquidity risk (cont'd.)

The table below summarises the maturity profile of the Group's and the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations.

Group	31 December 2021					Total RM'000
	On demand or within one year RM'000	More than one year and less than two years RM'000	More than two years and less than five years RM'000	Over five years RM'000		
Financial liabilities:						
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

Group	31 December 2020					Total RM'000
	On demand or within one year RM'000	More than one year and less than two years RM'000	More than two years and less than five years RM'000	Over five years RM'000		
Financial liabilities:						
Trade and other payables (exclude provisions)	109,214	-	-	-		109,214
Borrowings	224,113	91,987	294,971	669,580		1,280,651
Lease liabilities	3,333	1,270	3,213	1,775		9,591
Total undiscounted financial liabilities	336,660	93,257	298,184	671,355		1,399,456

Notes to the Financial Statements

31 December 2021

34. FINANCIAL RISK MANAGEMENT (CONT'D.)

(d) Liquidity risk (cont'd.)

Company	31 December 2021					Total RM'000
	On demand or within one year RM'000	More than one year and less than two years RM'000	More than two years and less than five years RM'000	Over five years RM'000		
Financial liabilities:						
Other payables (exclude provisions)	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

Company	31 December 2020					Total RM'000
	On demand or within one year RM'000	More than one year and less than two years RM'000	More than two years and less than five years RM'000	Over five years RM'000		
Financial liabilities:						
Other payables (exclude provisions)	2,884	-	-	-		2,884
Due to subsidiaries	455,293	-	-	-		455,293
Lease liabilities	2,161	116	18	-		2,295
Total undiscounted financial liabilities	460,338	116	18	-		460,472

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 2021 and 31 December 2020.

Notes to the Financial Statements

31 December 2021

35. SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

(a) Impact of the COVID-19 pandemic

The COVID-19 pandemic impacted the global oil and gas industry throughout the financial year. The Group was impacted by the MCO which resulted in disruption of operation, which led to the loss of revenue as well as additional COVID-19 related expenses incurred during the year.

(b) 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) during the 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 2021

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")	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	RMB2,222,935 (RM1,457,578) (Land) RMB18,627,696 (RM12,214,180) (Building) Refer to note ⁽³⁾	28 December 2018
Jin Kai (Gua) No. 2010010, West Zone of Tianjin Development Zone, to the north of South Street and Greenbelt, to the south of Zhongnan fourth Street, to the east of Planning Use Land, and to the west of Xiaqing Road and Greenbelt, People's Republic of China							
No. 101, Central South Fourth Street, Tianjin Economic-Technological Development Area West Zone, 300462 Tianjin, People's Republic of China							
Leasehold for a period of 50 years, expiring on 2061							

Notes:

- ⁽¹⁾ Certificate of completion and compliance or certificate of fitness for occupation issued by the local authorities.
⁽²⁾ Property Ownership and Land Use Right Certificate ("POLUR Certificate") dated 25 June 2013 issued by the Tianjin Municipal People's Government and the Land Resources and Property Administration Bureau of Tianjin to VOS-TJ.
⁽³⁾ Based on the rate of RMB1 = RM0.6557 as at 31 December 2021.

Statistics on Shareholding

As at 31 March 2022

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	915	42	957	2.40	23,207	1,045	24,252	0.00
100 – 1,000	3,783	60	3,843	9.60	2,428,132	30,338	2,458,470	0.03
1,001 – 10,000	14,886	173	15,059	37.63	80,895,171	804,118	81,699,289	0.99
10,001 – 100,000	15,951	213	16,164	40.39	635,462,471	7,715,227	643,177,698	7.83
100,001 to less than 5% of issued shares	3,900	95	3,995	9.98	3,765,864,642	289,245,280	4,055,109,922	49.36
5% and above of issued shares	2	0	2	0.00	3,433,130,369	0	3,433,130,369	41.79
TOTAL	39,437	583	40,020	100	7,917,803,992	297,796,008	8,215,600,000	100

CATEGORY OF SHAREHOLDERS

Category	No. of Shareholders		No. of Issued Shares		% of Issued Shares	
	Malaysian	Foreigner	Malaysian	Foreigner	Malaysian	Foreigner
Individual	30,884	334	1,566,925,629	29,933,401	19.07	0.36
Body Corporate						
A) Banks/Finance Companies	33	1	4,546,241,353	5,368	55.34	0
B) Investment Trusts/ Foundations/Charities	5	0	265,803	0	0	0
C) Industrial and Commercial Companies	182	3	28,199,997	19,825	0.34	0
Government Agencies/ Institutions	1	0	13,407	0	0	0
Nominees	8,329	245	1,776,142,824	267,837,414	21.63	3.26
Others	3	0	14,979	0	0	0
TOTAL	39,437	583	7,917,803,992	297,796,008	96.38	3.62

Statistics on Shareholding

30 LARGEST SHAREHOLDERS

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

No.	Holders	No. of Shares	%
1	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	2,816,917,970	34.29
2	PERMODALAN NASIONAL BERHAD	616,212,399	7.50
3	CITIGROUP NOMINEES (TEMPATAN) SDN BHD URUSHARTA JAMAAH SDN BHD (1)	402,972,091	4.90
4	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA	326,487,600	3.97
5	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA 2 - WAWASAN	269,000,000	3.27
6	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA 3	157,961,960	1.92
7	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA 3 - DIDIK	151,856,503	1.85
8	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA 2	80,000,000	0.97
9	CITIGROUP NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LBF)	76,326,800	0.93
10	CITIGROUP NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LEEF)	74,791,500	0.91
11	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (RHB INV)	70,000,000	0.85
12	AMANAHRAYA TRUSTEES BERHAD PUBLIC SMALLCAP FUND	68,457,400	0.83
13	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	50,233,127	0.61
14	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	49,256,112	0.60
15	CITIGROUP NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LPF)	40,411,800	0.49
16	CITIGROUP NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (DG)	39,900,000	0.49
17	CITIGROUP NOMINEES (TEMPATAN) SDN BHD KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (ABERDEEN)	35,104,000	0.43
18	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR EASTSPRING INVESTMENTSDANA AL-ILHAM	31,519,200	0.38
19	CHOW CHEE KEONG	31,000,000	0.38
20	CITIGROUP NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LGF)	27,484,600	0.33
21	CITIGROUP NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (DR)	26,720,500	0.33
22	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM NASIONAL	25,246,927	0.31

Statistics on Shareholding

No.	Holders	No. of Shares	%
23	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR RHB CAPITAL FUND (200189)	22,000,000	0.27
24	DB (MALAYSIA) NOMINEE (ASING) SDN BHD THE BANK OF NEW YORK MELLON FOR VANGUARD FTSE ALL-WORLD EX-US SMALL-CAP INDEX FUND	18,647,080	0.23
25	CITIGROUP NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN TAKAFUL BERHAD (MEKAR)	18,442,900	0.22
26	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR KARANGAN AGRICULTURE SDN BHD (PB)	18,284,540	0.22
27	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR HONG LEONG BALANCED FUND	18,000,000	0.22
28	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD FIDUCIARY TRUST COMPANY INSTITUTIONAL	16,194,600	0.20
29	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR RHB THEMATIC GROWTH FUND	16,000,000	0.19
30	HUANG TIONG SII	16,000,000	0.19

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
AMANAH RAYA TRUSTEES BERHAD				
AMANAH SAHAM BUMIPUTERA	2,816,917,970	34.29	0	0
PERMODALAN NASIONAL BERHAD	616,212,399	7.50	0	0
YAYASAN PELABURAN BUMIPUTRA*	0	0	616,212,399	7.50

* 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 2022, the shareholdings of the Directors (both direct and indirect) in the Company are shown below:

No.	Directors	Direct Interest		Deemed Interest	
		No. of Issued Shares	% of Issued Shares	No. of Issued Shares	% of Issued Shares
1	Mohd Rashid Mohd Yusof	0	0.00	0	0.00
2	Megat Zariman Abdul Rahim	0	0.00	0	0.00
3	Razalee Amin	203,000	0.00*	0	0.00
4	Rowina Ghazali Seth	0	0.00	0	0.00
5	Datuk Tong Poh Keow	0	0.00	0	0.00
6	Ir. Dr. Mohd Shahreen Zainooreen Madros	0	0.00	0	0.00
7	Haida Shenny Hazri	0	0.00	0	0.00
8	Mohd Irwan Ahmad Mustafa	0	0.00	0	0.00
9	Datuk George Ling Kien Sing	0	0.00	103,700	0.00*

Note: *Less than 0.01%

The above information was extracted from Record of Depositories on 31 March 2022.

Statistics on Warrant Holding

As at 31 March 2022

Issued Warrants of the Company : 1,513,399,754

ANALYSIS BY SIZE OF HOLDINGS

Size of Holdings	No. of Warrant Holders		Total No. of Warrant Holders		No. of Issued Warrants		Total No. of Issued Warrants	
	Malaysian	Foreigner	No.	%	Malaysian	Foreigner	No.	%
Less than 100	156	6	162	2.86	7,808	143	7,951	0.00
100 – 1,000	415	6	421	7.46	236,476	2,889	239,365	0.02
1,001 – 10,000	1,756	21	1,777	31.47	9,064,374	71,966	9,136,340	0.60
10,001 – 100,000	2,296	25	2,321	41.11	99,525,306	1,133,115	100,658,421	6.65
100,001 to less than 5% of issued warrants	948	15	963	17.06	421,043,081	42,217,737	463,260,818	30.61
5% and above of issued warrants	2	0	2	0.04	940,096,859	0	940,096,859	62.12
TOTAL	5,573	73	5,646	100	1,469,973,904	43,425,850	1,513,399,754	100

CATEGORY OF WARRANT HOLDERS

Category	No. of Warrant Holders		No. of Issued Warrants		% of Issued Warrants	
	Malaysian	Foreigner	Malaysian	Foreigner	Malaysian	Foreigner
Individual	4,257	35	376,565,662	1,762,568	24.88	0.12
Body Corporate						
A) Banks/Finance Companies	7	0	941,279,859	0	62.20	0
B) Investment Trusts/ Foundations/Charities	0	0	0	0	0	0
C) Industrial and Commercial Companies	34	0	5,786,303	0	0.38	0
Government Agencies / Institutions	0	0	0	0	0	0
Nominees	1,275	38	146,342,080	41,663,282	9.67	2.75
Others	0	0	0	0	0	0
TOTAL	5,573	73	1,469,973,904	43,425,850	97.13	2.87

Statistics on Warrant Holding

30 LARGEST HOLDERS

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

No.	Holders	No. of Warrants	%
1	AMANAHRAYA TRUSTEES BERHAD AMANA 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	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LAU SIE KUONG (KUCHING)	7,900,000	0.52
7	LOH SIEW HOOI	6,500,000	0.43
8	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR WONG KHONG LOO	5,500,000	0.36
9	HUIB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LAU SIE KUONG (CCTS)	4,800,000	0.32
10	YOONG SIN KUEN	4,320,300	0.29
11	MAYBANK NOMINEES (TEMPATAN) SDN BHD AB RAZAK BIN ALI	4,130,800	0.27
12	MUHAMMAD SYAFIQ BIN ISHAK	3,515,600	0.23
13	JANNAH BINTI SALEHUN	3,050,000	0.20
14	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR YEO ENG TEE	2,761,800	0.18
15	ADRIAN YEI ZHENG YIK	2,650,000	0.18
16	MAYBANK NOMINEES (TEMPATAN) SDN BHD HO KEAT SOONG	2,600,000	0.17
17	LIU MENG FAH	2,500,000	0.17
18	NG CHIN HOE	2,500,000	0.17
19	DB (MALAYSIA) NOMINEE (ASING) SDN BHD THE BANK OF NEW YORK MELLON FOR VANGUARD FTSE ALL-WORLD EX-US SMALL-CAP INDEX FUND	2,470,020	0.16
20	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ZET CORPORATION SDN BHD (E-SJA)	2,366,600	0.16
21	PERABUT KUPANG SDN BHD	2,300,000	0.15
22	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM CHONG SOO (MY2591)	2,250,000	0.15
23	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR IZWAN HASLI BIN MOHD IBRAHIM	2,130,200	0.14
24	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KHOR KIM HOCK (B B KLANG-CL)	2,081,200	0.14
25	KOK HON SENG	2,000,000	0.13
26	LIM CHIR CHING	2,000,000	0.13
27	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR YEO SEE HUEY	2,000,000	0.13
28	SYAKIRAH BINTI MUCHLISH	2,000,000	0.13
29	NURUL HASSRAH BINTI MOHD KHORI	1,959,000	0.13
30	CHAY CHEE KEN	1,900,000	0.13

Statistics on Warrant Holding

SUBSTANTIAL HOLDERS

As per the register of substantial warrant holders

Holders	No. of Warrants	%
AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM BUMIPUTERA	652,687,400	43.13
PERMODALAN NASIONAL BERHAD	287,409,459	18.99

DIRECTORS INTEREST

As at 31 March 2022, the warrants of the Directors (both direct and indirect) in the Company are shown below:

No.	Directors	Direct Interest		Deemed Interest	
		No. of Issued Warrants	% of Issued Warrants	No. of Issued Warrants	% of Issued Warrants
1	Mohd Rashid Mohd Yusof	0	0.00	0	0.00
2	Megat Zariman Abdul Rahim	0	0.00	0	0.00
3	Razalee Amin	0	0.00	0	0.00
4	Rowina Ghazali Seth	0	0.00	0	0.00
5	Datuk Tong Poh Keow	0	0.00	0	0.00
6	Ir. Dr. Mohd Shahreen Zainooreen Madros	0	0.00	0	0.00
7	Haida Shenny Hazri	0	0.00	0	0.00
8	Mohd Irwan Ahmad Mustafa	0	0.00	0	0.00
9	Datuk George Ling Kien Sing	0	0.00	0	0.00

Note: *Less than 0.01%

The above information was extracted from Record of Depositories on 31 March 2022.

Notice of 12th Annual General Meeting

NOTICE IS HEREBY GIVEN that the 12th Annual General Meeting (**AGM**) of Velesto Energy Berhad (**Company**) will be held as a virtual meeting conducted entirely through live streaming from **Kristal Hall 1, TM Convention Centre, Jalan Pantai Baharu, 50672 Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, Malaysia (Broadcast Venue)** on **Tuesday, 28 June 2022 at 2:00 p.m.** for the following business:

AS ORDINARY BUSINESSES:

- To receive the Audited Financial Statements of the Company for the financial year ended 31 December 2021 together with the Reports of the Directors and Auditors thereon.
- To re-elect Datuk Tong Poh Keow, whom retires in accordance with Article 96 of the Company's Constitution and being eligible, offer herself for re-election.
(Please refer to Explanatory Note A)
- To re-elect the following Directors, each of whom retire in accordance with Article 103 of the Company's Constitution and each of whom being eligible, offer themselves for re-election:-

(i) Ir. Dr. Mohd Shahreen Zainooreen Madros	Ordinary Resolution 2
(ii) Mohd Irwan Ahmad Mustafa	Ordinary Resolution 3
(iii) Datuk George Ling Kien Sing	Ordinary Resolution 4
(iv) Megat Zariman Abdul Rahim	Ordinary Resolution 5

 (Please refer to Explanatory Note B)
- (i) To approve the payment of fees to the Non-Executive Chairman and Non-Executive Directors with effect from this 12th AGM until the next AGM of the Company to be held in year 2023:- Ordinary Resolution 6

	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 comprise of allowances, benefits-in-kind and other emoluments payable to them, from the 12th AGM to the next AGM of the Company in 2023:- Ordinary Resolution 7

	Non-Executive Chairman	Non-Executive Directors & (Board and Board Committee) 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 C)		

- To re-appoint Messrs. Ernst & Young PLT as Auditors of the Company for the year ending 31 December 2022 and to authorise the Board of Directors to determine their remuneration.
(Please refer to Explanatory Note D)
- 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 12th AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Article 69 of the Company's Constitution and section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositors as at 21 June 2022. Only a depositor whose name appears in the General Meeting Record of Depositors as at 21 June 2022 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 (MIA 19254) (SSM PC No. 202108000032)

Company Secretaries

Kuala Lumpur
29 April 2022

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 12th 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 12th 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 12th AGM Administrative Guide** and take note of procedure in order to participate remotely via RPV.

- A member of the Company entitled to participate through live streaming and vote remotely at this 12th 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.
- Where a member is an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (**Omnibus Account**), there is no limit to the number of proxies which the said nominee may appoint in respect of each omnibus account it holds.
- Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 (**SICDA**), he/she may appoint a proxy in respect of each securities account he/she holds with ordinary shares of the Company standing to the credit of the said securities account. Every appointment submitted by an authorised nominee as defined under the SICDA, must specify the CDS Account Number. The instrument appointing a proxy must be in writing under the hands of the appointer or his/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

Notice of 12th Annual General Meeting

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 result in the Proxy Form to be invalid.

5. The Proxy Form together with the duly registered Power of Attorney referred to in Note 4 above, if any, in hardcopy form or by electronic means must be received by the Share Registrar no later than Sunday, 26 June 2022 by 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.

By submitting the duly executed Proxy Form, the members and his/her proxy consent to the Company (and/or its agents/service providers) collecting, using and disclosing the personal data thereon in accordance with the Personal Data Protection Act, 2010 for the purpose of this AGM and any adjournment thereof.
6. For the purpose of determining a member who shall be entitled to participate in this 12th 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 1991 to issue a General Meeting Record of Depositors as at 21 June 2022. Only a depositor whose name appears in the General Meeting Record of Depositors as at 21 June 2022 shall be entitled to participate in the 12th AGM or appoint a proxy to attend and/or vote in his/her stead.
7. Pursuant to Paragraph 8.29A of Bursa Malaysia Main Market Listing Requirements, all resolutions set out in the Notice of the 12th AGM will be put to vote on a poll.

EXPLANATORY NOTES ON ORDINARY BUSINESSES:

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 12th AGM, Datuk Tong Poh Keow will be retiring as director and being eligible has individually offered herself for re-election.

Article 103 of the Company's Constitution provides that any Director appointed during the year, shall hold office only until the next AGM and may seek for re-election. The Director shall not be taken into account in determining the Directors retiring by rotation. Ir. Dr. Mohd Shahreen Zainooreen Madros, Mohd Irwan Ahmad Mustafa and Datuk George Ling Kien Sing were appointed in 2021 whilst Megat Zariman Abdul Rahim was appointed on 25 February 2022, and therefore retire at this 12th AGM. Ir. Dr. Mohd Shahreen Zainooreen Madros, Mohd Irwan Ahmad Mustafa, Datuk George Ling Kien Sing and Megat Zariman Abdul Rahim being eligible, are standing for re-election as Directors of the Company, at this 12th AGM.

Recommendation for Re-Election of Retiring Directors

For the financial year under review, the Board undertook a formal and objective annual evaluation to determine the effectiveness of the Board, its Board Committees as well as each of the individual director.

Notice of 12th Annual General Meeting

The Board Nomination & Remuneration Committee (**BNRC**) and the Board were satisfied that all the retiring directors has contributed positively to the overall performance of the Board and that in consideration of the wealth of experience which the retiring directors possess, they will continue to bring sound advice and valuable contributions to the Board deliberations through active participation and decision making by the Board.

All retiring directors, have abstained from deliberations and decisions on their own eligibility to stand for re-election at BNRC and Board (whichever is applicable) and will also abstain from deliberation and decision on re-election at this 12th AGM.

Both the BNRC and the Board recommended the re-election of Datuk Tong Poh Keow, Ir. Dr. Mohd Shahreen Zainooreen Madros, Mohd Irwan Ahmad Mustafa, Datuk George Ling Kien Sing and Megat Zariman Abdul Rahim as the Directors of the Company, at this 12th AGM. In addition, Datuk Tong Poh Keow, Ir. Dr. Mohd Shahreen Zainooreen Madros and Datuk George Ling Kien Sing being the Independent Non-Executive Directors, have provided his/her annual declaration of independence to the Company.

Explanatory Note C

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 2021 are disclosed under the "Financial Statement" section of the Annual Report.

The benefits payable to Non-Executive Chairman and Non-Executive Directors from the 12th AGM to next AGM in 2023 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 6 and 7 concerning remuneration to the Non-Executive Directors at the 12th 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 D

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.

Annual Report 2021

The Annual Report 2021 is available under "Reports & Presentations" 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 2021 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 MMLR)

The details of the Directors seeking re-election as per Agenda 2 and Agenda 3 of the Notice of the 12th 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 Other Information (Statistics of Shares and Warrants Holdings) section of this Annual Report.

Directors who are standing for re-election/re-appointment

Datuk Tong Poh Keow

Ir. Dr. Mohd Shahreen Zainooreen Madros

Mohd Irwan Ahmad Mustafa

Datuk George Ling Kien Sing

Megat Zariman Abdul Rahim

- No conflict of interest or any family relationship with any Director and/or major shareholder of the Company, except for Mohd Irwan Ahmad Mustafa being a Nominee Director of Permodalan Nasional Berhad.
- Has never been convicted for any offence for the past five years nor any public sanction or penalty by any relevant regulatory bodies during FY2021.

The Annual Report 2021 is available under "Financial Reports" of the "Investor Relations" page on the Company's website at www.velesto.com and also on Bursa Malaysia's website at www.bursamalaysia.com under "Company Announcements" of the Listed Companies tab.

PROXY FORM

I/We _____ (Name as per NRIC / Passport / Certificate of incorporation in capital letters)

with (New NRIC/Old NRIC/Passport/Company No.) _____ of _____

(full address in capital letters)

Contact No.: _____ Email Address: _____

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)

Contact No.: _____ Email Address: _____

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)

Contact No.: _____ Email Address: _____

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 12th Annual General Meeting (**AGM**) of the Company which will be conducted entirely through live streaming from the **Kristal Hall 1, TM Convention Centre, Menara TM, Jalan Pantai Baharu, 50672 Kuala Lumpur, Malaysia (Broadcast Venue) on Tuesday, 28 June 2022 at 2.00 p.m.** or at any adjournment thereof.

My/Our proxy is to vote as indicated below:

(Please indicate with an "X" in the appropriate box against each resolution how you wish your proxy to vote. If no instruction is given, this form will be taken to authorise the proxy to vote at his/her discretion).

ORDINARY RESOLUTIONS	FOR	AGAINST
To re-elect Datuk Tong Poh Keow, whom retires in accordance with Article 96 of the Company's Constitution and being eligible, offer herself for re-election. Ordinary resolution 1		
To re-elect Ir. Dr. Mohd Shahreen Zainooreen Madros, whom retire in accordance with Article 103 of the Company's Constitution and being eligible, offer himself for re-election. Ordinary resolution 2		
To re-elect Mohd Irwan Ahmad Mustafa, whom retire in accordance with Article 103 of the Company's Constitution and being eligible, offer himself for re-election. Ordinary resolution 3		
To re-elect Datuk George Ling Kien Sing, whom retire in accordance with Article 103 of the Company's Constitution and being eligible, offer himself for re-election. Ordinary resolution 4		
To re-elect Megat Zariman Abdul Rahim, whom retire in accordance with Article 103 of the Company's Constitution and being eligible, offer himself for re-election. Ordinary resolution 5		
To approve the payment of fees to the Non-Executive Chairman and Non-Executive Directors with effect from this 12 th AGM until the next AGM of the Company to be held in year 2023. Ordinary resolution 6		
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 12 th AGM to the next AGM of the Company in 2023. Ordinary resolution 7		
To re-appoint Messrs. Ernst & Young PLT as Auditors of the Company for the financial year ending 31 December 2022 and to authorise the Board of Directors to determine their remuneration. Ordinary resolution 8		

Dated this _____ day of _____ 2022

Name of Member
(If the appointor is an attorney or a corporation, please see Note 4 below)

Signature of Member(s) / Common Seal

CDS Account No.

Total number of ordinary shares held		
Number of shares to be represented by each proxy	Proxy 1	Proxy 2

- Notes:**
1. The Broadcast Venue is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 which requires the Chairperson of the meeting to be present at the main venue of the meeting. Members WILL NOT BE ALLOWED to attend the 12th 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 12th 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 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 Proxy Form must be in writing under the hands of the appointer or his attorney duly authorised in writing or, if such appointer is a corporation, under its common seal or that of an officer or attorney duly authorised. If the Proxy Form is signed by 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 by an 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.

1. Fold here

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

2. Fold this flap to seal

5. A member who has appointed a proxy or attorney or authorised representative to attend, participate and vote at this 12th 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 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 Sunday, 26 June 2022 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 data 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 12th AGM, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd., in accordance with Article 69 of the Company's Constitution and section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositors as at 21 June 2022. Only a depositor whose name appears in the General Meeting Record of Depositors as at 21 June 2022 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 12th AGM of the Company shall be put to vote by way of a poll.

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 there to 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
"COO"	Chief Operating Officer
"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
"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
"FY2021"	Financial year ended 31 December 2021
"GDP"	Gross Domestic Product
"GHG"	Greenhouse Gas
"GRI"	Global Reporting Initiative

Glossary

"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
"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
"IRDC"	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
"MCO"	Malaysian Movement Control Order
"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"	Organization of the Petroleum Exporting Countries
"OPEC+"	Organization of the Petroleum Exporting Countries Plus
"OHS"	Occupational Health and Safety
"P&A"	Plug and Abandonment
"PAO"	PETRONAS Activity Outlook

Glossary

"QHSE"	Quality, Health, Safety and Environmental
"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 Procedure
"SORMIC"	Statement on Risk Management and Internal Control
"SR2021"	Sustainability Report 2021
"SSC"	Sustainability Steering Committee
"SSM"	Suruhanjaya Syarikat Malaysia
"SWG"	Sustainability Working Group
"TC"	Tender Committee
"TDS"	Top Drive System
"TOR"	Terms of Reference
"TRC"	Total Recordable Case
"UNSDGs"	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)
"VTC"	VELESTO Talent Council
"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.

ADMINISTRATIVE GUIDE**12TH ANNUAL GENERAL MEETING (AGM) OF VELESTO ENERGY BERHAD (Company)**

Date : Tuesday, 28 June 2022
 Time : 2:00 p.m.
 Broadcast Venue : Kristal Hall 1, TM Convention Centre, Menara TM, Jalan Pantai Baharu, 50672 Kuala Lumpur, Malaysia

VIRTUAL MEETING

The 12th 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 12th AGM in person at the Broadcast Venue on the day of the meeting.

REMOTE PARTICIPATION AND VOTING (RPV)

- As no Shareholders should be physically present at the Broadcast Venue, we request Shareholders to participate and vote at the 12th AGM remotely via the RPV facilities, provided by SS E Solutions Sdn Bhd via Securities Services ePortal's platform at <https://sshsb.net.my>
- Shareholders who appoint proxy/proxies to participate in the AGM via RPV facilities must ensure that the duly executed proxy form(s) are deposited in hard copy form 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, or the e-Proxy Form by electronic means via Securities Services ePortal's platform at <https://sshsb.net.my> no later than **Sunday, 26 June 2022 at 2:00 p.m.**
- The appointed corporate/authorised representative(s) or attorney(s) must ensure that the duly executed certificate of appointment of corporate/authorised representative(s), or power of attorney, are deposited in hard copy form 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, or by electronic means via Securities Services ePortal's platform at <https://sshsb.net.my> no later than **Sunday, 26 June 2022 at 2:00 p.m.**
- Shareholder(s) who have appointed a proxy, attorney or corporate/authorised representative to participate and vote at this AGM via RPV facilities must request his/her proxy to register himself/herself for RPV facilities at 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:-

Procedure	Action
BEFORE THE AGM DAY	
A) Sign up for a user account at Securities Services ePortal	
Step 1: Visit https://sshsb.net.my to register as a user (registration is free). Please click on 'SIGN UP' to begin. You will be prompted to fill in your details and also to upload a copy of your MyKad (front and back separately) or passport.	Notes: 1. This is a ONE-TIME Registration. If you are already a registered user of Securities Services ePortal, you need not register again. 2. Please register before or latest by Thursday, 23 June 2022.
Step 2: A notification email will be sent to you within one (1) working day. Please verify your user account within seven (7) days of the notification email and login (Note: Your email address is your User ID).	

Procedure	Action
BEFORE THE AGM DAY	
B) Registration for Remote Participation (MUST DO STEP FOR SHAREHOLDERS WHO WISH TO PARTICIPATE AND VOTE AT OUR AGM)	
Step 1: Log on to https://sshsb.net.my with your registered User ID (email address) and password.	Notes: 1. If you wish to participate remotely at the AGM, please register before or latest by Sunday, 26 June 2022 at 2:00 p.m. 2. A copy of your eRegistration for remote participation can be accessed via My Records. 3. 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.
Step 2: Look for "Velesto Energy Berhad" under Company Name and "12 th AGM on 28 June 2022 at 2:00 p.m. - Registration for Remote Participation" under Corporate Exercise/Event and Click ">".	
Step 3: Select whether you are participating as (1) Individual Shareholder; or (2) Corporate or Authorised Representative of a body corporate* and Click "Submit".	
Step 4: Submit your registration.	
C) Submission of eProxy Form	
Step 1: Log on to https://sshsb.net.my with your registered User ID (email address) and password.	Notes: 1. Please submit your proxy form before or latest by Sunday, 26 June 2022 at 2:00 p.m. if you wish to appoint proxy(ies) to participate on behalf.
Step 2: Look for "Velesto Energy Berhad" under Company Name and "12 th AGM on 28 June 2022 at 2:00 p.m. - Submission of Proxy Form" under Corporate Exercise/Event and Click ">".	2. You may wish to appoint the Chairman as the proxy in the event you are not being able to participate remotely.
Step 3: Select whether you are submitting the proxy form as (1) Individual Shareholder; or (2) Corporate or Authorised Representative of a body corporate*.	3. A copy of the submitted eProxy Form can be accessed via My Records.
Step 4: Enter your CDS account number or the body corporate's CDS account number and corresponding number of securities.	4. You are requested to submit the eProxy Form for every CDS account(s) you have or represent.
Step 5: Enter the information of your proxy(ies) and the proportion of your securities to be represented by your proxy(ies).	5. Appointed proxies need not register for remote participation under (B) above but are required to be registered users of the Securities Services ePortal before or latest by Thursday, 23 June 2022.
Step 6: Proceed to indicate how your votes are to be casted against each resolution.	6. Upon processing the proxy forms, remote participation access will be granted to the proxy(ies) instead of the shareholder, provided the proxy(ies) must be a registered user of the ePortal, failing which, the proxy will not be able to participate at the AGM.
Step 7: Review and confirm your proxy form details before submission.	7. Upon verification by the Poll Administrator with the General Meeting Record of Depositors as at 21 June 2022, you will receive an email advising you if you or your proxy is eligible to participate at the AGM.

* The appointed corporate/authorised representative(s) or attorney(s) must ensure that the duly executed certificate of appointment of corporate/authorised representative(s), or power of attorney, are deposited in hard copy form 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, or by electronic means via Securities Services ePortal's platform at <https://sshsb.net.my> no later than Sunday, 26 June 2022 at 2:00 p.m.

Procedure	Action
ON THE DAY OF THE AGM	
A) Joining the Live Stream Meeting	
Step 1: Log on to https://sshsb.net.my with your registered User ID (email address) and password.	Notes: 1. You can start to log in 1 hour before the commencement of the AGM. 2. If you have any questions that you wish to raise, please use the text box to submit your question. 3. Quality of the live streaming is dependent on the stability of the internet connection at the location of the user.
Step 2: Look for "Velesto Energy Berhad" under Company Name and "12 th AGM on 28 June 2022 at 2:00 p.m. - Live Stream Meeting" under the Corporate Exercise/Event tab and Click ">" to join the AGM.	
B) Remote Online Voting during the AGM	
Step 1: If you are logged on to the ePortal and already accessing the Live Stream Meeting, click on "Proceed to Vote" displayed below the Live Stream player to begin voting on the resolutions. OR If you are not logged on yet, log on to https://sshsb.net.my with your registered User ID (email address) and password. Look for "Velesto Energy Berhad" under Company Name and "12 th AGM on 28 June 2022 at 2:00 p.m. : Remote Voting" under Corporate Exercise/Event and click ">" to remotely cast and submit your votes online for the resolutions tabled at the AGM.	Notes: 1. Access to eVoting will be opened on the aforementioned date and time. 2. Your votes casted will apply throughout ALL the CDS accounts you represent as an individual shareholder, corporate / authorised representative and proxy. 3. 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. 4. Access to eVoting will be closed as directed by the Chairman. 5. A copy of your submitted eVoting can be accessed via My Records.
Step 2: Cast your votes by clicking on the radio buttons against each resolution, acknowledge the Terms and Conditions of use and Privacy Policy, review your casted votes and submit the votes.	
Step 3: Upon casting your votes, you will be redirected back to the Live Stream. The message "Voted" will be displayed below the Live Stream.	
C) End of Remote Participation	
The live streaming will end upon the announcement by the Chairman on the closure of the AGM.	

APPOINTMENT OF PROXY

- 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.
- 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.
- 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 **Sunday, 26 June 2022 at 2:00 p.m.** 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.

- 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 Sunday, 26 June 2022 at 2:00 p.m. to revoke the earlier appointed proxy.

PRE-MEETING SUBMISSION OF QUESTIONS

- Shareholders who wish to post questions can email their questions to eservices@sshsb.com.my no later than Sunday, 26 June 2022 at 2:00 p.m.
- 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.
- 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 21 June 2022 will be entitled to attend the AGM via RPV facilities.

ANNUAL REPORT 2021

- The Annual Report 2021 is available under "Financial 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.
- In support of paperless reports, we encourage Shareholders to access online version of the Annual Report 2021. Should you require a printed copy of the Annual Report 2021, 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 2021 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 12th 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: 1. Mr. Wong Piang Yoong: +603-2084 9168
2. Mr. Jerry Tan Hor Seng: +603-2084 9165
3. Ms. Lee Pei Yeng: +603-2084 9169
4. Ms. Evangeline Yeoh: +603-2084 9007
5. Puan Martini Mat Som +603-2084 9166
6. Puan Norhaslilawati binti Abdullah Hashim +603-2084 9163

Email : eservices@sshsb.com.my

GRI Content Index

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Referenced Sections / Omissions
General Disclosures			
GRI 102: General Disclosures 2016W	Organizational profile		
	102-1 Name of the organization	Front Cover, Back Cover	
	102-3 Location of headquarters	8	Corporate Information
	102-4 Location of operations	9	Corporate Structure
	102-5 Ownership and legal form	8	Corporate Information
	102-6 Markets served	9	Corporate Structure
	102-7 Scale of the organisation	9	Corporate Structure
	102-8 Information on employees and other workers	74-76	Social Performance
	102-9 Supply chain	67	Local Procurement, Local Supply Chains
	102-10 Significant changes to the organization and its supply chain	60, 60	Cascading The Anti-Corruption Agenda To The Supply Chain, Environmental And Social Governance Of The Supply Chain
	102-11 Precautionary Principle or approach	44-45, 52, 64	Our Risks And Mitigation Strategies, About this Report, Determining Materiality
	102-12 External initiatives	70, 78	External Collaboration and Engagements in Addressing Climate Change, Promoting Gender Diversity Via Participation in the 30% Club
	102-13 Membership of associations	52	Membership Of Associations And External Initiatives
Strategy			
	102-14 Statement from senior decision-maker	12-15, 16-25, 46-48	Chairman's Statement, Management Discussion & Analysis, Strengthening a Sustainable Tomorrow
	102-15 Key impacts, risks, and opportunities	44-45, 64	Our Risks And Mitigation Strategies, Determining Materiality
Ethics and Integrity			
	102-16 Values, principles, standards, and norms of behavior	Inside cover	Our iLEAP Core Values
	102-17 Mechanisms for advice and concerns about ethics	53-59	Governance Of Sustainability At Velesto

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Referenced Sections / Omissions
Governance			
	102-18 Governance structure	53-54	Governance Of Sustainability At VELESTO
	102-19 Delegating authority		
	102-20 Executive-level responsibility for economic, environmental, and social topics		
	102-21 Consulting stakeholders on economic, environmental, and social topics	61-63	Stakeholder Engagement
	102-22 Composition of the highest governance body and its committees	110-131	Board at a Glance
	102-23 Chair of the highest governance body		
	102-24 Nominating and selecting the highest governance body	115	BNRC
	102-25 Conflicts of interest	56	Reinforcing Good Governance Through Ethical Conduct And Corporate Integrity
	102-26 Role of highest governance body in setting purpose, values, and strategy	113	Principal Roles and Responsibilities of the Board
	102-27 Collective knowledge of highest governance body	119	Board Skills Matrix
	102-28 Evaluating the highest governance body's performance	120-121	Board Effectiveness Evaluation (BEE)
	102-29 Identifying and managing economic, environmental, and social impacts	64	Determining Materiality
	102-30 Effectiveness of risk management processes	134-135	Enterprise Risk Management (ERM)
	102-31 Review of economic, environmental, and social topics	46-48	Strengthening A Sustainable Tomorrow
	102-32 Highest governance body's role in sustainability reporting	53-54	Governance Of Sustainability At Velesto
	102-33 Communicating critical concerns	60-63, 64	Stakeholder Engagement, Determining Materiality
	102-34 Nature and total number of critical concerns		
	102-35 Remuneration policies	129	Remuneration
	102-36 Process for determining remuneration		
	102-37 Stakeholders involvement in remuneration		
	102-38 Annual total compensation ratio	148-150	Directors' Benefits
	102-39 Percentage increase in annual total compensation ratio		

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Referenced Sections / Omissions
Stakeholder engagement			
	102-40 List of stakeholder groups	60-63	Stakeholder Engagement
	102-41 Collective bargaining agreements	75	Collective Bargaining
	102-42 Identifying and selecting stakeholders	61-63	Stakeholder Engagement
	102-43 Approach to stakeholder engagement		
	102-44 Key topics and concerns raised		
Reporting practice			
	102-45 Entities included in the consolidated financial statements	9, 223	Group Corporate Structure, List of Subsidiaries
	102-46 Defining report content and topic Boundaries	51	Reporting Scope & Boundary
	102-47 List of material topics	64	Determining Materiality
	102-48 Restatements of information		
	102-49 Changes in reporting	-	No significant changes to reporting for FY2021
	102-50 Reporting period	51	Reporting Scope & Boundary
	102-51 Date of most recent report	51	Reporting Cycle
	102-52 Reporting cycle	51	Reporting Cycle
	102-53 Contact point for questions regarding the report	52	Distribution & Feedback
	102-54 Claims of reporting in accordance with the GRI Standards	51	Statement Of Use
	102-55 GRI content index	258-266	GRI Content Index
	102-56 External assurance	52	Report Quality and Assurance
Material Topics			
GRI 200 Economic Standard Series			
Economic Performance			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	65-67	Economic Performance
	103-2 The management approach and its components	65-67	Economic Performance
	103-3 Evaluation of the management approach	65-67	Economic Performance
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	65	Economic Value Created
	201-2 Financial implications and other risks and opportunities due to climate change	68-69	Climate Change
	201-3 Defined benefit plan obligations and other retirement plans	81	Competitive Remuneration
	201-4 Financial assistance received from government		

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission
			Part Omitted Reason Explanation
Material Topics			
GRI 200 Economic Standard Series			
Market Presence			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	67	Local Procurement Local Supply Chain
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 202: Market Presence 2016	202-2 Proportion of senior management hired from the local community	106-109	Our Leaders
Indirect Economic Impacts			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	65-67	Economic Values Created
	103-2 The management approach and its components	65-67	Economic Values Created
	103-3 Evaluation of the management approach	65-67	Economic Values Created
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported	65-67	Economic Values Created
	203-2 Significant indirect economic impacts	26, 65-67	Statement Of Value Added Distribution & Simplified Financial Statement, Economic Values Created
Procurement Practices			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	67	Local Procurement and Local Supply Chains
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers		

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
Material Topics					
GRI 200 Economic Standard Series					
Anti-corruption					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	56-60	Zero Tolerance Stance To Bribery And Corruption		
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	59	Assessment Of Corruption Risks Within Operations		
	205-2 Communication and training about anti-corruption policies and procedures	58	Anti-Corruption Communication Programmes And Activities		
	205-3 Confirmed incidents of corruption and actions taken	56	Reinforcing Good Governance Through Ethical Conduct And Corporate Integrity		
GRI 300 Environmental Standards Series					
Energy					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	68-70	Climate Change And Emissions		
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
GRI 302: Energy 2016	302-1 Energy consumption within the organization	70	Energy and Carbon Emissions Data		
	302-2 Energy consumption outside of the organization				
	302-3 Energy intensity				
Water and Effluents					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	71-72, 72	Water Consumption And Management, Waste Management		
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource				
	303-2 Management of water discharge-related impacts				
	303-3 Water withdrawal				
	303-4 Water discharge	72	Waste Management		
	303-5 Water consumption	71-72	Water Consumption And Management		

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
GRI 300 Environmental Standards Series					
Biodiversity					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	73	Biodiversity		
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
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				
304-2 Significant impacts of activities, products, and services on biodiversity					
304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations					
Emissions					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	68-70	Climate Change And Emissions		
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	70-71	Energy and Carbon Emissions Data		
	305-2 Energy indirect (Scope 2) GHG emissions				
	305-4 GHG emissions intensity	71	Other GHG Emissions		
	305-7 Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions				

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
GRI 300 Environmental Standards Series					
Waste					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	72		Waste Management	
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
Environmental Compliance					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	72, 89		Waste Management, HSE Policy Commitments	
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
GRI 307: Environmental Compliance 2016	307-1 Non-compliance with environmental laws and regulations				
Supplier Environmental Assessment					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	60		Environmental And Social Governance Of The Supply Chain	
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
GRI 400 Social Standards Series					
Employment					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	74-75	Talent Management		
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	76	New Hires		
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	81	Competitive Remuneration		
	401-3 Parental leave	81	Parental Leave		
Labor/Management Relations					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	74-75	Talent Management		
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
GRI 402: Labor/Management Relations 2016	402-1 Minimum notice periods regarding operational changes	75	Minimum Notice Periods		
GRI 403: Occupational Health and Safety					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	88-91	Occupational Health, Safety & Environment		
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
GRI 411: Rights of Indigenous Peoples 2016	403-1 Occupational health and safety management system	89	Management Approach To OHS		

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
GRI 400 Social Standards Series					
GRI 403: Occupational Health and Safety					
GRI 403: Occupational Health and Safety 2018	403-2 Hazard identification, risk assessment, and incident investigation	90	Identification Of Risks & Related Action Plans		
	403-4 Worker participation, consultation, and communication on occupational health services	90	Employees HSE Committees		
	403-5 Worker training on occupational health and safety	90, 92	IMS Internal Audit & Internal Auditor Training, QHSE Employee Training		
	403-8 Workers covered by an occupational health and safety management system	89	Management Approach To OHS		
	403-9 Work-related injuries	92	FY2021 QHSE Performance		
Training and Education					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	78-80	Training And Development		
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
GRI 413: Local Communities 2016	404-1 Average hours of training per year per employee	79	Training KPI		
	404-2 Programs for upgrading employee skills and transition assistance programs	79-80	Reskilling And Upskilling Opportunities		
	404-3 Percentage of employees receiving regular performance and career development reviews	78	Training and Development		
Diversity and Equal Opportunity					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	77-78	Workforce Composition		
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	75-77, 110-111	Social Performance, Board At A Glance		

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
GRI 400 Social Standards Series					
Non-discrimination					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	75		Minimum Notice Periods	
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
Freedom of Association and Collective Bargaining					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	75		Minimum Notice Periods	
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
Forced or Compulsory Labor					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	74-75		Social Performance	
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
Local Communities					
GRI 413: Local Communities 2016	103-1 Explanation of the material topic and its Boundary	66-67, 85-87		Value Generated for Communities, Corporate Social Responsibility	
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs				
Supplier Social Assessment					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	60		Environmental And Social Governance Of The Supply Chain	
	103-2 The management approach and its components				
	103-3 Evaluation of the management approach				

SASB Content Index

TOPIC	ACCOUNTING METRIC	UNIT OF MEASURE	CODE
Greenhouse Gas Emissions	Gross global Scope 1 emissions, percentage methane, percentage covered under emissions-limiting regulations	53,189 tonnes CO ₂ e	EM-EP-110a.1
	Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	Refer to Velesto And Carbon Neutrality, Page 69 and Action To Address Climate Change, Page 70	EM-EP-110a.3
Air Quality	Air emissions of the following pollutants: (1) NO _x (excluding N ₂ O), (2) SO _x , (3) volatile organic compounds (VOCs), and (4) particulate matter (PM ₁₀)	Refer to Other GHG Emissions, page 71	EM-EP-120a.1
Water Management	(1) Total fresh water withdrawn, (2) total fresh water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress	Refer to Water Consumption and Management Page 71. Mostly Seawater	EM-EP-140a.1
Biodiversity Impacts	Description of environmental management policies and practices for active sites	Refer to Biodiversity. No sites in sensitive regions	EM-EP-140a.2
	Number and aggregate volume of hydrocarbon spills, volume in Arctic, volume impacting shorelines with ESI rankings 8-10, and volume recovered	1 major spill	EM-EP-140a.3
	Percentage of (1) proved and (2) probable reserves in or near sites with protected conservation status or endangered species habitat	VELESTO is a commercial drilling service company and hence does not have ownership of oil reserves and / or wells.	EM-EP-160a.3
Security, Human Rights & Rights of Indigenous Peoples	Percentage of (1) proved and (2) probable reserves in or near areas of confl	VELESTO is a commercial drilling service company and hence does not have ownership of oil reserves and / or wells.	EM-EP-210a.1
	Percentage of (1) proved and (2) probable reserves in or near indigenous land		EM-EP-210a.2
	Discussion of engagement processes and due diligence practices with respect to human rights, indigenous rights, and operation in areas of conflict	Refer to Social Performance Page 74-75	EM-EP-210a.3
Community Relations	Discussion of process to manage risks and opportunities associated with community rights and interests	Refer to Corporate Social Responsibility, Page 85-87	EM-EP-210b.1
	Number and duration of non technical delays	Zero delays in FY2021	EM-EP-210b.2
Workforce Health & Safety	(1) Total recordable incident rate (TRIR), (2) fatality rate, (3) near miss frequency rate (NMFR), and (4) average hours of health, safety, and emergency response training for (a) full-time employees, (b) contract employees, and (c) short-service employees	Refer to FY2021 QHSE PERFORMANCE Page 92	EM-EP-320a.1
	Discussion of management systems used to integrate a culture of safety throughout the exploration and production lifecycle		EM-EP-320a.2

TOPIC	ACCOUNTING METRIC	UNIT OF MEASURE	CODE
Business Ethics & Transparency	Percentage of (1) proved and (2) probable reserves in countries that have the 20 lowest rankings in Transparency International's Corruption Perception Index	VELESTO is a commercial drilling service company and hence does not have ownership of oil reserves and / or wells.	EM-EP-510a.1
	Description of the management system for prevention of corruption and bribery throughout the value chain	Please refer to Environmental And Social Governance Of The Supply Chain, Page 60	EM-EP-510a.2
Management of the Legal & Regulatory Environment	Discussion of corporate positions related to government regulations and / or policy proposals that address environmental and social factors affecting the industry	Refer to Governance Of Sustainability At VELESTO, page 53-55	EM-EP-530a.1
Critical Incident Risk Management	Description of management systems used to identify and mitigate catastrophic and tail-end risks	Refer to Our Risks And Mitigation Strategies page 44-45	EM-EP-540a.2

ACCOUNTING METRIC	UNIT OF MEASURE	CODE
Number of offshore sites	6	EM-EP-000.B
Number of terrestrial sites	3	EM-EP-000.C



VELESTO ENERGY BERHAD

(Registration No. 200901035667 (878786-H))

Level 18, Block 3A, Plaza Sentral, Jalan Stesen Sentral 5, 50470 Kuala Lumpur
T +603-2096 8788 F +603-2096 8733

www.velesto.com