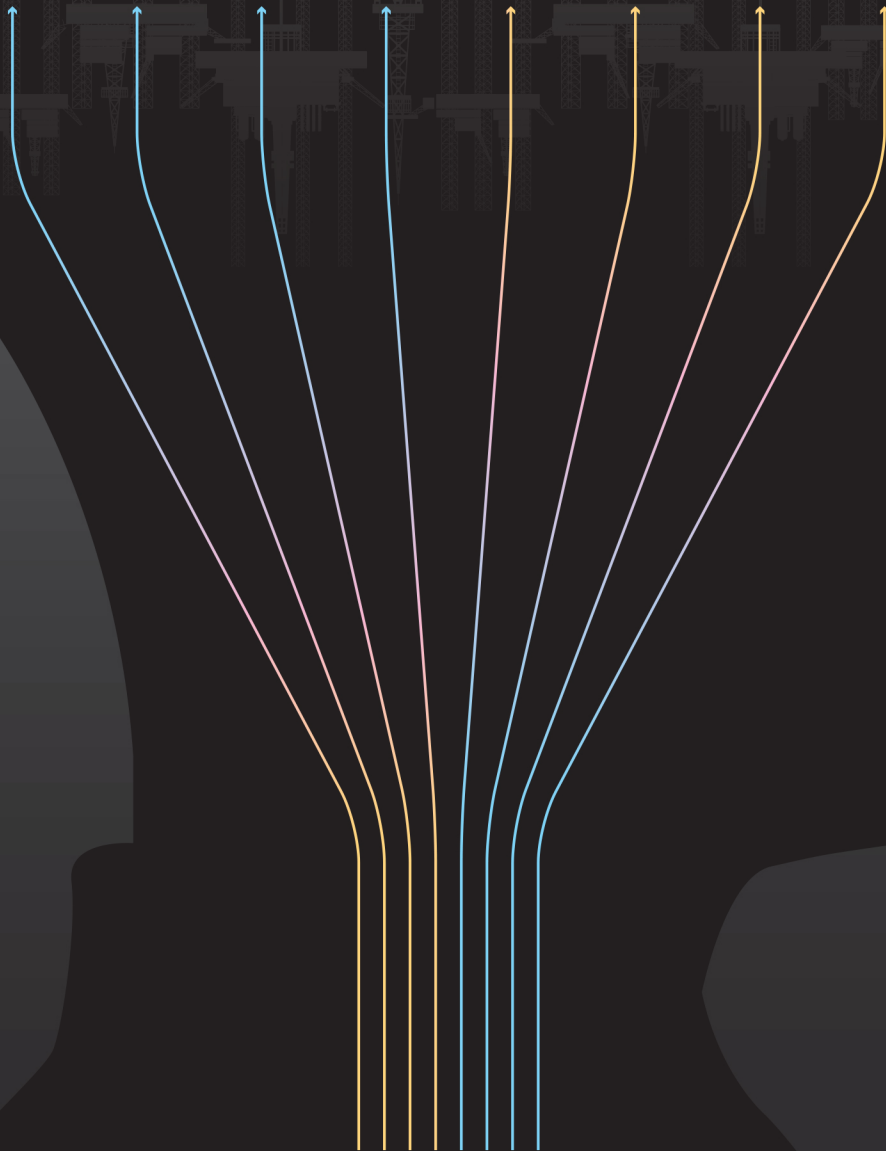
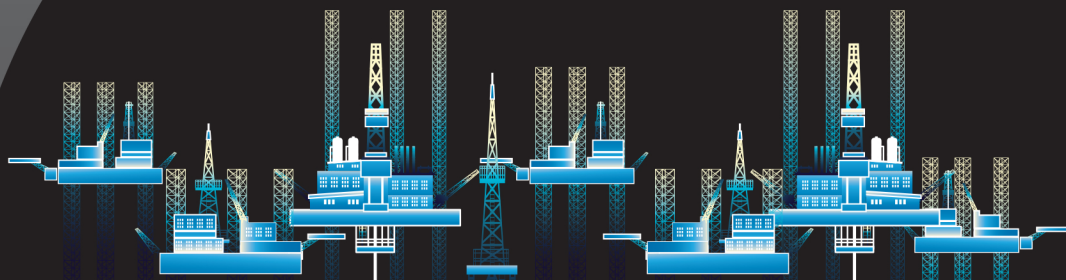


**VELESTO**  
energy



**STRIVING  
TOGETHER**

sustainability report 2019



# SUSTAINABILITY REPORT



## PURSUING SUSTAINABLE VALUE CREATION

### **MESSAGE FROM THE PRESIDENT**

TO OUR ESTEEMED STAKEHOLDERS,

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

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

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

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

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

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

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

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

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

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

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

**ROHAIZAD DARUS**  
PRESIDENT

# SUSTAINABILITY REPORT

## ABOUT OUR REPORT

### INTRODUCTION

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

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

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

### REPORTING SCOPE & BOUNDARY

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

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

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

### REPORT CONTENT AND QUALITY

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

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

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





## REPORT DATA AND INFORMATION

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

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

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

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

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

## ASSURANCE

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

## LIMITATIONS

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

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


## DISTRIBUTION & FEEDBACK


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

## INVESTOR RELATIONS

### VELESTO ENERGY BERHAD

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

 +603-2096 8788

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

# SUSTAINABILITY REPORT

## SUSTAINABILITY GOVERNANCE

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

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

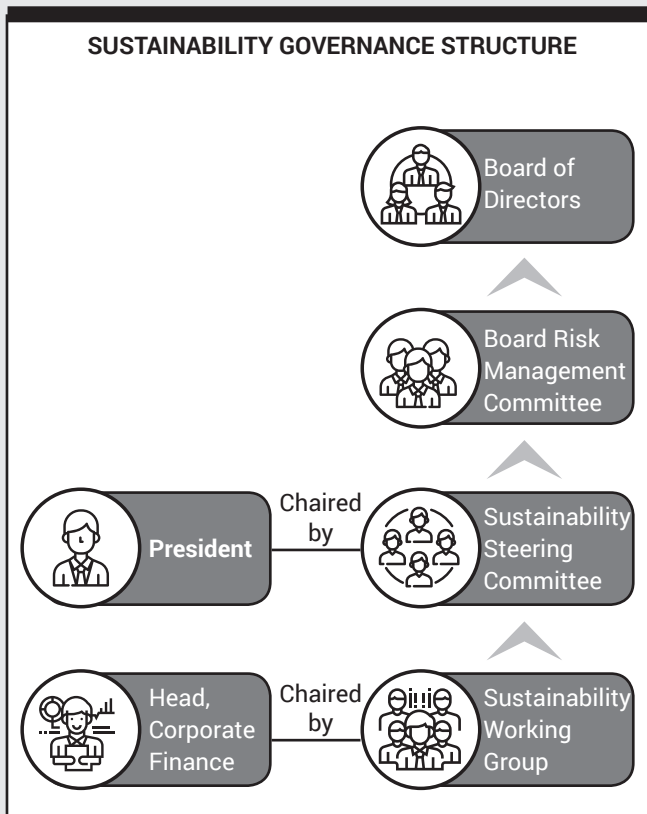
In essence, the sustainability governance structure has not been a mere static formal hierarchy, but is a dynamic and thriving construct that enables constant engagement across all levels of the Group towards supporting the realisation of a desired sustainability oriented mind-set and culture as well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

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

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

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

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



## SUSTAINABILITY STEERING COMMITTEE & SUSTAINABILITY WORKING GROUP

### COMPOSITION AND PRINCIPAL RESPONSIBILITIES

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

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

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

### SUSTAINABILITY GOVERNANCE THROUGH OPERATIONAL SITE CERTIFICATION

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

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

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

# SUSTAINABILITY REPORT

## SUSTAINABILITY GOVERNANCE

### GOVERNANCE THROUGH ANTI-CORRUPTION AND BRIBERY STANCE

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

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

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

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

### ORGANISATIONAL ASSESSMENT ON CORRUPTION

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

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

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

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

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

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

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

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

### PROMOTING ETHICAL BEHAVIOUR WITHIN THE VALUE CHAIN

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

# SUSTAINABILITY REPORT

## STAKEHOLDER ENGAGEMENT

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

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

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

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

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

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

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

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

# SUSTAINABILITY REPORT

## STAKEHOLDER ENGAGEMENT

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

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

# SUSTAINABILITY REPORT

## MATERIALITY & MATERIALITY MATRIX

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

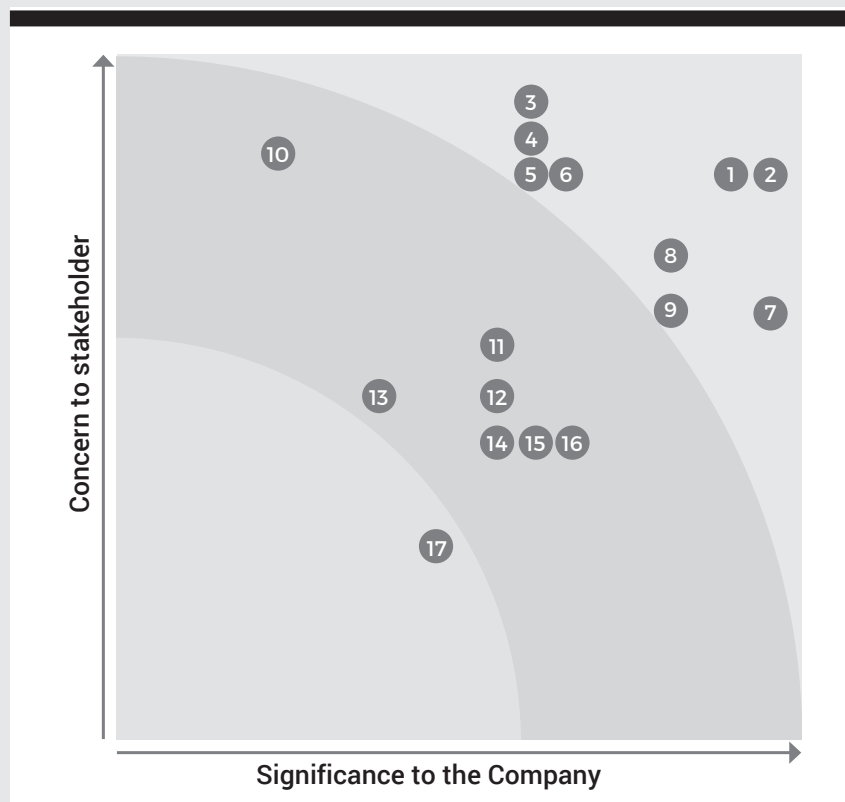
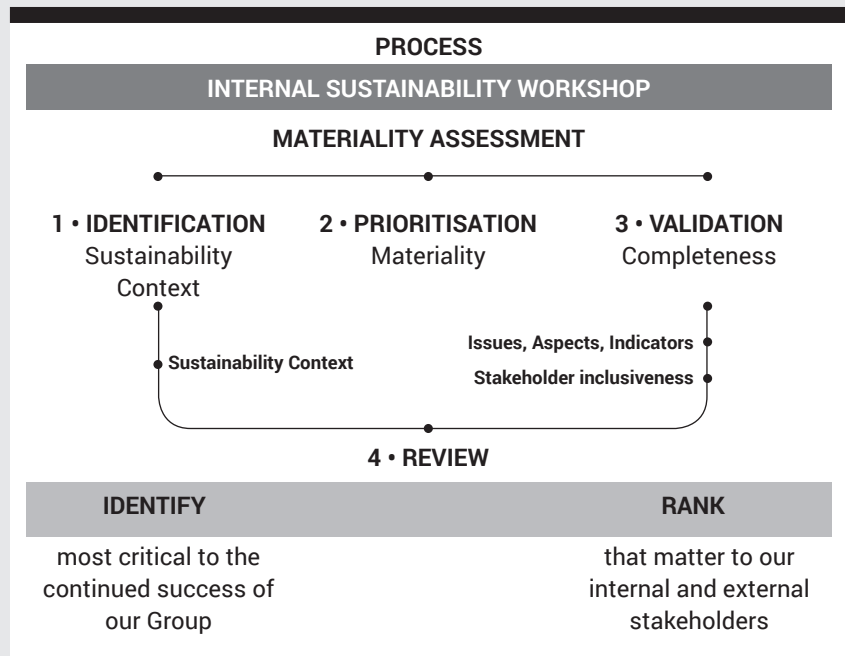
The materiality assessment process comprises the development of questionnaires (based on the GRI Standards 2016 content index) and the holding of internal workshops among middle and Senior Management.

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

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

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

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



## KEY MATERIAL ASPECTS



### ECONOMIC

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



### ENVIRONMENT

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



### SOCIAL

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

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

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



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

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



## ECONOMIC

### DIRECT ECONOMIC IMPACT

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

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

#### Revenue

**RM671 mil**

#### EBITDA

**RM333 mil**

#### Profit After Tax

**RM33 mil**

#### Earnings Per Share

**0.40 sen**



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

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

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

VELESTO Group has also generated improved economic value for stakeholders:

#### Purchases from Local Suppliers

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

#### Employees in salaries and benefits

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

#### Taxes paid to the Government

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

#### Net Debt Repayments to Financiers

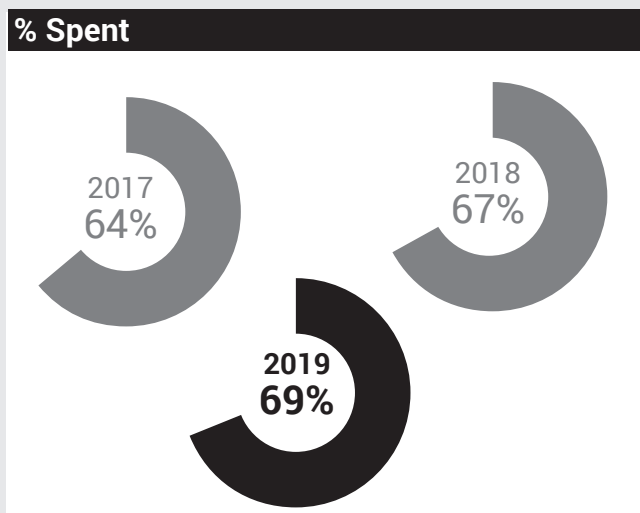
**RM138.8 mil**  
2018: RM432.3 mil

## INDIRECT ECONOMIC VALUE

### INDIRECT VALUE GENERATED THROUGH LOCAL PROCUREMENT

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

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



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

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

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

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

# SUSTAINABILITY REPORT

## ECONOMIC



### INDIRECT VALUE GENERATED FOR COMMUNITIES

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

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

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

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

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



### VELESTO DRILLING ACADEMY

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

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

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

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

### INDUSTRY ADVISORY

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



# ENVIRONMENT

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

## CLIMATE CHANGE

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

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

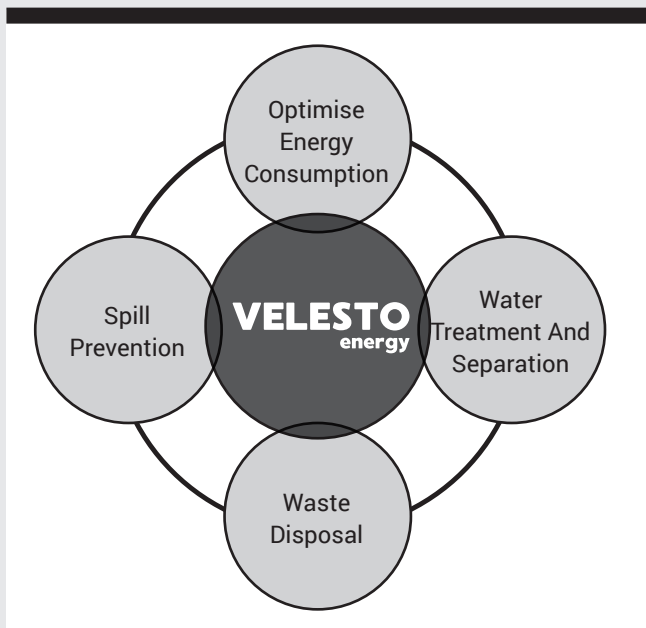
Although climate change currently has a limited impact to VELESTO Group's operations and financial performance, we believe it will increase in importance going forward. As such, we will look at the possibility of establishing specific climate-related risk management as business impact of climate change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

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

# SUSTAINABILITY REPORT

## ENVIRONMENT

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



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

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

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

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

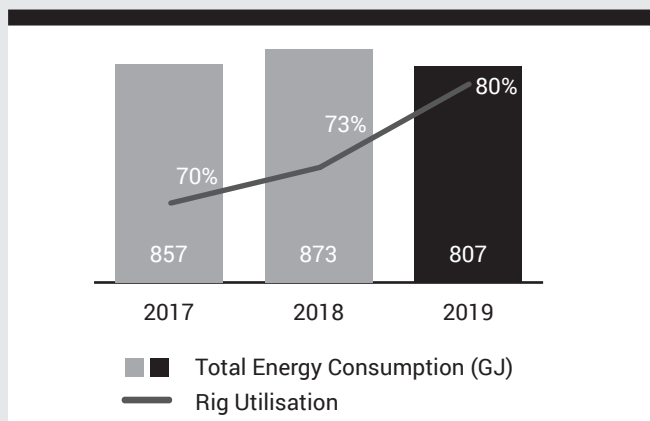
### ENERGY CONSUMPTION

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

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

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

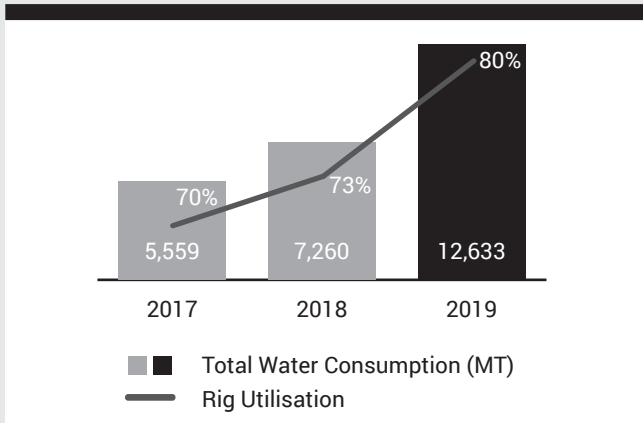
In FY2019, the RPMS was highly effective in reducing rig energy consumption by 8% despite a higher rig utilisation rate of 80%. Total rig energy consumption had decreased to 807 GJ during the financial year.



### WATER WITHDRAWAL

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

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



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

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

## WASTEWATER

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

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

## WASTE MANAGEMENT

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

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

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

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

## ENVIRONMENTAL SPILLS

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

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

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

# SUSTAINABILITY REPORT

## ENVIRONMENT

### GREENHOUSE GAS EMISSIONS

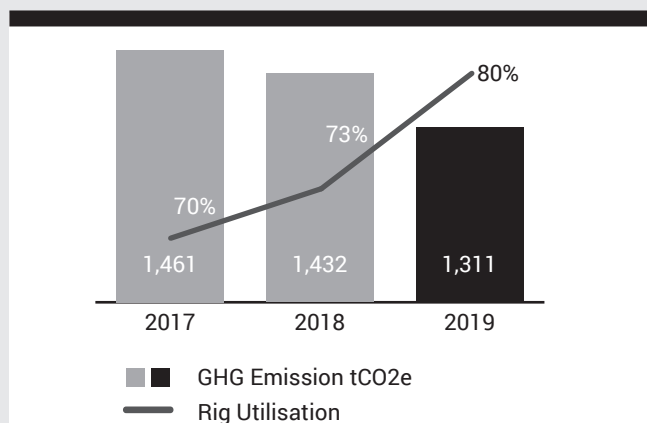
VELESTO's management approach to GHG emissions is guided by the internationally recognised Greenhouse Gas Protocol as well as compliance to Annex VI of MARPOL 73/78. This entails air pollution prevention, including control on greenhouse gas emissions and the quality of fuel oil used by diesel engines.

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

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

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

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



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

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

### BIO-DIVERSITY

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

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

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

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



# SOCIAL

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

## OUR PEOPLE

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

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

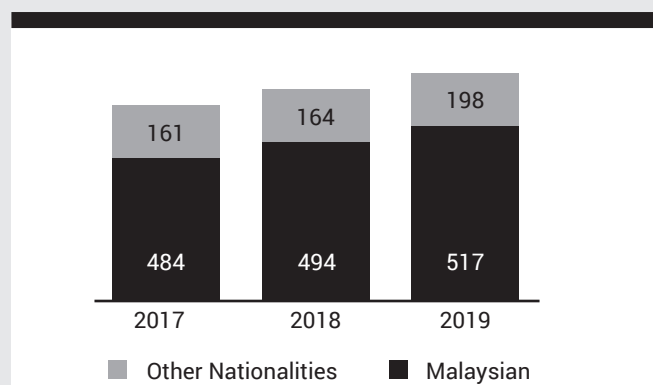
Most of the new hires have been for offshore-based jobs, given the increased rig utilisation rate in FY2019. Total hires in FY2019 were 236, significantly higher in recent years with 68% being Malaysians.

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

# SUSTAINABILITY REPORT

## SOCIAL

All ten members of our Senior Management are presently Malaysians.



### WORKFORCE DIVERSITY

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

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

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

### GENDER EQUALITY AND DIVERSITY

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

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

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

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

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

### STAFF BENEFITS

#### Employee Remuneration & Benefits

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



Full time employees are entitled to the following health benefits:

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

#### *Leave Benefits*

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

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

#### *Parental Leave*

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

#### *Minimum Wage*

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

#### *Employee Appraisals*

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

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

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

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

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

#### **TALENT DEVELOPMENT**

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

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

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

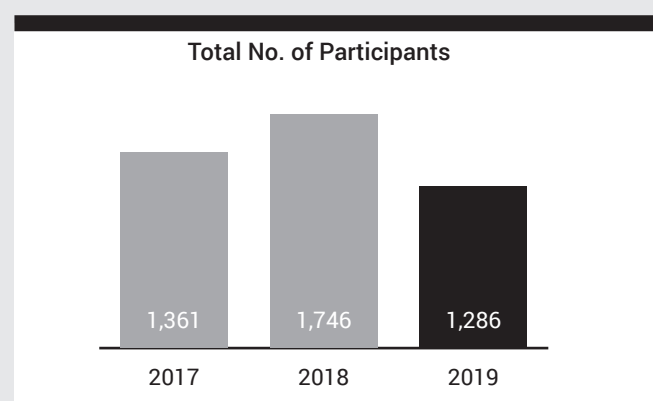
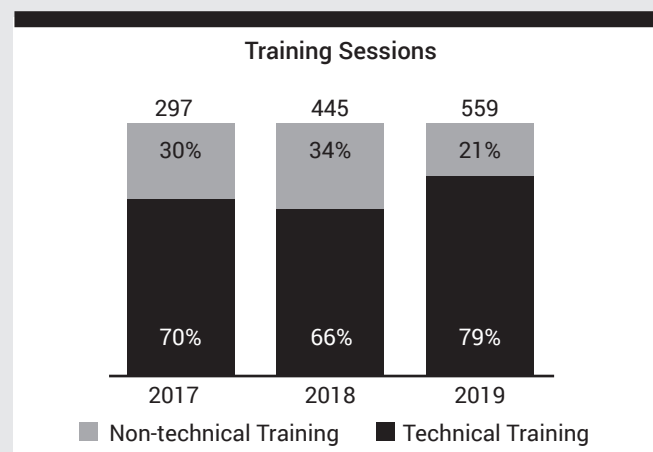
Training is also crucial in retaining or rewarding talent and developing them for future challenges or opportunities within the Group. In VELESTO, training is a regular occurrence that is initiated across the financial year.

# SUSTAINABILITY REPORT

## SOCIAL

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

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



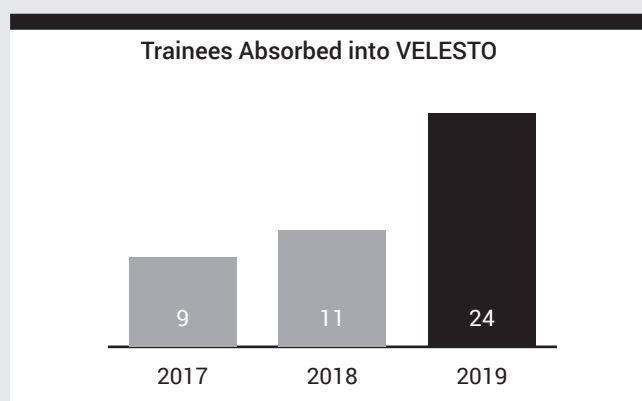
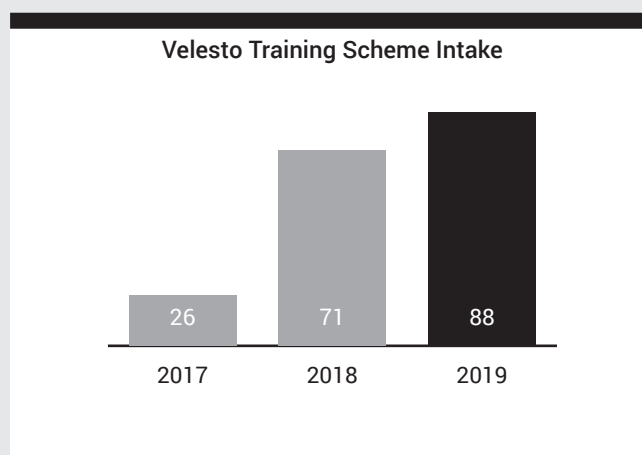
### VELESTO TRAINING SCHEME

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

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

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

### VELESTO TRAINING SCHEME



## **FREEDOM OF ASSOCIATION**

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

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

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

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

## **GRIEVANCE PROCEDURES**

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

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

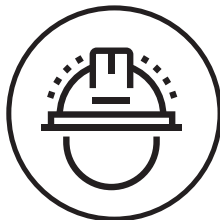
## **HUMAN RIGHTS**

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

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

# SUSTAINABILITY REPORT

## COMMUNITY INVESTMENT



**SAFETY**



**EDUCATION**



**ENVIRONMENT**

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

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

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

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



**SAFETY**



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

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



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



## EDUCATION



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

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

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

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



## ENVIRONMENT



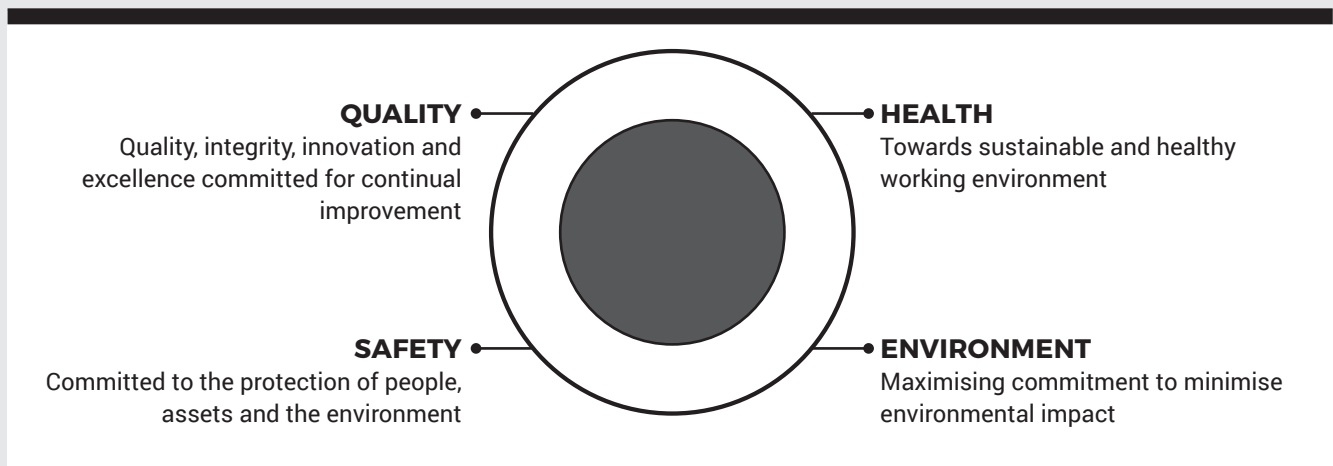
VELESTO organised a Beach Clean-Up & Coastal Pollution Awareness activity in collaboration with Heriot-Watt University Malaysia. Participants had the opportunity to take part in upcycling the plastic which they collected during the beach clean-up and created plastic turtle pendants.

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

# SUSTAINABILITY REPORT

## QUALITY, HEALTH, SAFETY AND ENVIRONMENT

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



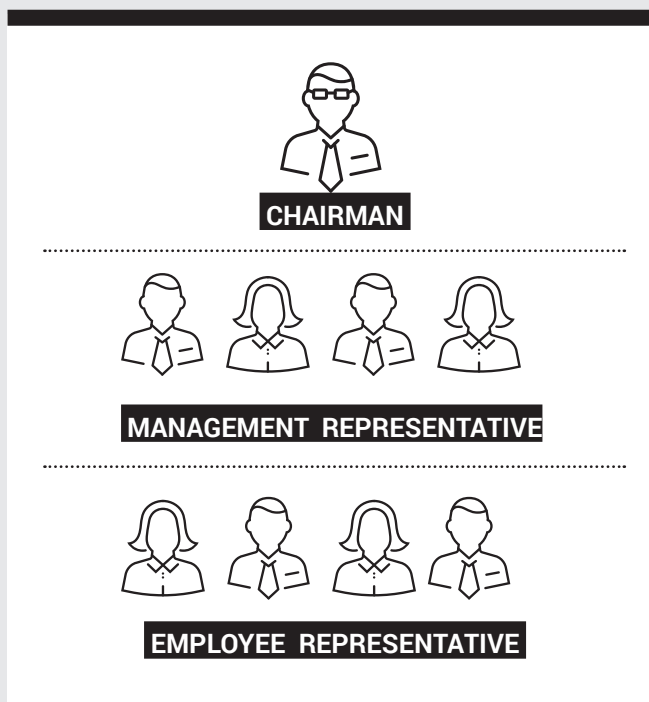
VELESTO Group has also designated the Chairman of the Board is the most senior individual responsible for HSE. The Chairman is supported by the President who in turn is supported by the relevant QHSE supporting structure.

### MANAGEMENT APPROACH TO QUALITY AND HSE

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

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

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



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

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

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

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



## PROCESS SAFETY & ASSET INTEGRITY

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

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

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

## IMS INTERNAL AUDIT & INTERNAL AUDITOR TRAINING

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

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

# SUSTAINABILITY REPORT

## QUALITY, HEALTH AND SAFETY

### IDENTIFICATION OF RISKS & RELATED ACTION PLANS

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

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

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

### FORMATION OF WORKER HSE COMMITTEES

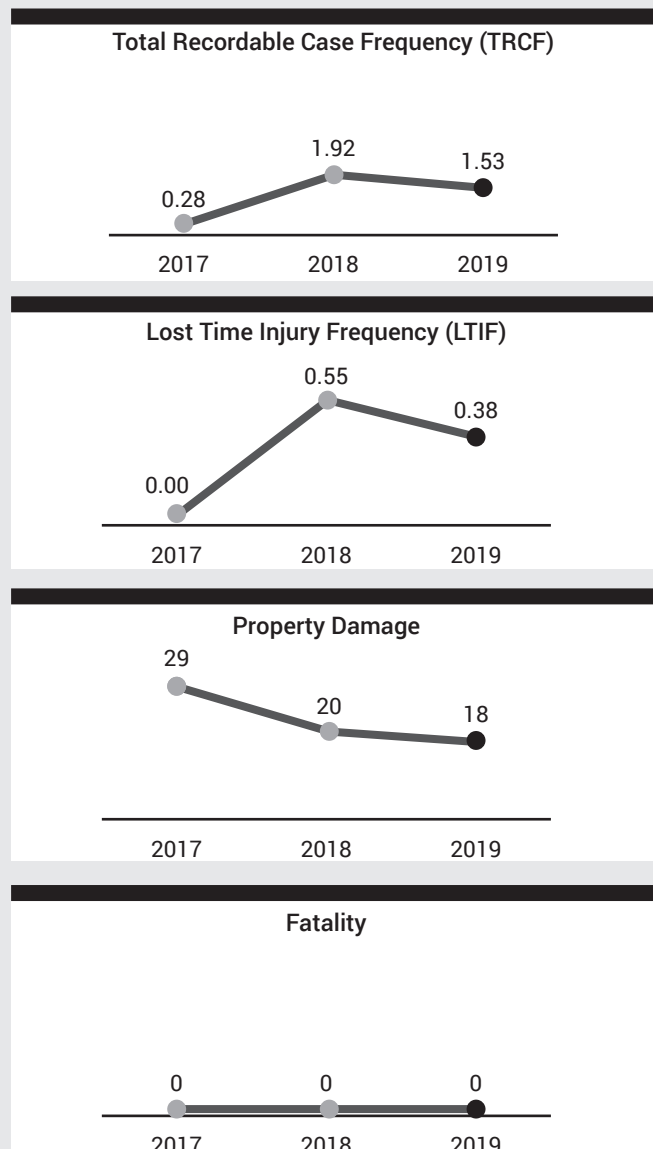
Other HSE initiatives conducted throughout the year include the formation of site-specific Safety & Health Committees to provide more proactive management of issues and potential issues as well as site-specific Morning Toolbox sessions. These enable staff or those who are on site and therefore more exposed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

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

### HSE PERFORMANCE FOR YEAR 2019

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

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





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

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

## INCIDENT INVESTIGATION

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

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

## REINFORCING A HSE FIRST ORGANISATIONAL CULTURE AND MINDSET

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

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

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

## HSE TRAINING

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

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

# SUSTAINABILITY REPORT

## QUALITY, HEALTH AND SAFETY

Among the courses held in FY2019 were as follows:

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

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

## MANAGEMENT VISIT

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

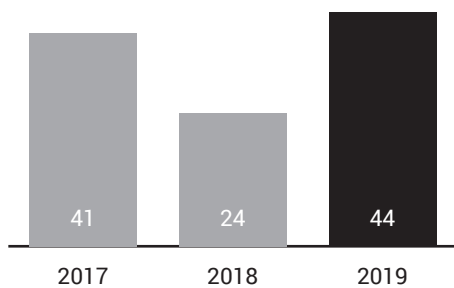
Management visits are also incorporated as part of our Management's Key Performance Indicators and HSE Performing Leading Indicators.

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

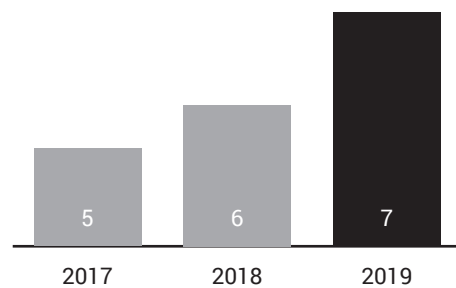
The management site visit is continuously conducted towards promoting HSE Leadership and Commitment given its importance in the overall HSE Management System.



Management Visit



President Visit



# SUSTAINABILITY REPORT

## QUALITY, HEALTH AND SAFETY

### HSE COMMUNICATION AND ENGAGEMENT ACTIVITIES

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

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

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



### SAFETY AND HEALTH CAMPAIGN

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

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





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

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

# CONGRATULATIONS! & THANK YOU!

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

# 106

bags of blood

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

# SUSTAINABILITY REPORT

## QUALITY, HEALTH AND SAFETY

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



### EMERGENCY RESPONSE & CRISIS PREPAREDNESS

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



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

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

Other emergency measures include:

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



## HSE ALERT

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

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

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

## AWARDS AND ACCOLADES

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

**Quarter 1**

1st NAGA 6

2nd NAGA 5

3rd NAGA 3

**Quarter 2**

2nd NAGA 2

3rd NAGA 3

Appreciation for  
Lang Lebah - 1RDR2  
PTTEP

NAGA  
6

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

NAGA  
3

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

NAGA  
5

HSE Outstanding  
Performance Award -  
Destini Oil Service

GAIT  
1