

DRIVING

**SUSTAINABILITY  
TOGETHER**

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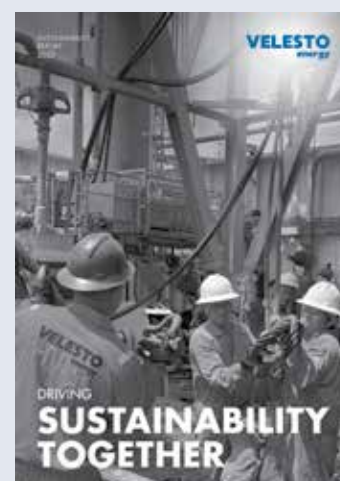
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### Cover Rationale

At the heart of our operations, lies our people. VELESTO's workforce is the beating pulse of the organisation, whose contributions, sacrifices and professionalism during the pandemic year has enabled the Group to continue generating stakeholder value.

As a People-Focused organisation, we remain focused on pushing forward to greater heights through teamwork, a dynamic spirit and perseverance, and a culture of innovation and high-performance to weather the present storms and to scale greater heights.

—  
**DEAR  
STAKEHOLDERS,**

IT IS WITH MUCH PLEASURE THAT I SHARE WITH YOU THE ACHIEVEMENTS, HIGHLIGHTS AND PROGRESS ON SUSTAINABILITY MADE BY VELESTO ENERGY BERHAD (“VELESTO” OR “THE GROUP”) IN FINANCIAL YEAR ENDED 31 DECEMBER 2020 (FY2020).



**ROHAIZAD DARUS**  
PRESIDENT

# Pursuing a Path of Sustainability

Certainly, FY2020 has been a year of significant disruption and turbulence due to the COVID-19 pandemic as well as from other socio-economic and industry developments.

Within this environment, a clear insight has come through and that is the importance of prioritising environmental, social and governance (ESG) performance in tandem with our business, financial and operational performance.

The onset of COVID-19 has clearly presented a strong business case for businesses to take stock not just of their business and financial strategies, but to also review and assess their material ESG topics.

ESG presents both risks and opportunities, which a progressive and proactive business must always consider to remain robust, competitive and relevant while sustaining value creation over the short, medium and long-term perspectives.

The link between Sustainability and business performance is intrinsic and therefore, undeniable. Poor governance leads to inadequate responses during a crisis and impacts business and operational performance to be resilient and weather the storms of adversity that in today's dynamic and uncertain business environment is increasingly becoming the norm rather than the exception.

With that in mind, VELESTO in FY2020 has continued to pursue its Sustainability agenda and has made significant progress on its journey.



In FY2020, VELESTO developed its Sustainability Blueprint, a holistic strategic plan that provides us with a comprehensive framework to guide and align our overall Sustainability approach.

The Blueprint enables us to adopt a comprehensive and integrated approach that places Sustainability at the heart of the organisation. Focus areas have been identified under the Blueprint with clear goals and targets set as well as action plans drawn up and implemented in FY2020.

Despite COVID-19 and other disruptive factors, VELESTO has not wavered from its Sustainability agenda, pursuing its Blueprint with passion, perseverance, and the continued conviction that ESG is a win for the organisation, its value chain and the industry as a whole.

## Sustainability Initiatives Towards Sustainable Growth

### SUSTAINABILITY STATEMENT

Our Sustainability Blueprint is also aligned to our selected United Nations Sustainability Development Goals (UNSDGs). These are:



Given the nature of our industry, the upstream value chain of exploration and production, and our business model, operations and activities, VELESTO's Sustainability approach remains driven by the following three aspects: the protection of everyone's health and safety, enhancing people's lives, and environment preservation.

Last year, we achieved zero Lost Time Incidents (LTI) and zero recordable incident cases. The Group has maintained full employment of staff despite the negative effects of COVID-19 on rig utilisation rates. We have safeguarded the wellbeing of staff, by ensuring timely and even early payment of salaries, through the provision of allowances for staff and provided a wide range of amenities for staff who transitioned to a Work-From-Home (WFH) environment.

One of our priorities has been inculcating a culture of integrity, as we believe good governance pays dividends to the long-term performance of the Group.

We continue to develop drilling professionals for the local industry, which still sees a shortage of skilled, local talent.

We have also maintained our commitment to uplifting the community, especially through our long-term educational programmes and our contributions in the fight against COVID-19 such as

contributions to the Ministry of Health, automated temperature scanners, face masks and sanitisers. In FY2020, we have recommenced our investment in local school students towards improving their academic performance.

As the oil and gas sector looks to "green" itself, it is imperative that we also seize the opportunities presented towards progressively becoming a more sustainable business entity, with sustainable business practices and processes.

We are pleased to share that in FY2020, there were zero major spills from our rigs. Our environmental priorities are to reduce greenhouse gas emissions and to progressively reduce our environmental footprint. This includes reviewing our energy and water consumption and also preserving biodiversity in the locations where we operate.

While I am proud of the achievements in 2020, I wish to reference the unfortunate incident involving NAGA 7 on 3 May 2021 causing the rig to be fully submerged. All 101 personnel were safely evacuated to shore. We believe our HSE drills and preparation have contributed to the safety of our crew.

All the relevant authorities have been duly informed and we are currently monitoring the incident location for any potential adverse impact. The Group is investigating the incident and evaluating recovery options.

VELESTO remains committed to pursuing a path of Sustainability in ensuring its future and delivering long-term stakeholder value. We will continue to do so because of our belief and commitment, and we will continue to strive for greater accomplishments in FY2021 and beyond.

**ROHAIZAD DARUS**  
PRESIDENT

### SUSTAINABILITY PERFORMANCE



# 660

employees  
(79% Malaysian)



# 291

participants trained  
at VIDA  
in FY2020



# RM120mil

Purchase from Local  
Suppliers  
(70%)

HIGHLIGHTS



**Zero**  
Lost Time Incident  
and  
**Zero**  
major spills



**42%**  
of Senior Management  
and  
**44%**  
Directors comprise of women



**11%**  
lower energy consumption and  
emissions



**2.3** mil  
manhours  
without LTI



**2019 ASEAN CORPORATE  
GOVERNANCE SCORECARD  
(ACGS) AWARDS**  
(ASEAN Asset Class Award  
category)



**Tier One Ranking (Setting the Pace)**  
for Sustainability Disclosure by  
Bursa Malaysia



4-stars ESG ranking by  
Bursa Malaysia and FTSE Russell



FTSE4Good

**FTSE4Good Bursa Malaysia  
Index Constituent**

SUSTAINABILITY STATEMENT

**ALIGNMENT TO THE UNITED NATIONS SUSTAINABILITY DEVELOPMENT GOALS**

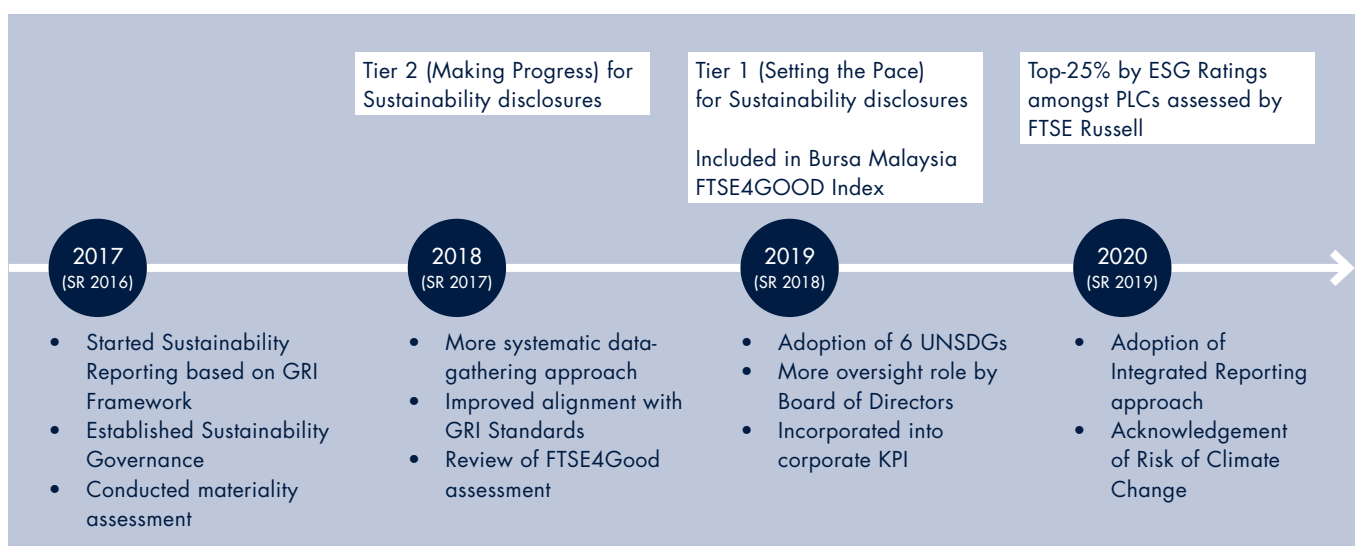
VELESTO has aligned its Sustainability strategy and efforts to a number of United Nations Sustainability Development Goals (UNSDG). The Group has also set Sustainability commitments, targets and pledges in providing further impetus to its Sustainability journey.

Below is a snapshot of VELESTO’s Sustainability performance in FY2020 and its contribution to the UNSDGs:

HIGHLIGHTS AND ACHIEVEMENTS	FUTURE PLANS / COMMITMENTS, TARGETS AND PLEDGES	UNSDGs
<b>PROTECTION OF HEALTH AND SAFETY</b>		
<ul style="list-style-type: none"> <li>Zero fatalities</li> <li>Zero LTI</li> <li>Zero Total Recordable Case Frequency (TRCF)</li> </ul>	<ul style="list-style-type: none"> <li>Zero fatalities#</li> <li>Zero LTI#</li> <li>TRCF less than 1.0#</li> <li>Continued protection of staff from COVID-19 impacts</li> </ul>	
<b>DECENT WORK AND ECONOMIC GROWTH</b>		
<ul style="list-style-type: none"> <li>660 jobs (79% Malaysian)</li> <li>RM118 million in employees salaries and benefit</li> <li>RM83 million purchase from local suppliers (70%)</li> <li>RM228 million net debt repayment to financiers</li> <li>RM15 million taxes paid to Government</li> <li>Track record of zero infringements in human rights</li> </ul>	<ul style="list-style-type: none"> <li>Job and staff retention</li> <li>Development of more high-skilled jobs for Malaysians</li> <li>Further development of the local procurement / supply chain via VDP-X</li> <li>Improved financial and business performance</li> <li>Continued support of government initiatives</li> <li>Support for UN Global Compact 10 Principles</li> </ul>	
<b>GENDER DIVERSITY</b>		
<ul style="list-style-type: none"> <li>42% of Senior Management and 44% of Directors comprise of women</li> </ul>	<ul style="list-style-type: none"> <li>Continued support for gender diversity</li> </ul>	
<b>PRESERVATION OF THE ENVIRONMENT</b>		
<ul style="list-style-type: none"> <li>Zero major spills</li> <li>No material impact to biodiversity</li> <li>Rainwater harvesting on idle rigs</li> </ul>	<ul style="list-style-type: none"> <li>Avoid major spills#</li> <li>Energy and water consumption savings</li> </ul>	 
<b>ENHANCEMENT OF PEOPLE’S LIVES</b>		
<ul style="list-style-type: none"> <li>180 students benefited from CSR programmes</li> </ul>	<ul style="list-style-type: none"> <li>Various programs in support of government initiatives e.g. Tabung Cerdik, MyStep and internship programme.</li> <li>Continuing to work with key stakeholders, both offshore and onshore towards ensuring mutual value creation.</li> </ul>	

(#) Note: Part of Management KPIs

**VELESTO SUSTAINABILITY JOURNEY AND MILESTONES**



## About this Sustainability Report

### INTRODUCTION

VELESTO's Sustainability Report (SR2020) is our fifth Sustainability Report and charts the Group's progress in addressing its material ESG topics. The Group is of the view that financial performance is increasingly influenced by ESG matters. As such, efforts to measure performance across a triple bottom-line is advantageous to ensuring both financial and non-financial value creation.

VELESTO's approach to Sustainability extends beyond the customary precepts of "doing no harm" and being a responsible corporate citizen. Rather, VELESTO looks to Sustainability as a business enabler that offers prospects for strengthening the robustness of its business model, as a catalyst for change and a means to capitalise on emerging opportunities. Sustainability is also a comprehensive strategy towards mitigating and reducing risks.

This report is to be read together with VELESTO's Integrated Annual Report (IAR2020) towards obtaining a more comprehensive perspective of the linkage between business and financial performance and Sustainability performance.

SR2020 covers the period of 1 January 2020 to 31 December 2020 (FY2020).

### LINKAGE TO INTEGRATED REPORTING

The IAR2020 provides a detailed perspective on the Group's business strategy, its business model, its external operating environment and other strategic information. SR2020 provides the management approach, performance details and specific information, including statistical data over a three-year time frame for ESG material topics.

Going forward, the Group will look to further integrate financial and non-financial performance towards providing more concise and linked disclosure for a seamless value creation narrative.

### FRAMEWORKS APPLIED

SR2020 has been prepared in reference to the following frameworks and guidelines:

- Global Reporting Initiative (GRI) Standards 2020 Core Option. The full GRI content index is provided at the end of the SR2020.
- Bursa Malaysia's Sustainability Reporting Guide Second Edition
- United Nations Sustainability Development Goals (UNSDG)
- FTSE4Good Sustainability Index
- VELESTO Sustainability Blueprint

### REPORTING SCOPE & BOUNDARY

As in previous years, SR2020's reporting scope is based on the GRI principles of accuracy, balance, clarity, comparability, reliability and timeliness, as well as the GRI content principles of stakeholder inclusiveness, Sustainability context, materiality and completeness.

Data and information provided is based on the Group's ability to collect and present meaningful data and is focused on its drilling and hydraulic workover services. The scope is further streamlined to focus on the most pertinent projects, initiatives, and activities of VELESTO rather than every aspect of operations.

Where possible, the Group has endeavoured to provide data and disclosures related to the ESG performance of its value chain. We exercise a "local-where-we-operate" practice.

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

### EXCLUSIONS

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 SR2020 excludes (as in previous years' reporting), ESG impacts arising from the ownership of the aforementioned oil and gas resources, discovered or produced by VELESTO for clients with the same 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.

VELESTO's Oilfield Services (OFS) operations in Tianjin, China, given its comparatively small operational footprint, has also been excluded from SR2020.

### MATERIALITY

As prior mentioned, SR2020 contains ESG disclosures that are material to VELESTO. Materiality of ESG topics is determined based on the Group's internal assessment, consultation with stakeholder groups, industry peer comparison and benchmarks and recommended topics based on the GRI and FTSE4Good frameworks.

### REPORT QUALITY & ASSURANCE

All data in SR2020 have been collated from primary official documents and records. Data has been collected and results measured 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 some of the financial data presented in this report where the figures can be cross-referenced to the Financial Report. However, VELESTO has not undertaken third party assurance for non-financial, Sustainability-related data.

SUSTAINABILITY STATEMENT

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

**FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements discussing targets, future plans, operations and performance of the Group based on reasonable current assumptions. Readers are advised not to place undue reliance on such statements as our business is subject to risks and uncertainties beyond our control. Actual results may differ.

**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**  
**Veleso Energy Berhad**  
Level 18, Block 3A, Plaza Sentral  
Jalan Stesen Sentral 5  
50470 Kuala Lumpur, Malaysia

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**VELESTO Sustainability Blueprint**

The VELESTO Sustainability Blueprint outlines key ESG goals and targets and focus areas on a short and medium-term basis. This provides a coherent direction for the Group to align its Sustainability initiatives as well as to track and assess its performance.

Through the Blueprint, VELESTO aims to progress to realise its ambitions of leveraging on Sustainability to drive its business model going forward, beyond just mitigating risks, but also capitalising on opportunities for growth and value creation.

Sustainability strengthens brand image and credibility, attracts high-performing talent, enables the development of new products and services, attracts investors and provides access to ESG / green financing.



The Sustainability Blueprint is a dynamic plan that may be adapted in tandem with developments in the external environment and trends, changes and developments within the domestic and global oil and gas industry.

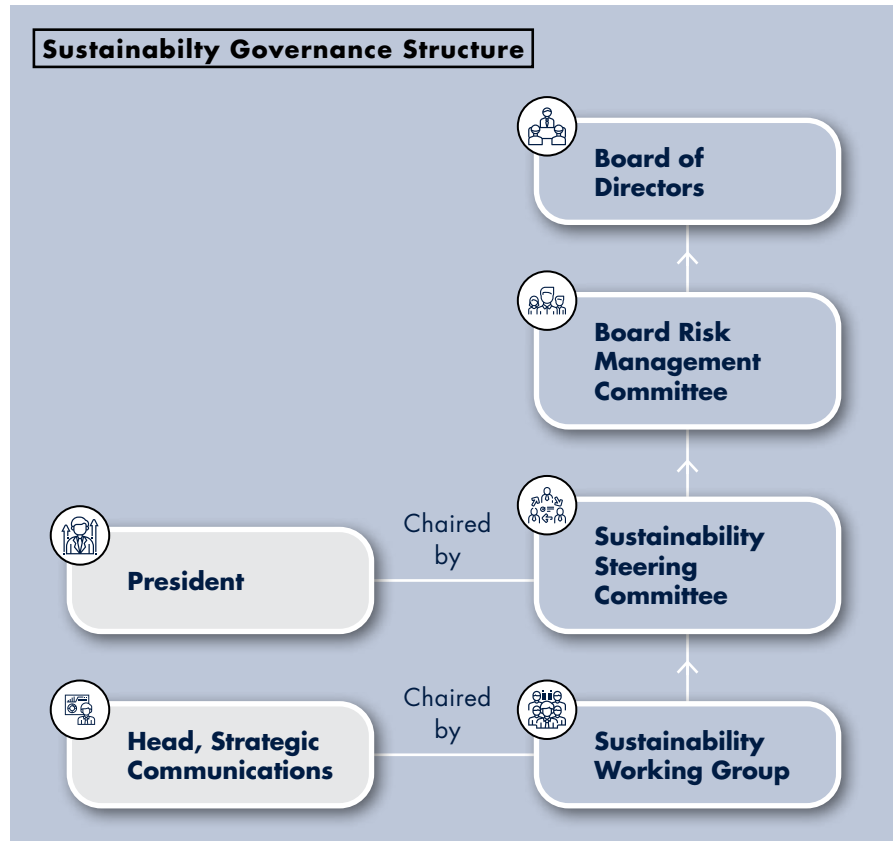


## DRIVEN BY A ROBUST GOVERNANCE STRUCTURE

VELESTO's robust governance structure continues to provide the Group with the necessary controls and oversight on ESG risks and challenges as well as emerging opportunities.

Importantly, the said governance structure supports the ongoing development of Sustainability within the organisation. This includes the development of a desired organisational culture and mindset, active monitoring of ESG topics and also provide impetus and support for the development and execution of action plans.

The structure is designed to not just facilitate top-down directives, but to also accommodate and encourage bottom-up feedback, views and perspectives from the rank and file towards ensuring a truly effective response in addressing material topics.



Within the governance structure, the Board of Directors and Senior Management maintain oversight on the following material ESG topics: talent development, environmental performance, health and safety, business, financial, operational and strategic risks as well as corporate governance.

The Board of Directors maintain oversight on VELESTO's Sustainability agenda via its Board Risk Management Committee (BRMC). The BRMC in turn 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 blurring silos between ESG matters and financial, business and operational risks.

In FY2020, the Board of Directors approved the VELESTO Sustainability Blueprint. The Blueprint incorporates a wide range of strategies, programmes and action plans centred on the Group's pillars of protection of health and safety of everybody, enhancement of people's lives and the preservation of the environment.

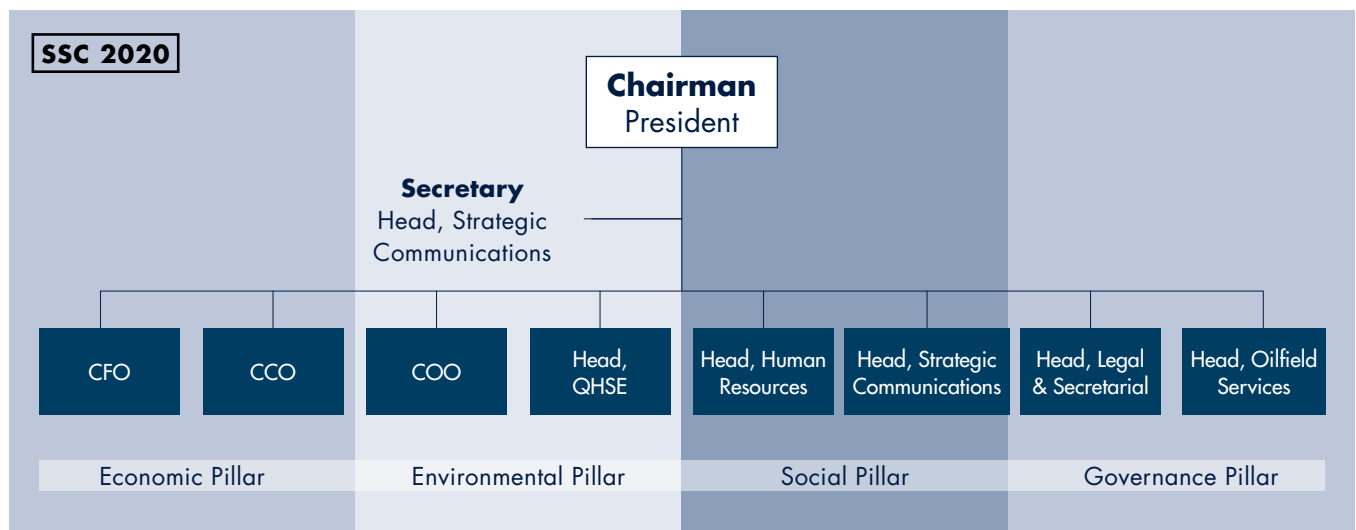
The SR2020 was reviewed and approved by the Board of Directors on 11 May 2021.

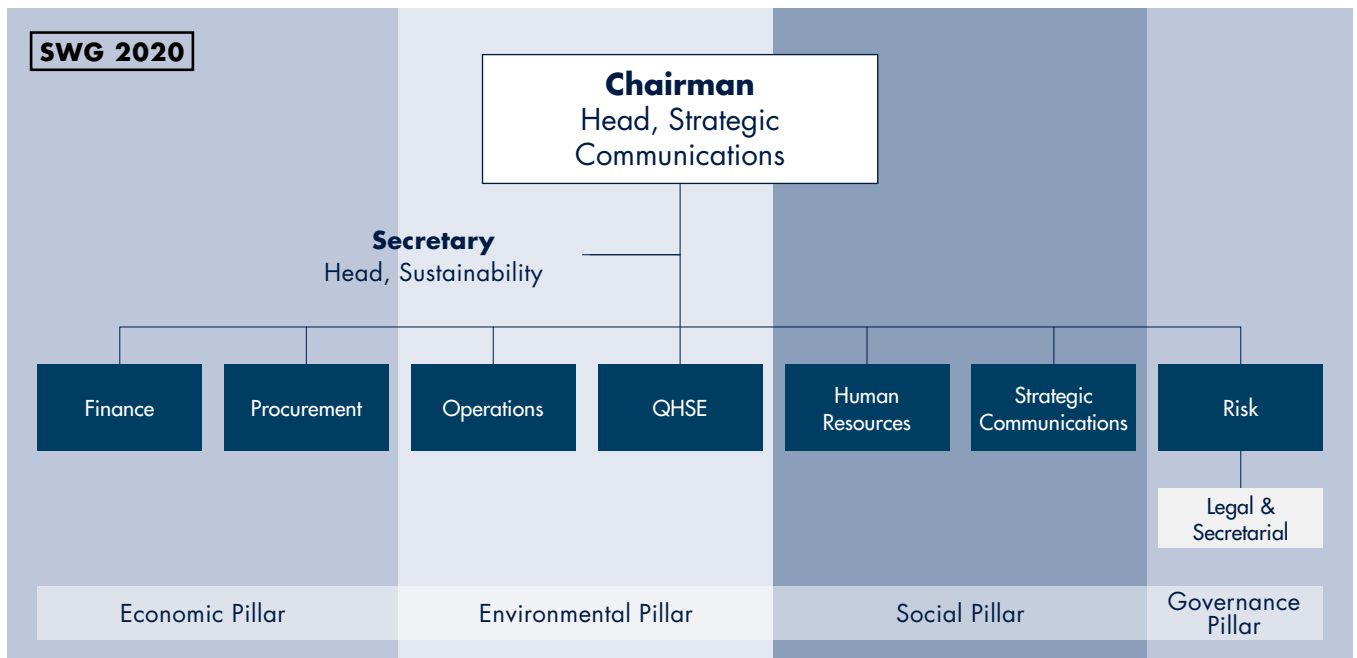
**SSC & SWG ROLES & RESPONSIBILITIES**

SUSTAINABILITY STEERING COMMITTEE (SSC)	SUSTAINABILITY WORKING GROUP (SWG)
<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>○ Head, Strategic Communications (Secretary)</li> <li>○ Chief Financial Officer (CFO)</li> <li>○ Chief Commercial Officer (CCO)</li> <li>○ Chief Operating Officer (COO)</li> <li>○ Head, Human Resources</li> <li>○ Head, Quality, Health Safety and Environment</li> <li>○ Head, Legal, Secretarial and Risk Management</li> <li>○ Head, Oilfield Services</li> </ul> </li> <li>• Ensures the Sustainability strategy is aligned with the Group’s vision and mission</li> <li>• Reviews and recommends Sustainability statement to the Board</li> <li>• Reviews and recommends Sustainability strategies, policies and other related matters such as management systems, performance monitoring, policies, commitments and regulations</li> <li>• To continuously monitor stakeholders’ expectations on VELESTO’s Sustainability activities through effective communication strategies</li> </ul>	<ul style="list-style-type: none"> <li>• The Working Group consists of representatives from Corporate and Operations that are responsible for Sustainability strategies and projects</li> <li>• Tracks the data to ensure that all outlined activities achieved defined targets</li> </ul>

In FY2020, both the SSC and SWG were strengthened with the following improvements:

- **SSC:** Inclusion of Oilfield Services under the SSC structure
- **SWG:** Inclusion of added personnel to provide more effective execution capabilities





### SUSTAINABILITY GOVERNANCE THROUGH OPERATIONAL SITE CERTIFICATION

All of VELESTO's jack-up (JU) rigs and hydraulic workover units (HWUs), its KL Headquarters and its operating bases in Kemaman, Terengganu and Labuan have been certified by DNV-GL to the globally recognised management system standards as given 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 also holds the ISO/TS 29001:2010 Quality Management System for Petroleum, Petrochemical and Natural Gas Industries.

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

Note: On 26 February 2021, VELESTO was certified to the ISO 45001:2018 system

**GOVERNANCE THROUGH ETHICAL CONDUCT AND STRONG ANTI-BRIBERY AND CORRUPTION STANCE**

VELESTO takes a zero-tolerance approach towards any bribery and corruption within the Group’s business operations and across its supply chain. The tone of zero tolerance to all forms of bribery and corruption begins at the top, with the Board of Directors setting a clear moral compass that there will be no compromise towards any corrupt and unethical practices as well as poor corporate integrity.

On 25 September 2020, the Board had approved the Group-wide Anti-Bribery and Corruption Policy (ABC Policy). This policy prohibits employees and the Board of VELESTO from committing any bribery or corrupt act.

It outlines the Group’s commitment to conduct its business in accordance with all applicable laws, rules and regulations with the highest ethical standards. The establishment of the ABC Policy and other governance related procedures is one of the Group initiatives to address bribery and corruption risks across VELESTO. To view the Group’s ABC Policy statement, please visit VELESTO’s website.

The ABC Policy comes after the establishment of VELESTO’s Integrity and Governance Unit (IGU) on 1 January 2020.

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

Supporting the roll out of the ABC Policy, an organisation wide communication effort was initiated to ensure that all internal stakeholders were made aware on the existence of the policy and the requirement to adhere to the stated policies and procedures.

The Board of Directors reviews the ABC Policy and other governance related procedures as and when necessary, to ensure that it continues to be effective. Various engagements and communication channels were utilised in order to drive the message of zero tolerance on corruption and bribery to the internal stakeholders.

These included regular townhalls, where the President spoke on the importance of maintaining a strong anti-corruption stance across the organisation. Good communication strategies implemented, such as our iLEAP core values, have contributed to Group-wide dissemination and inculcation of a culture of integrity and strong anti-corruption stance.

In addition, other channels that were continued to be utilised were the quarterly newsletters as well as internal integrity roadshows organised by VELESTO’s IGU.



On 25 September 2020, VELESTO affirmed its commitment to integrity and good governance values by declaration and affirmation of the Corruption Free Pledge.

The event took place on 25 September 2020 in Kuala Lumpur with the President leading the oath-taking ceremony together with Senior Management and witnessed by the Chairman of the Board, an Independent Director and MACC officials.

## ANTI-CORRUPTION ACTIVITIES

ACTIVITIES	REMARKS
<p>1</p> <p><b>Completion of IGU documentation including framework, policies and procedures</b></p>	<ul style="list-style-type: none"> <li>The following documents were approved by Board/BWBC on 9 June 2020               <ul style="list-style-type: none"> <li>- Board Whistle-Blowing Committee Term of Reference (Revised)</li> <li>- Integrity Governance Framework (New)</li> <li>- Whistle-Blowing Policy (Revised)</li> <li>- Whistle-Blowing Procedure (Revised)</li> </ul> </li> <li>The following documents were approved by Board on 25 September 2020               <ul style="list-style-type: none"> <li>- Anti-Bribery and Corruption Policy (New)</li> <li>- Corporate Gifts, Gifts, Entertainment and Hospitality Procedure (New)</li> </ul> </li> </ul>
<p>2</p> <p><b>Establishment of Whistle-Blowing Channels</b></p>	<ul style="list-style-type: none"> <li>Whistle-Blowing channel via SharePoint @ n e s t on 20 May 2020</li> <li>Whistle-Blowing channel via the Company's website on 15 May 2020</li> </ul>
<p>3</p> <p><b>ISO 37001: 2016, Anti-Bribery Management System (ABMS) Awareness Session and Corruption Risk Management (CRM) Workshop</b></p>	<ul style="list-style-type: none"> <li>ABMS Awareness Session was held on 13 July 2020 followed with CRM Workshop from 14 to 16 July 2020</li> <li>The trainer for the programme explained in detail on the ABMS processes and facilitated the CRM workshop involving representatives from all Divisions</li> </ul>
<p>4</p> <p><b>VELESTO Vendor Integrity Pledge (VIP)</b></p>	<ul style="list-style-type: none"> <li>Establish a standard pledge document and forward the VIP to Velesto's approved vendors for their agreement and commitment on 25 July 2020</li> <li>As at 27 November 2020, 57% of VELESTO Approved Vendors List signed the VIP</li> </ul>
<p>5</p> <p><b>Establishment of Corruption Risk Registers (CRR) and Corruption Risk Management (CRM)</b></p>	<ul style="list-style-type: none"> <li>The CRR were developed by the respective appointed Division's representatives</li> <li>As at 31 October 2020, the CRR were updated by Head of Divisions for Q4 2020</li> <li>The risk registers were presented to BRMC on 24 November 2020</li> </ul>
<p>6</p> <p><b>Distributing the signages on "Zero Tolerance Towards Anti-Bribery and Corruption"</b></p>	<ul style="list-style-type: none"> <li>The signage was distributed to all VELESTO Group sites including KL Headquarters, rigs, and supply bases including Singapore and Tianjin on 1 September 2020</li> <li>The signages were prepared in three versions i.e English, Bahasa Melayu and Mandarin</li> </ul>
<p>7</p> <p><b>Corruption Free Pledge for Board of Directors, Senior Management and Staff</b></p>	<ul style="list-style-type: none"> <li>The Corruption Free Pledge witnessed by MACC was conducted on 25 September 2020</li> <li>The Corruption Free Pledge by all Corporate staff were conducted in 2020</li> </ul>
<p>8</p> <p><b>IGU e-Newsletter</b></p>	<ul style="list-style-type: none"> <li>The IGU e-Newsletter is to facilitate the staff to learn/understand the importance of practicing on high integrity and compliance culture</li> <li>The e-Newsletters were disseminated to all staff. First edition was issued on 25 March 2020, second edition on 7 August 2020 and third edition on 15 October 2020 and fourth edition on 25 December 2020</li> </ul>

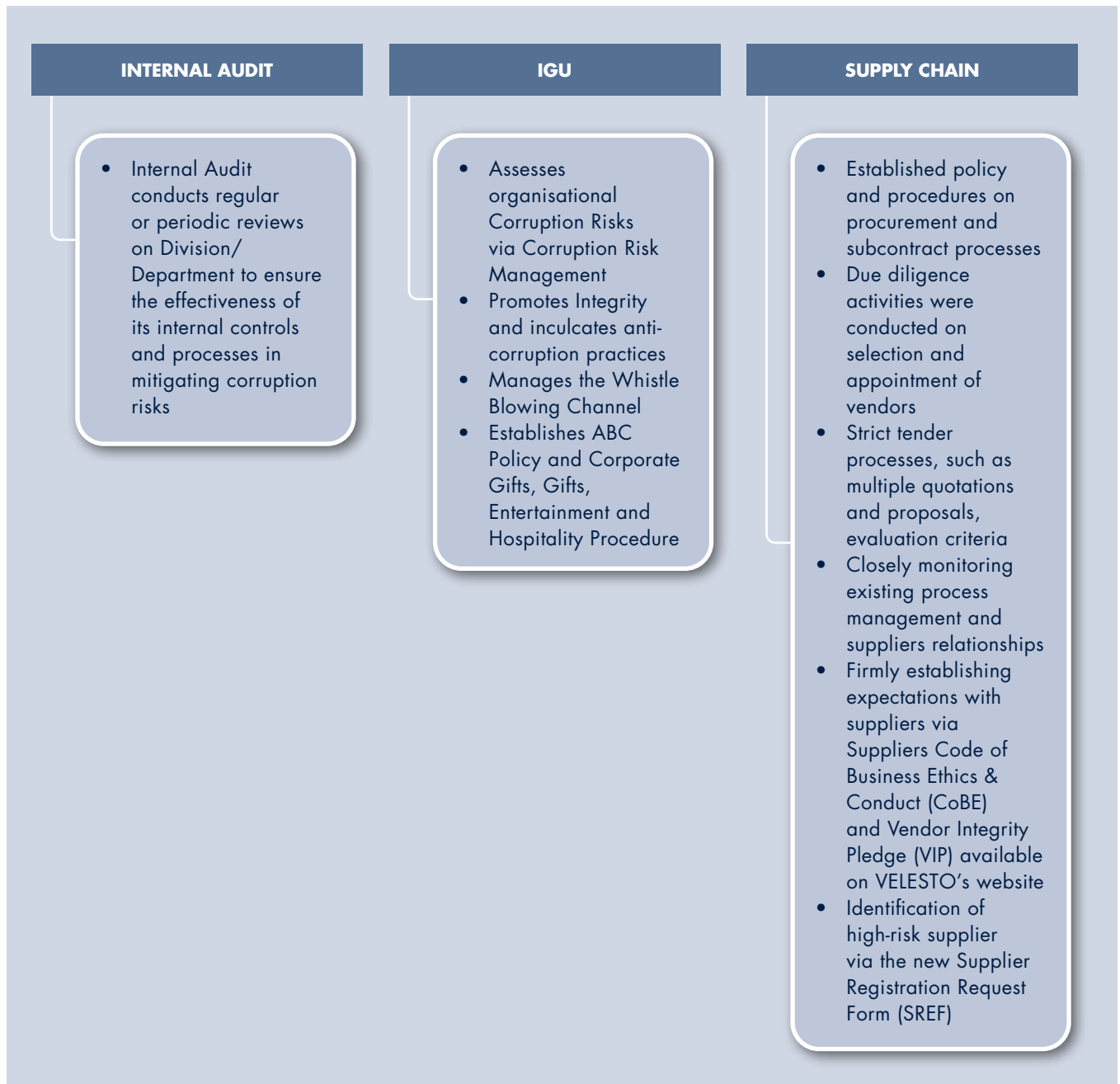
ACTIVITIES	REMARKS
<p>9</p> <p><b>Integrity Roadshow and Awareness</b></p>	<ul style="list-style-type: none"> <li>• Roadshow and awareness sessions on anti-corruption, ABC Policy, integrity and governance-related policies and procedures were held from December 2020 until January 2021</li> <li>• Participated by:                             <ul style="list-style-type: none"> <li>- Corporate Divisions</li> <li>- Supply bases</li> </ul> </li> </ul>
<p>10</p> <p><b>Monitoring of VELESTO's License, Subscriptions and Contracts</b></p>	<ul style="list-style-type: none"> <li>• Close monitoring and constant reminder communication on the required licenses and contracts renewal activities by the respective stakeholders</li> <li>• Requirement of presenting proof/evidence of renewal or completion</li> <li>• Update of database in the ePR system</li> </ul>
<p>11</p> <p><b>Submission of MACC Report (bi-annually)</b></p>	<ul style="list-style-type: none"> <li>• Report were submitted based on a standard format/template set by MACC</li> <li>• Report coverage period and submission date:                             <ul style="list-style-type: none"> <li>- July – December 2019 : 29 January 2020</li> <li>- January – June 2020 : 27 July 2020</li> <li>- July – December 2020 : 27 January 2021</li> </ul> </li> </ul>

**VELESTO CORRUPTION RISK ASSESSMENT**

As in previous years, in FY2020, VELESTO conducted Group-wide corruption risks assessment and identified Divisions/ Departments that have varying risk exposures as frontliners with interactions with third parties and intermediaries. Following thereon, mitigation actions and activities were conducted throughout FY2020. These activities were monitored to ensure that anti-corruption ambition remains a priority to all employees.

**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.



SUSTAINABILITY STATEMENT

**WHISTLE-BLOWING MECHANISM**

VELESTO strengthened its whistle-blowing (WB) mechanism by introducing additional reporting channels via its website and SharePoint to encourage all stakeholders (internal or external) to lodge reports on bribery, any corrupt activities or any other form of unethical behaviour, including harassment.

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.

**CODE OF BUSINESS CONDUCT AND ETHICS**

VELESTO’s Code of Business Conduct and Ethics (CoBE) guides VELESTO 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 various trainings as well as communication programmes. Each employee undergoes training and is required to read and understand the CoBE. All employees will be required to agree and declare 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.

**STRENGTHENING GOVERNANCE THROUGH MEMBERSHIP IN ASSOCIATIONS**

By virtue of being a member of the following industry or professional associations, VELESTO subscribes to the rules and regulations of these associations which strengthen organisational governance:

ENERGY INDUSTRY	OTHERS
<ul style="list-style-type: none"> <li>• The Malaysian Oil &amp; Gas Services Council (MOGSC)</li> <li>• Malaysian Gas Association (MGA)</li> <li>• Energy Industry Council (EIC)</li> <li>• International Association of Drilling Contractors (IADC)</li> </ul>	<ul style="list-style-type: none"> <li>• Malaysian Society of Occupational Safety &amp; Health (MSOSH)</li> <li>• Institute of Internal Audit (IIA) Malaysia</li> </ul>

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.

**STAKEHOLDER ENGAGEMENT**

Stakeholder engagement is essential in ensuring that VELESTO remains inclusive in its Sustainability approach. A strategic approach to multi-stakeholder engagements provides stronger assurance that the Group is aware of others’ expectations and will not develop a myopic or insular view that negates the perspectives of stakeholders.

Hence, the necessity of engagement towards ensuring stakeholders’ views, aspirations and concerns are also included in the determination of material ESG topics and value creation.

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.

In FY2020, the impact of COVID-19 has led an increased use of online / virtual channels to engage with stakeholders. A key highlight was the FY2020 virtual Annual General Meeting (AGM). Various other engagements were also implemented using online platforms.

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



METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES / OUTCOMES
<b>SHAREHOLDERS AND INVESTORS</b>		
<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 Malaysia</li> <li>Quarterly announcements of financial results to Bursa Malaysia</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 the Group to analysts from various financial/research houses</li> <li>A yearly update to shareholders on the strength and position of the 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 the 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 and media</li> <li>Maintained share price performance</li> <li>Compliance with MMLR</li> </ul>
<b>PETRONAS AND OTHER OIL COMPANIES</b>		
<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</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) etc.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure all clarifications are responded to and appropriate actions are undertaken</li> <li>Managing issues with various teams</li> <li>Visits jointly organised by Business Development and Operations teams</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's capabilities and rig schedules</li> <li>Participated in various tradeshows and exhibitions when deemed necessary, local and overseas for marketing and branding purposes</li> </ul>
<b>GOVERNMENT/REGULATORS/AGENCIES</b>		
<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>

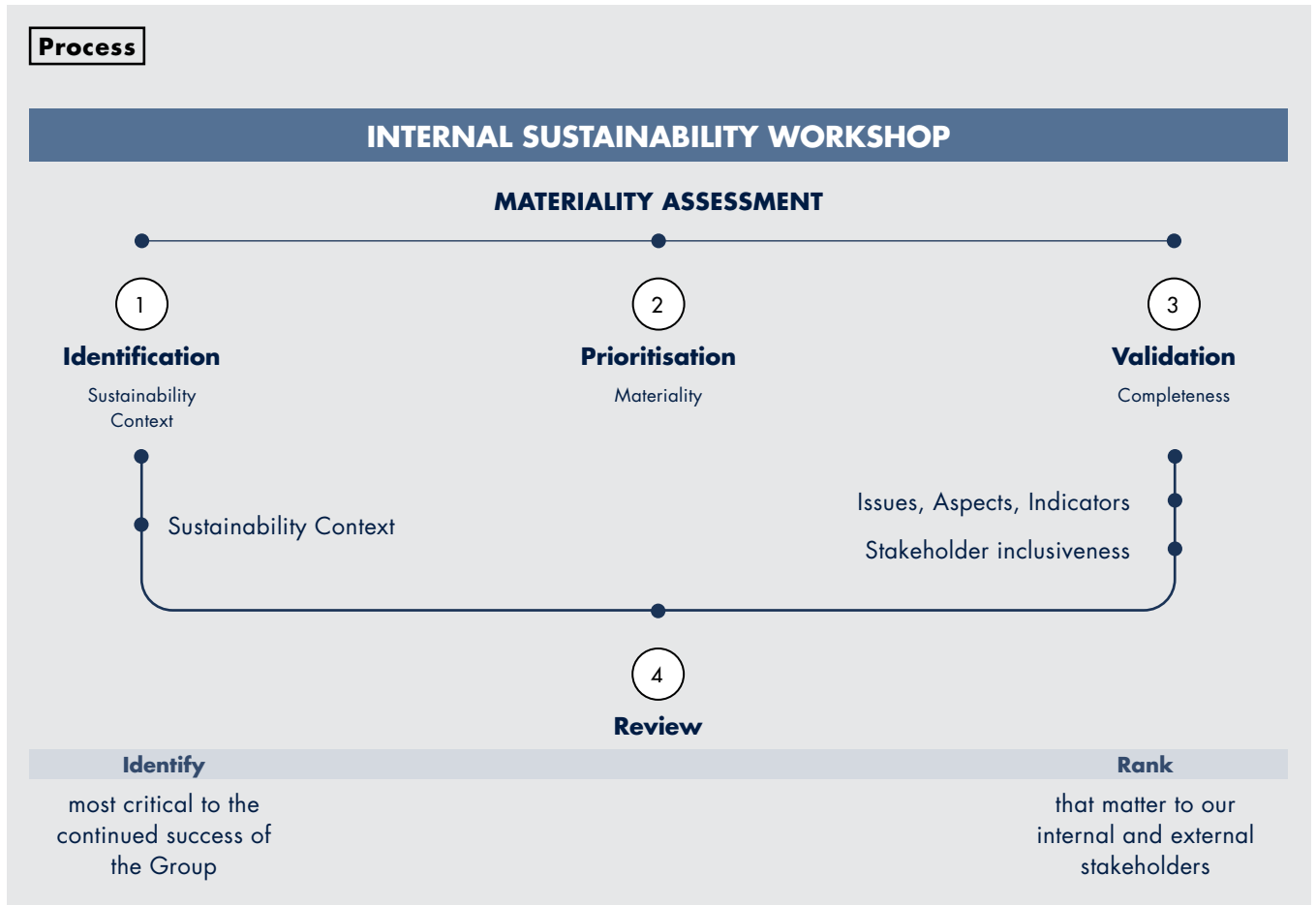
SUSTAINABILITY STATEMENT

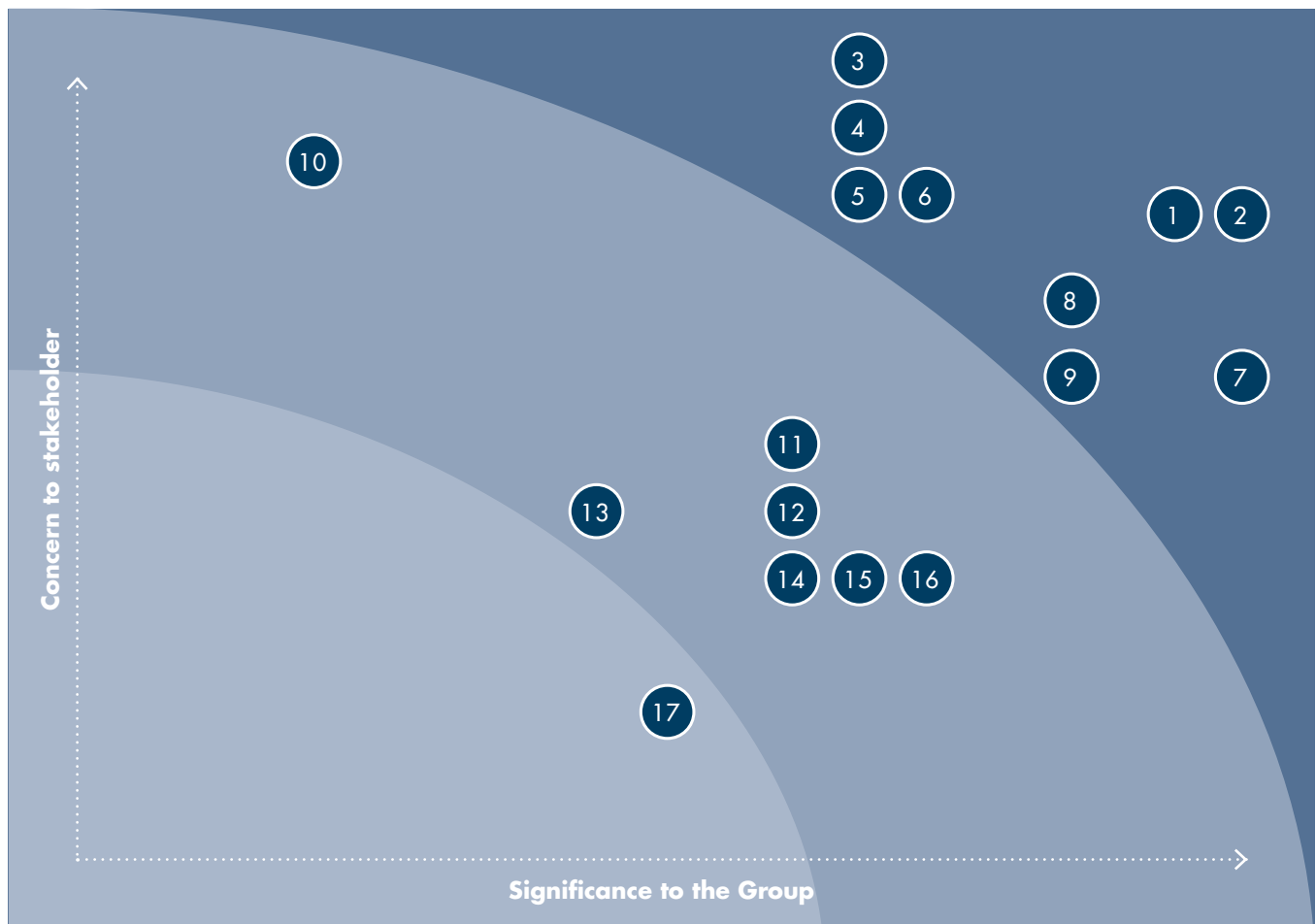
METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES / OUTCOMES
<b>EMPLOYEES</b>		
<ul style="list-style-type: none"> <li>• Townhall sessions</li> <li>• Festive celebrations</li> <li>• Internal communications emailers</li> <li>• Employee excursions/events</li> <li>• Management HSE walkabouts</li> <li>• Lunch with President session</li> <li>• Talent Management Roadshow &amp; Workshop</li> <li>• Reskilling &amp; Upskilling Roadshow</li> <li>• Virtual Teh Tarik Session with President</li> <li>• HR-RIG Engagement Session</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly updates by the President on the position and status of the Group to VELESTO staff in townhall sessions</li> <li>• Providing updates on VELESTO's SharePoint on the latest happenings, events, etc. Some internal emailers 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 the Group</li> <li>• Internal communications help ensure that all members of the organisation are kept up to-date on the on-goings at VELESTO</li> <li>• Promote safety awareness at the workplace</li> </ul>
<b>FINANCIAL INSTITUTIONS</b>		
<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>
<b>COMMUNITIES</b>		
<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 partners/schools/communities</li> </ul>	<ul style="list-style-type: none"> <li>• Improvement/betterment of the participating stakeholders' understanding on safety, improved education experiences and results, and improved/better understanding of the environment</li> </ul>
<b>VENDORS</b>		
<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 Vendor Development Programme (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 values (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 etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Familiarising with vendor's capabilities</li> <li>• Ensure VELESTO's requirements on HSE and CoBE 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>

**ASSESSING AND DETERMINING MATERIALITY**

VELESTO continues to assess its materiality topics guided by the focus areas of people development, 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), the FTSE4Good Index, as well as through internal workshops among Middle and Senior Management.





The findings from these data gathering activities are analysed and a preliminary list of topics is then 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 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 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 matter(s) between stakeholders. Hence, we have sought to exercise our own discretion if there were any potential conflicts of interest between stakeholders to determine the outcome of VELESTO’s materiality matrix.

VELESTO 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.

## MATERIAL ECONOMIC TOPICS

“WE TAKE CARE  
OF THE PLACES  
WHERE WE  
OPERATE”

# Direct and Indirect Economic Value Created

In FY2020, given the impacts of the COVID-19 on the global and domestic economy and the oil and gas sector, VELESTO has seen a decrease in direct economic values created for the financial year. On the back of lower rig utilisation, revenues and earnings were impacted in FY2020.

However, the various proactive measures taken has enabled the Group to continue achieving business and operational sustainability. 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 IAR2020.

### Revenue

# RM547

million  
(2019:RM671 million)

### EBITDA

# RM293

million  
(2019:RM333 million)

### Profit After Tax

# -RM492

million (\*)  
(2019:RM33 million)

### Earnings Per Share

# -5.99

sen (\*)  
(2019: 0.40 sen)

(\*) Note: Includes Impairment RM462 mil and Accelerated Depreciation RM23 mil

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

# RM120

million  
(2019: RM186 million)

### In Employees Salaries and Benefits

# RM118

million  
(2019: RM139 million)

### Taxes Paid to the Government

# RM10

million  
(2019:RM 9 million)

### Debt Repayment and Interest to Financiers

# RM301

million  
(2019: RM231 million)

SUSTAINABILITY STATEMENT

**DEVELOPING LOCAL SUPPLY CHAINS**

In FY2020, use of local procurement has increased to 70% as given below:

	2018	2019	2020
% Spend	67%	69%	70%
RM ('Million)	120	186	120

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).

The Group’s preference to source locally is aimed at developing local value chains and facilitating local job creation and entrepreneurship opportunities. Beyond creating jobs and business opportunities for locals, local procurement also enables knowledge and skills transfer and reduces our environmental footprint (when compared to importing goods or services from abroad).

Interested vendors may bid under an open tender system where contracts are awarded based on the best value proposition offered; in terms of cost, quality of goods and services and other set criteria.

VELESTO’s management approach for local suppliers is further reinforced via its participation as one of the local anchors for Vendor Development Programme (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, Logistics & Forwarding Services Offshore Catering Services and Offshore Manpower Services as scopes based on our business requirement to accelerate the development of successful local entrepreneurs.

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



**CASCADING OUR SUSTAINABILITY MINDSET TO OUR VALUE CHAIN**

Increasingly, VELESTO cascades its Sustainability values to its suppliers and business partners.

Beyond just providing the best value proposition in terms of cost and quality of services, VELESTO in FY2020 have also commenced assessing suppliers based on the following criteria: occupational health and safety, environmental performance, financial stability, labour standards, corporate governance and others.

**RESPECT FOR LAWS AND HUMAN RIGHTS**

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

**RESPECT FOR FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING**

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

**RESPECT FOR DIVERSITY**

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

**RESPECT FOR HEALTH AND SAFETY**

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

**RESPECT FOR THE ENVIRONMENT**

- Be committed to protecting the environment and prevent pollution

**SUPPLIER AND CONTRACTOR PERFORMANCE ASSESSMENT**

VELESTO continuously evaluates suppliers' performance through questionnaires and surveys based on the following criteria.

- Contract tenure and expiry
- Suppliers with the highest procurement budgets (Top Spends Suppliers)
- Other specific criteria set by Supply Chain Department

In FY2020, due diligence was conducted on 91 new suppliers based on the approved documentation, guidelines and requirements by the Tender Committee. For existing suppliers, 21 suppliers were identified for due diligence processes, either via a physical audit or document review/audit.

On average, about 20 physical inspection audits are conducted annually. In FY2020, there were no termination of suppliers for non-compliance.

SUSTAINABILITY STATEMENT

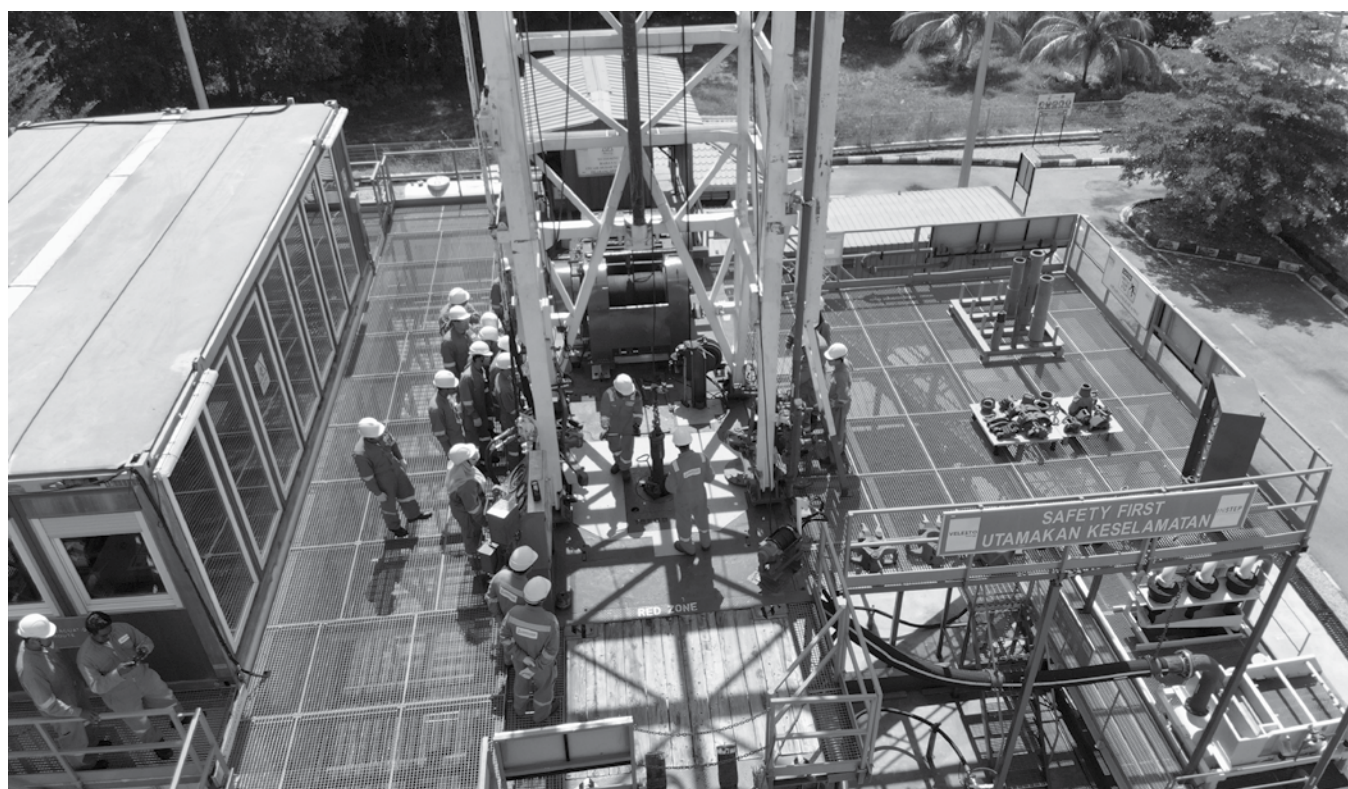
**INDIRECT VALUE GENERATED FOR COMMUNITIES**

VELESTO’s business operations in East and West Malaysia continues to deliver a catalytic economic effect for local communities. This includes employment opportunities and support to businesses through local procurement of products and services (i.e. transportation, accommodation, logistics, food and beverage and others).

The presence of the Group’s supply and operating bases also provides the impetus and confidence for other businesses to commence or expand operations. Over time, the effect

of our presence grows and has contributed to a thriving localised economy that has enabled local communities to achieve higher incomes, better quality of living and socio-economic mobility.

With regard to local hiring, we continue to emphasise hiring of employees where we operate. Effectively, VELESTO has provided 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 local oil and gas talents.



**VELESTO-INSTEP DRILLING ACADEMY**

One of VELESTO’s most significant contributions to the local oil and gas industry has been the Velesto-INSTEP Drilling Academy (VIDA). VIDA is a collaboration between VELESTO and Institut Teknologi Petroleum PETRONAS (INSTEP), with the purpose to develop Malaysian drilling professionals to fill the present gap of such talent in the domestic oil and gas sector.

Despite the impacts of COVID-19, VELESTO has remained committed to supporting VIDA to continuously conduct most of its training online. Importantly, VIDA does not just meet VELESTO’s requirements for professional trained, competent talents, but for the entire industry.

This is due the fact that VELESTO operates VIDA under a non-partisan basis, that is courses and programmes are open to anyone from the oil and gas industry, including other oil and gas companies, both locally and internationally.

VIDA is accredited by the International Association of Drilling Contractors (IADC) and International Well Control Forum (IWCF). Following is VIDA’s numbers of participants over the past three years and the talents it has been trained within the same period.

	FY2018	FY2019	FY2020
Training Participants	224	338	291



**MATERIAL ENVIRONMENTAL TOPIC**

AS A LEADING DRILLING OPERATOR IN THE OIL AND GAS INDUSTRY, WE STRIVE TO ENSURE THAT WE TAKE PRECAUTIONARY ACTIONS TO MINIMISE THE IMPACT ON THE ENVIRONMENT IN WHICH WE OPERATE.

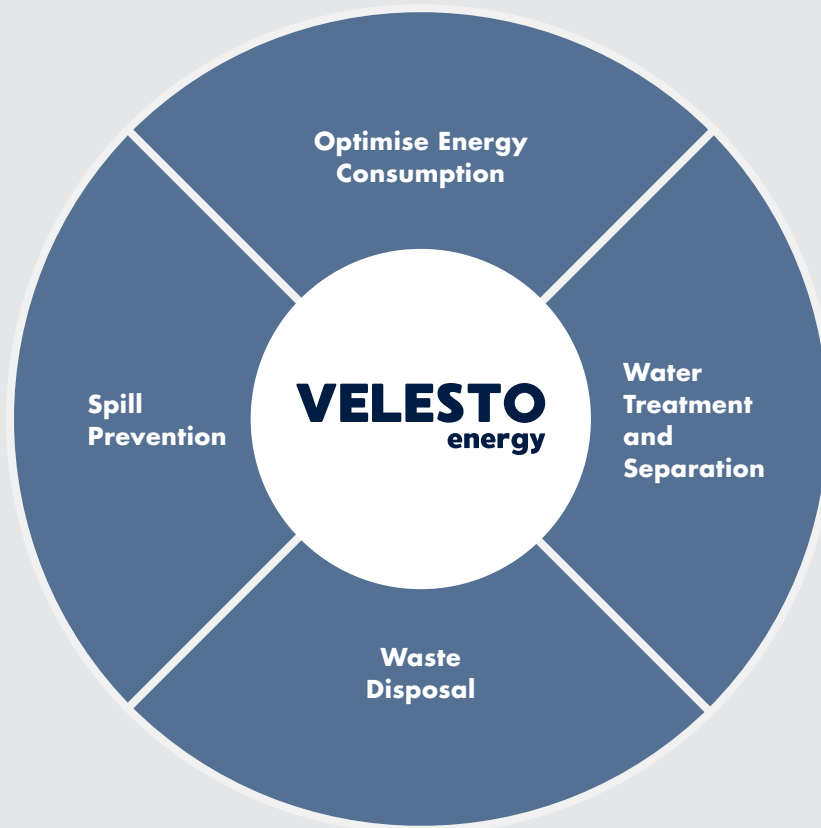
**CLIMATE CHANGE**

In FY2020, there has been an intensified focus on addressing climate change, notably within the oil and gas industry, globally. PETRONAS, in its Activity Outlook for 2021-2023, mentions a “great reset” for the oil and gas sector. Increasingly, governments across the globe are including climate change within their national strategy for energy production. This includes the Malaysian government.

Similarly, many oil and gas companies have set net zero carbon emissions aspirations moving towards 2050. The world is undergoing an energy transition, driven by climate change.

For its part, VELESTO has been actively monitoring the potential and actual contribution to climate change. Primarily, the Group’s contribution is through the emissions released from its drilling operations and consumption of fossil fuels i.e. diesel to operate its rigs.

Having identified our contributory areas, the Group continues to adopt measures to reduce emissions and to optimise energy consumption via the following strategies:



SUSTAINABILITY STATEMENT

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 carbon dioxide (CO<sub>2</sub>), corresponding to both the Paris Agreement and the Kyoto Protocol as formed by the United Nations Framework on Climate Change (UNFCCC).

The UNFCCC 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). VELESTO continues to explore new business opportunities in other segments independent of drilling rig operations.

**IMPACT OF CLIMATE CHANGE ON GROUP OPERATIONS**

Climate change is regarded as a low risk factor for VELESTO with relatively little or no impact arising that would necessitate financial measurement or planning of any potential costs/losses arising from it.

As in previous years, its impact on the Group operations remains limited to changing weather patterns causing temporary disruption to rig operations.

Notwithstanding, VELESTO does assess how volatile weather conditions could impact offshore operations and may consider establishing specific climate-related risk management process should the effects of climate change become more severe going forward.

**ENERGY CONSUMPTION**

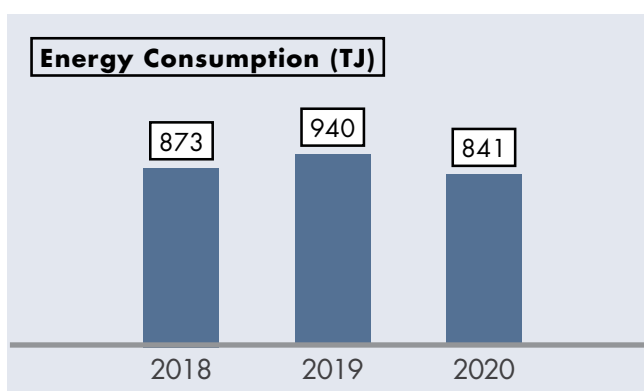
The scope for VELESTO’s energy consumption disclosures is centred on its drilling rig operations, which consume the most amount of energy. The Group’s management approach is driven by its Rig Power Management System (RPMS).

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 is able to detect when the rig equipment requires a lower power load and with that, automatically shuts / revs the engine(s) down. This enables more efficient use of energy for drilling activities.

In FY2020, VELESTO consumed 19,522 metric ton (MT) of diesel and 468,247 kilowatt-hour (kWh) of electricity. As mentioned, diesel is primarily consumed by the Group’s rigs. Electricity consumption is based on consumption from the Kemaman and Labuan supply bases and VELESTO’s Headquarters in Kuala Lumpur.

Following is the Group’s energy consumption in Terajoules (TJ):



Note: 2019 energy consumption has been restated from 807TJ

Year	2018	2019	2020
Energy Consumption (TJ)	873	940	841

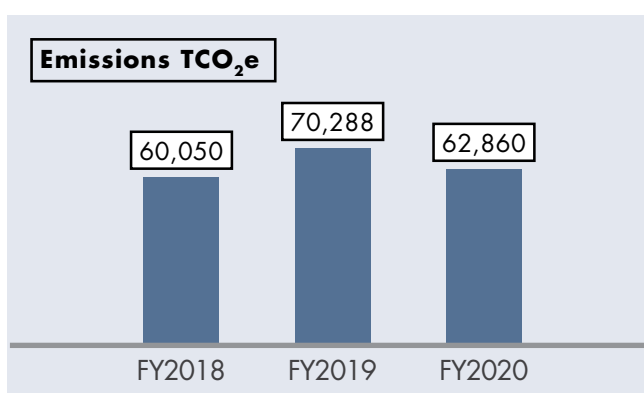
The reduction in energy consumption in 2020 is driven by lower rig utilisation as compared to 2019. The Group is working towards establishing time-based quantified and unquantified targets going forward.

**GREENHOUSE GAS (GHG) EMISSIONS**

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.

Following are the Group’s total emissions based on Scope One and Two sources in metric ton of carbon dioxide equivalent (TCO<sub>2</sub>e):



Note: 2019 emissions has been restated from 50,551 TCO<sub>2</sub>e

Year	FY2018	FY2019	FY2020
Emissions (TCO <sub>2</sub> e)	60,050	70,288	62,860

VELESTO has yet to establish short or long-term targets for reduction in emissions. However, the Group remains committed to adopting best practices to progressively reduce emissions across its drilling rig operations.

### WATER CONSUMPTION

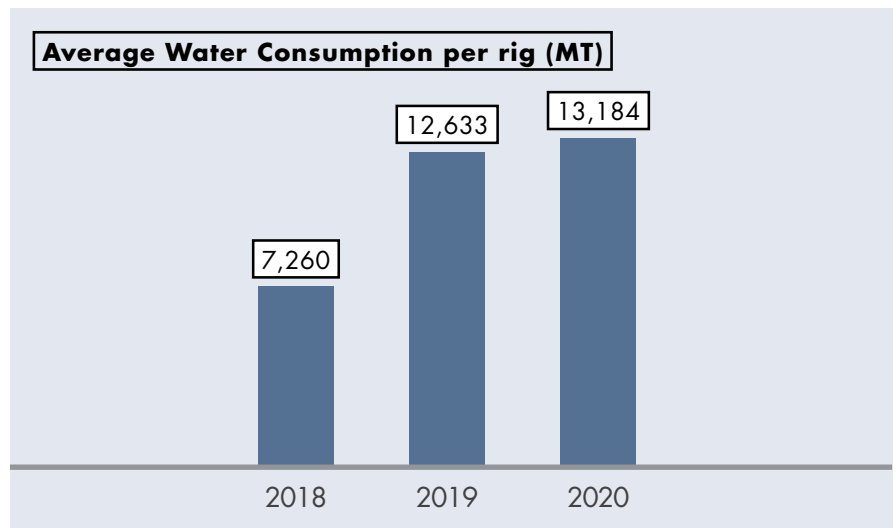
Water consumption is scoped to water used for drilling rig operations. Water consumed is mainly seawater. About 60%-70% of water withdrawn is used for non-potable applications such as flushing and drilling.

The remainder is filtered and distilled via reverse osmosis for potable consumption (for the crew). On several of our rigs, besides seawater, rainwater and recycled water (sourced onshore) are used.

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.

While reverse osmosis of seawater provides a limitless water source, the process itself consumes energy, which leads to increased diesel consumption and contributes to emissions and increases carbon footprint.

On all rigs, there is a constant campaign to heighten awareness on conserving potable water consumption. This is vital given that rig crew can rise up to 140 personnel at a single site.



	2018	2019	2020
Average Water Consumption per rig (MT)	7,260	12,633	13,184

The Group is working towards establishing time-based quantified and unquantified targets for efficient water consumption going forward. The focus would be on reducing water sourced from onshore sources, primarily and to move towards 100% reliance on seawater and rainwater harvesting.

However, management is cognisant that water consumption for drilling operations is driven by operational need, thus consumption levels will be determined by rig utilisation and level of operational activity. This operational need for water based fluid for high complexity wells, has driven the total water usage up in 2020 compared to the prior year.

The focus, going forward is to reduce reliance on reverse osmosis processes and to leverage on rainwater harvesting. VELESTO is increasing rainwater harvesting capabilities on all rigs as such water is collected on the rig itself and does not need further processing (as opposed to reversed osmosis seawater), which will contribute to reduced emissions and carbon footprint.

### 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 the International Convention for the Prevention of Pollution for Ships (MARPOL 73/78), our offshore drilling platforms 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 DOE. Waste produced from oilfield services, is disposed of accordingly to the standards set by the DOE's Environmental, Quality (Schedule Waste) Regulation 2005.

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

## SUSTAINABILITY STATEMENT

	2018	2019	2020
Chemical Waste i.e. oil sludge, waste oil, oily water (MT)	205	235	239
Scheduled Solid and Chemical waste (MT)	306	304	280

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**

VELESTO in FY2020 has once again achieved a zero major spills record, its fourth consecutive year. VELESTO'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. 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.

In FY2020, there were no spill incidents, minor or major.

No. of incident(s)	FY2018	FY2019	FY2020
No. of minor spills	5	8	0
No. of major spills	0	0	0

The above spillage incidents did not have a material impact on the environment.

**BIODIVERSITY**

In FY2020, 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 all VELESTO rigs in FY2020 operated and continue to operate in marine locations deemed not high in biodiversity 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 in coral free areas.

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

**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.

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.

## MATERIAL SOCIAL TOPICS

### OUR PEOPLE

### OUR GREATEST ASSET AND THE PILLAR OF OUR SUCCESS

VELESTO's social Sustainability pillar is focused on two key aspects, that is its workforce and secondly, the local community.

With the former, the Management approach for talent is centred on ensuring effective talent recruitment, retention and development. With the latter, the focus is on generating positive societal impacts in terms of health and safety, education and overall community betterment. The Group's definition on local communities based on the surrounding communities in which VELESTO has a business presence in as well as society at large.

In terms of employment, 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 UN Global Compact 10 Principles as follows:

Human Rights	Labour	Environment	Anti-Corruption
<p>1 Businesses should support and respect the protection of internationally proclaimed human rights; and</p> <p>2 Make sure that they are not complicit in human rights abuses.</p>	<p>3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;</p> <p>4 The elimination of all forms of forced and compulsory labour;</p> <p>5 The effective abolition of child labour; and</p> <p>6 The elimination of discrimination in respect of employment and occupation.</p>	<p>7 Businesses should support a precautionary approach to environmental challenges;</p> <p>8 Undertake initiatives to promote greater environmental responsibility; and</p> <p>9 Encourage the development and diffusion of environmentally friendly technologies.</p>	<p>10 Businesses should work against corruption in all its forms, including extortion and bribery.</p>

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

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

In FY2020, 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.

### COVID-19 PREVENTION

VELESTO, first and foremost prioritises the health and safety of its staff. As such, the Group has ensured a high level of Standard Operating Procedure (SOP) compliance across its operations. VELESTO developed special COVID-19 preparedness and response plan and updated its Emergency Management Procedure to ensure smooth and safe operations during the pandemic.

Our COVID-19 response plan covers all aspects such as preventive measures, emergency responses and also addresses supply chain and manpower management issues.

The additional measures introduced include:

- 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-tests 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 centers for Quarantine Transit Centers (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 staff in the KL Headquarters during MCO
- Broadband lines and home internet reimbursement
- Online learning and development programmes
- Dedicated psychosocial line

Given the stringent measures taken and the strict compliance to SOPs, only a very minimal number of positive cases were reported in FY2020.

**GROUP WORKFORCE**

Despite FY2020 being a challenging year due to COVID-19, the Group has not retrenched any of its staff. The Group’s workforce numbers remain largely unchanged in FY2020.

Of this, 79% are Malaysians. Total new hires in FY2020 were 53. 79% of total hires were Malaysians. Beyond this, VELESTO has also maintained a low 17% attrition rate (FY2019: 17% and FY2018: 18%), which is below the industry average.

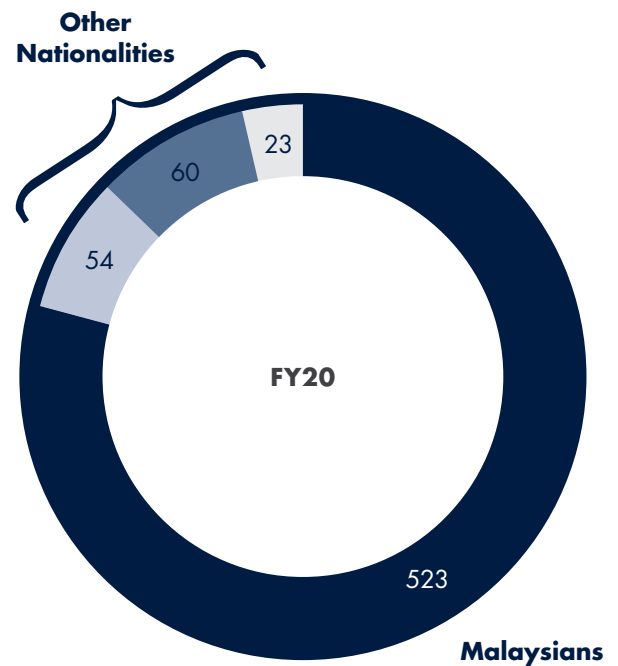
VELESTO continued in FY2020 to focus on its localisation campaign, where Malaysian nationals are progressively groomed to assume the roles and responsibilities of foreign nationals.

All members of the Senior Management team are presently Malaysians for FY2020.

**HUMAN RESOURCES DASHBOARD**

**A. DASHBOARD REPORTING – STAFF DEMOGRAPHIC**

**NATIONALITY DIVERSITY**



ONSHORE



**158**  
(61%)  
Male



**105**  
(39%)  
Female

OFFSHORE



**396**  
(99.7%)  
Male



**1**  
(0.3%)  
Female

OVERALL



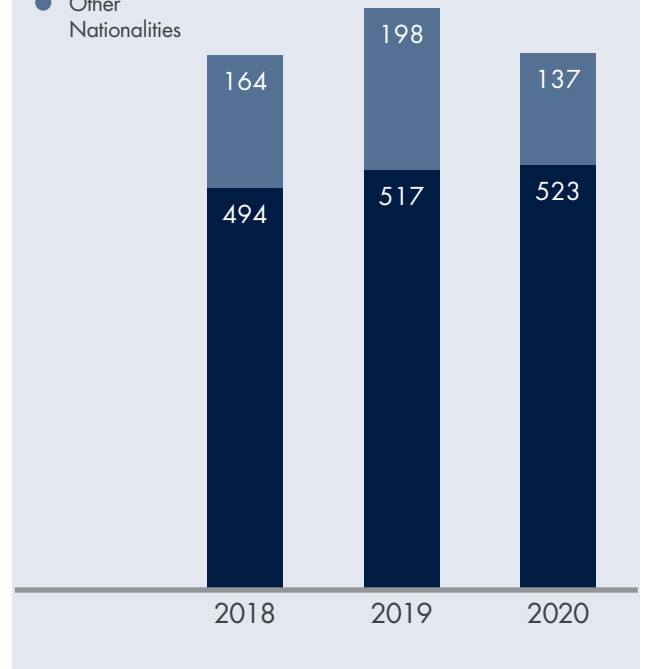
**554**  
(84%)  
Male



**106**  
(16%)  
Female

Workforce Breakdown by Nationality

- Malaysian
- Other Nationalities



WORKFORCE DIVERSITY AND EQUAL OPPORTUNITY EMPLOYMENT

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 staff to deliver their optimum professional contribution and to remain satisfied and thus motivated to work in an environment amidst fellow high-performing industry professionals.

Merit is the only criteria for the hiring, rewarding and promotion of employees. Women and minorities have equal access to a wide range of career development opportunities.

In FY2020, VELESTO's commitment to workforce diversity has been reflected in many ways. One of which is via the Group's recruitment channels / mediums where all materials have a diversity and inclusiveness statement included to encourage all talents, irrespective of gender, ethnicity or other demographic criterion to apply.

Our Workforce	2018	2019	2020
<b>Breakdown of Employees</b>			
Malaysian	75%	72%	79%
Other Nationalities	25%	28%	21%
<b>Contract Type</b>			
Permanent Contract	60%	59%	57%
<b>Gender Distribution</b>			
Male	85%	84%	84%
Female	15%	16%	16%
<b>Age Segments</b>			
<30	16%	18%	23%
30-50	66%	62%	58%
>50	18%	20%	19%
<b>New Hires</b>			
Malaysian	77%	68%	79%
Other Nationalities	23%	32%	21%



**SITI NUR SAFIRA SAFI'E**  
First VELESTO woman offshore crew

*"I seldom see female offshore crew on the rigs. If men can do it, why can't women? This is what inspired me to get involved in a field that few Malaysian women have done before. After two hitches being onboard, there is a lot I have learnt. One needs to be creative but straight-forward in making fast decisions to solve problems to ensure operations run smoothly. One also needs to be extremely careful as there are thousands of potential hazards around you offshore. If you would like to have a challenging working culture but work closely as a family, you may want to consider this field."*

Given the nature of our industry and business operations, there still remains a significantly higher number of men compared to women. This is largely due to the fact that a large number of the jobs involved in drilling services are more labour intensive or field/on-site jobs which customarily are not preferred by many women within Malaysia. In 2020, we made progress by successfully recruiting a woman as an offshore crew for the first time.

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. At Management and Senior Management level, women comprise 42% and VELESTO has four sitting women Directors at Board level, exceeding the Bursa Malaysia target of 30% women directorship on public listed companies by 2020.

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

When viewed from the perspective of the corporate office or non-field jobs, there is a reduced disparity between men and women.



**RESKILLING AND UPSKILLING OPPORTUNITIES**

VELESTO’s Up-skilling & Re-skilling programme was launched in year 2020 and since then, has enabled countless employees to remain gainfully employed.



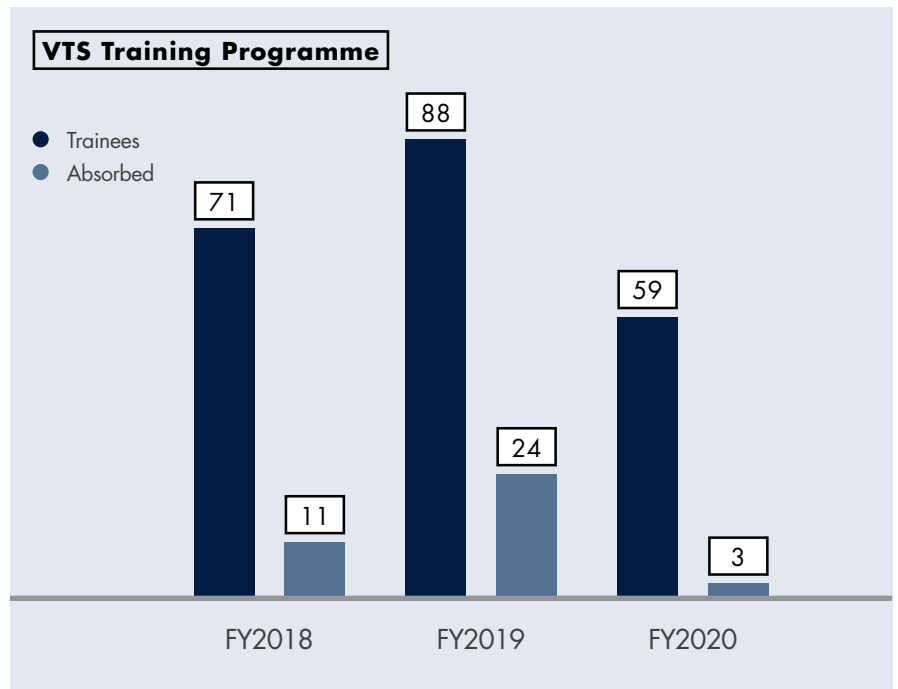
**IRNIE YUSLELE TAMAM**  
Head, Organisational Development & Business Process

“ As part of the Up-skilling & Re-skilling programme led by the HR Division, I was re-assigned to the Human Resources division. Previously I headed the Business Process (BP) Department (under Business Systems Division), but I have taken on the HR-Organisational Development (OD) portfolio as an additional role. As BP and OD have similar priorities both revolving around continuous improvement, I feel the move to head both the HR-OD and BP departments is a step up in my career, which meets with my overall career objectives. I am adjusting well, and the team has been fully supporting me with the transition. ”

**YOUTH UNEMPLOYMENT INITIATIVES, APPRENTICESHIPS OR GRADUATE PLACEMENTS**

In FY2020, VELESTO continued to drive its VELESTO Trainee Scheme (VTS) and internship programme. Both are designed to provide learning-on-the-job opportunities for selected graduates.

However, given the effects of the COVID-19 pandemic and other developments, the number of trainees taken in were less in FY2020. We remain committed to support government initiatives related to graduate employment going forward.



**STAFF REMUNERATION & BENEFITS**

In attracting and retaining talent, VELESTO continues to compensate employees competitively. The matter of remuneration is based on the principle of merit, with all employees’ compensation packages commensurate with their skills, qualifications, performance and tenure with the Group. Benefits provided are consistent with the Employment Act 1955 as well as additional benefits which the company provides at its own volition and discretion.

**SUSTAINABILITY STATEMENT**

Full time employees are entitled to the following health 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 age 40 years and above
- Overtime payments (where applicable)
- Employee’s newborn benefits

- Employee’s bereavement wreath
- Employee Education Assistance Programme
- Long Service Award & Recognition

**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

**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.

**APPROVED APPLICATIONS FOR MATERNITY LEAVE AND RETURN TO WORK RATES**

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
Maternity Leave	4	2	2
Return to Work Rates	100%	100%	100%

**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 RM1,200 per month.

**EMPLOYEE APPRAISALS**

100% of staff receive appraisals on their job performance. The Group views the appraisal process as being key to its overall talent management approach.

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.

Beyond evaluating staff performance for salary increments and other incentives, appraisals provide an excellent two-way communication platform, where staff are encouraged to provide feedback to management on areas they believe that the company can improve on, or play a more supportive role in facilitating the career progression of employees.

Appraisals are conducted based on a 360° approach that comprises self and peer assessment, as well as assessment by a superior and subordinates. This provides a more balanced and fairer evaluation of the employee’s conduct and performance. The final results are presented by the employee’s superior on a one-to-one discussion basis.

**EMPLOYEE PERFORMANCE APPRAISAL**

Self-Assessment	Appraisal discussion with Line Manager	Review by Head of Division	Submission to HR-Organisational Development team	Final review by President
Employee completes self-assessment based on set KPI.	Employee and line manager discuss performance achievements, gaps and development plans.	Head of Division reviews whole division's performance appraisal results to ensure fair assessment within the Division by conducting a calibration exercise.	Performance Appraisal results are submitted to HR-Organisational Development team.	President reviews company-wide performance.

The employee retains his or her rights to accept or dispute the findings of the appraisal. This may include providing mitigating circumstances for non-performance or non-achievement of Key Performance Indicators (KPI), which can be considered by his / her superior towards refining the appraisal results.

However, post discussion, if there remain serious grievances, the employee may channel his / her disagreement of the appraisal results via the grievance mechanism for employees.

### STATUTORY CONTRIBUTIONS TO EMPLOYEES RETIREMENT / PENSION SAVINGS

As accorded by law, VELESTO continues to make statutory contributions for all employees to the Employees Provident Fund (EPF) and the Social Security Organisation (SOCSO). In FY2020, VELESTO paid a total of RM7.28 million and RM0.40 million (FY2019: RM6.91 million and RM0.54 million) in EPF and SOCSO contributions respectively.

	FY2018	FY2019	FY2020
EPF (RM mil)	6.4	6.9	7.3
SOCSO (RM mil)	0.5	0.5	0.4

### EMPLOYEE ENGAGEMENT – COMMUNICATION

Management continues to actively engage employees, with two-way communication being a key component of the overall talent management approach. Employees are engaged via a wide range of communication channels.

The purpose of engagement is to create staff awareness on company developments and announcements, to solicit staff feedback on a wide range of matters, as well as to increase staff buy-in and support for company policies such as the newly launched ABC Policy.

Engagement also serves to strengthen the rapport between Management and staff and to instil greater confidence among employees that Management continues to be proactive and places the wellbeing, satisfactions and interests of its people at the heart of its decision-making processes and business strategies.

In FY2020, VELESTO scored 78% on its annual Employee Engagement Survey. Following are some of the key employee communication channels and engagements initiated in FY2020:

- Quarterly Townhalls – held thrice in FY2020
- *Sharing is Caring Session* knowledge sharing sessions by leaders
- 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 channels for employees

### Employee Engagement Score (%)



2018 2019 2020

**SUSTAINABILITY STATEMENT**

**LEARNING AND DEVELOPMENT**

The Group sees investing in its people by enhancing their competencies and skills as a means to improve work performance and results, and also to motivate and reward employees.

Training and development is customised to the competency gaps and unique scenario of each individual.

A comprehensive personal development plan is developed for each employee involving Human Resources, the individual employee and his/her superiors. Subsequently, KPIs are

established for the closure of these gaps through training courses.

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

In FY2020, the use of digital mediums has further enabled more training programmes to be made available to employees across the year.

<b>TRAINING KPI</b>	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
Total Training Statistics Spend (RM mil)	5.4	6.0	1.2
Total Number of Training Programmes Attended by Employees	1,746	1,286	1,066
Average Training Spend Per Employee (RM'000)	3.1	5.0	1.2
Total Number of Training Days	8,555	5,401	1,458
Average Number of Training Days Per Employee	4.9	4.2	2.1

**TALENT MANAGEMENT AND SUCCESSION PLANNING**

VELESTO's Talent Management Programme was introduced in 2020. The aim of the programme is to build a strong and capable talent pipeline within the organisation, and plays into our succession planning framework. In 2020 the programme was launched with roadshows conducted by the HR-Organisational Development team, who champions this initiative.

The development of High Potentials (HiPots) is a continuous process and will eventually lead to successor talent pools. HiPots have been grouped into two distinct talent pools - Future Leaders and Senior Leaders. This enables differential treatment across the two groups while retaining a common basic philosophy and approach towards program execution.

The Senior Leaders will be groomed for succession planning of critical positions. There are 53 critical positions that have been identified and career development plans (CDP) already drawn up for each HiPot in 2020. The second is for Future Leaders, a programme we call mySTAR which aims to fast track high potential junior employees to become the next future leaders, as senior leaders move up into much higher leadership roles. By identifying, developing and building our internal talent pipeline from an early stage, we ensure the smooth transition of the next generation of VELESTO leaders.

**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 International Labour Organisation (ILO) and the Universal Declaration of Human Rights.

Where possible, the Group provides 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 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 Group's history.

**GRIEVANCE PROCEDURES**

Staff at VELESTO have unrestricted access to a grievance mechanism to air their grouses or dissatisfaction on any matters pertaining to their employment or work conditions.

While employees are encouraged to attempt to resolve issues informally, management unequivocally supports employees' rights to bring up issues via this official channel for redress or further action. Employees are neither censured nor discouraged from using the grievance mechanism.

In FY2020, there were zero cases brought up through the grievance mechanism.

## CORPORATE SOCIAL RESPONSIBILITY

VELESTO VIEWS ITSELF AS A FORCE OF POSITIVITY THAT IS WELL POSITIONED TO DELIVER A WIDE RANGE OF POSITIVE AND EMPOWERING OUTCOMES FOR SOCIETY.



### SAFETY



### EDUCATION



### ENVIRONMENT

VELESTO continues to be driven by its three pillars of Corporate Social Responsibility (CSR): Safety, Environment and Education in terms of its focus areas for community development. In addition, where and when possible, VELESTO contributes to society through its fourth supporting pillar – Community.

The following are some of the key engagements undertaken during the financial year:



## SAFETY



VELESTO continued its collaboration with the Miri branch of the Fire and Rescue Department of Malaysia (BOMBA). More than 100 Standard Six pupils from 10 different schools in the Miri district participated in a half-day Fire Safety Awareness @ Home & School programme.

Hosted at SK Pujut Corner, Miri, Sarawak, members from BOMBA guided the children on the importance of fire safety through an interactive talk and fire-fighting demonstration where a handful of the children gained practical experience in extinguishing oil-based fires first hand.

The children were also walked through the importance of safety in general and specifically at home, by representatives from PETRONAS. PETRONAS' participation was an avenue for VELESTO to collaborate with its clients on our CSR programmes.

Earlier in the year, during the onset of COVID-19 in Malaysia, VELESTO donated RM250,000 and 30,000 face masks to the Ministry of Health, Malaysia.

VELESTO also donated three automated temperature scanners to the Joint Management Body (JMB) of Plaza Sentral where VELESTO's Headquarters is based. This was part of the Group's on-going safety related CSR initiatives in the fight against the COVID-19. The scanners are placed at strategic locations around our Headquarters' entry points which will benefit the general population in the area.

300 packs of reusable face masks and hand sanitisers were also donated for distribution to the public at Plaza Sentral.



## EDUCATION



2020 marked the third year of VELESTO's collaboration with the Ministry of Education (MOE) via its respective state education departments to promote greater socio-economic equity.

Following the successful programmes undertaken in 2018, and 2019 with the Selangor State Education Department, VELESTO initiated a similar programme in Miri, Sarawak.

Conducted under the SMART's COOL banner, VELESTO successfully held UPSR Mathematics and English workshops for Standard Six pupils from 10 schools in the Miri district. In ensuring a cascading sustainable effect, VELESTO also held a 'Train-the-Teachers' workshop for selected teachers from these participating schools. Unfortunately, due to the sudden onset of COVID-19 nationwide, the programme had to be cut short.

However, turning adversity into something positive, the pandemic in early 2020 proved an opportune time for VELESTO to engage secondary school students in a STEM themed programme as previous editions of "SMART's COOL" mainly saw participation involving primary school students, This brought about the inaugural "CABARAN TEKNOLOGI TINDAKBALAS COVID-19" which saw participation by 15 schools from various districts in Selangor.

Held entirely online, students were required to propose a digital application (app) which could be used to suit the current pandemic environment. The group-based activity saw a plethora of ideas ranging from crowd control to a school-friendly food ordering system, and even real-time student tracker. All activities ran in parallel with MOE's prevailing syllabus.



## ENVIRONMENT



In FY2020, several events such as tree-planting and various community outreach and engagement activities were planned to promote environmental awareness and conservation. However, these plans were significantly disrupted due to the onset of COVID-19.

Given the new normal requirements of physical distancing, reduced number of participants and other requirements, these events could not be carried out effectively. However, VELESTO aims to resume these events soonest once the situation allows.

## QUALITY, HEALTH, SAFETY &amp; ENVIRONMENT



In FY2020, VELESTO has continued to strengthen its track record for Quality, Health, Safety & Environment (QHSE). VELESTO's QHSE management approach is driven by globally recognised best practices such as OHSAS 18001, ISO9001, ISO14001 and ISO/TS29001. On 26 February 2021, VELESTO was also certified with OHSAS ISO 45001:2018.

In FY2020, the Group has continued to reflect excellence by achieving zero fatality, zero LTI, zero total recordable case (TRC) incidents and zero environmental-related incidents.

VELESTO's industry leading QHSE performance was also duly recognised by its clients through the following accolades:

#### Focused Recognition by PETRONAS

- 🏆 **NAGA 2:** 7 Years Without LTI
- 🏆 **NAGA 2:** Successfully supported PCSB in delivering Baram South Drilling Campaign in true spirit of Operational Excellence and exceptional HSE standards
- 🏆 **NAGA 5:** 6 Years Without LTI
- 🏆 **NAGA 6:** Outstanding Commitment and Work Ethics
- 🏆 **NAGA 6:** Delivering Safe & Successful Drilling Operations
- 🏆 **NAGA 2:** Provide assistance of medivac, bodyvac, SAR, rescue and medical assistance during Dayang Topaz incident
- 🏆 **NAGA 2:** Safely delivered all three wells with Zero LTI and prevent unnecessary NPT in Baram South Development Drilling Campaign

#### SHELL Malaysia Safety Awards 2020

##### 🏆 Merit – HEALTH

Exemplary health behaviours and performance through Health Leadership, specific health targets/plans, Health Risk Management and workplace health promotion.

##### 🏆 Merit – ENVIRONMENT

Exemplary initiatives or best practices to manage environmental impacts from the Group's activities; going beyond standard regulatory requirements.

**HSE POLICY COMMITMENTS**

We shall take reasonable and practicable steps to eliminate and prevent undue risks in line with our safety objectives:

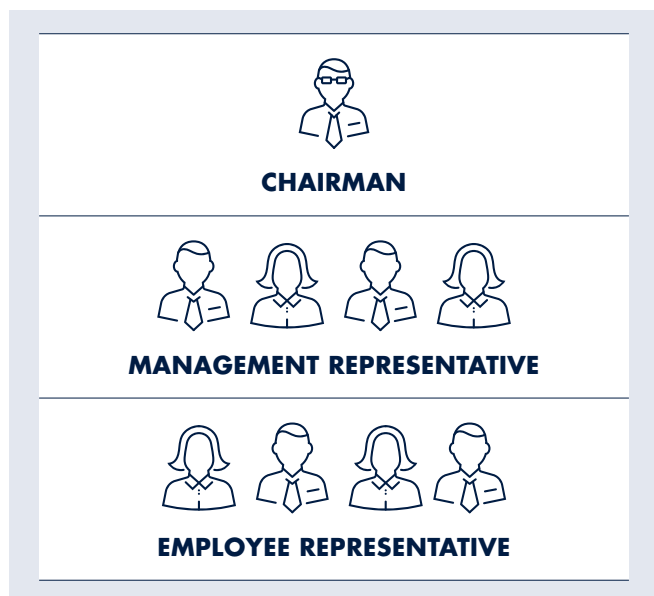
**Zero Accident & No Damage to the Environment**

We shall:

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

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

**MANAGEMENT APPROACH TO HEALTH AND SAFETY**



VELESTO’s President, Rohaizad Darus remains the primary champion for HSE, ably 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.

The Group’s Sustainability governance structure also plays a significant contributory role in driving not just oversight, but in bringing to the Board’s attention key risks, trends and developments as well as advocating appropriate strategic responses to address and strengthen QHSE across the Group.

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 carefully 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.

**ADHERENCE TO GLOBALLY RECOGNISED BEST PRACTICES AND STANDARDS**

Internally, QHSE is achieved through the implementation of the Group’s Integrated Management System.

The System embodies how the Group 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.





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.

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 accident event.

### IMS INTERNAL AUDIT & INTERNAL AUDITOR TRAINING

As part of VELESTO's Integrated Management System (IMS) requirements, an internal audit is conducted annually across VELESTO's facilities. Audits were conducted on 10 - 13 February 2020 at NAGA 3, 2-5 October 2020 at NAGA 4, and for the Kemaman Supply Base (KSB) and Asian Supply Base (ASB), audits were conducted on 24 - 27 August 2020 and 7 - 8 July 2020 respectively. VELESTO KL Headquarters has been audited on 24 March - 19 November 2020.

In ensuring quality internal IMS audits, VELESTO continues to send staff for training. In FY2020, 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.

### 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 a high incidence or QHSE incidents.

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

An integral part of hazard identification is the usage of the Hazard Identification, Risk Assessment and Risk Control (HIRARC) system. Using HIRARC, hazards and risks are identified, analysed and mitigated through the implementation of appropriate control measures. In FY2020, the following key HSE issues were discussed / addressed by the Committee:

- HSE performance and HSE programmes for the year
- Legal compliance across the Group
- HSE contractual requirements
- HSE training and refresher HSE training
- New HSE communication mediums via intranet and Microsoft Teams
- Virtual HSE campaigns
- Behavioural Based Programme (PBED & Hearts and Minds)
- Fatigue management
- Mental health management and psychosocial line
- 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
- KSB and ASB Improvement Plan
- Warm stacked rigs HSE Plan
- Monsoon season preparation for onshore and offshore operations
- 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 for COVID-19 prevention
- COVID-19 awareness campaign and basic essential kit
- COVID-19 risk and effect to the staff
- COVID-19 working arrangement for onshore and offshore staff
- Transit centre for offshore staff quarantine
- COVID-19 precautions and information communications
- Malaysian Movement Control Order (MCO) instructions
- HSE Observation Card (HOC) and incident analysis
- Key objective and action plan for 2021

### 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 sharing their feedback, concerns and suggestions to management. Essentially, this approach allows employees to 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. VELESTO also holds monthly HSE Operations Meeting to address prevailing HSE issues and to enable immediate rectification.

### FY2020 QHSE PERFORMANCE

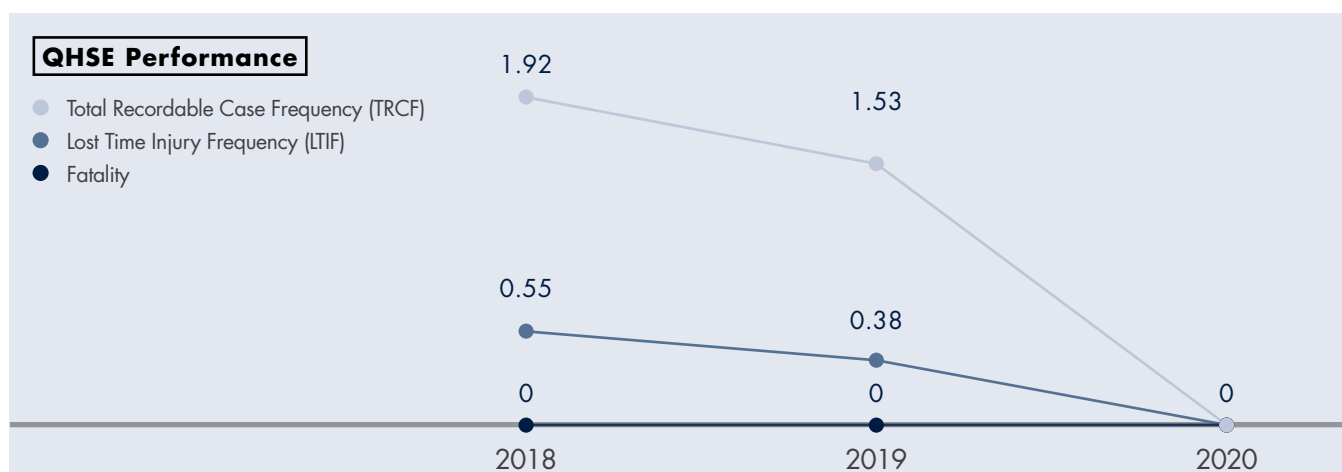
As mentioned earlier, VELESTO in FY2020 recorded zero fatalities, zero LTI and zero TRC with 2.31 million manhours achieved.

VELESTO's robust systems have enabled it register another year of industry leading performance with zero fatalities and zero environmental pollution incidents. VELESTO has also improved with regard to many other QHSE indicators. Following are the full details of the Group's quality, health, safety and environment performance in FY2020:

SUSTAINABILITY STATEMENT

QHSE PERFORMANCE	2018	2019	2020
Fatality	0	0	0
Lost Time Injury Frequency (LTIF)	0.55	0.38	0
Total Recordable Case Frequency (TRCF)	1.92	1.53	0
Medical Treatment Case	3	2	0
Restricted Work Case	1	1	0
First Aid Case	3	7	2
Environmental Pollution	0	0	0
Property Damage	20	18	9
Near Miss	20	20	14

Our Hazard Observation Card (HOC) score for FY2020 was 230,179. Unsafe Act and Unsafe Condition (UAUC) card accounted for was 21.3% out of total HOC. Data provided has been verified by DNV-GL during the surveillance audit and recertification audit.



Our targets going forward are to maintain zero fatalities and a TRCF of below 1.0, which exceeds the prevailing industry standards of IADC FY2019 (LTIF: 0.85, TRCF: 1.42).

**INCIDENT INVESTIGATION**

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

Investigation is conducted using the VELESTO Investigation Management System Procedure and incident investigation software Tripod Beta and Systematic Cost Analysis Technique, which enables users to track down the causation path, analyse weak points in current safety measures, create barrier-based improvement plans and brings 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 the VELESTO’s Incident Management database for review and action tracking.

**QHSE EMPLOYEE TRAINING**

Given the importance of QHSE, there were several training activities held in FY2020 pertaining to QHSE:

- HSE Awareness Training
- Skills development in incident analysis using Incident XP Training, Bow-Tie and Tripod Beta
- HSE Assurance Training using Audit XP
- Webinar ISO45001 Awareness
- Velesto PTW Awareness
- PTW Level 1
- Qualified Scheduled Waste Handler (CePSWAM) Training
- Qualified Train the Trainer Training
- Virtual Incident Investigation Training
- Emergency Management Team & Crisis Management Team Training
- Emergency & Crisis Simulation (Exercise Hydra)
- Hearts and Minds
- Plan Based Execution
- Safe Handling of Chemicals and Scheduled Waste

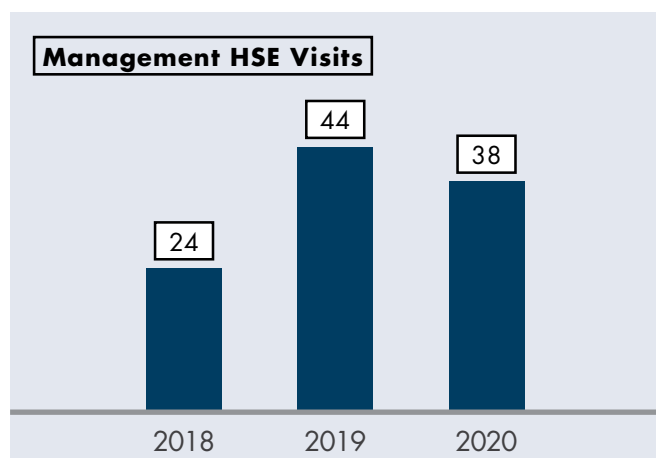
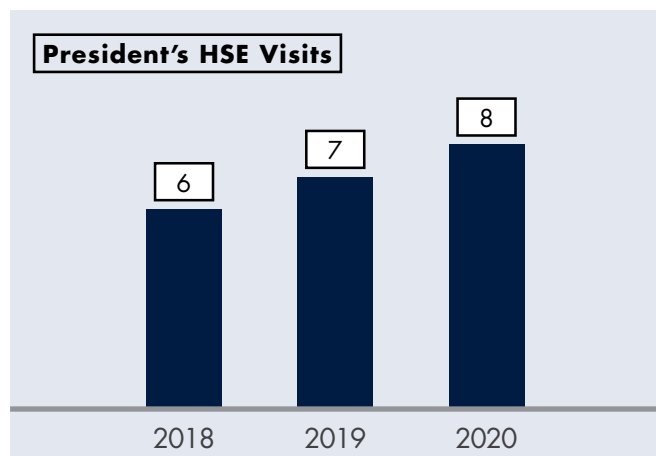
**MANAGEMENT HSE VISITS**

The President and Senior Management made several HSE visits to the rigs as well as onshore sites in FY2020.

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

#### HSE COMMUNICATION AND ENGAGEMENT ACTIVITIES

The message of ensuring the highest levels of HSE is constantly reinforced through various communication channels and staff engagements. It is safe to say that 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 of FY2020's annual campaign 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 own 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 HSE Management Engagement
- Virtual HSE Week 2020
- Monsoon Campaign 2020

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. The session was conducted between rigs, clients and VELESTO's Management.

#### EMERGENCY RESPONSE & CRISIS PREPAREDNESS

VELESTO's Business Continuity Plan (BCP) 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 the 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 BCP, VELESTO has established its Group level Emergency Control Centre (ECC), located at Level 18, Block 3A, Plaza Sentral. In FY2020, 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 the 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 FY2020 14 HSE Alerts were registered in SMAT. Upon receiving a 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. HSE Alert is translated into multiple languages for the benefit of worksite personnel.

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	102-4 Location of operations	IAR 8-9	About Us - Corporate Profile
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GRI Standard	Disclosure	Page number(s) and/or URL(s)	Section / Title
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	102-19 Delegating authority	IAR 110-113	Corporate Governance Overview Statement – Leadership and Effectiveness
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	102-25 Conflicts of interest	IAR 113, 125	Corporate Governance Overview Statement – Whistleblowing Policy and Board Audit Committee
	102-26 Role of highest governance body in setting purpose, values, and strategy	IAR 110-113	Corporate Governance Overview Statement – Leadership and Effectiveness
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102-28 Evaluating the highest governance body's performance	IAR 116	Corporate Governance Overview Statement – Effectiveness of the Board, Board Committees and individual Directors	
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