

# VELESTO ENERGY BERHAD

(formerly known as UMW Oil & Gas Corporation Berhad)  
(Company No. 878786-H)



## BOARD EXECUTIVE COMMITTEE REVISED TERMS OF REFERENCE

*Recommended by the Board Executive Committee on 21 September 2018*

*Approved by the Board of Directors on 18 December 2018*

### **1.0**      **OBJECTIVES**

1.1      The Board Executive Committee (“**EXCO**”) of Velesto Energy Berhad (“**VELESTO**”) is responsible for the following:-

- Providing guidance and advice to Management on group strategic direction, major financial, contractual, operational, governance and compliance issues; and
- Support the VELESTO's Board in the review, evaluation and recommendation on matters pertaining to strategic directions and Project, including investment, divestment, merger, acquisition, disposal of asset(s) or business(es) that require approval from the Board.

### **2.0**      **SIZE AND COMPOSITION**

2.1      The EXCO comprise of a minimum four (4) and not more than six (6) members.

### **3.0**      **CHAIRMAN**

- 3.1      • The Chairman shall be elected from amongst the members of the EXCO.
- In the absence of the Chairman, any member of the EXCO present may elect someone from amongst themselves to chair the meeting.

### **4.0**      **SECRETARY**

4.1      The Company Secretary shall be the secretary to the EXCO.

### **5.0**      **DEFINITIONS**

5.1      The following are the definitions applicable for the EXCO's terms of reference:-

- "Project"                      :    Covers new and existing projects. The type of projects are:
- New, existing or increases in equity interest in investments(s);
  - Proposal on merger;
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- Acquisition or disposal of drilling rigs (of any kind) and workover units (of any kind);
- Acquisition or disposal of any asset or business that requires Board approval under the Financial Limit Authority Guidelines (“FLAGS”);
- Any sale of equity interest in investment(s);
- Any listing exercises;
- Privatization or de-listing of public listed company(s);
- Voluntary or involuntary cessation of operations;
- Any other change in shareholding of investment(s) where there are minority shareholders’ involvement beyond VELESTO;
- Divestment or partial divestment of interest in the Company, any of its subsidiaries and/or associate company;
- Incorporation of subsidiary within VELESTO Group;
- Voluntary winding up of subsidiary within VELESTO Group.

"Prolonged Period of Time" : Refers to projects which have exceeded their investment target timing.

"Guidelines, Policies or Strategies" : Refers to those that are related to investment framework only. The EXCO shall subsequently propose the VELESTO Investment Criteria for Board approval.

## **6.0 SCOPE AND FUNCTIONS**

### **6.1 SCOPE**

EXCO's scope of responsibilities, are as follows:-

- (a) Review long term objectives of VELESTO Group and guide and advise Management accordingly;
  - (b) Review and recommend to the Board on strategic direction and/or specific Project, including investment, divestment, merger, acquisition, disposal of asset(s) or business(es);
  - (c) Review major financial, contractual, operational, governance and compliance issues;
  - (d) Review Project feasibility and economics in detail, and endorse Project CAPEX that require Board approval prior to submission to the VELESTO Board for approval;
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- (e) Assisting the Board in monitoring the performance of Project against original targets;
- (f) Review contract status and potential future contracts of drilling rigs;
- (g) Review VELESTO Group's cash flow position, projection and forecast;
- (h) Review financing and funding requirements of VELESTO Group and compliance to financing covenants;
- (i) Review and approve request for Inter-Company advances for Working Capital by Joint Venture or non-controlling companies;
- (j) Review and approve issuance of Letter of Comfort, Letter of Indemnity or undertaking of new loans for the amount from USD 10 million up to USD 50 million (refer to Appendix 1 for details);
- (k) Review and approve the release of Profit Guarantee – all Profit Guarantees can only be released with prior approval of the EXCO; and
- (l) Review and approve variations to Original Investment – any variation to original intention of investment or shareholder's agreement will require EXCO's approval.

## 6.2 FUNCTIONS

The functions of the EXCO are as follows:

### 1. Long term objectives

1.1 The EXCO reviews the long term objectives of VELESTO Group and evaluates the objectives from overall business standpoint and the risks posed by changes in both internal and external environment including, but not limited to, global economy, industry direction, government policy, political development and other relevant factors that may impact the Company business.

### 2. Strategic Direction and/or Project

2.1 The EXCO reviews and evaluates strategic direction and/or Project to ensure feasibility and viability based on practicality, economic returns, market environment, potential clients' requirements and other factors that may affect the implementation and success of strategy and/or Project in the medium and long term.

2.2 To approve any investment or divestment proposal that involves a sum of below USD 10 million.

2.3 To conduct periodic monitoring of all approved Projects against original targets and to make periodic reports thereon to the Board. In the case of Project that do not meet the targets for a Prolonged Period of Time, to make recommendations to the Board on its further continuation or termination.

2.4 To recommend to the Board any proposal for amending the present investment or divestment Guidelines, Policies or Strategies.

2.5 To look into any other relevant matters pertaining to investment or divestment proposals.

3. Other Major Scopes

The EXCO continuously monitors operational matters including financial, contractual, operation and governance of the Company via regular scheduled and/or unscheduled meetings as required, or via submission of relevant documents by Management from time to time. The EXCO provides guidance and advice to Management and elevates to the Board of Directors any issues deemed requiring notification and/or discussion at the Board level, with or without recommended solution, as required.

4. Review of Contract Status

The EXCO reviews and monitors contract status and future contracts of drilling rigs for the VELESTO Group at regular interval and/or as needed, and provides guidance on strategic action that is necessary to be taken by the Management.

5. Review of Cash Flow Projections and/or funding for VELESTO Group

The function of the EXCO in relation to the monitoring of cash flow position of VELESTO Group are as follows:-

5.1 The EXCO reviews and evaluates the cash flow position, projection and forecast of VELESTO Group, including conversion and balancing of local and foreign currencies, and advise on whether strategic action is necessary to be taken by Management to address any potential deficiencies and other issues;

5.2 The EXCO reviews financing and/or funding requirement of VELESTO Group, including hedging and management of interest rates, and recommends strategic financing and/or funding strategies, and/or

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derivative instruments for VELESTO Board's consideration and approval.

6. Source for Information

In order to arrive at a sound recommendation, the EXCO is authorized to call for any additional information that may be required, including research or survey materials or presentations from relevant external experts, make site visits, meet relevant persons connected with the project and take any other steps necessary for the purpose of gauging the merits of the Project.

**7.0 MEETINGS, QUORUM AND PROCEDURES**

- 7.1
- For all matters with transaction value of less than USD 25 million, the quorum shall be any three (3) members who are non-executive directors; and
  - For all matters with a transaction value of USD 25 million and more, the quorum shall be at least five (5) members of the EXCO.
  - The Committee will decide its own procedures and other administrative arrangements.

**8.0 FREQUENCY OF THE MEETING**

8.1 The EXCO shall meet on as need basis, subject to a minimum of once every quarter.

**9.0 REPORTS/MINUTES**

- 9.1
- Minutes are kept by the Secretary as evidence that the EXCO has discharged its functions.
    - The approved minutes of the EXCO Meetings are forwarded to the Board members for information and significant issues are to be discussed at Board Meetings.
    - The approved minutes of the EXCO shall be tabled at the next available board of directors meeting, for notation.

**10.0 CIRCULAR RESOLUTION**

10.1 A resolution in writing signed by a majority of all members shall be valid and effectual as if it had been passed at a meeting of the EXCO. All such resolutions shall be described as "Members' Circular Resolutions" and shall be forwarded or otherwise delivered to the Company Secretary without delay and shall be recorded by the Company Secretary in the minutes book. Any such resolution may consist of several documents in the like form, each signed by one (1) or more members. The expressions "in writing" or "signed" include approval by legible confirmed

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transmission by facsimile, telex, cable, telegram or other forms of electronic communications.

**11.0 REVIEW OF THE TERMS OF REFERENCE**

11.1 The EXCO shall review and assess the adequacy of this Terms of Reference on a periodic basis determined by the EXCO or as and when necessary. Any revision or amendments to the Terms of Reference shall be approved by the Board.

**12.0 EVALUATION & APPROVAL PROCESS**

12.1 The Evaluation and Approval Process is contained in Appendix II.

**APPENDIX I**

TERMS OF REFERENCE : INVESTMENT / DIVESTMENT	SCOPE : LIMITS OF APPROVAL
<p>To review and evaluate all investment and divestment proposals with management and decide on projects to be submitted to Board for approval, together with additional recommendations thereon, if any.</p>	<p>a) <b>Investments</b></p> <ul style="list-style-type: none"> <li>▪ No minimum limit.</li> <li>▪ Any investment of up to USD 10 million. However, Management must not split the divestment into several transactions to circumvent this ruling.</li> <li>▪ Above USD 10 million, the EXCO is to deliberate and recommend to the VELESTO Board.</li> </ul> <p>b) <b>Divestments</b></p> <ul style="list-style-type: none"> <li>▪ Minimum limit USD 500,000.</li> <li>▪ Anything above USD 500,000 to USD 10 million needs the approval of EXCO. However, Management must not split the divestment into several transactions to circumvent this ruling.</li> <li>▪ Above USD 10 million, the EXCO is to deliberate and recommend to VELESTO Board.</li> </ul>
<p>New financing facility, Letter of Comfort, Letter of Undertaking, Letter of Guarantee, Corporate Guarantee and/or Parental Guarantee.</p>	<p>Amount up to USD 10 million to be approved by VELESTO Banking Committee (as per FLAG).</p> <p>Amount from USD 10 million up to USD 50 million to be approved by EXCO (as per FLAG).</p> <p>Amount exceeding USD 50 million shall be recommended by the EXCO to VELESTO Board</p>

**APPENDIX II**

**EVALUATION AND APPROVAL PROCESS**

