



**MEETING  
CHALLENGES,  
MANAGING  
CHANGE**

**TOGETHER**

ANNUAL REPORT 2017



## In our 2017 report

### OUR CORPORATE OVERVIEW

- 3 Corporate Profile
- 4 Our Assets
- 5 2017 Key Highlights
- 6 Corporate Structure
- 7 Corporate Information
- 8 5-Year Group Summary Results
- 9 Statistics on Shareholdings

### OUR PERSPECTIVE

- 14 Chairman's Statement
- 18 Management Discussion and Analysis
- 30 Board of Directors
- 32 Board of Directors' Profile
- 42 Key Management
- 46 Calendar of Significant Events 2017

### SUSTAINABILITY REPORT

- 49 Sustainability Report

### ACCOUNTABILITY

- 79 Statement on Corporate Governance
- 96 Statement on Risk Management & Internal Control
- 102 Board Audit Committee Report
- 105 Additional Compliance Information

### FINANCIAL STATEMENTS

- 106 Financial Statements

### ADDITIONAL INFORMATION

- 196 List of Properties

### NOTICE AND FORM

- 197 Notice of Annual General Meeting

Proxy Form



## Meeting Challenges, Managing Change TOGETHER

The prevailing disruptive change in the oil and gas market continues to challenge UMW Oil & Gas Corporation Berhad ("UMW-OG")'s resolve to stay the course in our strategies for long-term sustainable growth. This report cover showcases the foundational strength and resources that have enabled us to respond effectively to change – our capabilities and talented people together, adapting and turning challenges into opportunities.



A black and white photograph of an offshore oil rig. The rig's tall, lattice-structured derrick extends vertically from the deck, reaching towards the top of the frame. The deck itself is a complex of various structures, including smaller cranes and support beams. The rig is situated on a body of water, with the horizon line visible at the bottom. The sky is filled with large, dramatic clouds, creating a high-contrast background for the rig's silhouette.

# Operations

Streamlining and reshaping processes and procedures to optimise and reduce operating costs

Improving operational efficiency while maintaining high safety standards

# Assets

To grow our business by revitalising mature assets safely and profitably in our regions of geographic focus

# People

People Focused, Enterprising, Trustworthy, Agile, Tenacious  
Environmentally Conscious and Cost Competitive







## About UMW Oil & Gas Corporation Berhad

UMW Oil & Gas Corporation Berhad ("UMW-OG") is a Malaysia based global provider of drilling and oilfield services for the upstream sector of the oil and gas industry.

In our drilling services business, apart from our home base in Malaysia, we have operated in other parts of Southeast Asia ("SEA"), providing drilling services for exploration, development and production wells with our fleet of offshore drilling rigs.

UMW-OG is also a provider of workover services through its fleet of hydraulic workover unit ("HWUs").

In our oilfield services business, UMW-OG has presence in Malaysia, Thailand and China, where we offer threading, inspection and repair services for Oil Country Tubular Goods ("OCTG"), with a focus on premium connections used in high-end and complex wells.

UMW-OG is able to offer the services mentioned above through its impressive fleet which consists of seven (7) wholly owned premium jack-up drilling rigs (UMW NAGA 2, UMW NAGA 3, UMW NAGA 4, UMW NAGA 5, UMW NAGA 6, UMW NAGA 7 and UMW NAGA 8), and five (5) HWUs (UMW GAIT 1, UMW GAIT 2, UMW GAIT 3, UMW GAIT 5 and UMW GAIT 6).

# Our Assets

## JACK-UP DRILLING RIGS



UMW NAGA 2



UMW NAGA 3



UMW NAGA 4



UMW NAGA 5



UMW NAGA 6



UMW NAGA 7



UMW NAGA 8

## HYDRAULIC WORKOVER UNITS



UMW GAIT 1



UMW GAIT 2



UMW GAIT 3



UMW GAIT 5



UMW GAIT 6

## OILFIELD SERVICES OPERATIONS



MALAYSIA - Labuan West plant



MALAYSIA - Labuan East plant



THAILAND - Lan Krabue plant



THAILAND - Songkhla plant



CHINA - Tianjin plant



TURKMENISTAN - Turkmenbashy plant

## 2017 Key Highlights



### Financial Performance

#### Revenue

**RM587**<sub>mil</sub>

(FY2016: RM321 mil)

#### Loss

**RM1,129**<sub>mil</sub>

(FY2016: RM1,183 mil)

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#### Cash Balance

**RM681**<sub>mil</sub>

(FY2016: RM892 mil)

#### Market Capitalisation

**RM2,135**<sub>mil</sub>

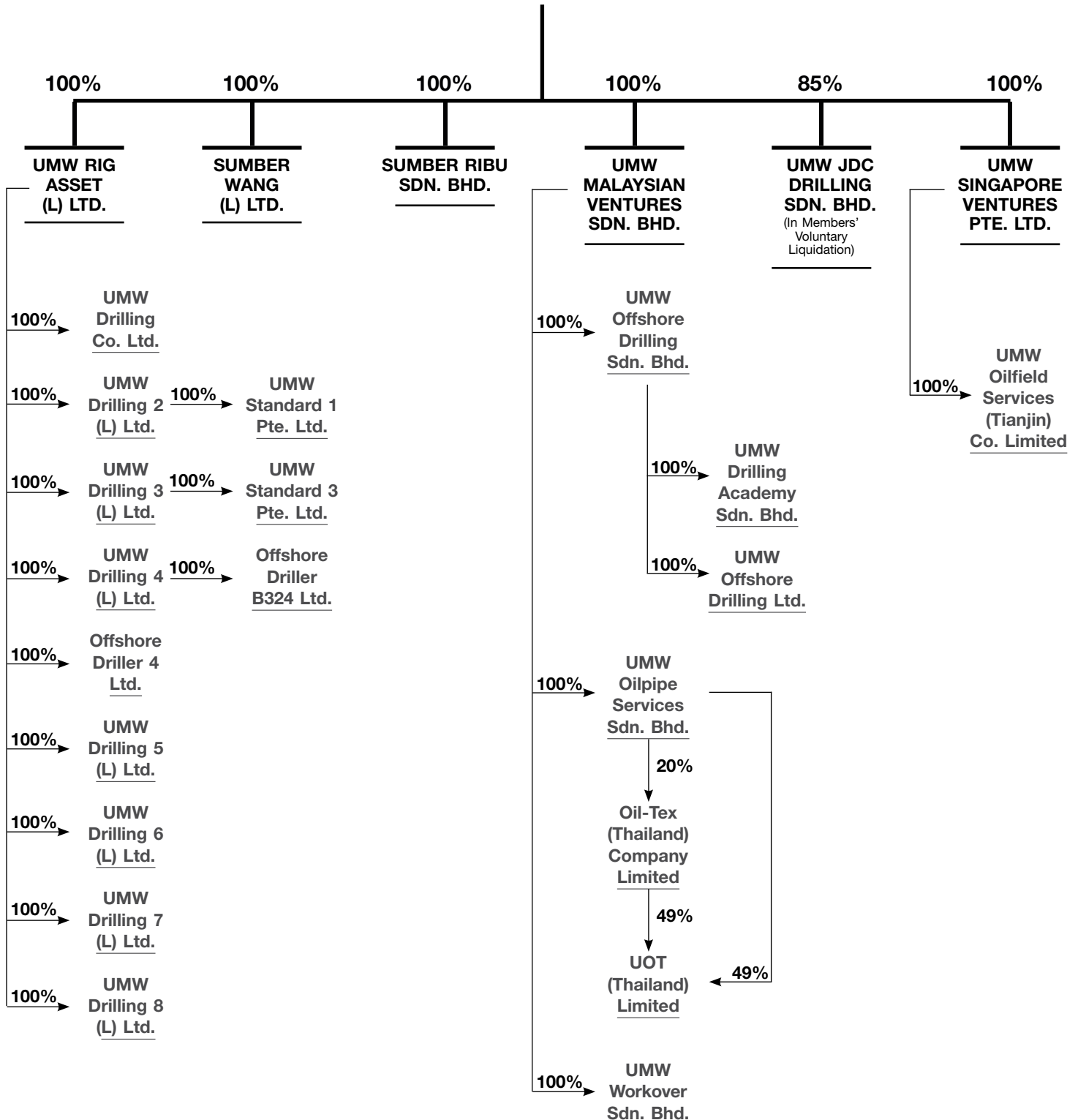
(FY2016: RM1,892 mil)

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# Corporate Structure



## UMW OIL & GAS CORPORATION BERHAD





# Corporate Information

## Board Of Directors

**Dato' Abdul Rahman bin Ahmad**  
(Chairman/Non-Independent  
Non-Executive Director)  
Date Of Appointment: 19 January 2017

**Rohaizad bin Darus**  
(President/Executive Director)  
Date Of Appointment: 31 January 2012

**Haida Shenny binti Hazri**  
(Non-Independent  
Non-Executive Director)  
Date Of Appointment: 23 June 2017

**Rizal Rickman bin Ramli**  
(Non-Independent  
Non-Executive Director)  
Date Of Appointment: 21 March 2018

**Razalee bin Amin**  
(Independent  
Non-Executive Director)  
Date Of Appointment: 2 May 2013

**Dato' Afifuddin bin Abdul Kadir**  
(Senior Independent  
Non-Executive Director)  
Date Of Appointment: 2 May 2013

**Cheah Tek Kuang**  
(Independent  
Non-Executive Director)  
Date Of Appointment: 2 May 2013

**Dato' Ibrahim bin Marsidi**  
(Independent  
Non-Executive Director)  
Date Of Appointment: 2 May 2013

**Mohd Rashid bin Mohd Yusof**  
(Independent  
Non-Executive Director)  
Date Of Appointment: 23 June 2017

**Rowina Ghazali Seth**  
(Independent  
Non-Executive Director)  
Date Of Appointment: 23 June 2017

## Board Audit Committee

- **Razalee bin Amin** (Chairman)
- **Dato' Afifuddin bin Abdul Kadir**
- **Cheah Tek Kuang**
- **Dato' Ibrahim bin Marsidi**

## Board Nomination & Remuneration Committee

- **Dato' Afifuddin bin Abdul Kadir** (Chairman)
- **Cheah Tek Kuang**
- **Dato' Ibrahim bin Marsidi**
- **Rowina Ghazali Seth**

## Board Executive Committee

- **Dato' Abdul Rahman bin Ahmad** (Chairman)
- **Haida Shenny binti Hazri**
- **Rohaizad bin Darus**
- **Razalee bin Amin**
- **Mohd Rashid bin Mohd Yusof**

## Board Risk Management Committee

- **Cheah Tek Kuang** (Chairman)
- **Haida Shenny binti Hazri**
- **Rizal Rickman bin Ramli**
- **Dato' Afifuddin bin Abdul Kadir**
- **Mohd Rashid bin Mohd Yusof**
- **Rowina Ghazali Seth**

## Board Whistle-Blowing Committee

- **Dato' Ibrahim bin Marsidi** (Chairman)
- **Rizal Rickman bin Ramli**
- **Razalee bin Amin**
- **Dato' Afifuddin bin Abdul Kadir**

## Joint Company Secretary

**Rafiza binti Ghazali**  
(MIA 43580)

## Registered Office

Level 18, Block 3A, Plaza Sentral  
Jalan Stesen Sentral 5  
50470 Kuala Lumpur, Malaysia  
Telephone: +603-2096 8788  
Facsimile: +603-2274 7787

## E-Mail Address

info@umw-oilgas.com

## Website

<http://www.umw-oilgas.com>

## Registrar

**Securities Services (Holdings) Sdn. Bhd. (36869-T)**  
Level 7, Menara Milenium  
Jalan Damanlela  
Pusat Bandar Damansara  
Damansara Heights  
50490 Kuala Lumpur  
Malaysia

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

## Auditors

**Messrs. Ernst & Young (AF: 0039)**  
Level 23A, Menara Milenium  
Jalan Damanlela  
Pusat Bandar Damansara  
50490 Kuala Lumpur  
Malaysia

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

## Stock Exchange Listing

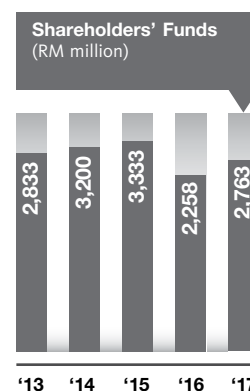
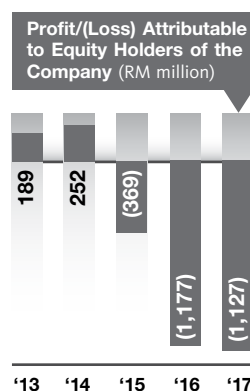
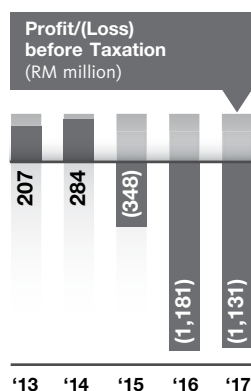
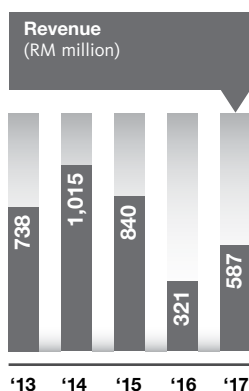
Main Market of Bursa Malaysia  
Securities Berhad  
Stock Name: UMWOG  
Stock Code: 5243

## Principal Bankers

- 1) Affin Bank Berhad
- 2) CIMB Bank Berhad
- 3) Maybank Berhad Group

## 5-Year Group Summary Results

Financial Year Ended 31 December		2013	2014	2015	2016	2017
Revenue	RM million	738	1,015	840	321	587
Profit/(Loss) Before Taxation	RM million	207	284	(348)	(1,181)	(1,131)
Profit/(Loss) Attributable to Equity Holders of the Company	RM million	189	252	(369)	(1,177)	(1,127)
Shareholders' Funds	RM million	2,833	3,200	3,333	2,258	2,763
Return on Shareholders' Funds	%	12	8	(11)	(42)	(45)
Return on Total Assets	%	5	5	(5)	(18)	(24)
Basic Earnings/(Loss) Per Share	sen	11.5	11.7	(17.1)	(54.5)	(36.8)
Share Price at Year End	RM	4.01	2.35	1.07	0.88	0.31
Market Capitalisation at Year End	RM million	8,670	5,081	2,313	1,892	2,135



## SUMMARY OF GROUP RESULTS

Financial Year Ended 31 December		2016	2017
Revenue	RM million	321	587
Loss Before Taxation	RM million	(1,181)	(1,131)
Loss After Taxation	RM million	(1,183)	(1,129)
Share Capital	RM million	1,081	3,732
Reserves	RM million	1,177	(969)
Basic Loss Per Share	sen	(54.5)	(36.8)
Net Assets Per Share	RM	1.0	0.4

## FINANCIAL CALENDAR

Financial Year Ended 31 December 2017	Date
Announcement of Results:	
First Quarter	22 May 2017
Second Quarter	22 August 2017
Third Quarter	24 November 2017
Fourth Quarter	27 February 2018
Notice of 8th Annual General Meeting & issuance of Annual Report 2017	16 April 2018
8th Annual General Meeting	15 May 2018

# Statistics on Shareholding as at 31 March 2018

Issued Shares of the Company : 8,215,600,000  
 Class of Shares : Ordinary shares  
 Voting Right : One vote per one ordinary share

## ANALYSIS BY SIZE OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders		Total No. of Shareholders		No. of Issued Shares		Total No. of Issued Shares	
	Malaysian	Foreigner	No.	%	Malaysian	Foreigner	No.	%
Less than 100	599	36	635	1.84	15,150	1,038	16,188	0.00
100 - 1,000	3,046	62	3,108	9.01	2,096,340	34,921	2,131,261	0.03
1,001 - 10,000	15,067	243	15,310	44.39	80,029,432	1,090,694	81,120,126	0.99
10,001 - 100,000	12,728	247	12,975	37.62	463,309,824	9,052,410	472,362,234	5.75
100,001 to less than 5% of issued shares	2,330	130	2,460	7.13	2,903,273,287	361,866,743	3,265,140,030	39.74
5% and above of issued shares	2	0	2	0.01	4,394,830,161	0	4,394,830,161	53.49
<b>Total</b>	<b>33,772</b>	<b>718</b>	<b>34,490</b>	<b>100.00</b>	<b>7,843,554,194</b>	<b>372,045,806</b>	<b>8,215,600,000</b>	<b>100.00</b>

## CATEGORY OF SHAREHOLDERS

Category		No. of Shareholders		No. of Issued Shares		% of Issued Shares	
		Malaysian	Foreigner	Malaysian	Foreigner	Malaysian	Foreigner
1	Individual	26,355	375	959,791,485	22,721,464	11.68	0.28
2	Body Corporate						
	A) Banks / Finance Companies	64	2	5,834,143,739	8,368	71.02	0.00
	B) Investment Trusts / Foundations / Charities	6	0	139,105	0	0.00	0.00
	C) Industrial and Commercial Companies	211	6	67,465,652	194,640	0.82	0.00
3	Government Agencies / Institutions	3	0	312,907	0	0.00	0.00
4	Nominees	7,131	335	981,692,327	349,121,334	11.95	4.25
5	Others	2	0	8,979	0	0.00	0.00
<b>Total</b>		<b>33,772</b>	<b>718</b>	<b>7,843,554,194</b>	<b>372,045,806</b>	<b>95.47</b>	<b>4.53</b>

# Statistics on Shareholding

as at 31 March 2018

## 30 LARGEST SHAREHOLDERS

(Without aggregating securities from different securities accounts belonging to the same person)

No.	Shareholders	No. of Shares	%
1	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	3,183,166,602	38.75
2	PERMODALAN NASIONAL BERHAD	1,211,663,559	14.75
3	LEMBAGA TABUNG HAJI	358,047,380	4.36
4	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM WAWASAN 2020	233,204,552	2.84
5	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA	222,477,586	2.71
6	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. EMPLOYEES PROVIDENT FUND BOARD	160,119,329	1.95
7	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	111,216,814	1.35
8	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. EMPLOYEES PROVIDENT FUND BOARD (AMUNDI)	100,000,000	1.22
9	AMANAHRAYA TRUSTEES BERHAD AS 1MALAYSIA	76,153,961	0.93
10	AMANAHRAYA TRUSTEES BERHAD PUBLIC SMALLCAP FUND	68,457,400	0.83
11	HSBC NOMINEES (ASING) SDN. BHD. JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	65,267,327	0.79
12	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR HONG LEONG PENNY STOCKFUND	62,521,400	0.76
13	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA 2	62,261,710	0.76
14	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM DIDIK	61,186,680	0.74
15	HSBC NOMINEES (ASING) SDN. BHD. JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	52,169,539	0.64
16	RAJANDRAN A/L VISVALINGAM	50,000,000	0.61
17	CITIGROUP NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 9)	44,518,900	0.54
18	AMANAHRAYA TRUSTEES BERHAD PUBLIC STRATEGIC SMALLCAP FUND	38,381,000	0.47
19	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC OPPORTUNITIES FUND	32,800,000	0.40
20	PARK AVENUE CONSTRUCTION SDN. BHD.	30,000,000	0.37
21	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM NASIONAL	27,246,927	0.33
22	AMANAHRAYA TRUSTEES BERHAD PB ISLAMIC SMALLCAP FUND	26,298,700	0.32
23	CITIGROUP NOMINEES (ASING) SDN. BHD. CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	22,269,962	0.27
24	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND	22,223,961	0.27
25	CITIGROUP NOMINEES (ASING) SDN. BHD. CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA	22,089,292	0.27



No.	Shareholders	No. of Shares	%
26	AMANAHRAYA TRUSTEES BERHAD PB ISLAMIC EQUITY FUND	20,212,700	0.25
27	MATHAVAN PILLAY A/L KANASI	20,000,000	0.24
28	CIMSEC NOMINEES (TEMPATAN) SDN. BHD. CIMB BANK FOR KARANGAN AGRICULTURE SDN. BHD. (PBCL-0G0524)	18,284,540	0.22
29	AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM GEMILANG FOR AMANA SAHAM PENDIDIKAN	14,284,397	0.17
30	CIMB GROUP NOMINEES (TEMPATAN) SDN. BHD. HONG LEONG ASSET MANAGEMENT BHD. FOR HONG LEONG ASSURANCE BERHAD (LP FUND ED102)	13,821,000	0.17

### SUBSTANTIAL SHAREHOLDERS

As per the register of Substantial Shareholders

Substantial Shareholders	No. of Shares	%
AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM BUMIPUTERA	3,183,166,602	38.75
PERMODALAN NASIONAL BERHAD	1,211,663,559	14.75

### DIRECTORS' INTEREST

As at 31 March 2018, the shareholdings of the Directors (both direct and indirect) in the Company are shown below:

No.	Directors	Direct Interest		Deemed Interest	
		No. of Issued Shares	% of Issued Shares	No. of Issued Shares	% of Issued Shares
1	Dato' Abdul Rahman bin Ahmad	0	0.00	0	0.00
2	Rohaizad bin Darus	3,800,000	0.05	0	0.00
3	Razalee bin Amin	203,000	0.00*	0	0.00
4	Dato' Afifuddin bin Abdul Kadir	275,000	0.00*	0	0.00
5	Cheah Tek Kuang	0	0.00	36,311	0.00*
6	Dato' Ibrahim bin Marsidi	30,000	0.00*	0	0.00
7	Mohd Rashid bin Mohd Yusof	0	0.00	0	0.00
8	Rowina Ghazali Seth	0	0.00	0	0.00
9	Haida Shenny binti Hazri	0	0.00	0	0.00
10	Rizal Rickman bin Ramli	0	0.00	0	0.00
<b>Total</b>		<b>4,308,000</b>	<b>0.05</b>	<b>36,311</b>	<b>0.00*</b>

Note : \* Less than 0.01%

The above information was extracted from Record of Depositories on 31 March 2018.

# Statistics on Warrant Holding as at 31 March 2018

Issued Warrants of the Company : 1,513,399,754

## ANALYSIS BY SIZE OF WARRANT HOLDINGS

Size of Holdings	No. of Warrant Holders		Total No. of Warrant Holders		No. of Issued Warrants		Total No. of Issued Warrants	
	Malaysian	Foreigner	No.	%	Malaysian	Foreigner	No.	%
Less than 100	111	4	115	2.03	5,685	102	5,787	0.00
100 - 1,000	437	11	448	7.91	264,708	5,553	270,261	0.02
1,001 - 10,000	2,083	26	2,109	37.25	10,442,229	106,495	10,548,724	0.70
10,001 - 100,000	2,311	32	2,343	41.39	94,798,355	1,482,036	96,280,391	6.36
100,001 to less than 5% of issued warrants	618	26	644	11.38	420,612,436	45,585,296	466,197,732	30.80
5% and above of issued warrants	2	0	2	0.04	940,096,859	0	940,096,859	62.12
<b>Total</b>	<b>5,562</b>	<b>99</b>	<b>5,661</b>	<b>100.00</b>	<b>1,466,220,272</b>	<b>47,179,482</b>	<b>1,513,399,754</b>	<b>100.00</b>

## CATEGORY OF WARRANT HOLDERS

Category	No. of Holders		No. of Issued Warrants		% of Issued Warrants	
	Malaysian	Foreigner	Malaysian	Foreigner	Malaysian	Foreigner
1 Individual	3,999	41	259,599,565	4,049,718	17.16	0.27
2 Body Corporate						
A) Banks / Finance Companies	20	0	1,057,888,173	0	69.90	0.00
B) Investment Trusts / Foundations / Charities	0	0	0	0	0.00	0.00
C) Industrial and Commercial Companies	47	0	6,527,553	0	0.43	0.00
3 Government Agencies / Institutions	0	0	0	0	0.00	0.00
4 Nominees	1,496	58	142,204,981	43,129,764	9.39	2.85
5 Others	0	0	0	0	0.00	0.00
<b>Total</b>	<b>5,562</b>	<b>99</b>	<b>1,466,220,272</b>	<b>47,179,482</b>	<b>96.88</b>	<b>3.12</b>

## 30 LARGEST WARRANT HOLDERS

(Without aggregating securities from different securities accounts belonging to the same person)

No.	Holders	No. of Warrants	%
1	AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM BUMIPUTERA	652,687,400	43.13
2	PERMODALAN NASIONAL BERHAD	287,409,459	18.99
3	LEMBAGA TABUNG HAJI	69,066,620	4.56
4	RAJANDRAN A/L VISVALINGAM	25,000,000	1.65
5	HSBC NOMINEES (ASING) SDN. BHD. JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	20,487,189	1.35
6	AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM BUMIPUTERA 2	17,470,163	1.15
7	AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM WAWASAN 2020	14,885,900	0.98
8	DB (MALAYSIA) NOMINEE (TEMPATAN) SDN. BHD. DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR HONG LEONG PENNY STOCKFUND	14,700,000	0.97
9	AMANAHRAYA TRUSTEES BERHAD AS 1MALAYSIA	14,362,991	0.95
10	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. EMPLOYEES PROVIDENT FUND BOARD (AMUNDI)	14,000,000	0.93
11	HSBC NOMINEES (ASING) SDN. BHD. JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	12,999,819	0.86
12	LEE YIH LEANG	6,000,000	0.40

No.	Holders	No. of Warrants	%
13	MAYBANK NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR TAN CHIN SEOH	5,000,000	0.33
14	SHUHAIMY BIN OTHMAN	4,685,000	0.31
15	KUEK CHEE LONG	3,600,000	0.24
16	TAN YOKE FOON	3,250,000	0.21
17	RAHMAH BINTI ABDUL RAHIM	3,055,000	0.20
18	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR SONG SOON HEE (470272)	3,000,000	0.20
19	KENANGA NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR DATO' NG AIK KEE (001)	2,800,000	0.19
20	CIMSEC NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR LAU SIE KUONG (KUCHING)	2,500,000	0.17
21	HSBC NOMINEES (ASING) SDN. BHD. BBH AND CO BOSTON FOR VANGUARD FTSE ALL-WORLD EX-US SMALL-CAP INDEX FUND	2,470,020	0.16
22	RHB CAPITAL NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR LOW BEE KIEW (CEB)	2,443,400	0.16
23	CIMSEC NOMINEES (TEMPATAN) SDN. BHD. CIMB BANK FOR LIM CHONG SOO (MY2591)	2,250,000	0.15
24	WOON WEE POK	2,220,200	0.15
25	LIEW WAI PENG	2,210,000	0.15
26	DB (MALAYSIA) NOMINEE (TEMPATAN) SDN. BHD. DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR HONG LEONG GROWTH FUND	2,125,000	0.14
27	PUBLIC NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR AU KWAN SENG (E-KLC)	2,050,000	0.14
28	LEE CHING KUE	2,033,600	0.13
29	LIM PAY KAON	2,000,000	0.13
30	TAN YIH-JIA	2,000,000	0.13

#### SUBSTANTIAL WARRANT HOLDERS

As per the register of Substantial Warrant Holders

Substantial Warrant Holders	No. of Warrants	%
AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM BUMIPUTERA	652,687,400	43.13
PERMODALAN NASIONAL BERHAD	287,409,459	18.99

#### DIRECTORS' INTEREST

As at 31 March 2018, the Warrant Holdings of the Directors (both direct and indirect) in the Company are shown below:

No.	Directors	Direct Interest		Deemed Interest	
		No. of Issued Warrants	% of Issued Warrants	No. of Issued Warrants	% of Issued Warrants
1	Dato' Abdul Rahman bin Ahmad	0	0.00	0	0.00
2	Rohaizad bin Darus	100,000	0.00*	0	0.00
3	Razalee bin Amin	0	0.00	0	0.00
4	Dato' Afifuddin bin Abdul Kadir	0	0.00	0	0.00
5	Cheah Tek Kuang	0	0.00	0	0.00
6	Dato' Ibrahim bin Marsidi	0	0.00	0	0.00
7	Mohd Rashid bin Mohd Yusof	0	0.00	0	0.00
8	Rowina Ghazali Seth	0	0.00	0	0.00
9	Haida Shenny binti Hazri	0	0.00	0	0.00
10	Rizal Rickman bin Ramli	0	0.00	0	0.00
<b>Total</b>		<b>100.00</b>	<b>0.00*</b>	<b>0</b>	<b>0.00</b>

Note : \* Less than 0.01%

The above information was extracted from Record of Depositories on 31 March 2018.

## Chairman's Statement





**On the back of a string of contracts secured across the year, our rig utilisation rate has increased from just 26% at the start of 2017 to 95% by the tail-end of the year. As a result, Group revenue has improved by 83% from the previous year.**

**Dato' Abdul Rahman bin Ahmad**  
Chairman

# Dear Shareholders,

Revenue

**587 million**

FY2016: RM321 million

PATAMI

**-RM1,127 million**

FY2016: -RM1,177 million

Recapitalisation Exercise

**RM1.8 billion**

via rights issue



On behalf of the Board of Directors, I am pleased to present the annual report and audited financial statements of UMW Oil & Gas Corporation Berhad ("UMW-OG" or "the Group") for the financial year ended 2017.

2017 proved to be another very challenging year for UMW-OG. Crude oil prices which averaged at a low USD43 per barrel in 2016 remained on a slow uptrend reaching USD61 per barrel by end 2017, with an average price for the year of USD54 per barrel.

Despite the gradual improvements in crude oil prices, service providers to the oil and gas industry – UMW-OG included, continued to be impacted by the slow pace of recovery in upstream activity. Competition remained intense with a larger number of players vying for a shrinking contract pie as day rates continued to face downward pressure due to excess supply of assets.

The global oil and gas industry downturn of 2015 and 2016 plus

the lack of a robust recovery in 2017 had impacted UMW-OG considerably, resulting in a liquidity crunch as well as considerable losses. This situation was not unique to UMW-OG but to almost all oil and gas service providers across the entire industry value chain.

Given the situation, and facing its own constraints, our main shareholder UMW Holdings Berhad ("UMWH"), decided to embark on a demerger exercise where it distributed its UMW-OG shares to shareholders. This exercise, which was completed on 11 July 2017 effectively led to UMW-OG becoming a stand-alone entity.

Responding proactively to these developments, your Board decided on a strategy that while initially was painful, would ultimately enable UMW-OG to chart a clear path towards long-term business and operational sustainability.

In October 2017, we undertook a RM1.8 billion recapitalisation exercise via a fully-subscribed

rights issue followed by the restructuring of our debt to strengthen our balance sheet and improve our overall cash position.

We recognise that these corporate exercises have contributed to the decline of market capitalisation as well as shareholders value. However, these measures were necessary and more importantly, the right course of action to ensure the Group's survival. It was vital to be decisive in providing the Group with a stronger footing so we may operate sustainably within the new external environment of lower crude oil prices, reduced day charter rates and a shrinking market pie.

We are heartened that at the Extraordinary General Meeting called on 25 August 2017, more than 95% of attending shareholders voted in favour of our proposals. Your continued vote of confidence and trust is truly appreciated and with your support, we have now laid the foundation for a stronger UMW-OG to emerge. In fact, the benefits of our efforts are now being realised.

## Net Gearing Ratio

**0.43 times**

FY2016: 1.41 times

## Total Recordable Case Frequency

**0.28**

FY2016: 1.16

By end 2017, our balance sheet has strengthened with gross debt having reduced from RM4.1 billion to RM1.9 billion. Our cash position has improved to RM681 million and our net debt now stands at only RM1,179 million (2016: RM3,189 million). Accordingly, our net gearing ratio has also reduced to just 0.43 times compared to 1.41 times in 2016.

On the back of a string of contracts secured across the year, our rig utilisation rate has increased from just 26% at the start of 2017 to 95% by the tail-end of the year. As a result, Group revenue has improved by 83% from RM321 million to RM587 million.

Whilst the full year results for 2017 still shows a significant loss after tax of RM1,129 million (2016: RM1,183 million) due to the impairment charge on our rigs, we delivered for the third and fourth quarters of 2017, profits after tax of RM3 million and RM6 million respectively, before impairment. This was our maiden quarterly profit since 2015.

Shareholders have also benefitted with those taking up the rights issue at 30 sen, which came with free warrants have seen the value of their investments increase by approximately 17% based on the share and warrants price of 31 sen and 17 sen as at end of 2017.

The full details of our many business and operational highlights are given in the Management Discussion and Analysis section of this annual report.

Despite these notable improvements, we remain cognisant that the journey to full recovery remains long and arduous. Nevertheless, buoyed by our early successes, we will continue to strive towards the realisation of a more competitive, resilient and sustainable UMW-OG going forward. The Board is of the view that the Group has undergone its most adverse crisis over the past few years and having prevailed, is now firmly on the path of continued progress and greater success.

## Other Notable Achievements

During the year, the Group also notched several major achievements or highlights. This included further strengthening our track record for health, safety and the environment ("HSE") excellence. In 2017, Total Recordable Case Frequency ("TRCF") reduced to 0.28 from 1.16 in 2016.

Our improving HSE performance is due to the prevailing safety first mind-set that permeates within the Group and the continued realisation that HSE is our license to operate. Excellent HSE performance is essential in securing contracts and strengthening our brand name. In 2017, UMW-OG has continued to set the benchmark

in this area, with our HSE performance duly recognised by the oil and gas majors. We continue to cascade our HSE culture across the organisation.

## Corporate Governance

With the launch of the Malaysia Code of Corporate Governance 2017 ("MCCG"), the Group has been taking measures to further enhance its corporate governance practices.

Beyond compliance, the Board views corporate governance as a key enabler to establishing a world-class corporate culture based on improved transparency and integrity, towards instituting better internal controls in managing risks, in creating the desired organisational values and culture that would attract more business investors and talent. In essence, together with HSE, good corporate governance serves as the foundation for achieving business sustainability.

Notably, we have been working tirelessly to improve the gender balance across all levels of UMW-OG, starting at the top. Reflecting our commitment to include more women, the Group has appointed two women directors who bring a wealth of related industry experience as well as other related skills which will be an asset to the Board. With these appointments, the number of women Directors has now improved to 20%, with the intent to further increase this over the next year.



We remain committed to pursuing this agenda as part of our continued effort to build a better UMW-OG going forward.

### Looking Ahead

As the Malaysian economy continues to recover, GDP growth is expected to moderate between 5%-5.5% in 2018, mainly driven by domestic demand and the continued strength in global trade. Headline inflation is expected to decline to 3% from 3.5%.

With regards to the oil and gas sector, 2018 will remain challenging yet we foresee opportunities and continued positivity in the market on the back of stable crude oil prices. Quota discipline provides the support for the base price of crude oil, which in turn stimulates industry momentum and activity. We draw a measure of confidence from PETRONAS' recent announcement to increase capital expenditure in 2018 to USD55 billion, a 23.6% increase from 2017.

Barring any unforeseen global developments, 2018 is likely to see a continued upward trend in exploration, development

and production activity. Having secured a healthy order book in 2017, we are optimistic of better prospects going forward into 2018.

The Group will continue with its cost reduction initiatives to increase operational efficiency while maintaining high safety standards. We will continue to pare down our debt position via excess cash and seek to maintain a high rig utilisation rate by aggressively bidding for contracts in Malaysia, Southeast Asia and the Middle East.

### Acknowledgements

On behalf of the Board, I wish to thank past Chairman, Tan Sri Asmat bin Kamaludin for his wise counsel and contributions at the helm of UMW-OG during a most challenging period. Tan Sri Asmat played a significant role in driving UMW-OG's journey towards improved business sustainability during his tenure and the Board is highly appreciative of his contributions during his tenure with the Group. Similarly, we appreciate the contributions of departing Director, Dato' Afifuddin bin Abdul Kadir who is retiring after serving over four years on the

Board, and Encik Badrul Feisal bin Abdul Rahim who resigned following the demerger exercise. We wish them well on their future endeavours.

I wish to take this opportunity to welcome our new Directors who have joined the Board. They are Encik Mohd Rashid bin Mohd Yusuf, Puan Rowina Ghazali Seth, Puan Haida Shenny binti Hazri and Encik Rizal Rickman bin Ramli. Each brings unique skillsets and experience to the Group and we look forward to their input in the year ahead.

Our appreciation also goes to all staff whose continued professional conduct and commitment during the past year has been nothing short of exemplary. I also thank our shareholders for their continued vote of confidence; particularly in supporting UMW-OG's rights issue held during the financial year, as well as PETRONAS and other oil and gas companies for their continued support and business partnership.

Likewise, we express our gratitude to our bankers for providing us with the financial support; our business partners

and vendors for your continuing journey with us and last but not least, my fellow Board members and the Management of the Group, especially our President, Encik Rohaizad bin Darus for showcasing resolve and for staying the course in weathering the turbulence to ultimately position UMW-OG on the verge of better prospects.

We look forward to continue working together with all stakeholders for the benefit of our organisation.

**Dato' Abdul Rahman bin Ahmad**  
Chairman

## Management Discussion & Analysis





# Dear Shareholders,

## INTRODUCTION

With the improving external environment, I am happy to report that UMW Oil & Gas Corporation Berhad (“UMW-OG” or “the Group”) has delivered an improved business performance for the financial year ending 2017. The Group ended the year with a higher average utilisation rate of 70%, and completed the demerger from UMW Holdings Berhad (“UMWH”) and recapitalisation of our equity structure while strengthening our business foundation by refinancing our loan. Cumulatively, these and other strategic measures have placed us firmly on track to deliver better results in 2018.

## BUSINESS OVERVIEW

UMW-OG is an investment holding company. Through our subsidiaries, UMW-OG is involved in the upstream activities of the oil and gas industry in Malaysia and other parts of Southeast Asia (“SEA”). The Group’s core business is in the Drilling Services segment where we provide drilling services to oil and gas companies in support of their exploration, development and production activities.

Our fleet consists of seven (7) offshore jack-up drilling rigs; and for workover services we have five (5) hydraulic workover units (“HWUs”). The reduced fleet size comes after the disposal of our jointly-owned

NAGA 1 semi-submersible drilling rig to our former joint venture partner, Japan Drilling Company. The remaining rigs are fully owned and operated by the Group. These are UMW NAGA 2, UMW NAGA 3, UMW NAGA 4, UMW NAGA 5, UMW NAGA 6, UMW NAGA 7 and UMW NAGA 8. The five HWUs in our fleet are UMW GAIT 1, UMW GAIT 2, UMW GAIT 3, UMW GAIT 5 and UMW GAIT 6.

Our Oilfield Services business offers a wide range of threading, inspection and repair services for Oil Country Tubular Goods (“OCTG”) in Malaysia and overseas, with a focus on premium connections used in high-end as well as complex wells. Our threading facilities are furnished with quality equipment characterised by high precision and accuracy machines for premium connections. We have a wide range of threading

licenses from major international licensors and we keep our Oilfield Services operations lean and our facilities standards tight.

The Group’s main client is PETRONAS and its subsidiaries followed by the various Production Arrangement Contractors (“PAC”). It is a competitive industry where players compete on the basis of experience, past performance, safety record and practices, reliability, range of services, technical support and price to a limited number of customers.

## BUSINESS OBJECTIVES & STRATEGIES

The Group aspires to be the leading global shallow water drilling services provider-of-choice for the oil and gas industry via its long-term business strategy:



# Management Discussion & Analysis



In realising the above, the Group remains committed to driving excellence in the following key business pillars:

## Optimising Our Strengths

Operations	Assets	People
Enhance savings and efficiencies via initiatives driven by the Corporate Transformation Office	Maximise rig utilisation and optimise pricing to stabilise our revenue stream	Effective manpower management for talent development with emphasis on high performance
<ul style="list-style-type: none"> <li>Cost optimisation</li> <li>Improve operational and organisational efficiency</li> <li>Streamlining processes and procedures</li> <li>Maintaining high safety standards</li> </ul>	<ul style="list-style-type: none"> <li>Aggressive marketing</li> <li>Managing price</li> <li>Leveraging and expanding our client base</li> <li>Geographical expansion</li> </ul>	<ul style="list-style-type: none"> <li>Training and development</li> <li>High performance culture</li> <li>Competitive remuneration scheme</li> <li>Retaining talent</li> <li>Clear succession plan</li> </ul>

## KEY OPERATIONAL HIGHLIGHTS

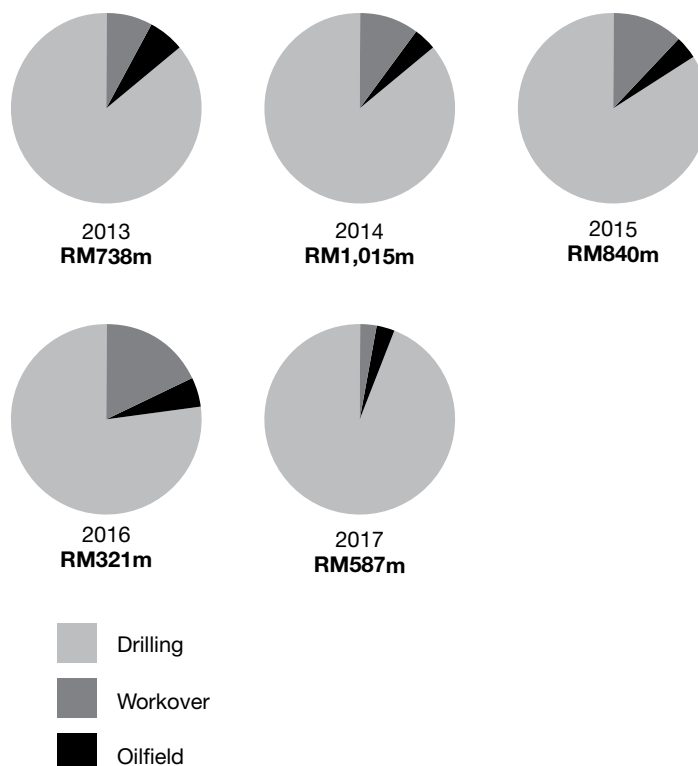
Indicators	2015	2016	2017
Rig Utilisation Rates	52%	21%	70%
Number of Employees	788	574	645
Man-hours without LTI	2,130,157	1,144,317	2,738,745

*Note: All figures are as at financial year-end except for rig utilisation rates which is based on average utilisation rate for the entire financial year.*

## GROUP FINANCIAL PERFORMANCE

### Revenue

For the year under review, Group revenue was RM587 million, an 83% increase compared to the previous year. The improvement in revenue is due to increased utilisation of our rigs in 2017 offset by lower average day charter rates.



With higher rig utilisation, our drilling business division (including workover services) which contributes 97% of Group turnover, registered an 87% increase in revenue to RM569 million compared to the previous year's RM304 million.

Buoyed by the recovery and stability of crude oil prices, oil and gas majors in 2017 had greater confidence in committing to final investment decisions for exploration, development and production activities. The increase in upstream activities led to greater demand for rigs which benefitted UMW-OG who is a leading player in the drilling segment in Malaysia.

The Oilfield Services segment posted a revenue of RM17 million, 3% lower year-on-year due to a continuing decline in activities during the financial year. This segment contributed 3% of Group revenue.

In terms of geographic location, the Group's domestic business remained the largest revenue contributor – accounting for RM578 million or 98% of the Group's total top-line.

### Profitability

Underpinned by growing revenue and reduced operating costs, the Group's earnings before interest, tax, depreciation, amortisation and impairment ("EBITDA") rose to RM248.9 million (2016: RM8.9 million). Excluding asset impairment, the Group significantly reduced its loss after tax position by 63% to RM147.1 million (2016: RM402.2 million).

After taking into account impairment provisions of RM982 million for the financial year (2016: RM780 million), the Group posted a lower after tax loss of RM1,129 million for 2017 (2016: RM1,183 million).

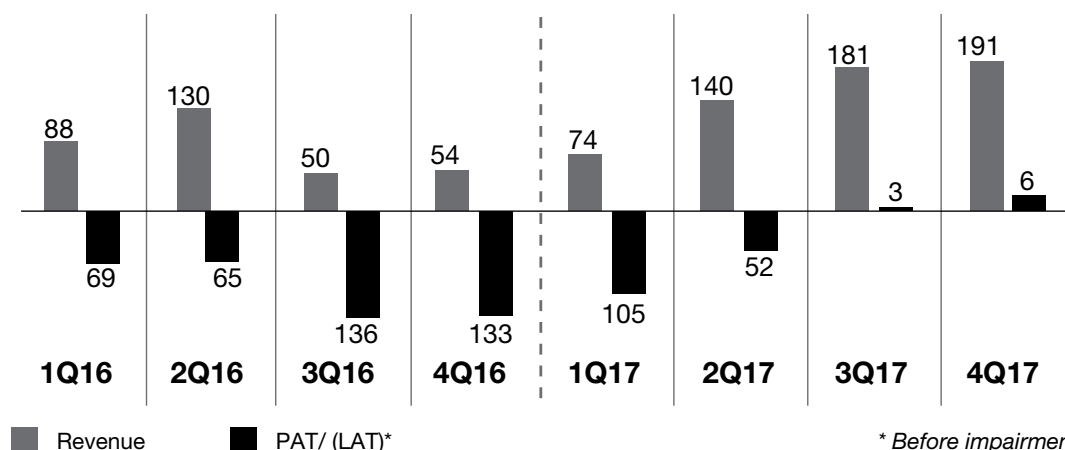
Importantly, the Group had posted two consecutive quarters of profitability in Q3 and Q4 2017. This snaps a negative profitability performance of seven consecutive quarters stretching from Q4 2015.

With the Group having reached a 70% average utilisation of our rigs in 2017, which is expected to further improve in 2018, we are optimistic of a better

performance in 2018 barring any unforeseen global or industry developments.

### Assets & Liabilities

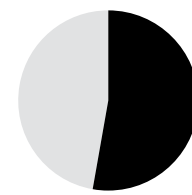
In 2017, total Group assets reduced by RM1,758 million due to asset impairment, depreciation and foreign exchange retranslation loss as at year end. However, our liabilities have also decreased by RM2,261 million due to the Group's successful recapitalisation exercise and the restructuring of its loan book. As such, the Group closed the year with a stronger net asset position of RM2,764 million (2016: RM2,261 million).



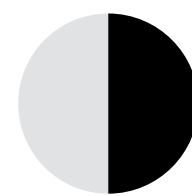
\* Before impairment



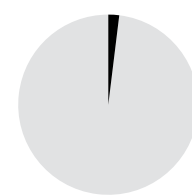
2013  
RM738m



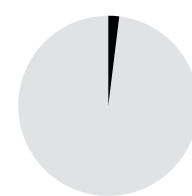
2014  
RM1,015m



2015  
RM840m



2016  
RM321m



2017  
RM587m

■ Domestic  
■ Foreign

## Management Discussion & Analysis



As part of our continued asset adjustment efforts to reduce operational expenditure, we disposed of NAGA 1, our semi-submersible drilling rig to our partner, Japan Drilling Company (“JDC”). The Group is amidst of winding up its joint venture with JDC, UMW JDC Drilling Sdn. Bhd.

Management believes besides reducing our operational expenditure (“opex”), the disposal is strategic given the lack of suitable contract opportunities for semi-submersible rigs in Malaysia and the region.

#### Capital Structure & Resources

On 11 July 2017, the Group completed our demerger from UMWJH as part of our continued business restructuring and alignment process. The demerger provided the Group with greater impetus, more so with the support and backing of a new majority shareholder, Permodalan Nasional Berhad (“PNB”).

The demerger paved the way for the Group to implement the next phase in our business restructuring plan. On 25 October 2017, UMW-OG successfully completed our recapitalisation exercise via a rights issue amounting to RM1.8 billion. The exercise was fully subscribed with PNB fully supporting and underwriting the rights issue as majority shareholder.

83% of the funds raised were used to pare down our debts and the balance allocated as working capital. In addition to this, on 21 November 2017, the Group raised a USD550 million loan facility to retire all our remaining borrowings. Cumulatively, the recapitalisation exercise and the new loan facility have reduced our total borrowings from RM4.1 billion to RM1.9 billion with a debt maturity profile that better reflects the long term nature of UMW-OG’s assets. Net gearing ratio has reduced from 1.41 times to 0.43 times.

With these corporate exercises, not only have we reduced our debt and interest payable position, we also have a longer loan repayment tenure of five and ten years. By retiring all previous borrowings, a net of over USD125 million in encumbered cash has been released for working capital utilisation and other purposes.

	2015 RM million	2016 RM million	2017 RM million
Short-term Borrowings	2,257	1,500	461
Long-term Borrowings	1,747	2,273	1,399
Due to UMWJH	-	308	-
Total borrowings	4,004	4,081	1,860

With this, the Group’s net cash flow and cash and bank balances have improved which is an asset in negotiating better contract and payment terms with vendors and suppliers.

#### Cash Flow, Cash & Bank Balances

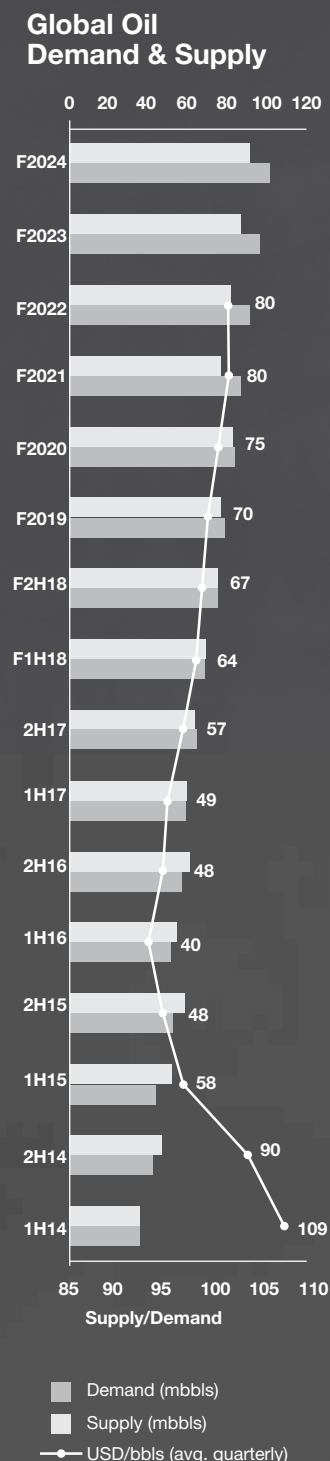
The Group’s net cash position from operating activities for the year improved by RM13 million, largely due to improved operational efficiencies and reduced administrative expenses. Increase in cash balance, net of restricted cash has improved from the previous year on the back of recapitalisation exercise.

	2016 (RM'000)	2017 (RM'000)
Net cash used in operating activities	(63,953)	(50,880)
Net cash generated from investing activities	49,487	11,280
Net cash (used in)/generated from financing activities	(647,600)	415,195
Net (decrease)/increase in cash and cash equivalents	(662,066)	375,595
Effects of exchange rate changes	21,455	(38,938)
Cash and cash equivalents at the beginning of the year	973,807	891,471
Cash and cash equivalents at the end of the year	891,471	680,747
Cash and cash equivalents at the end of the year, net of restricted cash	333,196	669,853





# A global oil and gas service provider and operator



In 2017, members of the Organization of the Petroleum Exporting Countries ("OPEC") and non-OPEC members exemplified unprecedented production quota discipline, which led to a continued but gradual recovery in crude oil prices. On the back of unprecedented quota discipline of 130%, the price of crude improved to an annual average of USD54 per barrel.

A further commitment by the said OPEC and non-OPEC members to extend the quota to end 2018 provided welcomed price stability. As the price of crude rose above the production costs of most oil producing nations, oil and gas majors and national oil companies were more confident in committing to a final investment decision ("FID") for exploration, development and production activities.

The recovery in the oil and gas sector was also fuelled by the global economy, which saw a GDP growth of 3.5% in 2017. In addition, the expected impact of renewable energy alternatives was not as profound resulting in oil and gas seeing strong demand.

Cumulatively, these and other supporting factors contributed to an upward momentum of activity across the upstream value chain of the oil and

gas sector. In Malaysia, rig counts began to improve as PETRONAS and other oil and gas majors recommenced drilling activities.

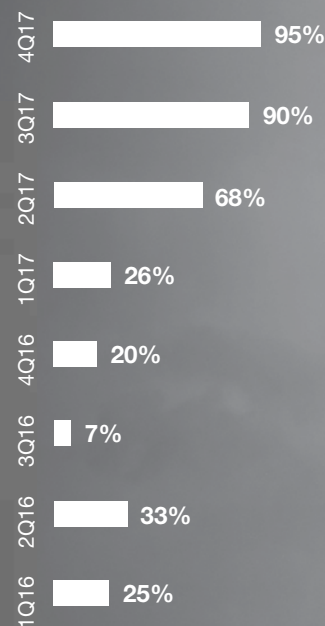
On the back of improving industry sentiment and operating conditions, UMW-OG also saw an improvement in its business and financial performance. However, the Group's continued recovery is not driven by improving external conditions alone.

UMW-OG's turnaround is due to our unwavering commitment over the past few years to rationalise our organisational structure in order to deliver a lower operating cost base and a more efficient business model. The process was difficult but highly necessary towards achieving a sustainable business operation amidst a continuously challenging and very competitive operating environment.

The continued efforts to optimise cost, improve cashflow and cash management and enhance productivity and efficiency, via operational excellence and process simplification, have resulted in better cost management and a more robust, resilient and competitive UMW-OG emerging.

## DRILLING SEGMENT

In 2017, we started the financial year with only two rigs, NAGA 6 and NAGA 8 generating income for the Group. However, by third quarter, we secured a string of contracts to see all of our seven rigs operating.



Our quarterly average rig utilisation rate improved from 26% in the first quarter to 95% in the fourth quarter of the year to register a strong finish for the Group's financial year.

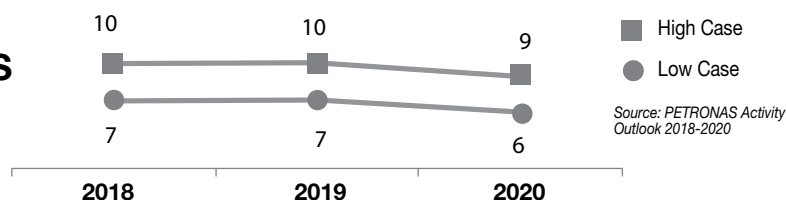
Source: International Energy Agency



# Management Discussion & Analysis

## PETRONAS OUTLOOK

Number of jack-up rigs



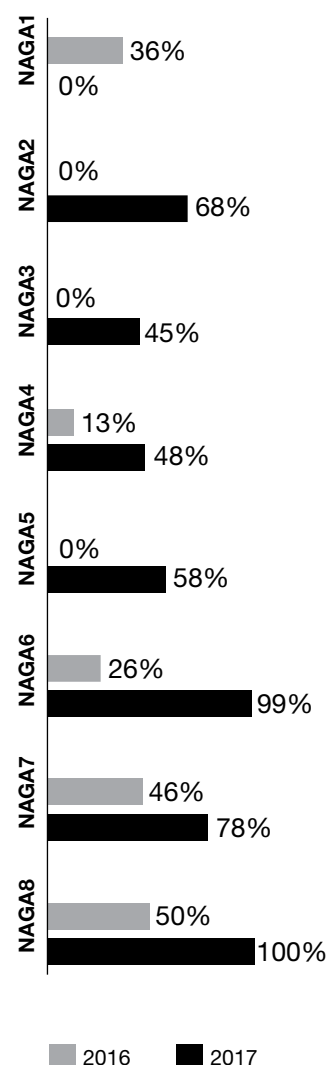
The high utilisation rate was achieved on the back of both short and long-term contracts that have and will continue to contribute positively to our financial performance and net tangible assets going forward.

### CONTRACTS SECURED

During the financial year, the Group secured a string of contracts for provision of jack-up drilling services that have boosted our order book.

Date	Client	Contract Details	Rig	Contract Value
4 January 2017	PETRONAS Carigali Sdn. Bhd. ("PCSB")	Provision of Drilling Rig Services for a duration of up to 18 months.	NAGA 7	USD34.0 million
10 March 2017	Vestigo Petroleum Sdn. Bhd.	Provision of Drilling Rig Services for Vestigo's Drilling Programme for one (1) firm well, which commenced at end of Q1 2017.	NAGA 2	USD2 million
14 March 2017	Petrofac Malaysia Limited	Provision of Drilling Rig Services for Petrofac's Drilling Programme for two (2) firm wells with the option of an additional one (1) well plus one (1) well commencing in second quarter of 2017.	NAGA 5	USD5.4 million
15 May 2017	PCSB	Provision of Drilling Rig Services for PCSB's Drilling Programme for five (5) firm wells with the option of drilling additional 1+1+1+1+1 well, which commenced in August 2017.	NAGA 3	USD22.5 million
15 May 2017	PCSB	Provision of Drilling Rig Services for PCSB's Drilling Programme to drill two (2) firm wells with the option of drilling additional 1+1+1 well, commencing in July 2017.	NAGA 4	USD12.3 million
22 August 2017	Repsol Oil & Gas Malaysia Limited	Provision of Drilling Rig Services for Repsol Oil & Gas Malaysia Limited	NAGA 5	USD26.3 million
4 December 2017	ConocoPhillips Sarawak Limited ("COPSK").	Provision of Drilling Rig Services to drill two (2) firm wells with the option of two (2) additional wells.	NAGA 4	USD6.8 million
22 December 2017	PCSB	Provision of Hydraulic Workover Unit ("HWU") for the use of all or any of UWO's five (5) HWUs to undertake workover services. The Contract is of an umbrella framework which provides an over-arching contractual relationship which may comprise a series of individual orders and call-outs.	UMW GAIT 1, UMW GAIT 2, UMW GAIT 3, UMW GAIT 5 and UMW GAIT 6	RM22 million based on call out basis.

### Rig Utilisation Rate 2016 vs 2017



The mix of short and long-term contracts will keep the Group busy well into 2018 while providing us with some measure of revenue visibility going forward.



## **OILFIELDS SERVICES SEGMENT**

Despite the recovery in crude oil prices, the Oilfield Services segment continued to lag due to lack of demand from oil and gas majors.

With oil and gas majors opting to use existing inventory rather than make new purchases, demand for oil pipes threading, inspection and repair services remained low. This, coupled with a large number of competitors, has resulted in continued downward pressures on the overall Oilfield Services segment. All players within segment continued to be impacted.

In response to market conditions, the Group has disposed of its Turkmenistan operations while ceasing operations in Thailand. Management is of the view that while Oilfield Services do present opportunities going forward, the strategic approach based on the present business environment is to contain our exposure until demand recovers in 2018 and beyond.

## **PEOPLE DEVELOPMENT**

During the year, on the back of higher rig utilisation achieved, the Group has seen its employee base increased to 645 personnel (2016: 574).

In 2017, the Group has continued to prioritise talent management as a key competitive driver. Throughout the year, management has been working to recruit, develop, reward and retain its staff towards ensuring it has the right mix of calibre and competencies to drive our business forward.

We continued to drive three aspects of people development: nurturing of a high performance culture, providing a competitive remuneration scheme and further developing our next echelon of leaders via a cohesive approach to succession planning.

Specific to culture, we have continued to cascade across the organisation the desired and expected mind-set and behaviour from employees. It is imperative that the resilience, diligence and innovative spirit developed in our employees during the downturn is not forgotten but instead becomes the bedrock of a new competitive vigour that provides the seed towards realising a high performance organisational culture.

We have continued to encourage a winning spirit and to ensure that employees are not lulled into complacency due to improving conditions within the oil and gas sector. With regards to professional development, we continued

to provide opportunities for professional development via training and learning programmes. This was with the objective of upgrading the skills of our people or as a form of reward or incentive for delivering high performance.

Our people development efforts were extended to industry stakeholders via our UMW -INSTEP Drilling Academy ("UIDA"). UIDA is a collaborative effort with Institut Teknologi Petroleum PETRONAS ("INSTEP") to develop primarily Malaysian drilling talents for the drilling industry.

Since 2015 and 2016, UIDA has been accredited by the International Association of Drilling Contractors ("IADC") and International Well Control Forum ("IWCF") respectively, allowing it to conduct trainings and certifications for those job positions requiring such certifications. UIDA continues to expand its market by having other drilling contractors and universities participate in both its accredited and non-accredited training programmes.

In 2017, UIDA had over 159 participants, which included oil and gas professionals from PETRONAS.

# Management Discussion & Analysis

## CORPORATE SOCIAL RESPONSIBILITY

The Group has continued to reflect its unwavering commitment to Corporate Social Responsibility ("CSR") via its sustainability oriented and industry related programmes.

Reaching out to schools and school children, the Group remains an ardent supporter of the PINTAR education programme. We believe that the children represent our future. Hence, it is essential that we continue to develop the next generation of human capital and future leaders of our nation.

We also remained active in the Malaysian government's Skim Latihan 1Malaysia ("SL1M"), via the UMW Post Graduate Enhancement course. In addition, we continued to engage sea-based communities in Malaysia via our Sahabat Maritim programme, a joint collaboration with PETRONAS and other oil companies in Malaysia.

The full details of our sustainability and CSR related efforts are given in the Sustainability Report of this annual report.

## BUSINESS RISKS

Having rationalised its business model and structure to operate more sustainably within the present operating environment and with the continued recovery of the oil and gas sector, Management is of the view that the Group's risk factors have decreased barring any unforeseen global or industry developments.

Going forward we foresee reduced risk of early termination of contracts or a sudden or significant reduction in new

contracts from oil and gas majors. However, we will constantly remain vigilant and proactive in adopting risk mitigation measures to address our business, operational and financial risks.

Risk	Mitigation Measures
Losses or leakages from operations due to inadequate, inefficient or ineffective internal processes, systems, policies, employee errors and events beyond our control, resulting in higher or unexpected additional costs	Streamline processes and systems across business segments to improve efficiencies: <ul style="list-style-type: none"> <li>Introduced centralised warehouse to reduce redundancies</li> <li>Initiated vendor renegotiation to reduce procurement costs</li> </ul>
With the days of Big Oil being over and the start of a new normal for the oil and gas industry, oil and gas majors now possess stronger bargaining power to dictate terms with reduced room for negotiation for drilling contractors	Maintain close relationship with our existing and potential clients to enhance our bargaining power  Continue our aggressive marketing in areas which we have a strong presence to secure more contracts
Some countries in SEA such as Indonesia and Brunei are introducing local content criteria in the tendering process for jack-up rigs in their respective countries in order to groom local talent and technology transfer which may impact our ability to participate in the business activities	Continuously engage with the relevant authorities to ensure we are up-to-date with the latest regulations  Actively look for reliable local partner in foreign target countries
A portion of the Group's operations are conducted in foreign currencies which are susceptible to market volatility affecting exchange and interest rates which may affect our financial performance	Closely monitor the FOREX market and vetting through economic data  Engage with our panel bankers on the outlook for FOREX
Our drilling operations are subject to the inherent risks and occupational hazards of the oil and gas industry and any adverse incident could result in the loss of life, significant financial loss and compromise the integrity of our assets and reputation.	Instil a strong safety culture and mind-set: <ul style="list-style-type: none"> <li>Ensure the strict adherence of our comprehensive safety policies and procedures by our employees and contractors</li> <li>Perform periodic audits and reviews to enhance our health and safety procedures and practices</li> <li>Conduct regular safety drills to ensure preparedness in case of accidents or incidents</li> </ul>

## OUTLOOK & PROSPECTS

The stability of crude oil prices will largely depend on the continued adherence to production quota by major OPEC and non-OPEC members. With parties committing to maintain the quota into end 2018, we foresee that the industry recovery will persist as oil and





gas majors draw continued confidence from the expected sustainability in crude oil prices.

Thus far, the benchmark Brent crude oil price has breached the USD70 per barrel mark in January 2018 and has remained above USD60 per barrel for more than six months. This is a clear indicator that prices will likely remain stable if not on a gradual uptrend going forward.

However, the oil and gas industry has yet to fully shrug off the effects of the 3-year downturn first experienced in late 2014. The days of Big Oil where crude oil prices breached the USD100 mark per barrel are unlikely to be seen for many years to come. This is due to the nature of the industry which has changed dramatically as well as external factors such as the growing focus on renewable energy alternatives, electric cars and so on.

Notably, the potential impact of shale oil may have a dampening effect on market sentiments. The large scale entry of shale oil producers was a major factor in the collapse of crude oil prices as conventional players looked to shut out the new entrants. With crude oil prices having recovered to the USD60-USD65 per barrel mark, it remains uncertain if shale oil will see further upside during 2018 and what responses would OPEC and non OPEC members adopt to defend their market share.

Oil and gas majors still express caution as reflected in their preference to opt for short term contracts and project awards. This may lead to gaps between contracts which could impact continuity in utilisation rates and operations for service providers.

Within our niche segment, while rig counts globally have increased, charter rates remain under pressure due to excess rig supply in the market. It is possible to see a further decline in rates as some players engage in price wars to secure contracts.

Going forward, UMW-OG will continue to leverage on its industry-leading operational capabilities and expertise to secure contracts. Given our long-standing, proven track record which is well regarded by the oil and gas majors and our benchmark level performance for HSE, we remain cautiously optimistic of our abilities to secure more jobs in 2018.

In fact, up to March 2018, we have secured another contract for provision of workover services for PCSB.

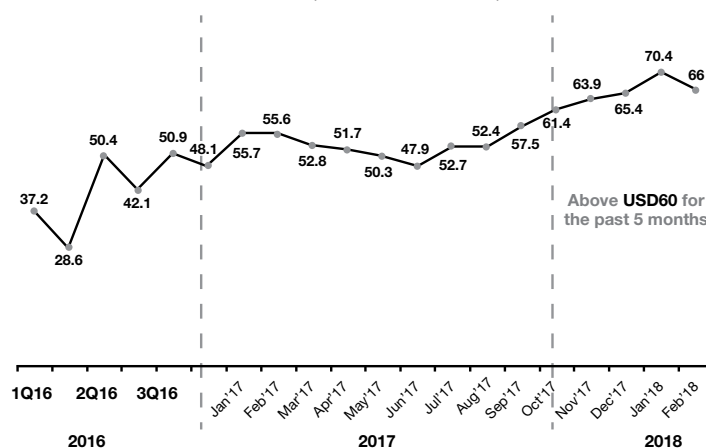
We also have the competitive advantage of newer rigs which would mean enhanced technical capabilities, less operational downtime, reduced maintenance costs and other business benefits which would translate into a competitive edge when bidding for contracts.

We will continue to be careful about retaining our hard-earned cost efficiencies and operational effectiveness. Despite rising crude oil prices and recovery in demand, we will continue to pursue our business rationalisation strategies to ensure the Group remains resilient and competitive going forward.

The intensive Group-wide strategic initiatives implemented such as vendor renegotiation, restructuring of remuneration, and centralising warehouse operations, will help maintain our

## BRENT PRICE MOVEMENT

Reduction in OPEC and non-OPEC production stabilises oil price above USD60/bbls



operations lean and our pricing competitive going forward. While Malaysia will be the leading market for our rigs, we will actively seek to return into the Association of Southeast Asian Nations ("ASEAN") countries. This is a region that we know well, having operated in Indonesia, Thailand, Vietnam and Philippines prior to the industry downturn.

We expect regional opportunities to re-emerge and are presently actively participating in bids across ASEAN. Similarly, we are also exploring possibilities of venturing into the Middle East. The Middle East has proven its resilience, remaining profitable even during the downturn. Hence, we will certainly seek to participate in drilling jobs within this region.

We will also explore other areas of businesses which will provide recurring and sustainable income, enabling the Group to remain relevant and resilient should there be another industry downturn.

## DIVIDEND

While the Group's financial performance has improved considerably, Management is of the view that UMW-OG's best interests and that of shareholders is best served by adopting a position of capital preservation and business development in the interim.

As such, in ensuring the Group is able to optimise its capital and financial capabilities, UMW-OG has not declared a dividend return to shareholders for the financial year. The Group remains committed to rewarding its loyal shareholders and will reconsider its position once UMW-OG has posted a full year of profitability and that the profit performance of the Group is sustainable going forward in subsequent financial years.



**Board of  
Directors**

**Leadership  
through  
experience**



Sitting, from left to right

Dato' Abdul Rahman bin Ahmad  
Rohaizad bin Darus

Standing, from left to right

Razalee bin Amin  
Rizal Rickman bin Ramli  
Cheah Tek Kuang  
Haida Shenny binti Hazri  
Mohd Rashid bin Mohd Yusof  
Rowina Ghazali Seth  
Dato' Ibrahim bin Marsidi  
Dato' Afifuddin bin Abdul Kadir

## Board of Directors' Profile



# Dato' Abdul Rahman bin Ahmad

### 49, Malaysian

**Gender:** Male

**Qualification(s):** Master of Arts in Economics – Cambridge University, United Kingdom

#### **Position on the Board of**

**Directors:** Chairman /

Non-Independent

Non-Executive Director

**Date first appointed to the**

**Board of Directors:** 19 January 2017

**Length of Service (as at 31**

**March 2018):** 1 year and

2 months

#### **Membership(s) of**

**Association(s):** Member of the Institute of Chartered Accountants in England and Wales

**Number of Board of Directors meetings attended in the**

**financial year:** 14/14

#### **Membership(s) of Board**

**Committees:**

Chairman of Board Executive Committee

### **Working Experience:**

Dato' Abdul Rahman bin Ahmad began his career at Arthur Andersen, London and later served as Special Assistant to the Executive Chairman of Trenergy (M) Berhad/Turnaround Managers Inc (M) Sdn. Bhd. He subsequently joined Pengurusan Danaharta Nasional Berhad, the country's national asset management company as Unit Head and later went on to become Executive Director of SSR Associates Sdn. Bhd.

Dato' Abdul Rahman was the Group Managing Director/Chief Executive Officer of Malaysian Resources Corporation Berhad and subsequently served the same position for Media Prima Berhad. He was the Chief Executive Officer of Ekuiti Nasional Berhad before assuming his current post in Permodalan Nasional Berhad as President & Group Chief Executive.

### **Directorship(s) in Public Companies:**

*Listed Entity:*

None

*Other Public Companies:*

- Permodalan Nasional Berhad
- Amanah Saham Nasional Berhad
- Amanah Mutual Berhad
- Pelaburan Hartanah Nasional Berhad

### **Declaration:**

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

# Rohaizad bin Darus



## 53, Malaysian

**Gender:** Male

**Qualification(s):**

Bachelor of Science in Mechanical Engineering – California State University, Long Beach, United States

**Position on the Board of Directors:**

President / Non-Independent Executive Director

**Date first appointed to the Board of Directors:**

31 January 2012

**Length of Service (as at 31 March 2018):**

6 years 2 months

**Membership(s) of Association(s):**

- Board of Engineers, Malaysia
- Institute of Engineers, Malaysia

**Number of Board of Directors meetings attended in the financial year:** 15/15

**Membership(s) of Board Committees:**

Board Executive Committee

## Working Experience:

Rohaizad began his career with PETRONAS Gas Sdn. Bhd. in 1988. He later joined Texas Instruments (M) Sdn. Bhd. as Mechanisation Engineer and held that position until 1990.

In 1990, he joined Esso Production Malaysia, Inc. and rose to the position of Senior Engineer, a position he held until 1995. From 1995 to 1998, he joined Huptec Engineering Sdn. Bhd. and was appointed its Managing Director.

From 1998 to 2003, he worked for Sarku Engineering Services Sdn. Bhd., which later became a subsidiary of SapuraCrest Petroleum Berhad ("SapuraCrest"), a predecessor of Sapura Energy Berhad (formerly known as SapuraKencana Petroleum Berhad) as Executive Director and rose to become its Chief Executive Officer. In SapuraCrest, he held various positions including that of

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

In 2007, Rohaizad was appointed Director of the Offshore Construction Project Division of SapuraCrest. This division performs offshore construction activities including transportation, installation and commissioning of platform, jacket, pipelines and cables as well as topside maintenance and other offshore and onshore modification works.

In 2008, he was appointed Chief Operating Officer of SapuraCrest, a position he held until 2010. He was subsequently appointed Chief Executive Officer, where he was

responsible for the management of the overall operations, financial and support functions of the SapuraCrest Group. During his tenure, he was appointed to the Board of Directors of Tioman Drilling Company Sdn. Bhd., a company involved in all offshore drilling operations under SapuraCrest group. His final appointment before he left SapuraCrest in December 2011 was as Chief Executive Officer of the Oil and Gas Construction Services Division.

## Directorship(s) in Public Companies:

*Listed Entity:*

None

*Other Public Companies:*

None

## Declaration:

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

## Board of Directors' Profile



# Razalee bin Amin

**65, Malaysian**

**Gender:** Male

**Qualification(s):**

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

**Position on the Board of**

**Directors:** Independent Non-Executive Director

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

**Length of Service (as at 31 March 2018):** 4 years 10 months

**Membership(s) of Association(s):**

- Malaysian Institute of Accountants
- Malaysian Institute of Certified Public Accountants
- Financial Planning Association of Malaysia

**Number of Board of Directors meetings attended in the financial year:** 15/15

**Membership(s) of Board Committees:**

- Chairman of Board Audit Committee
- Member of Board Executive Committee
- Member of Board Whistle-Blowing Committee

**Working Experience:**

Upon his graduation, Razalee began his career with Messrs. Hanafiah Raslan & Mohamad, a firm of Chartered Accountants. In 1983, he joined Sateras Resources (Malaysia) Berhad as the Group Financial Controller before moving on in 1987 to assume the position of Senior Vice President in the Investment and Acquisitions Division of

MBf Finance Berhad. In 1994, Razalee joined Damansara Realty Berhad as its Senior General Manager before starting his own chartered accountant firm, Messrs. Razalee & Co. two years later where he is the Managing Partner.

**Directorship(s) in Public Companies:**

*Listed Entity:*

CCM Duopharma Biotech Berhad

*Other Public Companies:*

None

**Declaration:**

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

# Dato' Afifuddin bin Abdul Kadir



**65, Malaysian**

**Gender:** Male

**Qualification(s):**

- Bachelor of Science in Agriculture Business – Universiti Pertanian Malaysia (now known as Universiti Putra Malaysia), Malaysia
- Diploma in Agriculture – Universiti Pertanian Malaysia (now known as Universiti Putra Malaysia), Malaysia

**Position on the Board of**

**Directors:** Senior Independent Non-Executive Director

**Date first appointed to the**

**Board of Directors:** 2 May 2013

**Length of Service (as at 31**

**March 2018):** 4 years 10 months

**Membership(s) of**

**Association(s):** None

**Number of Board of Directors**

**meetings attended in the**

**financial year:** 14/15

**Membership(s) of Board Committees:**

- Chairman of Board Nomination & Remuneration Committee
- Member of Board Risk Management Committee
- Member of Board Audit Committee
- Member of Board Whistle-Blowing Committee

**Working Experience:**

Dato' Afifuddin began his career in 1975 with the Malaysian Agricultural Research and Development Institute ("MARDI") as a Research Assistant in Agricultural Engineering.

He joined the Malaysian Industrial Development Authority ("MIDA") in 1979 as a Technical Professional Officer in the Industrial Studies Division.

From 1982 to 2008, he held various senior positions in the domestic and international offices of MIDA, including the Director of MIDA in Sabah, the Vice-Consul Investment/Deputy Director of MIDA's branch in London, the Director/Economic Counsellor of MIDA's branch in Paris and the Director/Consul Investment of MIDA's branch in London.

In April 2008, he was promoted to Deputy Director General II of MIDA. Three months later, he was promoted to Deputy Director General I/Deputy Chief Executive Officer I of MIDA, a position which he held until his retirement in September 2011.

**Directorship(s) in Public Companies:**

*Listed Entity:*

- Pelikan International Corporation Berhad
- Power Root Berhad
- Lion Corporation Berhad

*Other Public Companies:*

None

**Declaration:**

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.



## Board of Directors' Profile



# Cheah Tek Kuang

71, Malaysian

**Gender:** Male

**Qualification(s):** Bachelor of Economics – University of Malaya, Malaysia

**Position on the Board of Directors:** Independent Non-Executive Director

**Date first appointed to the Board of Directors:** 2 May 2013  
**Length of Service (as at 31 March 2018):** 4 years 10 months

**Membership(s) of Association(s):** None  
**Number of Board of Directors meetings attended in the financial year:** 13/15  
**Membership(s) of Board Committees:**

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

### Working Experience:

Cheah Tek Kuang began his career with Malaysian Industrial Development Authority (“MIDA”) as Deputy Director in the Planning and Research Unit. He served MIDA from 1970 until 1978 before joining AmInvestment Bank Berhad in October 1978. Serving in various senior positions in the bank, he was promoted as Chief Executive Officer/Group Managing Director in 1994, a position he held until December 2004.

In 2005, he joined AMMB Holdings Berhad as the Group Managing Director and retired in March 2012. He had been an Independent Non-Executive Director of Bursa Malaysia Securities Berhad for a period of nine years beginning from the demutualisation of the

Kuala Lumpur Stock Exchange (currently known as Bursa Malaysia Securities Berhad) up to early 2013.

### Directorship(s) in Public Companies:

#### Listed Entity:

- IOI Corporation Berhad
- Berjaya Sports Toto Berhad
- Eco World International Berhad

**Other Public Companies:**  
Governor of Yayasan Bursa Malaysia

#### Declaration:

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

# Dato' Ibrahim bin Marsidi



**66, Malaysian**

**Gender:** Male

**Qualification(s):**

Bachelor of Economics (Analytical) – University of Malaya, Malaysia

**Position on the Board of Directors:** Independent Non-Executive Director

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

**Length of Service (as at 31 March 2018):** 4 years 10 months

**Membership(s) of Association(s):** None

**Number of Board of Directors meetings attended in the financial year:** 14/15

**Membership(s) of Board Committees:**

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

**Working Experience:**

Dato' Ibrahim started his career with Malayan Banking Berhad in 1979 as a Sub Accountant. Later the same year, he joined PETRONAS and was actively involved in the development PETRONAS's domestic marketing activities. In the course of his career with PETRONAS, Dato' Ibrahim held a number of senior managerial positions such as the position of Senior Manager of Eastern and Northern Region, General Manager of Liquefied Petroleum Gas and Retail Business in PETRONAS Dagangan Berhad ("PDB") and as the General Manager of Crude Oil Group, PETRONAS.

With his extensive experience, Dato' Ibrahim was appointed as the Managing Director and Chief Executive Officer of PDB, a company listed on Bursa Malaysia Securities Berhad, the formation of which he had

played a deep role in. During his tenure leading PDB, he spearheaded its transformation by developing the company's brand and business strategy as well as the development of administrative and electronic payment systems. Dato' Ibrahim retired from this position in December 2007.

**Directorship(s) in Public Companies:**

*Listed Entity:*

None

*Other Public Companies:*

None

**Declaration:**

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

## Board of Directors' Profile



# Rowina Ghazali Seth

**57, Malaysian**

**Gender:** Female

**Qualification(s):** Bachelor of Science in Computer Science – Northern Illinois University, United States

**Position on the Board of Directors:** Independent Non-Executive Director

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

**Length of Service (as at 31 March 2018):** 10 months

**Membership(s) of Association(s):** None

**Number of Board of Directors meetings attended in the financial year:** 6/6

**Membership(s) of Board Committees:**

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

**Working Experience:**

Rowina began her career in SHELL in the Information Technology Division in 1985 and she has more than 30 years experience in the oil and gas industry gained in all aspects of strategic government relations, external and reputation management.

She has held various local and global positions in SHELL's upstream, downstream and business operations and had served as the General Manager Corporate Affairs and Director of SHELL Business Services Sdn. Bhd. Her last position was as Director, Government Affairs at SHELL Malaysia, building the function from inception and pioneering the lead role.

**Directorship(s) in Public Companies:**

*Listed Entity:*

Hong Leong Islamic Bank Berhad

*Other Public Companies:* None

**Declaration:**

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

# Haida Shenny binti Hazri



## 44, Malaysian

**Gender:** Female

**Qualification(s):**

- Bachelor of Law (LLB) and BComm (Accounting & Finance) – University of Melbourne, Australia
- Masters Degree in Law (LLM) – University of Malaya, Malaysia

**Position on the Board of Directors:** Non-Independent Non-Executive Director

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

**Length of Service (as at 31 March 2018):** 10 months

**Membership(s) of Association(s):** None

**Number of Board of Directors meetings attended in the financial year:** 5/6

**Membership(s) of Board Committees:**

- Member of Board Risk Management Committee
- Member of Board Executive Committee

**Working Experience:**

Haida Shenny has more than 18 years' experience in the oil and gas industry.

Haida commenced her career with PETRONAS and she undertook legal and commercial roles in PETRONAS E&P, LNG and Technology Businesses. Her last post in PETRONAS was Chief Executive Officer, PETRONAS Technology Ventures Sdn. Bhd. She also served on various Boards of PETRONAS companies such as PETRONAS Technical Solutions Sdn. Bhd., PETROSAINS Sdn. Bhd., Lanzatech NZ Ltd. and Lanzatech USA Ltd.

Whilst in PETRONAS, she was part of various corporate strategic studies and was part of the PETRONAS team that was involved in the Malaysian government Economic Transformation Plan ("ETP") initiative under the Prime Minister's department.

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

Haida also held the position of Chief Executive Officer, Matrix Reservoir Sdn. Bhd., owner and operator of Tok Bali Supply Base, that built and operationalised the third supply base in Malaysia. She is currently the Chief Executive Officer of Bintulu Supply Base Sdn. Bhd.

**Directorship(s) in Public Companies:**

*Listed Entity:*

None

*Other Public Companies:*

None

**Declaration:**

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

## Board of Directors' Profile



# Mohd Rashid bin Mohd Yusof

**62, Malaysian**

**Gender:** Male

**Qualification(s):**

- Association of Chartered Certified Accountants ("ACCA") – Wharton Business School, United States
- Advanced Management Program – Wharton Business School, United States

**Position on the Board of**

**Directors:** Independent Non-Executive Director

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

**Length of Service (as at 31 March 2018):** 10 months

**Membership(s) of Association(s):**

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

**Number of Board of Directors meetings attended in the financial year:** 6/6

**Membership(s) of Board Committees:**

- Member of Board Risk Management Committee
- Member of Board Executive Committee

**Working Experience:**

Mohd Rashid commenced his career with PETRONAS in 1980 and has held various financial positions in PETRONAS such as Head of Group Accounting, Head of Group Treasury and Head of Group Internal Audit. He was also appointed as Financial Director of Engen Limited ("Engen"), before assuming general management positions as Chief Executive Officer of Malaysian International Trading Corp ("MITCO") and later as Managing Director/Chief Executive Officer of Engen in South Africa.

As the Managing Director/Chief Executive Officer of Engen in South Africa, he was the Chairman of the South African Petroleum Industry Association ("SAPIA") for the year 2007. He returned to PETRONAS from Engen as Vice President of PETRONAS Supply Chain & Risk Management.

During the course of his career he has also served as a Director of several companies in the group, including Putrajaya Holdings, Enpet Insurance Ltd. (Isle of Man) and a Trustee of the PETRONAS Retirement Benefit Fund. More recently prior to his retirement from PETRONAS on 31 July 2016, Mohd Rashid had served as a Director and Chairman of PETRONAS-ICT and a Director of KLCC (Holdings) Sdn. Bhd. and Energas Insurance (Labuan) Ltd.

**Directorship(s) in Public Companies:**

*Listed Entity:*

Scicom (MSC) Berhad

*Other Public Companies:*  
Standard Chartered Bank Malaysia Berhad

**Declaration:**

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

# Rizal Rickman bin Ramli



**40, Malaysian**

**Gender:** Male

**Qualification(s):**

- Master of Business Administration, J.L. Kellogg School of Management – Northwestern University, United States
- Bachelor of Arts in Economics – University of Chicago, United States

**Position on the Board of Directors:** Non-Independent Non-Executive Director

**Date first appointed to the Board of Directors:** 21 March 2018

**Length of Service (as at 31 March 2018):** NA

**Membership(s) of Association(s):**

- Chair of the Regulatory & Government Affairs Committee of the Malaysian Gas Association
- Mentor with Endeavor Malaysia

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

**Membership(s) of Board Committees:**

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

**Working Experience:**

Presently Rick Ramli is the Executive Vice President for Property/Real Estate Division of Permodalan Nasional Berhad (“PNB”).

Prior to joining PNB, he was Country Managing Partner for the Boston Consulting Group (“BCG”) in Malaysia. During his time at BCG, he has worked on client assignments in more than 10 countries around the world and was also based out of BCG’s London office.

He has extensive experience working on projects in the oil and gas sector having supported energy clients on various assignments including on topics such as new business build, growth strategy and industry transformation.

**Directorship(s) in Public Companies:**

*Listed Entity:*

Sime Darby Property Berhad

*Other Public Companies:*

- Pelaburan Hartanah Nasional Berhad
- MIDF Property Berhad
- Lanjut Golf Berhad

**Declaration:**

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.





## Rohaizad bin Darus

For details of the President's profile, please refer to page 33 (Profile of Board of Directors) of this Annual Report.

**53, Male, Malaysian**

President / Non-Independent  
Executive Director

## Rafiza binti Ghazali

**Qualifications:**

Bachelor of Science (Economics) in Accounting & Finance - The London School of Economics & Political Science, United Kingdom

**Past Employment:**

- Arthur Andersen
- Pengurusan Danaharta Nasional Berhad
- Nikkei Pacific Corporate Advisors
- RHB Investment Bank Berhad
- Bank Negara Malaysia
- Cagamas Berhad
- Sime Darby Berhad

**Declaration:**

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

**Membership Of Associations:**

- Institute of Chartered Accountants of Australia
- Financial Services Institute of Australasia
- Malaysian Institute of Accountants

**Date Appointed To The Current  
Position:**

8 January 2018



**46, Female, Malaysian**

Chief Financial Officer /  
Company Secretary

# Abdul Hadi bin Abdul Bari

## Qualifications:

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

## Past Employment:

- Innosabah Securities Sdn. Bhd.
- Permodalan Nasional Berhad
- TL Geosciences Sdn. Bhd.  
(Sapuracrest Petroleum Berhad)
- MISC Berhad
- Asian Geos Sdn. Bhd.

## Membership Of Associations:

None

## Date Appointed To The Current Position:

1 September 2017

## Declaration:

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.



42, Male, Malaysian

Head, Commercial

# Izwan Radzi Megat bin Mohd Radzi

## Qualifications:

Bachelor of Science in Mechanical  
Engineering - University of Tulsa,  
United States

## Date Appointed To The Current Position:

1 September 2017

## Past Employment:

- Schlumberger Limited
- Transocean Drilling Sdn. Bhd.

## Membership Of Associations:

- International Association of Drilling  
Contractors ("IADC")
- Society of Petroleum Engineers  
("SPE")

## Declaration:

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.



41, Male, Malaysian

Head, Operations



**51, Female, Malaysian**

Head, Corporate  
Transformation Office

## Chew Eng Hong

**Qualifications:**

Bachelor of Economics - University of  
Adelaide, Australia

**Date Appointed To The Current  
Position:**

12 February 2018

**Past Employment:**

- Coopers & Lybrand
- UMW Industrial Power Sdn. Bhd.
- UMW Corporation Sdn. Bhd.

**Membership Of Associations:**

- Malaysian Institute of Accountants
- Australian Society of Certified  
Practising Accountants

**Declaration:**

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.



**53, Male, Malaysian**

Head, Human Resources

## Syed Rozhan bin Syed Hassan

**Qualifications**

Bachelor in Business Administration  
(Finance) - Eastern Washington  
University, United States

- Johnson Controls Automotive  
Holdings (M) Sdn. Bhd.
- Freescale Semiconductor Malaysia  
Sdn. Bhd.

**Past Employment:**

- SONY Electronics (M) Sdn. Bhd.
- SDKM Fibres, Wires & Cables  
Sdn. Bhd.
- PETRONAS Penapisan (Terengganu)  
Sdn. Bhd.
- Peremba (Malaysia) Sdn. Bhd.
- Wacker NCSE Corp. Sdn. Bhd.
- Showa Denko HD Malaysia Sdn. Bhd.

**Membership Of Associations**

Society for Human Resource  
Management

**Date Appointed To The Current  
Position**

1 June 2010

**Declaration:**

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

# Aminudin bin Hambali

## Qualifications:

- Master of Science, Occupational Safety and Health Management - Universiti Utara Malaysia, Malaysia
- Bachelor of Science, Manufacturing System Technology - University of Houston, United States

## Past Employment:

- Industri Plastik Yuta Sdn. Bhd.
- Lion Fasteners Sdn. Bhd.
- Connectics Malaysia Sdn. Bhd.
- Scomi Engineering Bhd.
- Offshore Subsea Works Sdn. Bhd.
- Technip Geoproduction (M) Sdn. Bhd.

## Declaration:

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

## Membership Of Associations:

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

## Date Appointed To The Current Position:

27 June 2013



52, Male, Malaysian

Head, Health, Safety & Environment (HSE)

# Maryam Salwaana Kamal binti Mohd Kamal

## Qualifications:

Bachelor of Human Sciences (Honours) in Communications - International Islamic University, Malaysia

## Past Employment:

- Media Prima Berhad
- AD.Diction Advertising Sdn. Bhd.

## Declaration:

- No family relationship with any Director and/or major shareholder of the Company.
- No conflict of interest with the Company and has never been convicted for any offence for the past five years.

## Membership Of Associations

None

## Date Appointed To The Current Position

1 October 2017



39, Female, Malaysian

Head, Corporate Communications

## Calendar of Significant Events

# 2017



1 Mar

JAN - MAR

### 15 January 2017

UMW-OG contributes life jackets to flood prone kampungs in Terengganu

### 25 & 26 February 2017 – First Session

### 7 & 8 July – Second Session

SMK Jeram English Teachers Enrichment Programme (Train the Teachers)

### 1 March 2017

*Jom Bekpes* – distributing breakfast packs to the homeless in collaboration with Institut Onn Jaafar

APR - MAY

### April 2017

Commencement of UMW-OG English Language Tuition Programme for Form Four Students of SMK Jeram, Kuala Selangor

### 15 May 2017

UMW-OG 7th AGM and Press Conference



15 May

JUN

### 9 June 2017

UMW-OG Iftar with clients

### 14 June 2017

Malaysia Petroleum Management and Petrofac visit to UMW NAGA 5



1 Aug

AUG

**1 August 2017**

Familiarisation visit by Permodalan Nasional Berhad ("PNB") to UMW NAGA 5

**16 August 2017**

UMW-OG participates in PETRONAS Carigali led Wells HSE Day

**16 August 2017**

Familiarisation visit by UMW-OG Board of Directors to UMW NAGA 5

**24 August 2017**

Hosted the Well Design Standardisation Technical Committee ("WeDSTeC") during their introductory and fact finding visit to UMW Drilling Academy ("UDA")

**25 August 2017**

UMW-OG Extraordinary General Meeting ("EGM")



16 Aug



25 Aug

SEP - OCT

**13 September 2017**

Terrarium Workshop and Educational Visit to Taman Botani Putrajaya

**5 October 2017**

UMW-OG Road Safety Awareness Programme with KL-based PNB schools



5 Oct



3 Nov

NOV

**3 November 2017**

Herriot Watt University Malaysia delegates visit UMW Drilling Academy ("UDA")

**9 November 2017**

Visit by TYT. Tun Datuk Seri Panglima (Dr.) Haji Juhar Datuk Haji Mahiruddin, H.E Governor of Sabah to UMW NAGA 5 at Blok SB-1 Kinabalu



9 Nov



14 Dec

DEC

**4 December 2017**

UMW-OG participates in PETRONAS' Monsoon ZIZA awareness initiative

**14 December 2017**

Tree Planting activity in collaboration with Universiti Putra Malaysia ("UPM")

**19 December 2017**

Fish Release activity in collaboration with UPM



**Driving  
long-term  
value growth**



# Sustainability Throughout Operations & Value Chain

SUSTAINABILITY REPORT



**56**  
ECONOMIC



**58**  
ENVIRONMENTAL



**60**  
SOCIAL



# MESSAGE FROM PRESIDENT

We are pleased to share with you the UMW Oil & Gas Corporation Berhad (“UMW-OG” or “the Group”) 2017 Sustainability Report (“SR 2017”), following our inaugural report last year.



This report serves as an update of our sustainability journey based on the key pillars launched in 2016. These are Innovative & High-Performance Culture, Environmental Stewardship and Nurturing the Community. In 2017, we have endeavoured and have made progress with regards to all three pillars.

In particular, we have placed special emphasis on the first pillar – cultivating an Innovative & High-Performance Culture, which is most crucial given the present scenario within the oil and gas industry.

Beyond systems, policies and processes, Management is of the view that the determining factor behind our success and business sustainability is the collective talents, attitudes and mind-set of our people. Given the most challenging environment we have faced and continue to face, there is a real need to develop a strong spirit of resilience, resolve and innovation to overcome the challenges faced and to maintain our leadership position as the preferred drilling rig services provider in Malaysia and the region.

Hence, we have continued to drive cultural change within the organisation towards harnessing the fullest capability of our people towards developing a winning organisational culture that will serve as the bedrock for continued competitive advantage.

We have also focussed on enhancing our sustainability governance model and structure, reducing our risk exposure, improving financial stability by restructuring our loan book and capital structure and continuing to seek improved cost and operational efficiencies. These will assist in ensuring sustainable economic return for the company and its stakeholders.

At the same time, we continued to strengthen our existing excellent health, safety and environmental (“HSE”) track record, which was reflected in the improved performance on various HSE parameters in 2017. Our excellence in HSE has evolved as a key competitive advantage and business enabler for the Group. Part of the HSE efforts is focused on environmental sustainability which involves not only protection

of the environment in our operation, but also enhancement of the environment as part of our Corporate Social Responsibility (“CSR”) which include tree planting and fish release.

Through our various community engagement activities as well as the indirect economic value derived from our operations by various stakeholders, we have continued in 2017 to contribute towards social sustainability of the community surrounding our operational areas. These were achieved through our participation, either individually or jointly with other oil companies and governmental agencies.

As we look back on the financial year, we have certainly made considerable progress in our sustainability journey. We have also identified performance gaps and will increase our efforts to address these areas going forward.

Our Sustainability Report should be read together with our Management Discussion and Analysis section to obtain a more comprehensive view of our journey in 2017 and our value creation process across our defined Economic, Environmental and Social (“EES”) pillars.

We welcome your feedback as part of our on-going efforts to make our sustainability journey more inclusive with the diverse and relevant views of external stakeholders reflected in management’s approach.

**Rohaizad Darus**  
President

**UMW Oil & Gas Corporation Berhad**

# ABOUT THIS REPORT

**The UMW-OG Sustainability Report provides detailed disclosure of the Group's management approach to sustainability as well as its governance, strategy, actions implemented, the results and outcomes achieved as well as areas for further improvement. The report is produced in line with UMW-OG's aspirations to provide transparent, honest disclosure as a leading, sustainable company within Malaysia's oil and gas industry.**



## Report Scope & Boundary

Unless stated, the scope of reporting for our SR 2017 is limited to our drilling services and oilfield services operations located in Malaysia, with some exceptions depending on accessibility of reliable data.

The scope is further streamlined to focus on the most pertinent projects, initiatives and activities of the Group rather than every aspect of operations. Our disclosure for 2017 does not include the Group's value chain consisting of third party contractors, suppliers and vendors.

This report has been prepared in accordance to the Global Reporting Initiative ("GRI") Standards 2016: Core option and with Bursa Malaysia's Main Market Listing Requirements relating to Sustainability Statements in Annual Reports.

The data in the SR 2017 is for the period of 1 January 2017 to 31 December 2017, and will be published annually.



## Data Collection

Sustainability information presented is based on internal data and widely accepted calculation methodologies such as the Greenhouse Gas ("GHG") Protocol. Where possible, data for three (3) years for selected disclosures / performance indicators, which have been tracked and monitored as a standard practice, has been included.

The data presented in this report is collated through a series of surveys and internally conducted assessments. The data reporting is based on a best-effort basis and we strive for further improvements in future reports.



## Assurance

We have not undertaken third party assurance for the data presented in this report with the exception of financial data which is audited by an independent third-party. We may consider working towards a form of third party assurance in the future.



## Distribution & Feedback

Please send any comments, insights and queries regarding UMW-OG's sustainability reporting to:

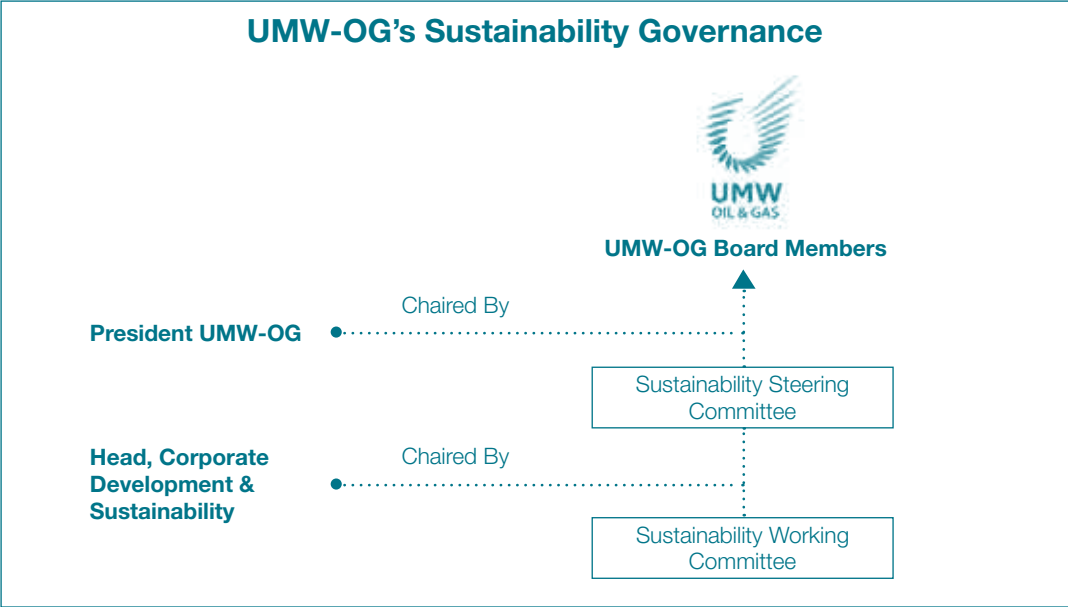
### Investor Relations & Sustainability Reporting UMW Oil & Gas Corporation Berhad

Level 18, Block 3A, Plaza Sentral  
Jalan Stesen Sentral 5  
50470 Kuala Lumpur, Malaysia  
+603-20968788

# SUSTAINABILITY GOVERNANCE

In UMW-OG, a multi-tier sustainability governance structure drives our sustainability journey. Our governance structure or framework begins at the top and permeates across the Group's organisational hierarchy.

As the most senior decision making body of the Group, UMW-OG's Board of Directors set the tone of sustainability at the top, which is then executed within UMW-OG with the support of guiding policies, procedures and systems. It is essential for Board of Directors to be engaged in the sustainability agenda. They set and define the long-term view and targets, anticipating and addressing risks from the perspective of environmental, economic and social impact.



Below the Board is the Sustainability Steering Committee ("SSC"), chaired by the President and the Sustainability Working Committee ("SWC"), which is helmed by the Head of Corporate Development & Sustainability. Both have distinct but related duties and responsibilities in driving the sustainability agenda across UMW-OG.

## Sustainability Steering Committee ("SSC")

- The Committee members consist of UMW-OG President, Chief Financial Officer, Head of Drilling Services, Head of Oilfield Services, Head of Drilling Academy and Head of Corporate Development & Sustainability.
- Ensures the sustainability strategy is aligned with the Company's vision and mission.
- Prioritises strategies based on available budget.
- Ensures executed sustainability projects are aligned with approved sustainability strategies.
- Reviews and recommends sustainability statement to the Board.
- Reviews and recommends sustainability strategies, policies and other matters relating to it such as management systems, performance monitoring, policies, commitments and regulations.

## Sustainability Working Group ("SWG")

- The Working Group members consist of representatives from corporate and operations that are responsible for sustainability strategies and projects.
- Tracks the data to ensure that all outlined activities achieved defined targets.

On 5 April 2018, the SR 2017 was presented for Board approval and approved on the same day.

# STAKEHOLDER ENGAGEMENT

At UMW-OG, we are committed to ongoing stakeholder engagement as a fundamental component of our business and sustainability strategies as well as our annual reporting process. Stakeholders are defined as those who are impacted by the Group's business presence and activities, or have the potential to impact or influence the Group's operational and / or financial performance as well as overall brand perception.

In 2017, our key stakeholders remain unchanged and we have continued to engage them via multiple communication channels over varying frequencies. Following is a detailed view of our stakeholder engagement activities as well outcomes reached.

STAKEHOLDER GROUPS	METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES / OUTCOMES
Bankers	<ul style="list-style-type: none"> <li>Annual Report</li> <li>Periodic update meetings</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Treasury &amp; Cash Management Services</li> <li>Investment Management</li> <li>Financial risk management (interest and foreign exchange)</li> <li>Regulatory compliance and compliance of debt covenants</li> </ul>	<ul style="list-style-type: none"> <li>Frequent assessment that enable us to prioritise actions on more essential / relevant risks / matters and define an action plan for implementation as well as improvement</li> </ul>
Board of Directors	<ul style="list-style-type: none"> <li>Annual Report</li> <li>Annual General Meeting ("AGM")</li> <li>Board meetings</li> <li>Board Committee Meetings</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory matters</li> <li>Company's operational and financial performance by month and year-to-date</li> <li>Key performance indicators actual against target</li> <li>Market challenges and opportunities</li> <li>Monthly HSE performance</li> </ul>	<ul style="list-style-type: none"> <li>Approved AGM agenda</li> <li>Business decision making</li> <li>Improved KPIs</li> </ul>
Customers	<ul style="list-style-type: none"> <li>Customer feedback exercises</li> <li>Customers visits</li> <li>Formal and informal meetings</li> <li>Email queries</li> <li>Trade shows and exhibitions</li> </ul>	<ul style="list-style-type: none"> <li>Operational and safety issues</li> <li>Rig / office visits by existing and potential clients</li> <li>Quarterly management engagement and frequent operational meeting to discuss on technical, operational and commercial matters</li> <li>Continuous effort in promoting company</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>Malaysia Petroleum Resources Corporation ("MPRC"), Malaysia External Trade Development Corporation ("MATRADE"), Abu Dhabi International Petroleum Exhibition and Conference ("ADIPEC"), Malaysian Oil &amp; Gas Services Council ("MOGSC") and etc</li> </ul>	<ul style="list-style-type: none"> <li>Managing issues with UMW-OG Operations &amp; HSE team</li> <li>Visits jointly organised by Business Development and Operations team</li> <li>Frequent engagements with clients and authority on the respective matters</li> <li>Frequent marketing meetings held between UMW-OG and new / existing local / overseas clients</li> <li>Frequent communications via emails to ensure all clarifications responded and actions were undertaken</li> <li>Frequent marketing emails to promote company to existing / potential clients to introduce our company's capability and rig schedules</li> <li>Participated in various tradeshow and exhibitions when necessary, both local and overseas, for marketing and branding purposes</li> </ul>

# Sustainability Report

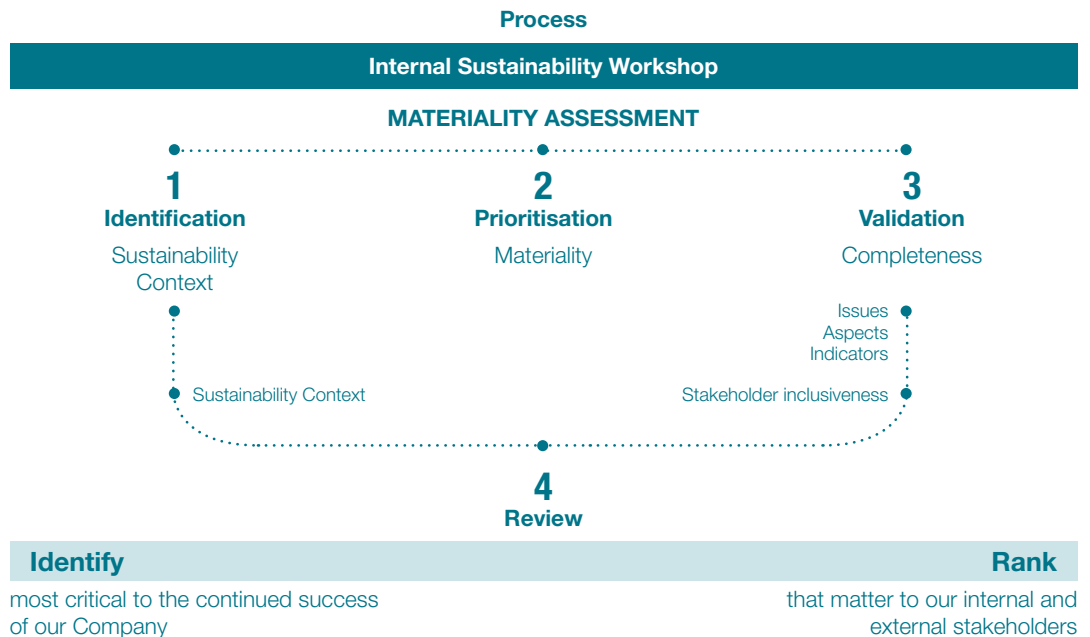
STAKEHOLDER GROUPS	METHODS OF ENGAGEMENT	MATTERS DISCUSSED	GROUP RESPONSES / OUTCOMES
Communities	<ul style="list-style-type: none"> <li>Corporate Social Responsibility (“CSR”) events</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of UMW-OG's three main CSR pillars (safety, education, environment) at selected partner schools / communities</li> </ul>	<ul style="list-style-type: none"> <li>Improvement / betterment of the participating schools' understanding on safety</li> <li>Improved education experience and results</li> <li>Improved / better understanding of the environment</li> </ul>
PETRONAS	<ul style="list-style-type: none"> <li>Management meetings</li> <li>Customer feedback exercises</li> <li>Frequent rig / office visits</li> <li>Formal and informal meetings</li> <li>E-mail queries</li> </ul>	<ul style="list-style-type: none"> <li>Latest government policies for oil and gas industry</li> <li>New regulations and procedures</li> <li>Discussions and clarifications on technical, operational and commercial matters</li> <li>Operational and safety issues</li> <li>Rig operating schedules</li> </ul>	<ul style="list-style-type: none"> <li>Ensure compliance with latest policy and regulations</li> <li>Ensure all clarifications responded and appropriate actions had been undertaken</li> <li>Managing issues with various teams</li> </ul>
Employees	<ul style="list-style-type: none"> <li>Town hall sessions</li> <li>Festive celebrations get together</li> <li>Internal communications mailers</li> <li>Employee excursions / events</li> <li>Management HSE walkabouts</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly updates by the President on the position and status of the Company to UMW-OG staff in town hall sessions</li> <li>Providing updates on the latest happenings at the Company; events, etc. Some mailers also discuss topics related to work / life balance</li> <li>Correct attitude and behaviour</li> <li>Honesty in performing work</li> <li>Transparency in all activities</li> <li>Strict adherence for corporate governance</li> </ul>	<ul style="list-style-type: none"> <li>Updated awareness on the Company</li> <li>Internal communication help ensure that all members of the organisation are kept up to date on the on-goings at the Company and also serve as a needed break from work</li> <li>Promote safety awareness at the workplace</li> <li>Honest, transparent and high integrity behaviour</li> </ul>
Shareholders and Investors	<ul style="list-style-type: none"> <li>Analyst briefings</li> <li>Annual General Meeting</li> <li>Annual Report</li> <li>Investor Briefings</li> <li>Announcements of corporate developments to Bursa Malaysia</li> <li>Quarterly announcements of financial results to Bursa Malaysia</li> <li>One-on-one meetings</li> <li>Investor information and update on the Company on UMW-OG's Investor Relations website</li> <li>Press releases</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly or as/when required updates by the President on the position and status of the Company to analysts from various financial / research houses</li> <li>A yearly update to shareholders on the strength and position of the Company, while also sharing the current health of their investment in the Company</li> <li>Regulatory matters</li> <li>Ad hoc (as / and when required) briefings to investors on the strength and position of the Company</li> <li>Quarterly announcements / discussions on the financial results</li> <li>Ad hoc (as / and when required) updates to analysts and fund managers</li> <li>Ad hoc (as / and when required) updates via press release distributed to the media</li> </ul>	<ul style="list-style-type: none"> <li>More positive coverage by analysts</li> <li>Maintained share price performance</li> <li>Compliance with listing requirements</li> </ul>

# ASSESSING MATERIALITY

## Our Materiality Assessment Process

We had conducted a materiality assessment exercise using the GRI Standards 2016 to identify the most pertinent EES factors that were relevant to the Group and its stakeholders.

The process entailed identification of materiality matters, followed by prioritisation based on potential impact (whether positive or negative) on the Group and its stakeholders. The selected materiality issues and matters were then validated to determine which issues to include, set targets for and report on. These issues are the same as the previous year's materiality issues.



## Development of Materiality Matrix

The insights gleaned from this exercise together with the external perspectives collated from the various stakeholder engagements have enabled us to develop a comprehensive materiality matrix. This process determines the metrics we report in SR 2017 and indicates the focus areas of UMW-OG's sustainability strategies and efforts for 2017.

We will continue to review the material issues going forward. In addition, the relevance of new issues will be assessed based on the abovementioned process in the event of new developments / operational context.

## Key Material Aspects



### Economic

- ② Economic Performance
- ⑧ Procurement Practices
- ⑨ Market Presence including Local Content
- ⑫ Indirect Economic Impact



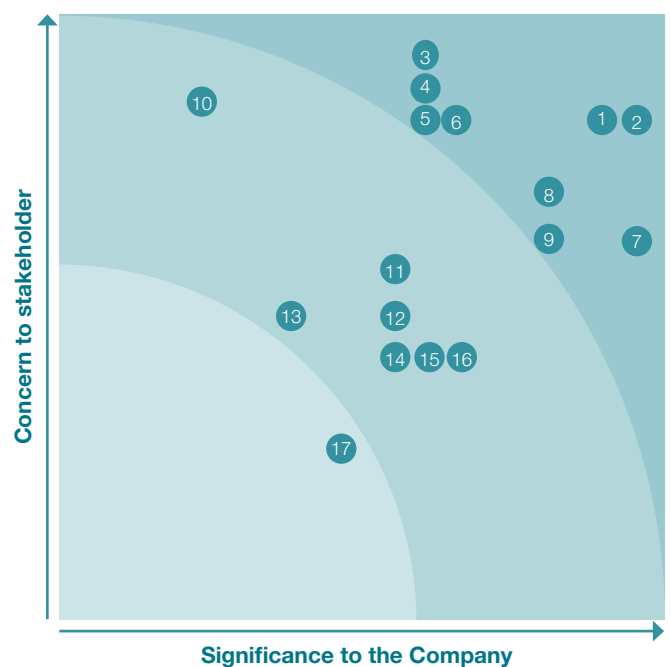
### Environment

- ③ Effluent and Waste
- ⑭ Energy
- ⑮ Water
- ⑯ Emission



### Social

- ① QHSE
- ④ Emergency Preparedness
- ⑤ Compliance
- ⑥ Asset Integrity and Process Safety
- ⑦ Employment
- ⑩ Anti-Corruption
- ⑪ Local Communities
- ⑬ Training and Education
- ⑰ Diversity and Equal Opportunity







*“We take care of the places we visited”*

# ECONOMIC

**We at UMW-OG recognise that our operations and activities take place in the local communities and societies through job opportunities, taxes, local spending and also environmental stewardship. Therefore, it is our interest to ensure the sustainability in economic matters is developed mutually and to enhance the lives of our stakeholders.**

## Economic Performance

Our economic performance data is reported on pages 107 to 195 of this Annual Report.

## Indirect Economic Impact

As a company that operates both in Malaysia and the region, we exercise a “local-where-we-operate” practice, offering employment opportunities to spur the socio-economic growth both domestically as well as in the host countries where we operate.

In 2017, UMW-OG successfully operated all seven (7) jack-up rigs despite the challenging economic conditions faced in the oil and gas sector. Through securing contracts from various clients, we were able to drive the company's recovery compared to 2016.

Our rigs are parked for operation in numerous locations both in East and West Malaysia which includes offshore sites in Terengganu, Kelantan, Sabah, Sarawak and Labuan. This has indirectly provided upsurge

in economic growth for the community in these regions particularly via transportation and accommodation and other support services.

The majority of crews hired for our ventures in East Malaysia are local Sabahans and Sarawakians. This has significantly improved the marketability of personnel in less urban parts of Malaysia which are often overlooked. Various training programs have been implemented to ensure our offshore crews are technically competent which has increased investment on local talent.

For UMW Oilpipe Services Sdn. Bhd. (“UOS”), initiatives include developing the existing workforce into skilled workers via technical training i.e. by providing qualification for personnel to produce specific premium type connections. This allows them to upgrade their skills, enabling them to remain competitive in the market.

## Risk Mitigation

The Group is aware that it is exposed to several strategic, operational, financial and external

risks. While some of these are beyond the Group's control i.e. the price of crude oil or global economic conditions as well as socio-political developments, there are many other risk factors which the Group can implement strategies or adopt measures to mitigate its exposure.

The Group's Enterprise Risk Management (“ERM”) framework is developed based on the ISO 31000 Risk Management Principles and Guidelines. The framework is augmented by other risk management features such as maintaining, and constantly refining the Risk Register template, the implementation of a triple line of defence system, the existence of a cohesive Business Continuity Plan (“BCP”) and appropriate internal controls for monitoring risk as well as setting limits for authority.

The Group's ERM Framework provides for regular review and reporting where the ERM reports encompass information on the Group's risk profiles, risk action plans (“RAPs”) and status updates. These reports are presented and deliberated during quarterly Risk

Management Committee ("RMC") meetings, quarterly Board Risk Management Committee ("BRMC") meetings, and half yearly Board meetings.

Specific details on the Group's approach to risk management and mitigation including its ERM framework are given in the Statement of Risk Management and Internal Control on page 96 of this annual report.

In 4th quarter 2017, the top five risks identified for the Group via a likelihood and impact matrix as follows:



## Code of Business Conduct and Ethics

UMW-OG's commitment to strong corporate governance is fortified in its Code of Business Conduct and Ethics ("CoBE"), which guides the Company in fulfilling its business obligations with utmost integrity as well as transparency. To ensure consistent good business practices and governance, the CoBE sets our commitment to work responsibly, with integrity and respect. The objective of the CoBE is to act as a reference guide for conduct and ethics throughout one's employment with the Company.

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 on their understanding of the Company's policy and procedures, and submit their individual "Disclosure of Conflict of Interest".

The CoBE is driven by our core values, keeping in mind the highest standard of business ethics. UMW-OG will be continuously transmitting this CoBE for the employee to be aware that the Company is serious in handling any misconduct or any unethical behaviours of any employee. Refresher training will also be conducted periodically to ensure continuous compliance.

## Whistle-Blowing Policy and Procedures

The whistle-blowing policy ("WBP") which complements the CoBE, provides a non-discriminatory and fair treatment for all reported incidents. The WBP ensures concerns regarding unethical, unlawful or improper conduct relating to mismanagement, malpractices, corrupt practices, fraud, conflict

of interest, abuse of authority or breach of any laws and regulations by any member of its staff and management are investigated internally and if a violation is confirmed, appropriate actions will be taken.

This may involve serious consequences, up to and including dismissal or contract termination. Employees are encouraged to file suspected wrongdoings through the proper mode of communications anonymously to the President, or the Head of Human Resources without facing repercussions. The Whistle-Blowing Committee, will then act and dispose of any reported incidents and investigations.

## Supply Chain Management

We believe that good governance and ethics should be extended to our value chain and with that, the Group has established a comprehensive framework to ensure fair procurement practices based on the principle of merit. Our approach to procurement is essentially guided by our CoBE as well as requirements for excellent QHSE practices and track record.

We expect contractors and suppliers to meet the standards

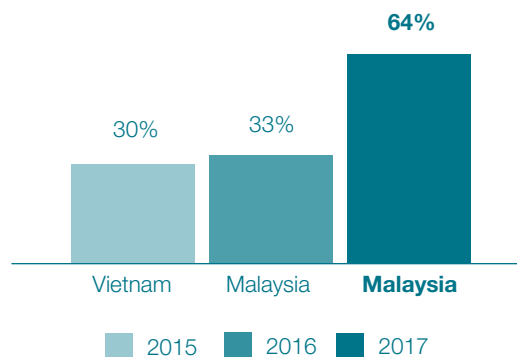
ascribed by us for CoBE and QHSE. In order for vendors to provide us with their goods and services, they will need to be registered on the UMW-OG supplier list. Our practice is consistent with last year to evaluate all vendors during the registration process to ensure that they have the financial stability and capacity to fulfil UMW-OG business needs. Stringent evaluation serves as mitigating action against poor supplier performance.

All vendors that have been registered on UMW-OG supplier list are invited to participate in our tender.

At UMW-OG, we do not set targets for local procurement spend, but as much as possible the Company will support local product and service providers as long as their offerings meet our stringent requirements and are financially competitive. This is made possible with purchases from local vendors for any items that are not sourced from an original equipment manufacturer ("OEM"). We define local vendors based on the principle of "local where we operate".

The total spend with local vendors and suppliers in Malaysia shows an increase from 33% in 2016 to 64% in 2017.

## TOTAL SPEND WITH LOCAL SUPPLIERS





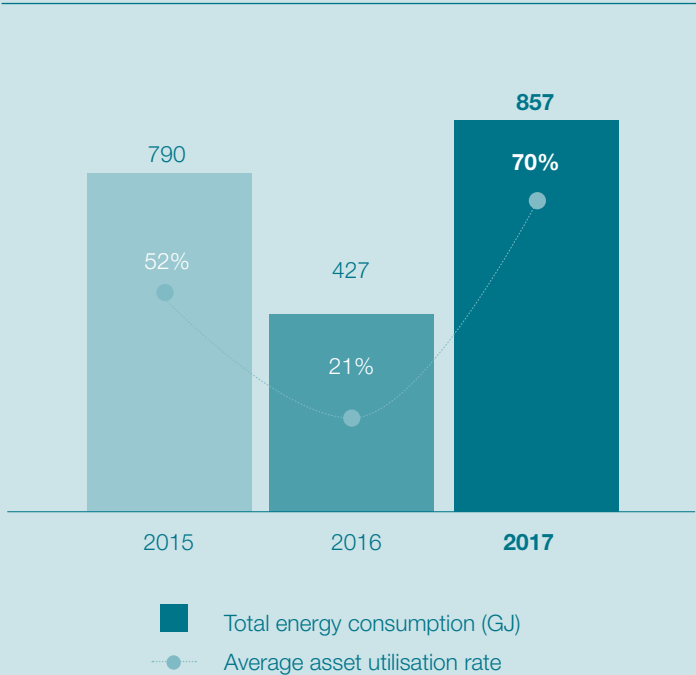
# ENVIRONMENT

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

## Energy Consumption

In 2017, energy consumption increased given that all seven (7) rigs were in operation. Total energy consumed by UMW Offshore Drilling Sdn. Bhd. ("UOD") and average asset utilisation rate were as follows.

TOTAL ENERGY CONSUMPTION (GJ)



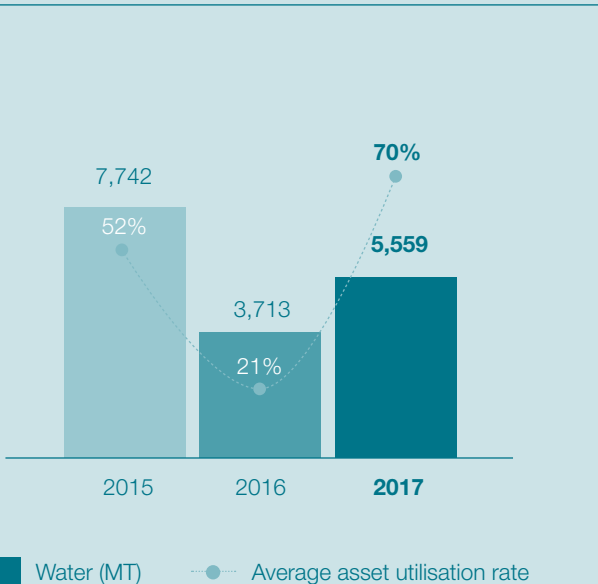
Method: Data obtained from all rigs record from January 2017 to end December 2017. Missing data are calculated based on average

Efficient energy consumption is ensured by optimising power input for operational purpose and scheduled equipment maintenance through our rig's Power Management System. We also reduced energy consumption in the 1st quarter of 2017 by mounding two rigs into cluster during the warm stacking period, which-enabled power sharing through existing power connection shore system on our rigs.

## Water Withdrawal, Usage & Discharge Management

Water consumption and discharge are ongoing daily activities on all of our jack-up rigs where the primary source is seawater. 2017 saw an obvious increase in water usage of 38,910,858 MT for total amount of water withdrawn and used with all rigs in operation.

AVERAGE WATER CONSUMED PER RIG



# Sustainability Report

Being a crucial renewable source, water is sustained via recycling and a structured waste water treatment system. Amount of water recycled was 44,238 m<sup>3</sup>.

Our rigs are equipped with internationally approved oily water separators facility to treat water with oil content below 15 parts per million ("ppm"). This is as per Annex 1 of MARPOL 73/78 which states that, any kind of oil is prohibited to be discharged into the sea unless certain criteria are satisfied. The amount of water treated during our offshore operations in 2017 was 53,750 m<sup>3</sup> as all seven fleets were in operation.

We have sufficient storage capacity for manure and dedicated Sewage Treatment System equipped on each rig which is self-contained, allowing required treatment processed

based on aerobic treatment before the final effluent is decomposed and discharged overboard. Our practice in this regard is a further reflection of our commitment to Annex IV of MARPOL 73/78.

## Greenhouse Gas ("GHG") Emission

In 2017, the total direct emission for UMW-OG from diesel fuel combustion for operations amount of 60,918,874 KgCO<sub>2</sub>e or 1,460,709 tCO<sub>2</sub>/TJ while indirect emissions generated from purchased electricity is 453,588 KgCO<sub>2</sub>e. Overall emission had increased in 2017 compared to 2016 as a result of higher average assets utilisation from 21% to 70%.

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

All of UMW-OG's rigs comply with Annex VI of MARPOL 73/78 which emphasises air pollution prevention, including control on the greenhouse gases emissions and the quality of fuel oil used by the diesel engines.

## Waste Management

Waste management for our offshore drilling operations is governed by the International Convention for the Prevention of Pollution for Ships (MARPOL 73/78). All our offshore drilling rigs are required to have a waste management plan to ensure all types of waste are handled and managed in a responsible manner.

Our oilfield services operations are governed by the Department of Environment Malaysia ("DOE") Environmental, Quality (Schedule Waste) Regulation 2005.

The total chemical (i.e. oil sludge, waste oil and oily water) and solid waste disposed for UMW-OG in 2017 is 191.6MT, 10.3MT being incinerated while 102.14 MT are transported through local contractors in Kemaman and Labuan. No incidents of spillage were reported during the transport of waste.

An improvised waste management measure has been planned and partially executed throughout 4th quarter 2017 which continues till 2018. This measure has allows for better waste management compared to previous years.

Preliminary action was taken by entirely segregating usable and disposable materials, particularly solid wastes at warehouses in Kemaman Supply Base ("KSB") and Asian Supply Base ("ASB"), to warrant an efficient storage capacity and improve assets integrity. Further upgraded waste management action would be implemented and continuously improved as we go forward.

## Environmental Spills

The total environmental spills recorded by UOD for 2017 was 21.5 bbls which was mainly due to mud spillage during transfers and not included as Loss of Primary Containment.

UOS recorded one environmental spill in 2017, specifically spillage of used coolant waste on soil surface. It was a minor spill of 0.0628 bbls of used coolant which did not cause any major impact to the environment.

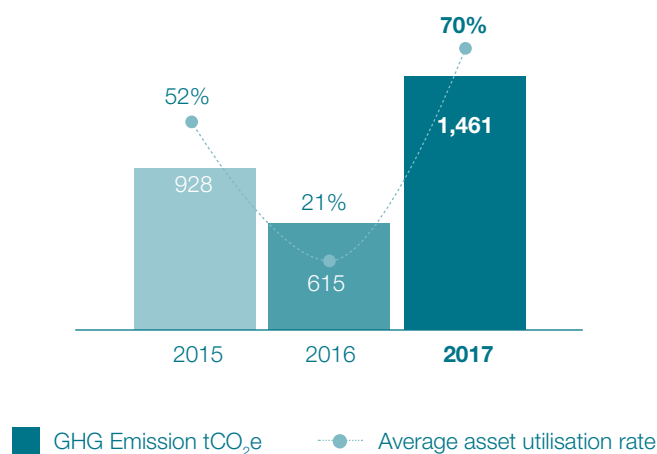
The above spillage incidents did not have a material impact on the environment.

### Hydrocarbon Spills

While all hydrocarbon spillage are considered serious, those greater than 800 litres are defined as significant incidents. Immediate reporting with detailed investigations in accordance with the requirements of our management system will be triggered and corrective actions taken. UMW-OG is proud to report that there has been no recorded hydrocarbon spills throughout 2017 similarly to 2016.

Throughout our operation, we continue to emphasise the prevention of spills by implementing best practices as well as improving our equipment maintenance processes and technical competency of crews. As mentioned earlier, our 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.

TOTAL GHG EMISSION



Method: Data obtained from the amount of fuel and electricity consumed from actual data for January to November 2017. Missing data are calculated based on average.



# SOCIAL

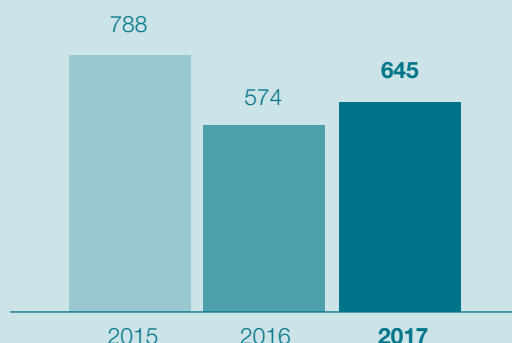
**Our greatest asset and the pillar of our success.**

## Our People

2017 was a better year with our rig utilisation rate improving to 70% compared to 21% in year 2016. We cautiously managed the increase in manning the rigs to ensure optimum start-up cost while maintaining the expected safety and quality levels.

Our threading plants meanwhile still had to endure low plant utilisation in 2017 due to lower overall market demands. We had to undertake another manpower rationalisation exercise in 2017 for our threading plants in Turkmenistan and Thailand, resulting in total closure of both plants. We closed the year with total numbers of 645 employees.

UMW-OG's TOTAL NUMBER OF EMPLOYEES



## Human Capital

We knew we had to continue to focus on maintaining optimum efficiency and managing costs as we welcomed 2017. We expected the general drilling market to still be unpredictable with flat day charter-rates for our rigs.

We also acknowledged that our threading plants may find the year tougher with lower demand in sight, coupled with stiff pricing competition from existing players. We continued to be guided by our Human Capital Blueprint in managing the challenges to ensure we remain objective, effective and efficient in our approaches and initiatives. We clearly understood that any initiatives to be implemented must be aligned with the aim to contribute to higher efficiency and cost effectiveness while concurrently strengthening our work culture.

As we progressed along in 2017, our drilling business saw improvements in rig utilisation while our oilfield services business remained flat. We continued to assess manning viability throughout the Group to optimise productivity and cost. We finally decided to totally shut down our two threading plants in Thailand and Turkmenistan, resulting in a 4% reduction of the total Group headcount.

An on-going initiative within the Human Capital team has resulted in a total cost reduction

of RM5.6 million for the year. This savings were mainly achieved by implementing job redesignation which resulted in lower manpower requirements for certain divisions, workspace optimisation, and the restructuring of the expatriate crew compensation rate.

## Maintaining High Performance Culture

We rolled out the ABC Behavioural Assessment System in 2016 to ignite a clear path towards building a high performance culture. This was an initiative in addition to the existing KPI-based assessment system we currently have in practice.

We continued to conduct familiarisation sessions for users of this system in 2017 as our step-up and awareness plans in getting the tools embedded as part of our culture building. This system has proven to be an effective tool in assisting supervisors to evaluate an employee's compliance to basic employment conducts, commitment and quality of work, integrity, safety awareness, and compliance to our core values. The ultimate aim of the system remains as the mean to promote a forum of healthy and objective discussions between employees and their superior to ensure productive and continuous contributions to the Company. This ABC assessment will be incorporated in an e-platform moving forward to allow easy access and traceability for all users.

## Diversity

For long-term sustainability in the industry, UMW-OG sees the vital need to build a competent, engaged and skillful workforce. This can be achieved by recruiting employees based on meritocracy and experience, irrespective of gender, ethnicity, religion, etc. UMW-OG's inclusive working environment is committed in promoting equal opportunity for all its employees. As a company that operates both in Malaysia and internationally, we exercise "local-where-we-operate" practice, offering employment opportunities to spur the socio-economic growth both at home front and host countries where we operate.

Our workforce is truly global, evidenced by the diverse pool of talent from 26 nationalities making up about 26% of our total workforce.

UMW-OG provides a platform for female employees where they are given equal career opportunities in their career development. During the year in review, women in the workforce comprised 18% of our total workforce of 645 personnel, as compared to 20% in December 2016. At management level, women made up about 29% of senior management team.

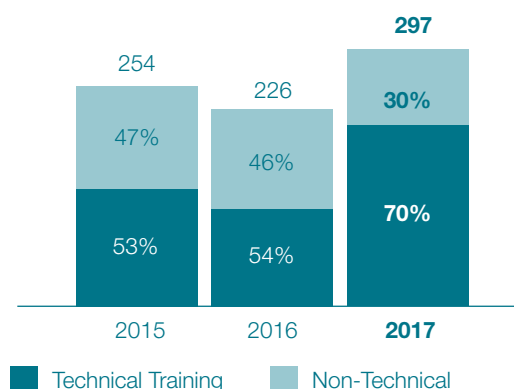
A diverse workforce will enable us to continue in promoting teamwork, integrity and deliver high-performance culture of efficiency. In addition, by having a diverse range of employees will enable us abundance of ideas and different perspectives are leveraged to enhance our people capability.

OUR WORKFORCE	2015	2016	2017
<b>BREAKDOWN OF EMPLOYEES (%)</b>			
Malaysian	76%	75%	<b>74%</b>
• Bumiputera	87%	86%	<b>85%</b>
• Non-Bumiputera	13%	14%	<b>15%</b>
Other Nationalities	24%	25%	<b>26%</b>
<b>CONTRACT TYPE (%)</b>			
Permanent	63%	59%	<b>50%</b>
Contract	37%	41%	<b>50%</b>
<b>GENDER DISTRIBUTION (%)</b>			
Male	82%	80%	<b>82%</b>
Female	18%	20%	<b>18%</b>
<b>EMPLOYEES AGE OF (%)</b>			
Below 30	25%	26%	<b>23%</b>
30-50	60%	60%	<b>60%</b>
Above 50	15%	14%	<b>17%</b>
<b>NO. OF NEW HIRES</b>			
Malaysian	63	69	<b>23</b>
Other Nationals	9	4	<b>9</b>

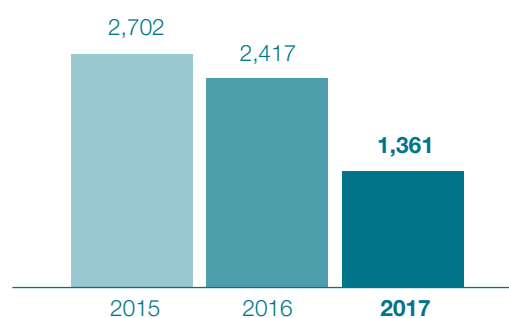
## People Development

UMW-OG strives to be a responsible employer, and we are committed in building an environment in which our people can be developed to achieve our aim to produce capable leaders and employees. In 2017, we completed 297 training sessions attended by 1,361 participants mainly for both drilling services and oilfield services sector.

### TRAINING SESSION (TECHNICAL VS NON-TECHNICAL)



### TOTAL PARTICIPANTS



### AVERAGE TRAINING DAYS PER EMPLOYEE (DAYS)

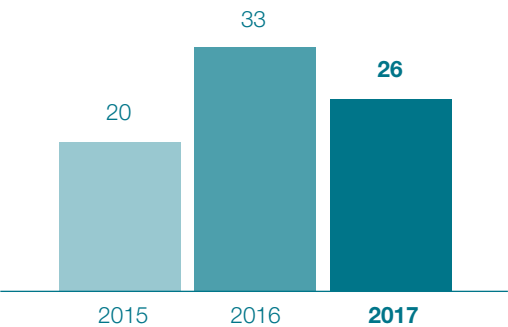




UMW Post Graduate Enhancement  
Programme: Skim Latihan 1Malaysia (“SL1M”)

In accordance with the Government’s initiatives to enhance the employability of unemployed graduates, we in UMW-OG have been continuously participating in this programme. Through UMW Post Graduate Enhancement Programme: Skim Latihan 1Malaysia (“SL1M”), we provide a training platform for young and talented fresh graduates which this platform will enable them to gain hands-on-learning opportunities and on-the-job experience. The graduates are trained and monitored by supervisors and are guided by our values, culture, processes and systems.

TOTAL SKIM LATIHAN 1MALAYSIA TRAINEES



The Group has also offered employment to trainees who have shown commendable performance while undergoing the programme, as listed in the table below.

NO. OF TRAINEES



Community Investment

UMW-OG approach to Corporate Social Responsibility (“CSR”) is guided by three pillars:



In 2017, we continued to drive cultivation of a safety culture, capacity building through education, and protecting and preserving the environment. While promoting the principles of integrity and transparency, all initiatives are geared to be sustainable, yet impactful.

Safety

For the third year running, UMW-OG once again organised its trademark Road Safety Awareness Programme. Conducted in collaboration with Perbadanan Putrajaya (“PPJ”), the one-day programme aims to foster road safety awareness amongst school students through a fun and interactive, learning environment.

The programme exposed 60 participants from four separate schools in Kuala Lumpur - Sekolah Menengah Kebangsaan (“SMK”) Taman Tun Dr Ismail, SMK Aminuddin Baki, SMK Padang Tembak and SMK Taman Setiawangsa - to real-world potential traffic hazards and dangers in a controlled safe environment. These schools are all under Permodalan Nasional Berhad (PNB)’s Kelab Pelaburan Bijak 1Malaysia programme.

“Summonses” were issued for offences such as jaywalking, failing to indicate when making a turn, and speeding, among others, by enforcement officers from PPJ. UMW-OG also contributed three bicycles to PPJ’s existing fleet of two-wheelers.





## Education

UMW-OG has been collaborating with PINTAR Foundation on its school adoption programme since late 2014. PINTAR is a school adoption programme inspired by Khazanah Nasional and run by GLCs as well as some private corporations in Malaysia. The PINTAR Foundation aims to improve socio-economic standards through educational achievement. It redefines school adoption programmes in line with the Government's call under the Ninth Malaysia Plan ("9MP") and 2006 Budget for public-private partnerships to aid sustainable development.

UMW-OG's involvement in the programme since November 2014, has managed to touch the lives of students, teachers, parents and local community members through the various school adoption activities.

In the interest of sustainability and continuity, UMW-OG's fully funded English tuition programme targeted Form 4 students as opposed to Form 5 students in the previous editions. This was then coupled with a three-day Train the Teachers programme for English teachers from SMK Jeram, together with invited teachers from SMK Pengkalan Permatang – another PINTAR school based in Kuala Selangor.

## Environment

UMW-OG is continuously looking for new ways to incorporate sustainability in various aspects of our work and workforce. One way is by organising environment themed activities which sees the involvement of our employees.

The Company held a one day terrarium workshop at Taman Botani Putrajaya, where participants were introduced to nature in a fun way. Terrariums – tiny garden capsules - incorporate the addition of much needed green to any workplace or home.

In yet another "appreciate-through-experience" type programme, close to 40 employees from various UMW-OG departments participated in a tree-planting and fish-release activity.

Carried out in collaboration with Universiti Putra Malaysia ("UPM") Faculty of Environmental Studies, the activity saw participants planting over 30 saplings of rare local variants. Participants were briefed on the correct and proper way to plant the saplings. This was crucial as each tree has its own canopy diameter which will

influence other surrounding and neighbouring trees.

This was then followed by the release of over 600 species of fish; which included *jelawat*, *lampam sungai* and *keraf* just to name a few. Joined by members of the faculty and other UPM students, the main objective was to help improve the water environment for the fish habitat and promote the sustainability of the lake's ecosystem which already plays hosts to bothersome pest like snails, and also to small predators such as otters and storks.



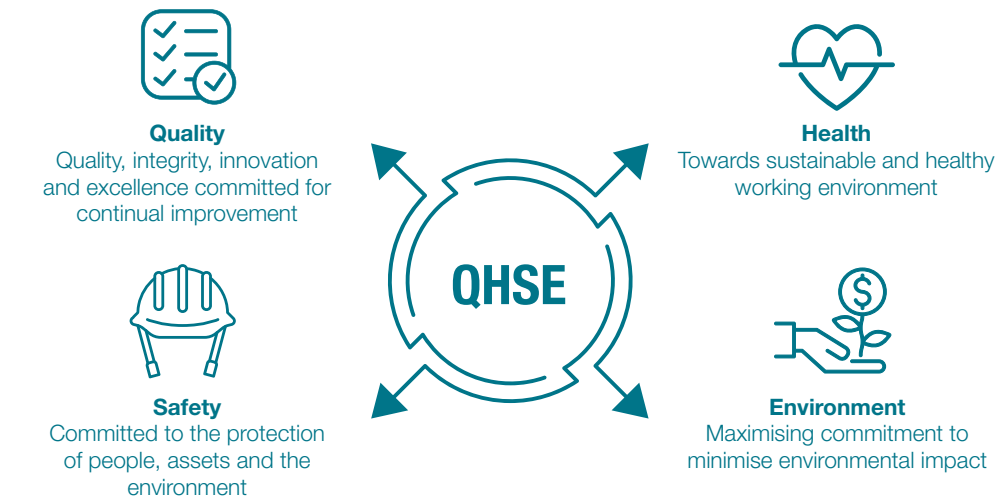
Community

UMW-OG also demonstrated its commitment to the community at large, specifically towards the needy. For 2017, UMW-OG collaborated with Institut Onn Jaafar (“IOJ”) to distribute food; namely breakfast packs to Kuala Lumpur’s urban poor in the vicinity of Jalan Tuanku Abdul Rahman. More than 20 volunteers from the UMW-OG family, convened as early as 6.30 am to distribute the food packs to the homeless.

The Company also contributed a token sum to Darul Quran Ittifaqiyah Tahfiz School, which was engulfed in deadly blaze. The funds will help in the rebuilding of the school that was destroyed in this most unfortunate incident.

QUALITY, HEALTH, SAFETY & ENVIRONMENT (“QHSE”)

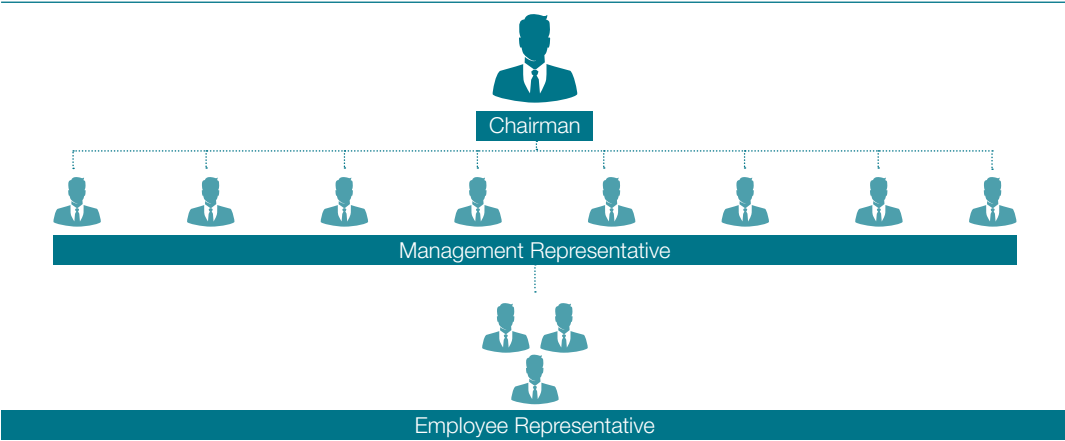
Ensuring our people and assets are safe, and being good environmental stewards, are high priorities for UMW-OG.



UMW-OG’s HSE policies and procedures are led by our Health & Safety Committee. This committee monitors and enhances the overall HSE performance for all our business operations, both offshore and onshore. HSE issues are deliberated carefully and corrective actions are implemented to prevent reoccurrences of any untoward incidences.

The HSE performance updates are presented to the Management Committee and the Board for review. The Health & Safety Committee, chaired by the President of UMW-OG, meets on a quarterly basis. The HSE committee comprises a representative from Management and also employees, from both the operating divisions and corporate divisions. Total workforce representation is 6%.

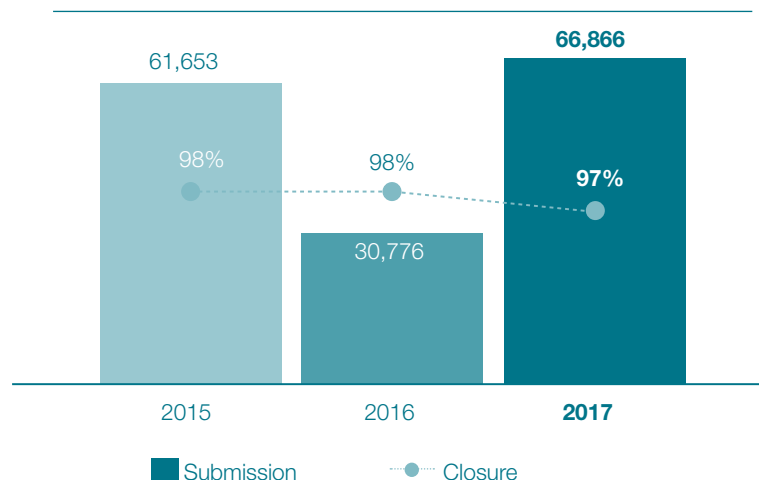
HSE COMMITTEE ORGANISATION CHART



UMW-OG views QHSE Management System embodies how the Company safely manages its operations – emphasising occupational health, safety, risk management, emergency preparedness, environmental performance and also process safety.

It is the Company’s responsibility to provide safe and healthy working conditions to the people and contractors. The Zero Injuries and Zero Illness vision means an employee’s commitment to work without involved in an injury. Therefore, in order to promote a good safety culture amongst our employees various training, programs and campaigns have been organised at our headquarters and other facilities i.e. rigs, bases, and plants, in order to promote a good safety culture amongst our employees reminding them to “work safely, get home safely”.

### HSE OBSERVATION CARD (HOC) submission & closure



### Strong HSE Culture

While our HSE policies and procedures provide us with a good framework of clear guidelines, it does not guarantee us that operations will always be conducted in a safe and responsible manner. A strong safety culture is vital to the safety of the workplace and employees must embrace this culture and take personal ownership of their safety in carrying out their duties responsibly.

In instilling a strong safety culture, employees are encouraged to recognise safety hazards, identify and report unsafe conditions, acts or risks via our hazard observation card ("HOC"). HOC submission in 2017 was 50% higher than the previous year due to the increased activities following the full utilisation of the rig. Of the 66,866 HOC submissions, 97% were closed successfully, a figure slightly lower than previous years.

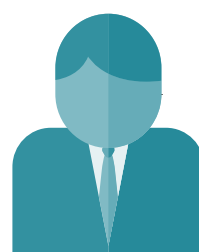
In addition, various HSE-related activities, including training, advice and guidance, were organised to inculcate the safety culture amongst our team.

### Management HSE Visits

As part of management's commitment to building a strong HSE culture, our senior management team has visited our operation sites, our rigs, supply bases and also our oilfield

services plants. In 2017, a total of 41 management HSE visits have been conducted, with five of them are visits by the UMW-OG President himself. These HSE walkabouts demonstrate strong commitment and leadership visibility by the Company's leadership team.

### MANAGEMENT HSE VISITS



PRESIDENT



HEAD OF DIVISIONS

	PRESIDENT	HEAD OF DIVISIONS
2015	5	26
2016	4	11
2017	5	36

# Sustainability Report

## Safety Programme & Activities

A safe and healthy work environment is essential. UMW-OG's primary goal is to ensure that all employees are provided with a safe and healthy workplace and we have implemented several policies and practices at UMW-OG that encompass environmental, health and safety issues to comply with laws and regulations. UMW-OG has also been actively organising various impactful programmes and campaigns throughout the year, focusing on the promotion of a safe, healthy and sustainable working environment. In 2017, we continued to enhance our HSE culture through:

Rigorous HSE Awareness Training session

Skills development in IMS Auditing, Incident Investigation Analysis

Focusing on road safety awareness and workplace hazard identification skills

The QHSE department regularly disseminates clippings and bulletins to remind employees on safety, good health and the implications of serious diseases.

## HSE Awareness Training

2017 marked a sharp increase of drilling activities and therefore large number of new crew members joined our rig operations. A series of HSE awareness training programmes were conducted for these greenhorns to ensure they were ready in their hearts and minds and tuned to the UMW-OG safety culture. In all, 23 training sessions on HSE Awareness were conducted throughout the year.

## QHSE e-Newsletter

QHSE e-Newsletter focuses on disseminating the Company's message on safety. Each quarterly issue will bring a special message about safety from the President, Head of Drilling Division and selected Head of Divisions, quarterly QHSE performance, QHSE-related information and practices in the offices and on board our rigs.

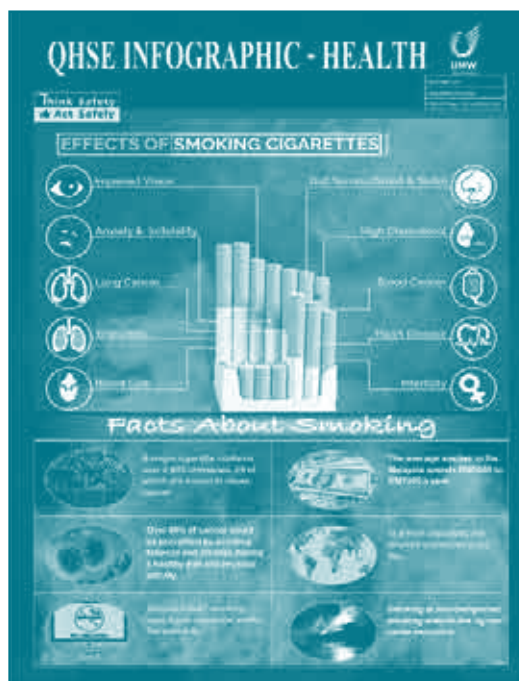


## QHSE Infographic

Bi-monthly QHSE Infographic comprises of various QHSE-related information in a graphical presentation for easy of understanding. These infographics are disseminated to all employees via emails and also posters, placed at visible and strategic places.

## Road Safety Campaign

This campaign focusses on improving road safety awareness in order to minimise risks of road accident amongst UMW-OG personnel. As part of the campaign, all employees are encouraged to sign the "Road Safety Pledge" as their commitment to improve road safety behaviour. Basic defensive driving training was also conducted with participants ranging from van drivers that transport crews and other UMW-OG employees.





## Crisis & Emergency Management Training

Crisis & Emergency Management training was conducted for all key members of the Emergency Management Team ("EMT") and Crisis Management Team ("CMT"). The training was conducted by experienced emergency response professional who briefed participants on the specific roles and responsibilities of each EMT and CMT members and conducted simulated desktop exercise and debriefing sessions.

## Process Safety & Asset Integrity

Process safety and asset integrity play an important role in the prevention of major accidents. We at UMW-OG continue to build a strong process safety culture by learning from our own past experiences and other oil and gas company process safety events. By taking into consideration of process safety and asset integrity, we aim an incident-free activities and to have a safe working environment for our clients, employees and contractors.

Process safety and asset integrity system / programmes are integrated in our HSE-MS - maintenance and inspection programme. HSE-MS is recognised and certified by OHSAS 18001 - Safety Management System. The system is specifically designed to ensure all operational activities are conducted in a safe and responsible manner as well as to prevent major accidents from occur and maximise equipment reliability.

Asset integrity assurance is the major component in preventing major accident event ("MAE"). To prevent any unplanned release, the maintenance system is used to record and monitor schedule maintenance for an entire

asset across UMW-OG fleet. Management that maintaining this asset is guided by API, OEM and industry recommended practices. Our system is reviewed by independent consultant and by all previous clients upon their satisfaction of it sufficiency in preventing MAE.

With a proven track record on safety, UMW-OG continues to enhance the existing system by developing asset management guidelines, asset tagging system implementation, to own a proper SPS Project Planning (Project Execution Plan) as well as development and exposure of our people to asset management.

## Emergency Response & Crisis Preparedness

Emergency preparedness and response are vital elements of risk management. It enables our Company to minimise harm that may affect employees, contractor, clients and our environment via prompt and effective solutions.

Emergency response for any crisis is managed from our Emergency Control Center ("ECC"), located at Level 18, Block 3A, Plaza Sentral. UMW-OG's ECC, upgraded from subsidiary to group level, forms an integral part of the UMW-OG's Business Continuity Plan.

With the upgraded facilities and procedures, a more effective response is available in the event of any emergencies with the ECC providing centralised location where members of the Emergency Management Team are able to monitor, track and make decisions that are critical to the continuing operations of the business as well as life, health and safety of its employees.

The Company has also established a procedure which requires every facility to develop and implement an emergency plan for protecting employees, visitors, contractors or anyone at any time when they are at the Company's premises. Our Emergency Preparedness & Response Plan ("EPRP") includes building evacuation (fire drills), Rig Abandon Drill etc.

The requirement is to have at least one drill exercise per annum, and a weekly drill exercise to be conducted on the rigs. The establishment of Emergency Response Team ("ERT") is part of the Company's emergency preparedness initiative. The team is a group of in-house first responders identified by the Company to be competently trained in preventing any emergency from escalating into a major disaster. The ERT is capable of containing an incipient threat, by swiftly mitigating an emergency situation according to

established plans and procedures transcribed inside the Company's EPRP during an emergency.

## IMS Internal QHSE Audit

As part of the UMW-OG Integrated Management System requirement, annual process internal audit was conducted across all of the Company's facilities. The objectives are to ensure consistent implementation of Integrated Management System processes throughout the organisation and identify areas of improvement opportunities. It also serves as preparation for external audit by certification body DNV-GL.

## IMS Internal Auditor In-House Training

This initiative was conducted by UMW-OG QHSE Division to train new internal auditor on understanding of fundamental of IMS standard requirements and how to apply it during auditing. The training also highlighted the main importance of good planning, correct auditing techniques, positive attitude and strong communication skills. It was conducted in an interactive workshop style so to reinforce the element of knowledge and skills.

## Incident Investigation

Investigation of incidents and the ranking of incidents in terms of both severity and consequence are key components to improve our HSE performance. Investigation of significant incidents through our Incident Investigation Management System Procedure brings immediate visibility to high-risk incidents, and enables timely and rigorous assessment to determine the root cause. In order to further enhance the effectiveness of incident investigation, we conducted in-house training on Tripod Beta analysis using BowtieXP software.



UMW-OG makes no distinction in the importance reporting near incident (near miss) or actual accidents because regardless of the actual damage, all incidents have root causes that need to be addressed to prevent future incident which could be very damaging. All incidents must be reported and logged in the UMW Incident Management database for review and action tracking.

HSE Alert

Sharing experiences, lessons learned from near misses, incidents and accidents, and top practices are key HSE tools in UMW-OG. These ongoing initiatives are done via HSE Alert or Incident Early Alert (“IEA”). These alerts are disseminated and communicated to our operations team which will educate and raise awareness on the areas where incidents that have already occurred, and also where they could and may potentially occur in near future.

HSE Alerts can be generated from a variety of sources; internally within department on board the rig or any operations site, by either Company or Corporate and also from external sources such as our clients. Upon receiving HSE Alerts, the Offshore Installation Manager (“OIM”) / Rig Superintendent / Project Manager or designate will ensure that a copy of the HSE Alert is distributed to each line Supervisor so that they may have the opportunity to discuss it at their toolbox meetings or at the crew HSE meeting.

A copy is posted on the HSE bulletin board and corrective actions are implemented as advised by the HSE Alert. HSE Alerts shall be retained on notice boards for a minimum of two months and then filed in the worksite HSE file indefinitely. They shall be translated into the relevant languages spoke at the worksite.

Occupational Health & Wellness

A high priority in all aspects of UMW-OG business operations is given to the QHSE management. Quality products and services must be achieved in a high standard of safety behavior, while at the same time ensuring everyone remains healthy and environment is not negatively impacted. UMW-OG is committed to the safety of all its employees, including extended team of contractors, suppliers and clients. This proactive approach has shown us an

improvement in the results in health and safety performance throughout the year in review.

HSE Performance

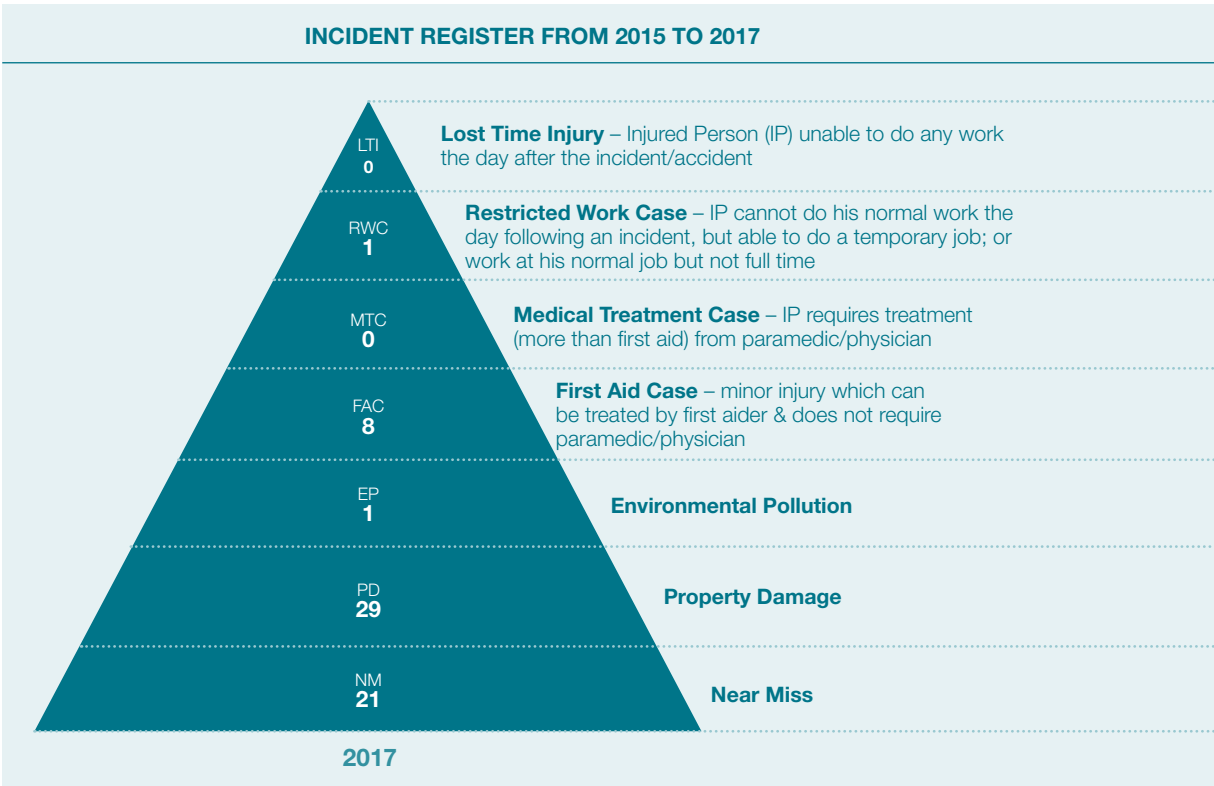
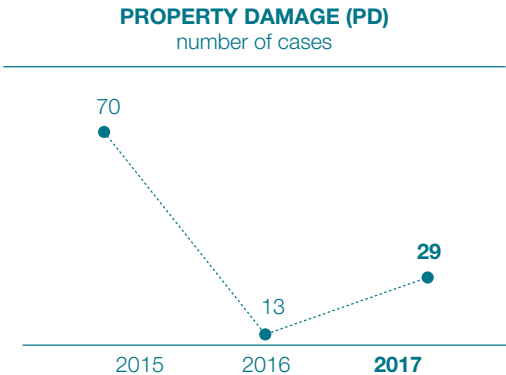
Our objective is to maintain zero recordable injuries. However in 2017, there is one unfortunate recordable injury, equating to a TRCF of 0.28 per million man hours. UMW-OG uses a number of indicators to monitor HSE performance.

Total Recordable Case Frequency Rate (“TRCF”) is one key metric for historical employee

and contractor injuries which includes Lost Time Injuries (“LTI”), Restricted Work Cases (“RWC”) and Medical Treatment Injuries (“MTI”). Our TRCF continues to decrease in comparison to the previous year, which demonstrates an improvement in the safety of our operations. TRCF is used to compare performance across rigs and to assess UMW-OG’s performance against our industry competitors.

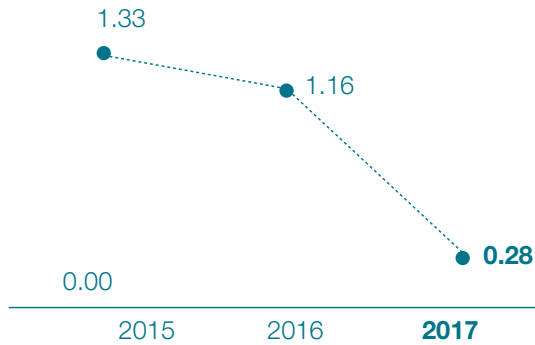
Although we did not achieve our zero-injury target, we continue to improve the way we track injuries, hazards, near misses and high potential incidents to ensure the HSE risks are identified and mitigated. A summary of our HSE performance over the past year and 2017 is shown in the charts below.

In addition, the Group has 19 workers represented in formal joint management-worker health and safety committees. These committees are: Going forward, the Group will seek to conduct a health risk assessment in 2018 which has just been established.

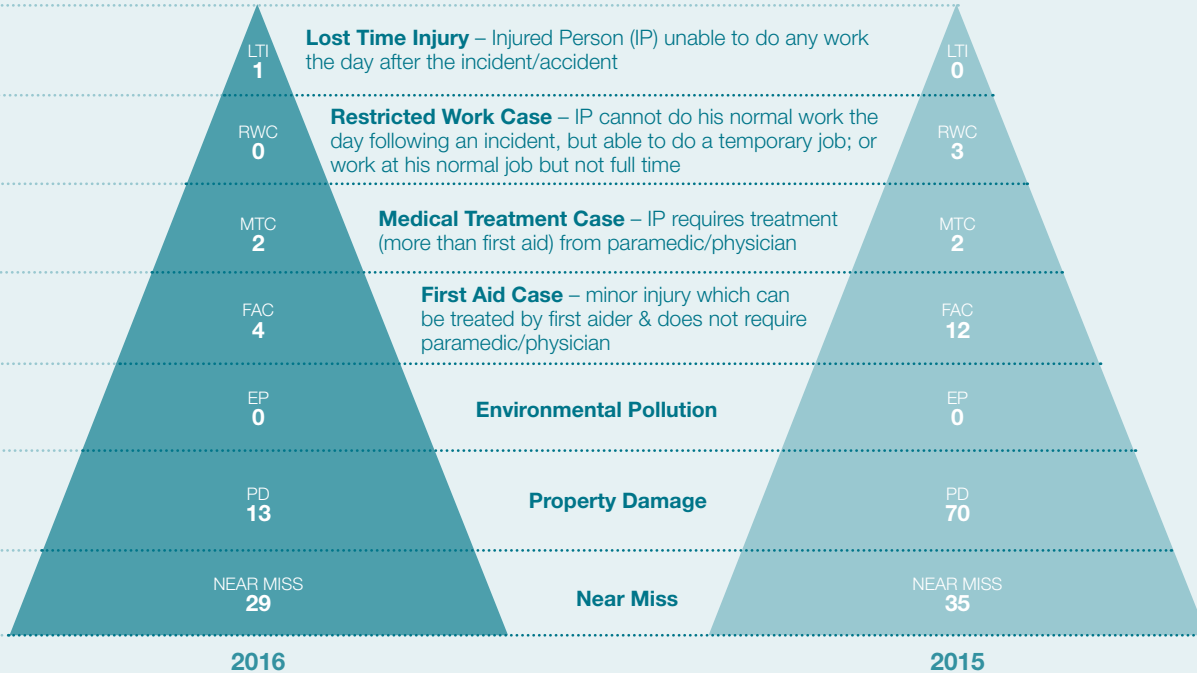
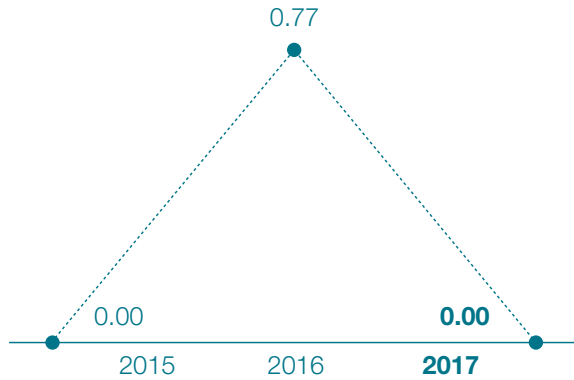


**LOST TIME INJURY FREQUENCY & TOTAL RECORDABLE CASE FREQUENCY FOR THE GROUP**  
(NUMBER OF CASES PER ONE MILLION MAN HOURS)  
2017 LTIF = 0.00 & 2017 TRCF = 0.28

**TOTAL RECORDABLE CASE FREQUENCY (TRCF)**  
injuries per million manhours



**LOST TIME INJURY FREQUENCY (LTIF)**  
injuries per million manhours

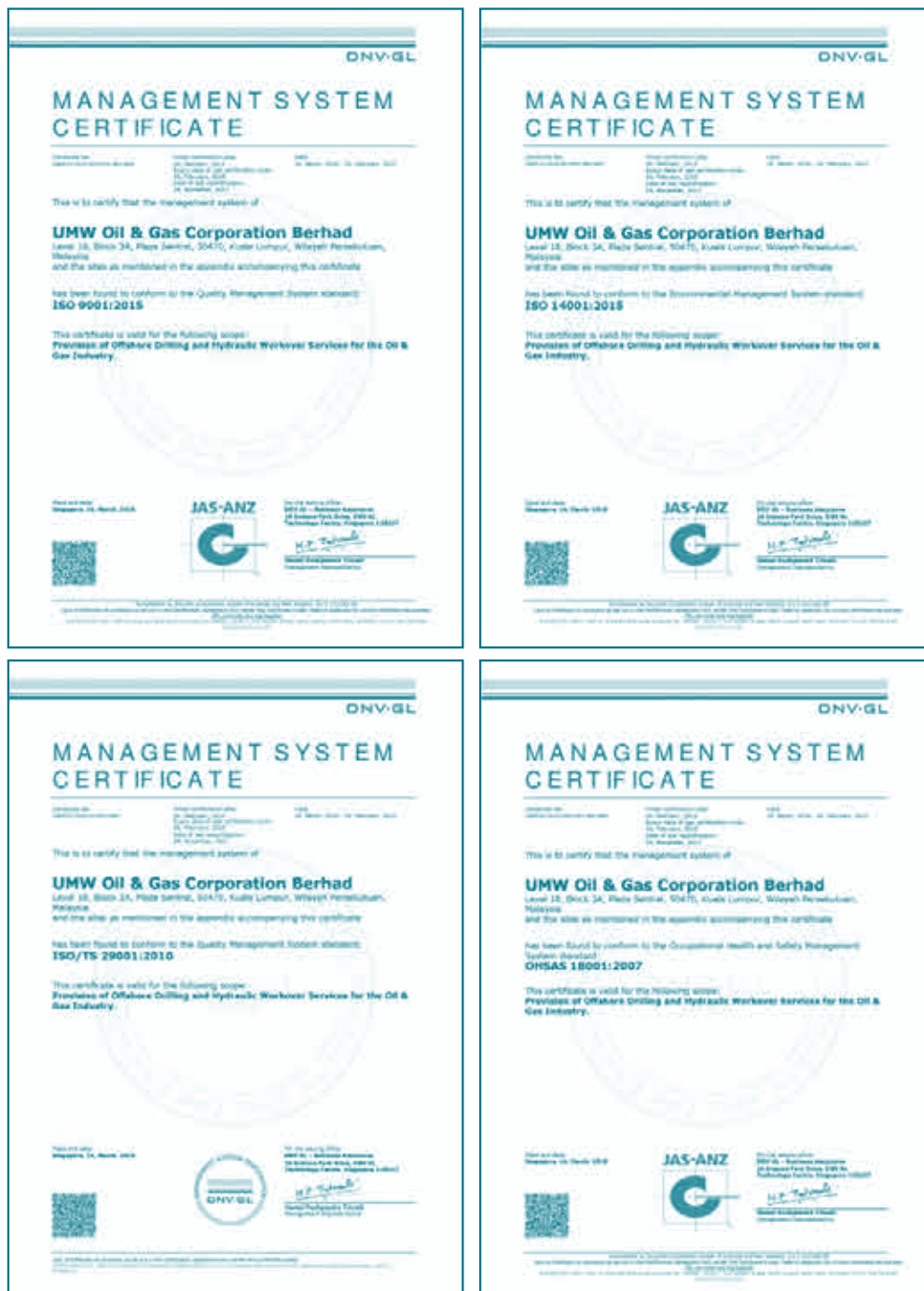




## Integrated QHSE Management System

UMW-OG continued to maintain international recognition for its Integrated QHSE Management System, further cementing its commitment in upholding QHSE standards and ensuring a safe workplace, a prerequisite for a resilient and sustainable business. In 2017, UMW-OG had successfully migrated to the new standards of ISO 9001:2015 and ISO 14001:2015 and re-certified to OHSAS 18001:2007 and ISO/TS 29001:2010.

- ISO 9001:2015 Quality Management System
- ISO 14001:2015 Environmental Management System
- OHSAS 18001:2007 Occupational Health & Safety Management System
- ISO/TS 29001:2010 Quality Management System for Petroleum, Petrochemical and Natural Gas Industries



# GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX

GRI Standard	Disclosure	Reference	Page number(s)
GRI 101: Foundation 2016			
General Disclosures			
GRI 102: General Disclosures 2016	Organisational profile		
	102-1 Name of the organisation	Cover page	1
	102-2 Activities, brands, products, and services	About UMW Oil & Gas Corporation Berhad, Our Assets	3-4
	102-3 Location of headquarters	Corporate Information	7
	102-4 Location of operations	Our Assets, Economic (Indirect Economic Impact)	4, 56
	102-5 Ownership and legal form	UMW-OG Subsidiaries & Associates, Statistics on Shareholding	6, 10
	102-6 Markets served	About UMW Oil & Gas Corporation Berhad , Management Discussion & Analysis	26 - 27
	102-7 Scale of the organisation	UMW-OG Subsidiaries & Associates, About UMW Oil & Gas, Our Assets, Social	3-4, 60-61
	102-8 Information on employees and other workers	Social	60-61
	102-9 Supply chain	Sustainability Report -- Economic (Supply Chain Management)	56-57
	102-10 Significant changes to the organisation and its supply chain	Management Discussion & Analysis	19
	102-11 Precautionary Principle or approach	Sustainability Governance, Statement on Corporate Governance	52, 79-101
	102-12 External initiatives	Stakeholder Engagement	53-54
	102-13 Membership of associations	Sustainability Report	59
	Strategy		
	102-14 Statement from senior decision-maker	Message from President	50

GRI Standard	Disclosure	Reference	Page number(s)
GRI 102: General Disclosures 2016	Ethics and integrity		
	102-16 Values, principles, standards, and norms of behaviour	The Group is in process of formulating a new vision and mission after its demerger exercise	n/a
	102-17 Mechanisms for advice and concerns about ethics	Economic (Code of Business Conduct and Ethics)	57
	Governance		
	102-18 Governance structure	Sustainability Governance, Statement on Corporate Governance	52, 79
	102-19 Delegating authority	Sustainability Governance (Sustainability Steering Committee)	52
	102-20 Executive-level responsibility for economic, environmental, and social topics	Sustainability report -- Sustainability Governance (Sustainability Steering Committee)	52
	102-21 Consulting stakeholders on economic, environmental, and social topics	Sustainability Report -- Stakeholder Engagement	53-54
	102-22 Composition of the highest governance body and its committees	Sustainability report -- Sustainability Governance (Sustainability Steering Committee)	52
	102-23 Chair of the highest governance body	Statement of Corporate Governance	79
	102-24 Nominating and selecting the highest governance body	Statement of Corporate Governance	79
	102-26 Role of highest governance body in setting purpose, values, and strategy	Statement of Corporate Governance	79
	102-29 Identifying and managing economic, environmental, and social impacts	Sustainability Report -- Assessing Materiality	55
	102-31 Review of economic, environmental, and social topics	Sustainability Report -- Assessing Materiality (Development of Materiality Matrix)	55
	102-32 Highest governance body's role in sustainability reporting	Sustainability Governance	52
	Stakeholder Engagement		
	102-40 List of stakeholder groups	Sustainability Report -- Stakeholder Engagement	53-54
	102-41 Collective bargaining agreements	Not applicable	n/a
	102-42 Identifying and selecting stakeholders	Sustainability Report -- Stakeholder Engagement	53-54
	102-43 Approach to stakeholder engagement	Sustainability Report -- Stakeholder Engagement	53-54
	102-44 Key topics and concerns raised	Sustainability Report -- Stakeholder Engagement	53-54

GRI Standard	Disclosure	Reference	Page number(s)
GRI 102: General Disclosures 2016	Reporting practice		
	102-45 Entities included in the consolidated financial statements	UMW-OG Subsidiaries & Associates	6
	102-46 Defining report content and topic boundaries	Sustainability Report -- About This Report	51
	102-47 List of material topics	Sustainability Report -- Assessing Materiality (Development of Materiality Matrix)	55
	102-48 Restatements of information	None required despite the recapitalisation exercise of the Group	n/a
	102-49 Changes in reporting	Similar to 2016 Sustainability Report. No Changes.	n/a
	102-50 Reporting period	Sustainability Report -- About This Report	51
	102-51 Date of most recent report	Sustainability Report -- About This Report	51
	102-52 Reporting cycle	Sustainability Report -- About This Report	51
	102-53 Contact point for questions regarding the report	Sustainability Report -- About This Report	51
	102-54 Claims of reporting in accordance with the GRI Standards	Sustainability Report -- About This Report	51
	102-55 GRI content index	Global Reporting Initiative (GRI Content Index)	71-78
	102-56 External assurance	Sustainability Report -- About This Report	51
Material Topics			
GRI 200 Economic Standard Series			
Economic Performance			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Report & Management Discussion & Analysis	18-29 , 50-70
	103-2 The management approach and its components	Sustainability Report & Management Discussion & Analysis	18-29 , 50-70
	103-3 Evaluation of the management approach	Sustainability Report & Management Discussion & Analysis	18-29 , 50-70
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	Financial Statement	106- 195
	201-2 Financial implications and other risks and opportunities due to climate change	Not applicable	n/a

# Sustainability Report

GRI Standard	Disclosure	Reference	Page number(s)
Market Presence			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Management Discussion & Analysis	18-29
	103-2 The management approach and its components	Management Discussion & Analysis	18-29
	103-3 Evaluation of the management approach	Management Discussion & Analysis	18-29
	202-2 Proportion of senior management hired from the local community	Sustainability Report -- Social (Diversity)	61
Indirect Economic Impacts			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Report -- Economic (Indirect Economic Impact)	18-29
	103-2 The management approach and its components	Sustainability Report -- Economic (Indirect Economic Impact)	18-29
	103-3 Evaluation of the management approach	Sustainability Report -- Economic (Indirect Economic Impact)	18-29
GRI 203: Indirect Economic Impacts 2016	203-2 Significant indirect economic impacts	Sustainability Report -- Economic (Indirect Economic Impact)	61
Procurement Practices			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Report -- Economic (Supply Chain Management)	57
	103-2 The management approach and its components	Sustainability Report -- Economic (Supply Chain Management)	57
	103-3 Evaluation of the management approach	Sustainability Report -- Economic (Supply Chain Management)	57
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	Sustainability Report -- Economic (Supply Chain Management)	57
Anti-corruption			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Report -- Economic (Whistleblowing Policy & Procedures / Code of Business Conduct & Ethics)	57
	103-2 The management approach and its components	Economic -- Whistleblowing Policy & Procedures / Code of Business Conduct & Ethics	57
	103-3 Evaluation of the management approach	Economic -- Whistleblowing Policy & Procedures / Code of Business Conduct & Ethics	57
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	Economic -- Whistleblowing Policy & Procedures / Code of Business Conduct & Ethics	57
	205-3 Confirmed incidents of corruption and actions taken	Whistleblowing Policy & Procedures / Code of Business Conduct & Ethics	57

GRI Standard	Disclosure	Reference	Page number(s)
Anti-competitive Behavior			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Report -- Economic (Supply Chain Management)	57
	103-2 The management approach and its components	Sustainability Report -- Economic (Supply Chain Management)	57
	103-3 Evaluation of the management approach	Sustainability Report -- Economic (Supply Chain Management)	57
GRI 206: Anti-Competitive Behaviour 2016	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Whistleblowing Policy & Procedures / Code of Business Conduct & Ethics	57
GRI 300 Environmental Standards Series			
Energy			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Report -- Environment (Energy Consumption)	58
	103-2 The management approach and its components	Sustainability Report -- Environment (Energy Consumption)	58
	103-3 Evaluation of the management approach	Sustainability Report -- Environment (Energy Consumption)	58
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	Sustainability Report -- Environment (Energy Consumption)	58
Water			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Report -- Environment (Water Withdrawal, Usage & Discharge Management)	58-59
	103-2 The management approach and its components	Sustainability Report -- Environment (Water Withdrawal, Usage & Discharge Management)	58-59
	103-3 Evaluation of the management approach	Sustainability Report -- Environment (Water Withdrawal, Usage & Discharge Management)	58-59
GRI 303: Water 2016	303-1 Water withdrawal by source	Sustainability Report -- Environment (Water Withdrawal, Usage & Discharge Management)	58-59
	303-2 Water sources significantly affected by withdrawal of water	Sustainability Report -- Environment (Water Withdrawal, Usage & Discharge Management)	58-59
	303-3 Water recycled and reused	Sustainability Report -- Environment (Water Withdrawal, Usage & Discharge Management)	58-59



# Sustainability Report

GRI Standard	Disclosure	Reference	Page number(s)
Emissions			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Report -- Environment (Greenhouse Gas ("GHG") Emission)	59
	103-2 The management approach and its components	Sustainability Report -- Environment (Greenhouse Gas ("GHG") Emission)	59
	103-3 Evaluation of the management approach	Sustainability Report -- Environment (Greenhouse Gas ("GHG") Emission)	59
GRI 305: Emissions 2016	305-4 GHG emissions intensity	Sustainability Report -- Environment (Greenhouse Gas ("GHG") Emission)	59
Effluents and Waste			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Report -- Environment (Waste Management)	59
	103-2 The management approach and its components	Environment -- Waste Management	59
	103-3 Evaluation of the management approach	Environment -- Waste Management	59
GRI 306: Effluents and Waste 2016	306-1 Water discharge by quality and destination	Environment --Water Withdrawal, Usage & Discharge Management	58-59
	306-2 Waste by type and disposal method	Environment -- Waste Management	59
	306-4 Transport of hazardous waste	Environment -- Waste Management	59
	306-5 Water bodies affected by water discharges and/or runoff	Environment -- Waste Management	59
Environmental Compliance			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Environment -- Enviroment	58-59
	103-2 The management approach and its components	Enviroment (whole section)	58-59
	103-3 Evaluation of the management approach	Enviroment(whole section)	58-59
GRI 307: Environmental Compliance 2016	307-1 Non-compliance with environmental laws and regulations	No cases reported during the year	58-59
GRI 400 Social Standards Series			
Employment			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Report -- Social (Our People)	60-62
	103-2 The management approach and its components	Sustainability Report -- Social (Our People)	60-62
	103-3 Evaluation of the management approach	Sustainability Report -- Social (Our People)	60-62
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	Sustainability Report -- Social (Diversity)	60-62

GRI Standard	Disclosure	Reference	Page number(s)
Labour/Management Relations			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Report -- Social (Quality, Health, Safety & The Environment)	64-70
	103-2 The management approach and its components	Sustainability Report -- Social (Quality, Health, Safety & The Environment)	64-70
	103-3 Evaluation of the management approach	Sustainability Report -- Social (Quality, Health, Safety & The Environment)	64-70
GRI 402: Labor/ Management Relations 2016	402-1 Minimum notice periods regarding operational changes	Sustainability Report -- Social (Quality, Health, Safety & The Environment)	64-70
Occupational Health and Safety			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Report -- Social (Quality, Health, Safety & The Environment)	64-70
	103-2 The management approach and its components	Sustainability Report -- Social (Quality, Health, Safety & The Environment)	64-70
	103-3 Evaluation of the management approach	Sustainability Report -- Social (Quality, Health, Safety & The Environment)	64-70
GRI 403: Occupational Health and Safety 2016	403-1 Workers representation in formal joint management-worker health and safety committees	Sustainability Report -- Social (Quality, Health, Safety & The Environment)	64-70
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Sustainability Report -- Social (Quality, Health, Safety & The Environment)	64-70
	403-3 Workers with high incidence or high risk of diseases related to their occupation	To be conducted in 2018 -- Sustainability Report -- Social (Quality, Health, Safety & The Environment)	64-70
Training and Education			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Report -- Social (People Development)	61-63
	103-2 The management approach and its components	Sustainability Report -- Social (People Development)	61-63
	103-3 Evaluation of the management approach	Sustainability Report -- Social (People Development)	61-63
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	Sustainability Report -- Social (People Development)	61-63
	404-2 Programs for upgrading employee skills and transition assistance programs	Sustainability Report -- Social (People Development)	61-63

# Sustainability Report

GRI Standard	Disclosure	Reference	Page number(s)
Diversity and Equal Opportunity			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Sustainability Report -- Social (Diversity)	61
	103-2 The management approach and its components	Sustainability Report -- Social (Diversity)	61
	103-3 Evaluation of the management approach	Sustainability Report -- Social (Diversity)	61
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	Sustainability Report -- Social (Diversity)	61
Non-discrimination			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Economic -- Whistleblowing Policy & Procedures / Code of Business Conduct & Ethics	57
	103-2 The management approach and its components	Economic -- Whistleblowing Policy & Procedures / Code of Business Conduct & Ethics	57
	103-3 Evaluation of the management approach	Economic -- Whistleblowing Policy & Procedures / Code of Business Conduct & Ethics	57
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	No cases reported during the year	n/a
Local Communities			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Economic -- Whistleblowing Policy & Procedures / Code of Business Conduct & Ethics	62-64
	103-2 The management approach and its components	Sustainability Report -- Social (Community Investment)	62-64
	103-3 Evaluation of the management approach	Sustainability Report -- Social (Community Investment)	62-64
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	Sustainability Report -- Social (Community Investment)	62-64
	413-2 Operations with significant actual and potential negative impacts on local communities	Sustainability Report -- Social (Community Investment)	62-64

# Statement on Corporate Governance

The Board of Directors (“Board”) of UMW Oil & Gas Corporation Berhad (“UMW-OG” or “Company”) is committed to advocate the fundamental principles of corporate governance within UMW-OG Group.

This Corporate Governance statement provides an insight into corporate governance practices of the Group and to report the Group’s compliance with the Principles and Best Practices of Malaysian Code on Corporate Governance 2012 (“Code”) throughout the financial year ended 31 December 2017.

Following the introduction of the new Malaysian Code on Corporate Governance 2017 (“the New Code”) by the Securities Commission on 26 April 2017, the Board is cognizant of the increasing governance expectations and is taking further steps to ensure that a higher standard of corporate governance is adopted throughout the Group. Although compliance with the New Code is not mandatory, listed issuers are required to disclose the application of each practice set out in the New Code for financial year ending on or after 31 December 2017. Board will commence with such disclosure in its 2017 Annual Report and thereafter.

The Group adopts the following recommendations, requirements and guidelines:

- Bursa Malaysia Securities Berhad’s (“Bursa Malaysia”) Main Market Listing Requirements (“MMLR”);
- Corporate Governance Guide (“CG Guide”);
- Malaysian Code on Corporate Governance 2017;
- The Green Book on Enhancing Board Effectiveness by the Putrajaya Committee on Government-Linked Companies (“GLCs”) High Performance (“PCG”); and
- International best practices and standards on corporate governance.

With the Group’s significant presence in the countries it operates, the Group also monitors and abides by the guidelines of the relevant regulators and authorities.

## 1 ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

### 1.1 Clear functions of the Board and Management

UMW-OG Group applies the following Company’s Corporate Governance Framework, which provides an overview of the corporate governance processes and responsibilities within the UMW-OG Group:

STAKEHOLDERS				
BOARD OF DIRECTORS OF UMW OIL & GAS CORPORATION BERHAD				
BOARD EXECUTIVE COMMITTEE	BOARD AUDIT COMMITTEE	BOARD RISK MANAGEMENT COMMITTEE	BOARD NOMINATION & REMUNERATION COMMITTEE	BOARD WHISTLE-BLOWING COMMITTEE
PRESIDENT				
MANAGEMENT COMMITTEE				
MANAGEMENT SUB-COMMITTEES				
Management Audit Committee				
Management Risk Management Committee				
Management Whistle-Blowing Committee				
Management Banking Committee				
Business Continuity Management Committee				
Management Sustainability Committee				
Management Tender Committee				
CORE BUSINESSES OF THE GROUP				
DRILLING SERVICES		OILFIELD SERVICES		

Setting the tone from the top, the Board is responsible for the oversight and sets the UMW-OG Group’s overall strategy, core values and adopts proper standards to ensure the UMW-OG Group operates with integrity and complies with the relevant rules and regulations. Specific responsibilities of the Board are delegated to the respective Board Committee in accordance with their respective Terms of Reference (“TOR”), while specific powers are delegated to respective Board Committee, the President and the Management.

The Company’s Corporate Governance Framework is supported by the Financial Limit Authority Guidelines (“FLAG”) which sets out the respective authority limits including those reserved for the Board’s approval and those which the Board may delegate to the Board Committees, the President, Management Committees and Management. The Board, as and when required, will continue to review, deliberate and enhance the Company’s Corporate Governance Framework and FLAG to ensure its relevance and ability to meet future challenges.

# Statement on Corporate Governance

Each of the subsidiaries within the UMW-OG Group has its functional Board chaired by the President providing direct oversight over the subsidiary company's business practices and activities. Aligned with UMW-OG, each subsidiary of the UMW-OG Group has adopted the Company's Corporate Governance Framework and FLAG.

The Management Committee chaired by the President met regularly to deliberate on the overall management of the Group with direct line of sight of operations and activities with reports from the following divisions and departments:

- Drilling services
- Oilfield services
- Finance and Accounts
- Quality Health Safety and Environment
- Supply Chain Management
- Corporate Development and Sustainability
- Business Development
- Human Capital
- Secretarial
- Legal
- Corporate Transformation Office
- Drilling Academy
- Risk Management
- Corporate Communications

During the year ended 2017, the Management sub-committees met as when required and as scheduled respectively to effectively discharge its functions in tandem with the requirement of the Group's activities and business practices.

## 1.2 Clear roles and responsibilities

In discharging the Board's fiduciary and leadership functions, the Board is charged with leading the Company in an effective and responsible manner.

Amongst the key responsibilities of the Board are:

- setting the corporate vision and mission, objectives and strategic direction of the Group;
- overseeing and evaluating the conduct of the Group's businesses;
- identifying principal risks and ensuring that risks are properly managed;
- reviewing the adequacy and integrity of the Group's internal controls; and
- human resource planning, in particular succession plan.

The Board reserves full decision-making powers on the following matters:

- material acquisitions and disposal of assets;
- investments in major projects;
- authority levels;
- treasury policies;
- risk management policies;
- key human resource issues; and
- conflict of interest issues relating to a substantial shareholder or a Director.

The following describes how the Board discharged its key fiduciary and leadership functions in 2017:

## Reviewing and adopting Company's strategic plan

The Board reviews, challenges and approves the strategic plan for UMW-OG Group and is responsible for monitoring the implementation of the strategic plan by the Management.

The Management presented to the Board its recommended strategy and Business Plan for the ensuing year at a dedicated session for the Board's review and approval. Together with the Management, the Board deliberated the Company's mission and vision, considered an overview of the oil and gas industry outlook and the highlighted business strategy and direction of the UMW-OG Group, focusing on cost savings, stabilising revenue and people development. Key considerations by the Board were rig utilisation and charter rates.

The Board and the Board Executive Committee consistently challenged the Management in the development of the UMW-OG Group's Business Plan that aligns with the Group's mission and sustainability strategy. The Board and the Board Committees actively monitored the Management's execution of approved strategic plans as well as the transparency and adequacy of internal and external communication of the strategy.

## Overseeing the conduct of the Company's business

The President is responsible for the day-to-day management of the business activities and operations of the UMW-OG Group. He is supported by a Management Committee and Management Sub-Committees. The Board set the key performance targets of the President which is cascaded down to the Management.

At its meeting in October 2017, the Board approved the merging of the Nomination and Remuneration Committee with a revision to its membership composition.

The Board Executive Committee was established in 2016 and plays an oversight role in reviewing, evaluating and recommending on matters pertaining to strategic direction and projects, including investment, divestment, merger, acquisition, disposal of asset or businesses that require the approval of the Board.

On a monthly basis, execution of strategy and challenges were reported to the Board and were reported in ten sittings of the Board Executive Committee during the year 2017. Heads of Division and the Chief Financial Officer were invited to present on their respective reports to the Board and Board Executive Committee.

The Board deliberated on Investor Relations and noting the Company's share price movements and summary of the findings of analysts and research houses. The President and Chief Financial Officer presented every quarter the financial and QHSE performance of the Group. At each scheduled Board meeting, the Board reviews the report from the President on the market outlook and progress of the business operations of the Group. The Board also reviews the report from the Chief Financial Officer on the financial performance of the Group.

As part of the Group's commitment to deliver sustainable value, the Board reviews and approves the key risks faced by the Group, the potential impact and likelihood of risks occurring, the effectiveness of existing controls and the risk action plans being taken to manage the risks to the desired levels. The Board also assesses the Group's performance in quality, health, safety and environment compliance on a quarterly basis.

The recommendations and significant issues deliberated by the Board Audit Committee, Board Nomination & Remuneration Committee, Board Executive Committee, Board Risk Management Committee and Board Whistle-Blowing Committee are reported by the respective Chairman of the Committee to the Board for deliberation and approval. In addition, the minutes of these Board Committees are circulated and tabled to the Board for information.

#### **Board Committee**

The Board has delegated some of its responsibilities to Board Committees.

The Board has established five Board Committees, namely the Board Audit Committee, Board Nomination & Remuneration Committee, Board Executive Committee, Board Risk Management Committee and the Board Whistle-Blowing Committee, (collectively referred to as "Board Committees"), the primary functions of which are to assist the Board in overseeing the affairs of the Group and these Board Committees have been entrusted with specific responsibilities and authority.

The authority and the functions of these Board Committees are clearly defined in their respective TOR, which are available on the Company's website at [www.umw-oilgas.com](http://www.umw-oilgas.com)

The abovementioned Board Committees are authorised to examine specific issues and report to the Board with their recommendations. The responsibility of decisions on matters ultimately lies with the Board as a whole.

The Board receives regular reports on the respective Board Committees' proceedings and deliberations. On matters reserved for the Board and where Board Committees have no authority to make decisions, recommendations are highlighted in their respective reports for the Board's deliberation and endorsement.

#### **a. Identifying principal risks and ensuring the implementation of appropriate systems to manage them**

In 2016, the Board approved the change of name of the Board Investment & Risk Management Committee to Board Risk Management Committee ("BRMC") and revised its TOR.

On a quarterly basis, the Management Risk Management Committee considered the risk profiles and Top Risks of the UMW-OG Group, which were then tabled to the BRMC. Upon the recommendation

of BRMC, the Top Risks and Risk Action Plans were tabled to the Board.

With the formation of the Compliance Department, the Board approved the Compliance Department framework and its activities. During the year 2017, UMW-OG Group conducted Internal Control Risk Assessment and Review which provided for periodic self-assessment on compliance, compliance testing mechanism and conducted internal surveys to assess control environment and tone at the top. The Group updated the centralised regulatory compliance register for tracking and monitoring.

#### **b. Succession planning**

In August 2017, the Board approved the merger of the Nomination & Remuneration Committee ("NRC"). The NRC is responsible for identifying, evaluating and recommending to the Board, suitable candidates to fill board vacancies at UMW-OG level as well as within its group of companies. The NRC also reviews the appointment, dismissal, transfer and promotion of senior executives in UMW-OG Group. The recommendations of appointment of vacancies in the Board within UMW-OG Group made by the NRC are then tabled to the Board for approval.

In 2017, the NRC considered the appointment of directors of subsidiary companies within UMW-OG Group. In formulating its recommendations, the NRC considered the findings of the evaluation process, the current composition of the subsidiary company's Board, the attributes and qualifications that should be represented at the Board and whether the candidate can provide such additional attributes, capabilities and qualifications.

#### **c. Overseeing the development and implementation of a communication policy for the Company**

UMW-OG Group is committed to fulfil its obligation to provide accurate and timely information about UMW-OG Group, its performance, financial condition, operations, corporate developments and governance as well as current prospects to shareholders, stakeholders and the public in general. The Group believes in providing fair and accurate information on the Group so that investors and potential investors can make properly informed investment decisions and others can have a balanced understanding of the Company and its objectives.

During the year, the Board reviewed the Corporate Disclosure Procedures of the Group and approved the consolidated UMW-OG's Corporate Disclosure Policy which provides a framework of reference of the Group's corporate disclosure processes and procedures. All officers and employees of the Group are bound by the UMW-OG's Disclosure Policy and Procedures. In 2017, UMW-OG Group carried out its corporate communications and investor relations activities in accordance with the UMW-OG Disclosure Policy and procedures.



# Statement on Corporate Governance

Further details on activities undertaken in FY2017 are provided in page 95 of this Annual Report.

## d. Reviewing the adequacy and integrity of the management information and internal control of the Company

The Board has fiduciary responsibilities relating to corporate accounting, system of internal control and risk management processes and management and financial reporting practices of UMW-OG Group. Details pertaining to the Company's internal control system and its effectiveness are available in the Statement of Risk Management and Internal Control of this Annual Report.

### 1.3 Formalised ethical standards through code of conduct

The Company has in place a Code of Business Conduct and Ethics. This code consists of established specific rules and regulations to govern the conduct of its employees relating to his/her employment. Employees are expected to abide by all laws in conducting business and to always act with honesty, integrity, loyalty, trustworthiness, fairness and responsibility.

Such code may be modified, added to, substituted for or otherwise amended from time to time as the Board deems fit. Infringement of this code may lead to disciplinary action.

## Board Whistle-Blowing Committee ("BWBC")

In promoting the highest level of professionalism and ethics in the conduct of the Group's businesses, it is the Group's policy to welcome disclosures of suspected wrongdoings that include mismanagement, malpractices, corrupt practices, fraud, conflict of interest, abuse of authority or breach of any laws and regulations by any member of its staff and management.

The Whistle-Blowing Policy which was approved by the Board on 19 May 2014 provides employees with accessible avenue to report wrongdoings at the earliest opportunity, in an appropriate manner and without fear of reprisal.

The primary objectives of the BWBC include:

1. Reviewing, investigating and disposing complaints (in consultation with the Chairman of the Board and the President) received against any member of the Board of the Group, senior-most executive personnel of the Group (holding job grade 20 and above) and all Heads of Divisions and Heads of Strategic Business Units.
2. Reviewing and disposing all complaints received against all other employees of the Group, upon receiving recommendation or report from the Management Whistle-Blowing Committee ("MWBC").

The BWBC held three (3) meetings during the financial year.

The composition of the BWBC for the Financial year ended 31 December 2017 is as follows:

Name of Directors	Designation	Date of Appointment	Date of Resignation	Meeting Attendance
Fina Norhizah binti Hj. Baharu Zaman	Chairman Independent Non-Executive Director	21 July 2014	1 March 2017	Nil
Dato' Ibrahim bin Marsidi	*Chairman Independent Non-Executive Director	2 October 2017	N/A	3/3
Badrul Feisal bin Abdul Rahim	Non-Independent Non-Executive Director	1 October 2015	23 June 2017	Nil
Razalee bin Amin	Independent Non-Executive Director	21 July 2014	N/A	3/3
Dato' Afifuddin bin Abdul Kadir	Independent Non-Executive Director	21 July 2014	N/A	N/A

*\*Appointed as Chairman on 2 October 2017*

The Whistle-Blowing Policy is available online at <http://umw-oilgas.com/wp-content/uploads/2014/10/umwog-tor-wbc.pdf>

#### 1.4 Strategies that promote sustainability

The Board's commitment to achieve the highest standards of corporate governance across the UMW-OG Group is also reflected in the Board's promotion of sustainability practices within the Group. A summary of the Group's strategies that promote sustainability is provided in the Sustainability Statement of this Annual Report.

#### 1.5 Access to information and advice

Directors have access to advice and support of the Company Secretary and the Secretarial Division to assist the Directors where required. The Directors may also interact and seek advice from the Management on issues that may require the Management's clarification or information. The Board may seek independent professional advice in discharging its duties for UMW-OG at the Company's expense.

To effectively disseminate Board and Board Committee papers to the Directors, the agenda and papers are circulated electronically via upload onto the Director's iPad for convenient reference by the Directors. In 2017, an average of five calendar days was recorded for the distribution of Board and Board Committee papers save for Special Board Meetings for which a shorter timeframe has been agreed with the Board.

Senior management and key personnel as well as professional and external advisors were from time to time invited to attend Board and Board Committee meetings to brief the Board or Committee or to help clarify issues on any particular subject matter.

The Group has in place a system of follow-up, review and reporting of actions taken by the Management on the decisions of the Board or the Board Committees after each respective meeting.

#### 1.6 Qualified and competent Company Secretary

The Company Secretary, is qualified to act as Company Secretary under Section 235 of the Companies Act 2016 ("the Act"). The Board is supported by an experienced, competent and knowledgeable Company Secretary who works closely with the President and senior management to ensure effective information flow within the Board and the relevant Board Committees. The Company Secretary advises the Board in relation to the Company's Board Charter, Board Committees' TOR, Board procedures, legislations and relevant regulatory requirements.

The Company Secretary is responsible to ensure deliberations and resolutions of the Board and relevant Board Committees are accurately minuted and thereafter communicated to the relevant management for follow-up actions. The follow-up actions or progress of the Board or relevant Board Committees' recommendations or decisions are updated by the Company Secretary.

#### 1.7 Board Charter

The Board oversees and sets the tone for the Group's overall strategy and core values. The Board ensures that proper standards are adopted to ensure the Group operates with integrity and complies with the relevant rules and regulations.

In discharging its duties and responsibilities, the Board is guided by its Board Charter. The Board Charter which was adopted by the Board on 30 April 2014 sets out the roles and responsibilities of the Board in accordance with the principles outlined in the Code and ensures that all Board members acting on behalf of the Company are aware of their duties and responsibilities as Board members and the various legislations and regulations affecting their conduct and that the principles and practices of good corporate governance are applied in all their dealings. The Board Charter acts as a source of reference for Directors in relation to the Board's role, power, duties and functions. It also outlines the Board's rights to establish committees to assist in the discharge of its duties and responsibilities.

A copy of the Board Charter is available on the Company's official website at [www.umw-oilgas.com](http://www.umw-oilgas.com)

### 2. STRENGTHEN COMPOSITION

#### 2.1 Nominating Committee ("NOMCOM")

The NOMCOM is made up entirely of Non-Executive Directors. The composition of which was as per the table below.

The NOMCOM met five (5) times during the financial year.

# Statement on Corporate Governance

The composition of the NOMCOM and the respective attendance record of meetings for the financial year ended 31 December 2017 are as follows:

Name of Directors	Designation	Date of Appointment	Date of Resignation	Meeting Attendance
Dato' Afifuddin bin Abdul Kadir	Chairman Independent Non-Executive Director	13 May 2013	N/A	5/5
Dr. Leong Chik Weng	Non-Independent Non-Executive Director	13 May 2013	24 February 2017	1/2
Razalee bin Amin	Independent Non-Executive Director	13 May 2013	N/A	5/5
Fina Norhizah binti Hj Baharu Zaman	Independent Non-Executive Director	15 August 2013	1 March 2017	2/2
Badrul Feisal bin Abdul Rahim	Non-Independent Non-Executive Director	1 October 2015	23 June 2017	1/1
Cheah Tek Kuang	Independent Non-Executive Director	14 March 2017	N/A	2/3
Dato' Ibrahim bin Marsidi	Independent Non-Executive Director	14 March 2017	N/A	3/3

## 2.2 Remuneration Committee ("REMCOM")

The REMCOM met five (5) times during the financial year.

The composition of the REMCOM and the respective attendance record of meetings for the financial year ended 31 December 2017 are as follows:

Name of Directors	Designation	Date of Appointment	Date of Resignation	Meeting Attendance
Dr. Leong Chik Weng	Chairman Non-Independent Non-Executive Director	13 May 2013	24 February 2017	1/1
Dato' Afifuddin bin Abdul Kadir	*Chairman Independent Non-Executive Director	13 May 2013	N/A	5/5
Cheah Tek Kuang	Independent Non-Executive Director	13 May 2013	N/A	4/5
Dato' Ibrahim bin Marsidi	Independent Non-Executive Director	13 May 2013	N/A	5/5

*\*Appointed as Chairman on 12 December 2017*

## 2.3 Merger of the Board Nomination Committee and Board Remuneration Committee

In August 2017 the Board approved the merger of the Nomination & Remuneration Committee ("NRC"). The newly merged NRC met once during the financial year.

The composition of the NRC and the attendance record of meeting for the financial year ended 31 December 2017 are as follows:

Name of Directors	Designation	Date of Appointment	Date of Resignation	Meeting Attendance
Dato' Afifuddin bin Abdul Kadir	Chairman Independent Non-Executive Director	August 2017	N/A	1/1
Cheah Tek Kuang	Independent Non-Executive Director	August 2017	N/A	1/1
Dato' Ibrahim bin Marsidi	Independent Non-Executive Director	August 2017	N/A	1/1
Rowina Ghazali Seth	Independent Non-Executive Director	August 2017	N/A	1/1

The NRC's Terms of Reference is available on the Company's website at [www.umw-oilgas.com](http://www.umw-oilgas.com)

**The objectives of the NRC with regards to the nomination role are as follows:**

The NRC is responsible for identifying, evaluating and recommending to the Board, suitable candidates to fill board vacancies at the Company level as well as within the Group. The NRC is also responsible for the appointment, dismissal, transfer and promotion for senior-most executives in the Group (for job grade CSM-22 and above). Apart from assisting the Board to carry out annual reviews on the mix of skills and experience and other qualities, including core competencies, which the Non-Executive Directors bring to the Board, the NRC also carries out the process of evaluating the effectiveness of the Board as a whole, the performance and contribution of the Chairman and individual Directors, including Independent Non-Executive Directors, as well as the President of the Company, and to identify areas for improvement.

Nominations may come from a wide variety of sources, including Directors, senior employees of the Group, customers, shareholders, industry associations, recruiting firms and others.

The NRC is made up entirely of Non-Executive Directors, the composition of which is as per the table above.

**Summary of Activities**

The NRC carried out the following Nomination activities during the financial year ended 31 December 2017:

- a. Reviewed and recommended the following for Board's approval:
  - Extension of contract of service for senior-most executive positions;
  - Directors retiring by rotation and re-election to the Board;
  - Appointment of Director to Board and Board Committees;
  - Appointment of Directors on the boards of companies outside the Group;
  - Appointment of Directors on the boards of companies within the Group;
  - Annual assessment and review of effectiveness of Board, Board Committees, individual Director and the President;
  - Setting Key Performance Indicators ("KPIs") for the President;
  - Assessment of the performance of the President; and
  - Proposal on Revised Questionnaires on Board Evaluation for UMW-OG Board and Board Committees, Board (self and peer assessment) and President.
- b. Conducted an assessment of the effectiveness of the Board as a whole, Board Committees and the contributions of individual Directors including the President and recommended improvement plan, where applicable.

**Appointment of Directors**

The NRC is responsible for identifying, evaluating and recommending to the Board, suitable candidates to fill board vacancies at the Company level as well as the Group. The NRC considers the required mix of skills, experience and diversity, including gender, ethnicity and age, where appropriate. The NRC also consider the Director's qualifications, the Director's contributions to the Group and the overall composition of the Board with the goal of creating a balance of knowledge, experience and diversity aligned with the long-term interest of its shareholders. Nominations may come from a wide variety of sources, including Directors, senior employees of the Group, customers, shareholders, industry associations, recruiting firms and others.

The Company Secretary has the responsibility of ensuring that relevant procedures relating to the appointment of new Directors are properly executed.

Newly-appointed Directors are required to undergo familiarisation programmes and briefings to get a better understanding of the Group's operations and the overall industry as well as the relevant regulations and governance requirements.

**Re-Election of Directors**

All Directors including the Executive Director are subject to retirement by rotation at least once in every three years and are eligible for re-election. In accordance with Article 107 of the Articles of Association of the Company, at least 1/3 of the Directors shall retire from office at each annual general meeting, provided always that all Directors shall retire from office once at least in each three years as stipulated under Paragraph 7.26(2) of the MMLR. The retiring Directors being eligible for re-election may offer themselves for re-election.

Any new Director appointed during the financial year to fill a casual vacancy or as an addition to the existing Directors shall only hold office until the next Annual General Meeting ("AGM") of the Company and shall then be eligible for re-election as stipulated under Article 113.

At the forthcoming AGM of the Company, the following Directors will retire and are eligible for re-election:

1. Pursuant to Section 129(6) of the CA 1965
  - Cheah Tek Kuang
2. Pursuant to Article 107 of the Company's Articles of Association
  - Razalee bin Amin
  - Dato' Ibrahim bin Marsidi
3. Pursuant to Article 113 of the Company's Articles of Association
  - Mohd Rashid bin Mohd Yusof
  - Rowina Ghazali Seth
  - Haida Shenny binti Hazri
  - Rizal Rickman bin Ramli

# Statement on Corporate Governance

The abovenamed Directors who are due for re-election at the forthcoming AGM on 15 May 2018, have been evaluated by the NCR and approved by the Board. Further, the abovenamed Directors have met the Board's expectations and continued to perform in an exemplary manner as demonstrated by their contributions to the Board's deliberations.

## Diversity

The UMW-OG Group does not practice gender nor age or ethnicity discrimination, neither at the management level nor at the Board level. There is already women representation on the Company's Board as well as on management and the Boards of subsidiary companies. The wide spectrum of skills, experiences and diversity in terms of gender, ethnicity and age has given an added strength in terms of leadership and management.

The Board is actively working towards meeting the Government's target of 30% women's participation on Boards. In 2017, UMW-OG has achieved 22.2% with the appointments of the following capable and qualified individuals on its Board:

- (i) Rowina Ghazali Seth;
- (ii) Haida Shenny binti Hazri;

## Senior Independent Non-Executive Director

Dato' Afifuddin Abdul Kadir is the Senior Independent Director to whom concerns pertaining to the Group may be conveyed by the shareholders and the public. He has the role of supporting the Chairman and ensuring that all the Independent Directors have an opportunity to provide their views and comments on the affairs of the Group. All concerns relating to the Group can be conveyed to him via his email address at [afi\\_abdulkadir@yahoo.com](mailto:afi_abdulkadir@yahoo.com)

## Develop, maintain and review criteria for recruitment and annual assessment of directors

The Board had completed the annual performance evaluation for the financial year ended 31 December 2017 based on a set of updated questionnaires that evaluated the Board and the Board Committees' performances, and the respective activities undertaken including the performances and contributions of the Chairman, individual Directors and the President.

## The policy of the NRC with regards to the remuneration role are as follows:

The NRC is also responsible for developing the UMW-OG Group's remuneration policy framework and recommending the remuneration package of Directors and members of the senior management to the Board.

## Directors' Remuneration

The Board as a whole, upon the recommendation of the NRC determines the remuneration package and reward structure of the Executive Director and Non-Executive Directors. Directors do not participate in any discussions or decisions concerning each individual's remuneration.

In the case of the President/Executive Director, the remuneration is structured to link rewards to corporate and individual performance through Key Performance Indicators comprising fixed and performance-based rewards. The remuneration of the President/Executive Director includes salary, emoluments and benefits-in-kind.

The level of remuneration of the Non-Executive Directors reflects the experience and level of responsibilities undertaken by the Director concerned. The Non-Executive Directors are paid annual fees and attendance allowances (in accordance with the number of meetings attended).

In addition, the Non-Executive Directors are also provided with benefits-in-kind.

Non-Executive Directors' fees are determined by a fixed sum and approved through an ordinary resolution in a general meeting.

	Chairman	Non Executive Directors
Directors Fees	RM144,000 per annum	RM72,000 per annum
Meeting Allowance for Board and Board Committee	RM1,500 per meeting	RM1,000 per meeting

The NRC carries out reviews when appropriate and refers to remuneration surveys and consultants to assist in determining the appropriate level of reward which is competitive and consistent with the corporate objectives. This is necessary in order to attract and retain professionals with the qualities needed to manage the Group successfully.

The number of Directors of the Company whose total remuneration including remuneration for services rendered by them to UMW-OG during the financial year 2017 is as follows:

#### Directors Fees & Remuneration for FY 2017

Name	Fees	Meeting Allowance <sup>1</sup>	Monetary Value of Benefits-in-kind	TOTAL
Tan Sri Asmat bin Kamaludin <sup>2</sup>	54,000	14,370	105,608*	173,978
Dr. Leong Chik Weng <sup>3</sup>	12,000	7,500	600	20,100
Badrul Feisal bin Abdul Rahim <sup>4</sup>	36,000	21,000	1,800	58,800
Fina Norhizah bt Hj Baharu Zaman <sup>5</sup>	12,000	4,000	600	16,600
Dato' Abdul Rahman bin Ahmad <sup>6</sup>	-	-	-	1**
Razalee bin Amin	72,000	46,000	3,800	121,800
Dato' Afifuddin bin Abdul Kadir	72,000	39,500	4,300	115,800
Cheah Tek Kuang	72,000	39,500	4,300	115,100
Dato' Ibrahim bin Marsidi	72,000	43,000	3,600	118,600
Mohd Rashid bin Mohd Yusof <sup>7</sup>	37,600	12,000	2,580	52,180
Rowina Ghazali Seth <sup>8</sup>	37,600	10,000	2,780	50,380
Haida Shenny binti Hazri <sup>9</sup>	37,600	8,000	2,980	48,580
<b>TOTAL</b>	<b>514,800</b>	<b>244,870</b>	<b>132,948</b>	<b>891,919</b>

#### Note:

\*Benefits in kind comprised provision of a company motor vehicle, driver, petrol allowance, insurance and phone bill

\*\*only receive a token RM1 as fees and remuneration package for his directorship

<sup>1</sup>Meeting Allowances cover BOD, BAC, BEC, BN, BR, BNR, BRM, BWB

<sup>2</sup>Retired on 15 May 2017

<sup>3</sup>Resigned on 24 February 2017

<sup>4</sup>Resigned on 23 June 2017

<sup>5</sup>Resigned on 1 March 2017

<sup>6</sup>Redesignated as Chairman on 15 May 2017

<sup>7</sup>Appointed as Director on 23 June 2017

<sup>8</sup>Appointed as Director on 23 June 2017

<sup>9</sup>Appointed as Director on 23 June 2017

Breakdown of the aggregated remuneration of the President, Non-Independent Executive Director, Encik Rohizad bin Darus, for FY 2017 into appropriate components is set out below:

	RM'000
(a) Salaries and Allowances	957
(b) Benefits (Contribution to EPF and Monetary Value of Benefits-in-Kind)	292

#### Indemnification of Directors and Officers

Directors and Officers are indemnified under a Directors' and Officers' Liability Insurance, up to RM100 million for any one claim in aggregate, against any liability incurred by them in discharging their duties while holding office as Directors and Officers of the Company. However, the insurance does not provide coverage where there is negligence, default, breach of duty or breach of trust proven against the Directors or Officers.

### 3. REINFORCE INDEPENDENCE

#### 3.1 Annual assessment of independence

The independence of UMW-OG's Directors is measured based on the test of independence prescribed under the MMLR that he/she is independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement or ability to act in the best interest of UMW-OG Group.

This test is carried out before the appointment of Directors and re-affirmed annually by Independent Non-Executive Directors by self-assessment of independence by completion of the Confirmation of Independence Form. Annually, the review of Directors' independence also form part of the Director's performance evaluation.



# Statement on Corporate Governance

## 3.2 Tenure of independent director

In line with the recommendations of the Code, the Board has implemented a nine-year tenure limit for Independent Directors, which has been incorporated in the Board Charter, where upon the completion of a cumulative term of nine years, the Independent Director may continue to serve the Board subject to the Director's redesignation as a Non-Independent Director or remain designated as an Independent Director with shareholders' approval.

## 3.3 Shareholders' approval for re-appointment as Independent Non-Executive Director after a tenure of nine years

At present, none of the Independent Directors has served more than nine years on the Board.

## 3.4 Independence and conflict of interest

There is a sufficient element of independence on the Board to ensure the Independent Directors take on a crucial role as far as corporate accountability is concerned by providing independent view, advice and judgement to ensure a balanced and unbiased decision-making process. The Non-Executive Directors are independent of management and are free from any business relationship which could materially interfere with the exercise of their independent judgement. None of the Directors are related to one another.

The Directors are required to declare potential or actual conflict of interest in any transaction prior to any deliberation on matters before the Board. Where issues involve conflict of interest, the interested Directors shall abstain from discussion or voting on the matter.

## 3.5 Trading of UMW-OG shares by Directors and Principal Officers

The Company has in place the process for preparation of announcements and dissemination of the announcements to Bursa Malaysia in relation to trading in Company's securities by UMW-OG's Directors and the principal officers outside the closed period to ensure compliance with the requirements of the relevant regulatory authorities. The Company Secretary serves advance notices on quarterly basis to the Directors and principal officers on the applicable closed periods for trading in the Company's shares.

## 3.6 Separation of positions of the Chairman and CEO

The Board believes in and practices a separation of duties and responsibilities between the Chairman and the President to ensure a clear segregation of responsibility and accountability, proper balance of authority and greater capacity for independent decision-making.

The roles and responsibilities of the Chairman and the President are clearly defined in ensuring the smooth running of the Company's business and operations.

The Chairman's primary role is to lead the Board. He sets the tone for Board discussions and at the same time ensures high integrity and effectiveness of the Board as a whole. He conducts Board meetings and ensures that meetings proceed in an orderly manner. The Chairman encourages active participation of Board members in discussions and provides reasonable time for discussion of complex issues under review.

Decisions reached at meetings reflect the consensus of the whole Board and not the views of any individual or group.

The Chairman ensures and facilitates the flow of information between management and the Board and that information relating to issues on the agenda is disseminated to all Directors well before deliberation at Board meetings.

The President on the other hand is responsible for making and ensuring the implementation of broad policies as approved by the Board and reports to and discusses material matters including regulatory developments and strategic projects with the Board. The President is responsible for the day-to-day management of the business and operations of the Group. The President is supported by the Management Committee who meets regularly and other committees established under the Corporate Governance Framework.

There is therefore, a natural separation of management and governance leading to a balance of responsibility and authority. Though separated, their respective functions are mutually interdependent for efficient and effective execution of duties and responsibilities respectively.

## 3.7 Composition of the Board

In the FY2017, there were nine Directors, with the Chairman (being a Non-Independent Non- Executive Director), one Non-Independent Non-Executive Director, six Independent Non-Executive Directors and one Executive Director, who is the President of the Company. In line with the recommendations of the Code's Best Practices relating to board membership, as the Chairman is a Non-Independent Director, the composition for the Board comprises a majority of Independent Directors. Six out of the nine or more than 67% of its composition comprised Independent Directors.

The Board composition reflects the balance of independent and non-independent directors, with due consideration given to diversity in terms of gender, ethnicity and age. Together, the Board comprises a mix of qualified and experienced Directors with diverse skills, core competencies, background and commercial expertise including expertise in oil and gas industry, law, accountancy, business operations, financial, risk and investment management. The background of each director is set out on pages 32 to 41.

#### 4. FOSTER COMMITMENT

##### 4.1 Time commitment

The Board meets on a regular and scheduled basis throughout the year. Additional meetings or special Board meetings are convened whenever necessary when there are urgent and important decisions to be made.

The composition of the Board and the respective attendance record of meetings for the financial year ended 31 December 2017 are as follows:

Name of Directors	Designation	Date of Appointment	Date of Resignation	Meeting Attendance	Percentage
Tan Sri Asmat bin Kamaludin	Chairman Non-Independent Non-Executive Director	2 May 2013	15 May 2017	7/7	100%
Dato' Abdul Rahman bin Ahmad	Chairman Non-Independent Non-Executive Director	19 January 2017	N/A	14/14	100%
Rohaizad bin Darus	President Non-Independent Executive Director	31 January 2012	NA	15/15	100%
Badrul Feisal bin Abdul Rahim	Non-Independent Non-Executive Director	1 October 2015	23 June 2017	8/9	89%
Dr. Leong Chik Weng	Non-Independent Non-Executive Director	21 April 2011	24 February 2017	2/2	100%
Fina Norhizah binti Hj Baharu Zaman	Independent Non-Executive Director	15 August 2013	1 March 2017	1/2	50%
Razalee bin Amin	Independent Non-Executive Director	2 May 2013	N/A	15/15	100%
Dato' Afifuddin bin Abdul Kadir	Independent Non-Executive Director	2 May 2013	N/A	14/15	93%
Cheah Tek Kuang	Independent Non-Executive Director	2 May 2013	N/A	13/15	87%
Dato' Ibrahim bin Marsidi	Independent Non-Executive Director	2 May 2013	N/A	14/15	93%
Mohd Rashid bin Mohd Yusof	Independent Non-Executive Director	23 June 2017	N/A	6/6	100%
Rowina Ghazali Seth	Independent Non-Executive Director	23 June 2017	N/A	6/6	100%
Haida Shenny binti Hazri	Non-Independent Non-Executive Director	23 June 2017	N/A	5/6	83%

All the Directors have complied with the requirements of Bursa Malaysia in relation to attendance at Board meetings, in particular Paragraph 15.05(3) of the MMLR which states that the office of a Director will become vacant if the Director is absent for more than 50% of the total Board meetings held during a financial year.

At the start of the financial year, Board meetings and the various Board Committee meetings for the Group are planned and fixed for the whole year. The meeting calendar is circulated to all Board and Board Committee members to enable members to plan ahead and ensure attendance at the respective meetings.

Directors who are also members of the Board Committees are expected to commit sufficient time to carry out his/her role as member of the Board Committees.

# Statement on Corporate Governance

## BOARD EXECUTIVE COMMITTEE

The BEC met ten (10) times during the financial year.

The composition of the BEC and the respective attendance record of meetings for the financial year ended 31 December 2017 are as follows:

Name of Directors	Designation	Date of Appointment	Date of Resignation	Meeting Attendance
Dr. Leong Chik Weng	Chairman Non-Independent Non-Executive Director	25 April 2016	24 February 2017	2/2
Fina Norhizah binti Hj Baharu Zaman	Independent Non-Executive Director	25 April 2016	1 March 2017	1/2
Badrul Feisal bin Abdul Rahim	Non-Independent Non-Executive Director	25 April 2016	23 June 2017	5/7
Dato' Ibrahim bin Marsidi	Independent Non-Executive Director	25 April 2016	3 May 2017	6/7
Cheah Tek Kuang	Independent Non-Executive Director	25 April 2016	3 May 2017	7/7
Dato' Abdul Raman bin Ahmad	Chairman Non-Independent Non-Executive Director	11 September 2017	N/A	3/3
Rohaizad bin Darus	President Non-Independent Executive Director	11 September 2017	N/A	3/3
Razalee bin Amin	Independent Non-Executive Director	25 April 2016	N/A	10/10
Mohd Rashid bin Mohd Yusof	Independent Non-Executive Director	11 September 2017	N/A	3/3
Haida Shenny binti Hazri	Non-Independent Non-Executive Director	11 September 2017	N/A	2/3

## BOARD AUDIT COMMITTEE

The Board Audit Committee ("BAC") met seven (7) times during the financial year.

Details on the report for the BAC can be found on pages 102 to 104 of the Annual Report.

## BOARD RISK MANAGEMENT COMMITTEE

The Board Investment & Risk Management Committee was renamed as Board Risk Management Committee ("BRMC") on 25 April 2016. The BRMC is responsible for reviewing risk management and matters pertaining to quality, health, safety and environment in detail with Management and shall support the Board in the review, evaluation and recommendation on matters pertaining thereto.

The BRMC met five (5) times during the financial year.

The composition of the BRMC and the respective attendance record of meetings for the financial year ended 31 December 2017 are as follows:

Name of Directors	Designation	Date of Appointment	Date of Resignation	Meeting Attendance
Dr. Leong Chik Weng	Chairman Non-Independent Non-Executive Director	6 December 2013	24 February 2017	1/1
Badrul Feisal bin Abdul Rahim	Non-Independent Non-Executive Director	1 October 2015	23 June 2017	2/2
Fina Norhizah binti Hj Baharu Zaman	Independent Non-Executive Director	6 December 2013	1 March 2017	N/A
Dato' Ibrahim bin Marsidi	Independent Non-Executive Director	6 December 2013	14 June 2017	2/2
Cheah Tek Kuang	Chairman* Independent Non-Executive Director	21 March 2017	N/A	5/5
Mohd Rashid bin Mohd Yusof	Independent Non-Executive Director	11 September 2017	N/A	3/3
Rowina Ghazali Seth	Independent Non-Executive Director	11 September 2017	N/A	3/3
Haida Shenny binti Hazri	Non-Independent Non-Executive Director	11 September 2017	N/A	1/3
Dato' Afifuddin bin Abdul Kadir	Independent Non-Executive Director	21 March 2017	N/A	5/5
Rohaizad bin Darus	President Non-Independent Executive Director	6 December 2013	11 September 2017	5/5

*\*Appointed as Chairman on 11 September 2017*

#### 4.2 Reports/Minutes

Minutes of the BEC, BRMC, BAC, NOMCOM, REMCOM and NRC meetings are kept by the Company Secretary as evidence that the respective committee has discharged its functions. The approved minutes of meetings are forwarded to the members for information and significant issues are discussed at Board meetings. For the attendance record of meetings for the financial year ended 31 December 2017, refers to pages 82, 84, 89 to 94 of this Annual Report

The full text of the TOR for the Board Committee is available on the Company's website at [www.umw-oilgas.com](http://www.umw-oilgas.com)

#### 4.3 Directorships Outside The Group

To maintain good corporate governance and to avoid potential conflict of interest, the Board has set procedures with respect to accepting appointments as directors outside the Group.

When a Director is appointed a director of another company outside the Group, the Director is expected to immediately disclose the same to the Company via the Company Secretary, whereupon the Board Nomination & Remuneration Committee will assess and determine whether the appointment would give rise to potential conflict of interest and to consider the nature of and time commitment of such appointment.

#### 4.4 Continuing education programmes

All Directors, including newly-appointed Director, have successfully completed the Mandatory Accreditation Programme ("MAP") conducted by Bursatra Sdn. Bhd. as required by Bursa Malaysia.

In addition to the MAP, the Directors are also encouraged to attend training programmes conducted by highly competent professionals which are relevant to the Group's operations and business. The Company generally, and the Directors specifically continue to identify and attend appropriate seminars and courses to keep abreast of changes in legislation and regulations affecting the Group.

Members of the Board have attended various training programmes, seminars and luncheon talks in areas of operations, governance, leadership, financial, legal and other programmes organised internally and externally.

The Company Secretary facilitates and organises internal training and coordinates Directors' attendance of external seminars and programmes. The records of the trainings received by the Directors are kept by the Secretarial Division.

# Statement on Corporate Governance

Particulars of training programmes attended by the Directors as at 31 December 2017 are as follows:

Director	Training Programme Attended	Organiser
Dato' Abdul Rahman bin Ahmad	PNB Investment Series 2017 – Value Creation: Creating A Customer Focused Organisation	PNB Investment Institute Sdn. Bhd.
	AMLATFPUAA 2001: Risk, Challenges & Vulnerabilities Towards Risk Based Approach	PNB Investment Institute Sdn. Bhd.
	Global Transformation Forum 2017	PNB Investment Institute Sdn. Bhd.
	Management Retreat 2017	PNB Investment Institute Sdn. Bhd.
	The New Companies Act 2016 – The key Issues and Potential Pitfalls and Disclosure of Interest by Nominee Directors	PNB Investment Institute Sdn. Bhd.
	PNB Investment Series 2017 - The Future of Fintech/ Digital disruption	PNB Investment Institute Sdn. Bhd.
	SCLE Revision: Funds Management Regulation (Module 9)	Securities Industry Development Corporation
	SCLE Revision: Funds Management Regulation (Module 10)	Securities Industry Development Corporation
	Corporate Exercise and Asset Pricing in Malaysia	PNB Investment Institute Sdn. Bhd.
	PNB Investment Series 2017: The Future of Globalization & Liberalization: Are We Losing The Battle.	PNB Investment Institute Sdn. Bhd.
Rohaizad bin Darus	Khazanah Megatrends Forum 2017	Khazanah Nasional Bhd.
	Standard Chartered Bank Global Research Briefing	Standard Chartered Bank
	Site Visit to UMW NAGA 8 with client, Hess	UMW-OG
	Industry Reception OTC Asia	OTC Asia
	Site Visit to UMW NAGA 8 with client, Hess	UMW-OG
	Board Visit to UMW NAGA 5 & GAITS	UMW-OG
	Talent to Value Workshop	Permodalan Nasional Bhd.
	Leading in a Volatile, Uncertain, Complex, Ambiguous (VUCA) World	The Iclif Leadership and Corporate Governance Centre
	Site Visit UOS Plant	UMW-OG
	HSE, Process Safety & Technology Symposium 2017	PETRONAS
Razalee bin Amin	Site Visit UOD / Workover Yard	UMW-OG
	MPERS-Training from PERS to MPERS	Persatuan Firma-Firma Akauntan Bertauliah Melayu Malaysia
	PNB Investment Series 2017: The Future of Fintech / Digital Disruption	PNB Investment Institute
	Talent to Value Workshop	Permodalan Nasional Berhad
	FIDE Core Program Module B (Bank)	The Iclif Leadership and Corporate Governance Centre
	Persidangan Juruaudit Koperasi 2017	Suruhanjaya Koperasi Malaysia & The Institute of Cooperative & Management Auditors
Dato' Afifuddin bin Abdul Kadir	Malaysian Private Entities Reporting Standards (MPERS): Recent Development and Updates	Malaysian Institute of Accountants
	In House Training for Directors: The New Companies 2016	Lion Corporation Berhad
	Seminar On 'Companies Act 2016'	Tabung Haji
	Companies Act 2016	Power Root Berhad
	Board Visit to UMW NAGA 5 & GAITS	UMW-OG
	Talent to Value Workshop	Permodalan Nasional Berhad
	Business Sustainability	Pelikan International Corporation Berhad (PICB)

Cheah Tek Kuang	Bursa Malaysia Sustainability Forum 2017 - "The Velocity of Global Change & Sustainability - The New Business Model"	Bursa Malaysia
	Global Transformation Forum	BFR Institute Sdn. Bhd.
	The Release of the Malaysian Code on Corporate Governance	Securities Commission
	Companies Act 2016	Eco World International
	Invest Malaysia 2017	Bursa Malaysia
	Malaysian Code on Corporate Governance: Dealing with Issues and Expectations on Audit Committee, Risk Management and Stakeholder Management	Securities Commission
	Bursa Fraud Risk Management Workshop	Bursa Malaysia
	Khazanah Megatrends Forum 2017	Khazanah Nasional Berhad
	CG Breakfast Series For Directors: Leading Change @ The Brain	Bursa Malaysia
Dato' Ibrahim bin Marsidi	Terrorism Awareness Programme	TM Group Business Assurance (GBA) in collaboration with Southeast Asia Regional Centre for Counter Terrorism (SEARCCT)
	Shanghai & Guangzhou – Visitation Trip 2017	Menara Kuala Lumpur
Mohd Rashid bin Mohd Yusof	Capital Market Conference 2017	Malaysian Institute of Accountants
	Board Visit to UMW NAGA 5 & GAITS	UMW-OG
	Mandatory Accreditation Programme	The Iclif Leadership and Corporate Governance Centre
	Advocacy Session on Corporate Disclosure for Directors and Principal Officers of Listed Issuers - (I) Corporate Disclosure Framework (II) Directors Disclosure Obligations under the Listing Requirements	Bursa Malaysia
	MIA International Accountants Conference 2017	Malaysian Institute of Accountants
	Board Visit to UMW NAGA 5 & GAITS	UMW-OG
Rowina Ghazali Seth	Directors Risk Management Programme - I am Ready to Manage Risks!	Bursa Malaysia Berhad
	Mandatory Accreditation Programme	The Iclif Leadership and Corporate Governance Centre
	Board Visit to UMW NAGA 5 & GAITS	UMW-OG
Haida Shenny binti Hazri	Directors Risk Management Programme - I am Ready to Manage Risks!	Bursa Malaysia Berhad
	Mandatory Accreditation Programme	The Iclif Leadership and Corporate Governance Centre
	Talent to Value Workshop	Permodalan Nasional Berhad

## 5. UPHOLD INTEGRITY IN FINANCIAL REPORTING

### 5.1 Compliance with applicable financial reporting standards

The Board is committed to providing a balanced, clear and meaningful assessment of the financial performance and prospects of the Group to shareholders, the investor community and the regulatory authorities. Shareholders and other stakeholders are kept abreast of the Group's performance through the timely announcement of the quarterly financial results and uploaded on the Company's website.

The BAC assists the Board to oversee the financial reporting processes and the quality of its financial reporting. Quarterly financial results and annual financial statements are reviewed by the BAC to ensure adequacy and completeness of information prior to the Board's approval.

For the financial year under review, the President and the Chief Financial Officer have provided assurance to the Board that the financial records of the Group have been properly maintained and the financial statements give a true and fair view of the operations and finances and that an effective risk management and internal control system have been put in place.



# Statement on Corporate Governance

## 5.2 Directors' Responsibility Statement

The Board is required by the Act to ensure that financial statements prepared for each financial year have been made out in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the results and cash flows of the Company and the Group for the financial year.

The Board is responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy, the financial position of the Company and the Group and that the financial statements comply with the Act.

In preparing the financial statements the Board has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that are reasonable and prudent;
- Ensured that all applicable accounting standards have been followed; and
- Prepared financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries that the Group has adequate resources to continue in operations for the foreseeable future.

## 5.3 Assessment of suitability and independence of external auditors

During the year 2017, the Board Audit Committee approved the external auditors' performance and independence questionnaires and the Board adopted the External Auditors' Assessment Policy Statement for the Group. The BAC assessed the suitability and independence of external auditors for the Group and recommended their re-appointment as external auditors of the Group for the financial year 2018. On 5th April 2018, the Board approved the proposal on the appointment of Messrs. Ernst & Young to be tabled for approval at the 8th Annual General Meeting of the Company.

## 6. RECOGNIZE AND MANAGE RISKS

### Sound framework to manage risks

Details on the framework are set out in the Statement on Risk Management and Internal Control on pages 96 to 101 of this Annual Report.

## 7. INTERNAL CONTROLS

The Board acknowledges its overall responsibility for maintaining a system of internal controls that provides assurance of effective and efficient operations and compliance with laws and regulations and also its internal procedures and guidelines. The BAC reviews the effectiveness of the system of internal controls, which covers financial, operational and compliance controls, and also risk management.

In addition, the Board recognises that an internal control system can only provide reasonable and not absolute assurance against material misstatement, frauds or loss, and is designed to manage rather than eliminate the risk of failure to achieve the financial reporting objectives. The Board is cognisant of the importance of internal audit and the Company has during 2017 planned, and supported by the Internal Audit Department ("IAD"), carried out internal audit activities, concluding with a report with specific recommendations for further improvements to be implemented for the deliberation of the BAC and thereafter the Board. The Head of IAD attends all meetings of the BAC who presents directly the progress of the internal audit and the said report.

Details of the Company's internal control system and framework are set out in the Statement on Risk Management & Internal Control on pages 96 to 101 of this Annual Report.

### Internal Audit Function

The BAC maintains an appropriate transparent relationship with both the external auditors and internal auditors. The BAC undertakes an assessment of the suitability and independence of the external auditors.

The external auditors are invited to attend BAC meetings and present their audit findings when the Company's annual financial results are considered. The BAC meets with the external auditors twice a year without the presence of the President/Executive Director and Management.

Services provided by the external auditors include statutory audit and non-audit services. The terms of engagement for services of the external auditors are reviewed by the BAC and approved by the Board.

## 8. ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

### 8.1 Corporate disclosure policy

The Board recognises the importance of strengthening the relationship between the Group and its shareholders and maintaining dialogue with investors to disseminate the Group's performance.

The Group has in place a Corporate Disclosure Policy that provides a framework of reference of Corporate Disclosure processes and procedures, ensuring the adoption of consistent disclosure practices throughout the Group.

### 8.2 Leverage on information technology for effective dissemination of information

#### Website for the Group

The Group has a website [www.umw-oilgas.com](http://www.umw-oilgas.com) which provides information on the Group for all shareholders and the general public. The Group's website stores annual reports, press releases, analyst briefings presentation slides, financial and corporate information such as quarterly announcements of the financial results of the Group, disclosures and announcements made on the Group.

## **9. STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS**

### **9.1 Encourage shareholder participation at general meetings**

The Company's 8th Annual General Meeting will be held on Tuesday, 15 May 2018 at 10.00 a.m.

The AGM is the main forum for communication and dialogue with the shareholders. At the AGM, the Chairman through his opening statement provides an overview of the industry outlook and a concise review of the Group's performance and followed by the President's comprehensive review of the Group's financial performance. The Chairman then highlights administrative matters for the meeting.

Shareholders are encouraged to actively participate and interact through the 'questions and answers' session where they are accorded both opportunity and the time to raise questions on the Group's performance, future growth prospects and strategies and other matters on the agenda during the meeting. The Board and members of the senior management as well as the external auditors are on hand to provide explanations to any queries raised by the shareholders. A comprehensive report on the Group's operations and financial performance is made at every AGM. In addition, queries by Minority Shareholder Watchdog Group ("MSWG") raised prior to the AGM and the Company's responses are shared during the AGM.

The minutes of the AGM are made available on the Group's website.

### **9.2 Encourage poll voting**

In line with the requirements of the MMLR, voting at the 8th AGM of the Company is to be conducted by poll, instead of a show of hands.

UMW-OG has appointed Securities Services Sdn. Bhd. as Poll Administrator to conduct the polling process and Commercial Quest Sdn. Bhd. as scrutineers to verify the poll results.

### **9.3 Effective communication and proactive engagements**

The Board and management of the Group maintain effective and timely communications with its shareholders and stakeholders through the following channels, mediums and/or meetings:

#### **(i) Bursa Malaysia Securities Berhad Announcements**

The Board ensures timely announcements of financial results and corporate developments are made to Bursa Malaysia.

#### **(ii) Analyst Briefing and/or Press Conference or Release**

Analyst briefing was held on 28 February 2017 after the full year financial results for the financial year ended 31 December 2016 was released to Bursa Malaysia. A press conference was held after the 7th AGM on 15 May 2017, followed by a press release on the AGM. Chaired by the President, these briefings provided venues to keep the investors informed of the various activities and initiatives undertaken by the Group and to provide clearer understanding of the Group's financial and operational performance.

#### **(iii) One-on-One Meetings**

The Group aims to communicate fully with fund managers, investors and analysts upon request. One-on-one meetings with analysts and fund managers are held to provide updates on the Group's strategy and financial performance.

#### **(vi) Contact for Investor Relations matters**

Maryam Salwaana Kamal  
Head of Corporate Communications  
+603-2096 8788  
maryam.salwaana@umw-oilgas.com

#### **(v) Annual Report**

The Annual Report is an important medium of information to the shareholders where comprehensive information on the Group's financials, operations and activities is contained. The contents of the Annual Report is consistently enhanced to reflect transparency and accountability in line with the best corporate governance practices.

All shareholders of the Company will receive the Annual Report of the Company and notice of AGM within the mandatory period. The Group distributes its Annual Report to its shareholders in abridged version together with a CD ROM. Full version of the Annual Report together with the notice of AGM are available in the Group's website. Upon request, full version of the Annual Report is distributed to the shareholders.

## **10. COMPLIANCE STATEMENT**

The Board has deliberated, reviewed and approved this Statement on Corporate Governance. The Board is satisfied that the Group has fulfilled its obligations under the Code, the relevant chapters of the MMLR of Bursa Malaysia on corporate governance and applicable laws and regulations.

This Statement on Corporate Governance is made in accordance with the resolution of the Board duly passed on 21 March 2018.

# Statement On Risk Management & Internal Control

For The Year Ended 31 December 2017

## INTRODUCTION

The Board of Directors (“Board”) of UMW Oil & Gas Corporation Berhad (“UMW-OG” or “Company”) is committed to maintaining sound and effective risk management and internal control systems in UMW-OG and its subsidiaries (“Group”) to manage risks and to report on internal controls and regulatory compliance to safeguard shareholders’ investments, stakeholders’ interests and the Group’s assets.

Set out below is the Board’s Statement on Risk Management and Internal Control (“Statement”) for the financial year ended 31 December 2017 which outlines the nature and scope of risk management and internal control of the Group and covers all of the Group’s operations except for associated company. The Statement is prepared in accordance with the Statement on Risk Management and Internal Control – Guidelines for Directors of Listed Issuers (“Guidelines”) issued by Bursa Malaysia Securities Berhad (“Bursa Malaysia”) pursuant to Paragraph 15.26(b) of the Main Market Listing Requirements (“MMLR”) and the requirements of the Malaysian Code on Corporate Governance 2017 (“MCCG”).

## RESPONSIBILITY AND ACCOUNTABILITY

In carrying out its oversight roles and responsibilities, the Board has set the tone and direction for embedding sound and effective risk management and internal control and for reviewing the adequacy and integrity of these systems.

The Board continues to support and affirm its commitment and responsibility for the Group’s risk management and internal control systems covering financial, operational, and organisational and compliance controls which include the establishment of an appropriate control environment and framework as well as reviewing its adequacy and integrity.

The Board recognises that these systems are designed to manage and mitigate, rather than eliminate the risk of failure to achieve the Group’s business and corporate objectives within the risk appetite

established by the Board and management. Accordingly, these systems can only provide reasonable and not absolute assurance against material misstatement, fraud or loss. The Group’s concept of reasonable assurance also recognises that the cost of control procedures should not exceed the expected benefits.

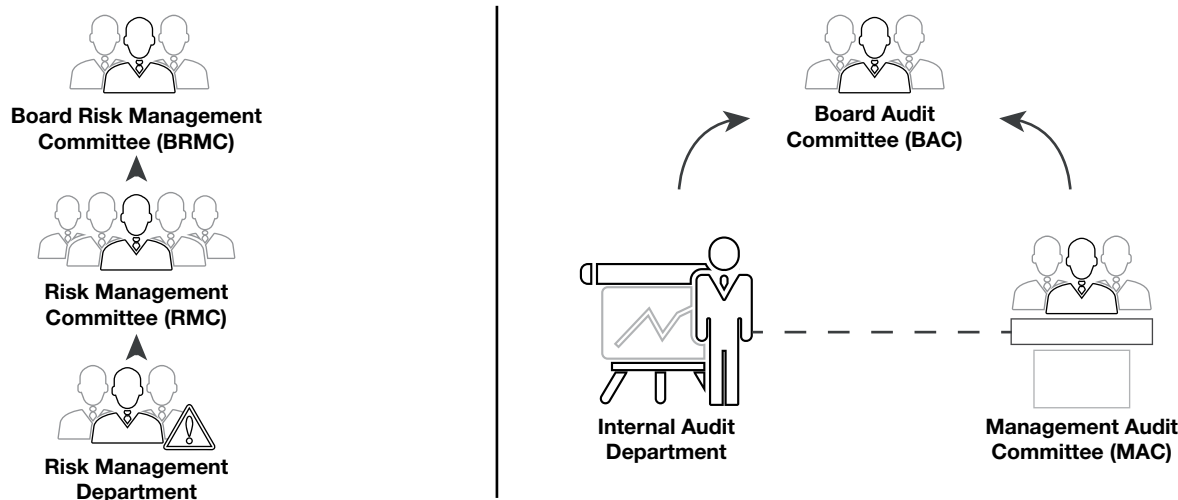
The responsibility of overseeing and reviewing the effectiveness of the Group’s Enterprise Risk Management (“ERM”) has been delegated to the Board Risk Management Committee (“BRMC”). The BRMC, comprising of majority independent directors, oversees the risk management framework and policies across the UMW-OG Group and deliberates on key risks and control measures to ensure risks are identified, assessed, properly managed and mitigated.

In addition, the Board Audit Committee (“BAC”) assists the Board in discharging its responsibilities relating to system of internal controls and risk management processes. The Chairman of BAC reports to the Board after each meeting. The approved minutes of BAC meetings are forwarded to Board members for information and significant issues are discussed at Board of Directors’ meetings. The BAC is supported by Internal Audit Department (“IAD”) who reports directly to the BAC.

The Board receives and reviews reports on the system of internal control in the Group quarterly and is of the view that the system of internal control that has been instituted throughout the Group is adequate to safeguard the shareholders’ investments, stakeholders’ interests and the Group’s assets.

Whilst the Board has overall responsibility for the Group’s risk management and internal controls systems, it has delegated the implementation of these systems to the Risk Management Committee (“RMC”) and the Management Audit Committee (“MAC”) who reports on the identified risk events with the risk action plans to mitigate and / or minimise the risks; and addressing matters highlighted in the Internal Audit Reports, respectively.

## UMW-OG RISK MANAGEMENT AND INTERNAL CONTROL STRUCTURE



# Statement On Risk Management & Internal Control

For The Year Ended 31 December 2017

## RISK MANAGEMENT FRAMEWORK

The Board recognises the fact that an effective risk management practice is a critical component of a sound risk management system and internal control. UMW-OG Group has established an Enterprise Risk Management (“ERM”) framework to proactively identify, evaluate and manage significant risks faced by the Group that may impede the Group’s objectives during the period under review up to the date of approval of this statement, to an optimal level. In line with the Group’s commitment to deliver sustainable value this framework aims to provide an integrated and organised approach entity-wide.

The Board has a stewardship responsibility to understand these risks, communicate the requirements of this policy and guide the organisation in dealing with these risks. In view of this, there is a systematic process of assessment; to identify, analyse and evaluate, in managing significant risks.

UMW-OG adopts ISO 31000 Risk Management Standards as a primary foundation and reference for the Enterprise Risk Management (“ERM”) framework. Through this standard, the Group aims to attain a common understanding, consistency and effective ERM implementation and practices across the Group. Simultaneously, the adopted framework facilitates the Management in making sound business decisions with the aspiration to lead the Group towards a more proactive and inclusive risk management approach to mitigate risks and capitalise on opportunities. UMW-OG’s RMC provides the BRMC with reasonable assurance that the impact from foreseeable events are mitigated and managed effectively.

The key features of the ERM framework are depicted in the diagram below and the detail of the activity is accompanied:

## Risk Management Oversight

The oversight role of risk management is carried out by the BRMC. Mandate and commitment from the Board are key contributors to the success factors in the implementation of the ERM programmes. The Board and BRMC play a vital role in risk oversight and set the strategic direction for risk roles, responsibilities and risk reporting structures. The periodic reporting to both the Board and BRMC on risk management activities by management via the Risk Management Committee (“RMC”) keeps the Board and BRMC apprised and advised of all aspects of ERM and significant individual risks and risk trends.

In addition to reporting to the BRMC and the Board, the RMC maintains the risk oversight within the UMW-OG Group at the management level, as outlined in the ERM framework, ensuring the effectiveness of risk identification and management as well as compliance with internal guidelines and external requirements. At the Board level, the BRMC assumes the oversight and strategic role for ERM.

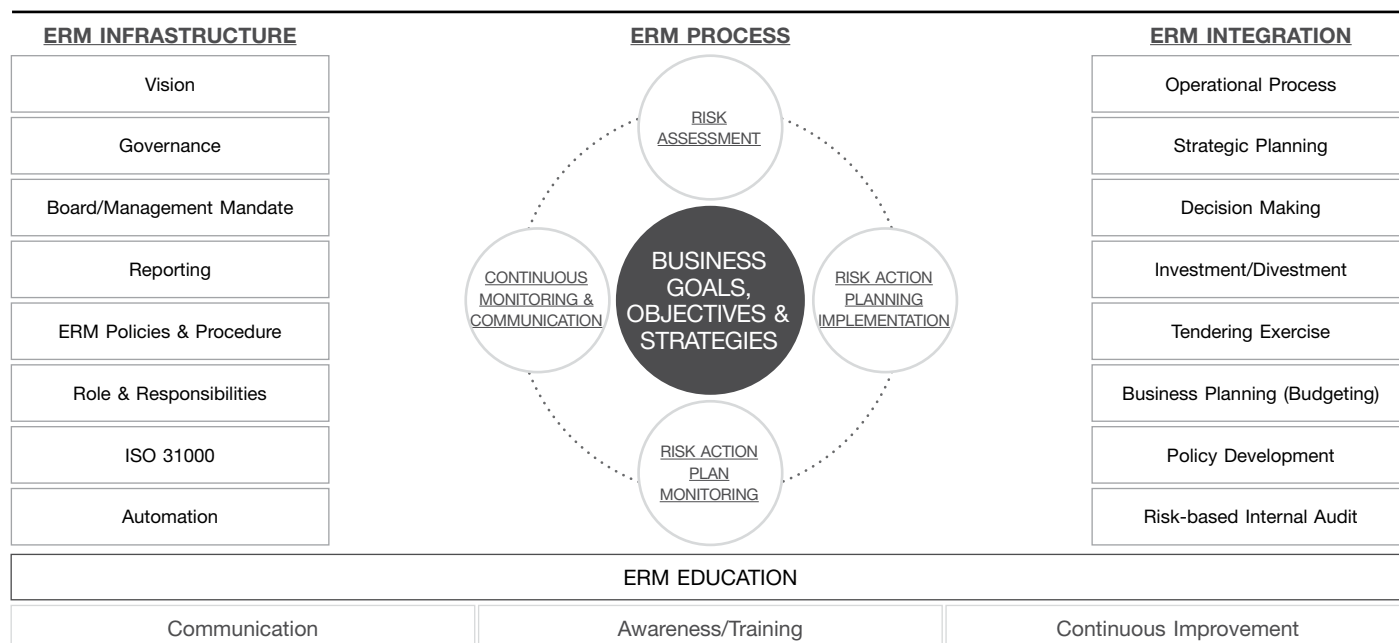
The RMC has specific responsibilities that include, but not limited to, establishing and implementing ERM mechanism to meet the requirements of ERM policies and articulate and challenge risk ratings; especially the Group Top Risks. In UMW-OG Group, Group Top Risks are determined by the following criteria:

- Strategic risks that increase the challenge to the company to stay viable; and/or
- Key Risks in Extreme and High quadrant; and/or
- Common risks that have significant impact to business - Revenue, Image/Reputation, Objective, Mission Vision of the company; and/or
- Any risks that are important to be highlighted at that time of reporting.

The RMC comprises of seven Management Committee members, chaired by the President of the Company.

The level of Board and management participation and the reporting structure is shown in the diagram below:

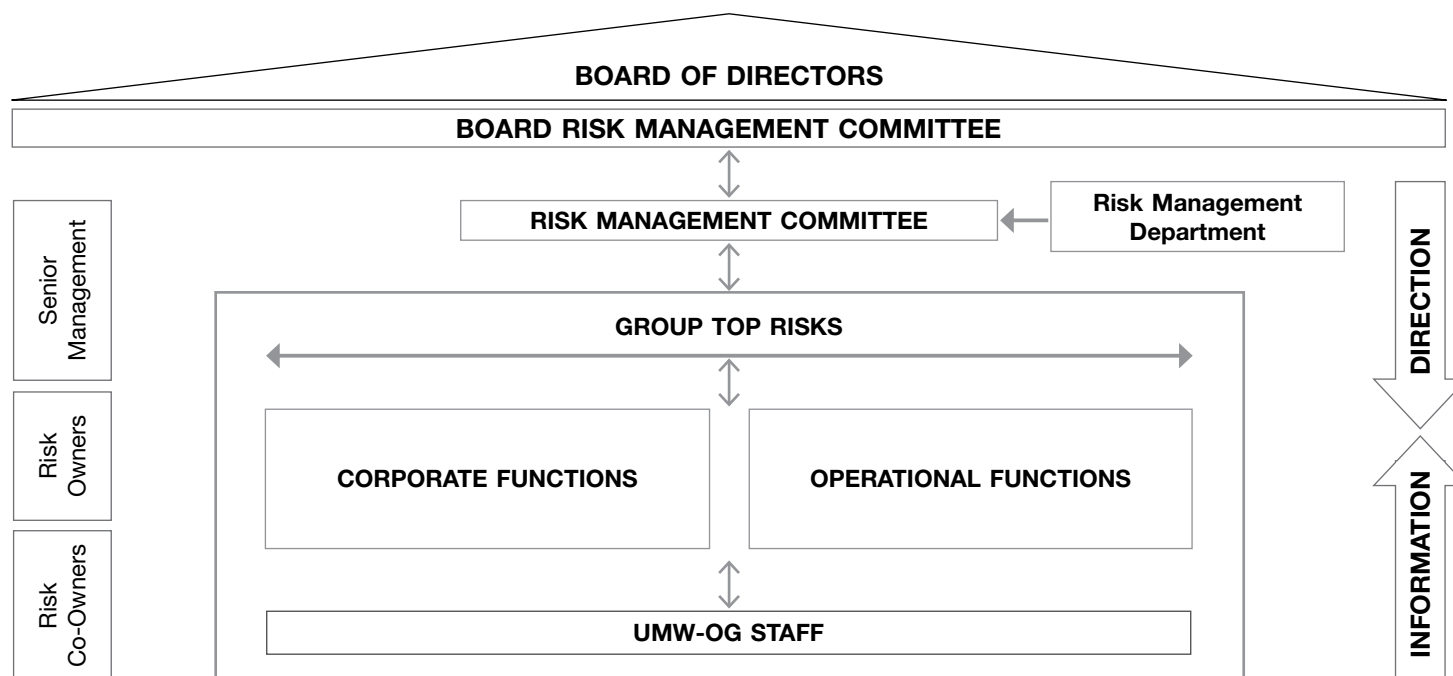
## ENTERPRISE MANAGEMENT FRAMEWORK



# Statement On Risk Management & Internal Control

For The Year Ended 31 December 2017

The RMC is supported by RMD whose primary role includes, but not limited to, ensuring effective implementation of risks management and business continuity management framework, programmes and risk-related education and awareness across the Group, providing independent and objective assessment on risks as well as timely reporting to the RMC, BRMC and the Board.



## Risk Management Policies

The policies of the Board are:

- To integrate risk management into the culture, business activities and decision-making processes;
- To anticipate and respond to the changing operational, social, environmental and regulatory requirements proactively;
- To manage risks pragmatically, to acceptable levels given the particular circumstances of each situation;
- To include a detailed risk assessment report in all Board papers relating to strategy, key project approval, significant action or investment for Board's deliberation and considerations; and
- To implement a robust and sustainable risk management framework that is aligned with the Group's vision and mission, and in accordance with best practices.

## Risk Management Process

The Group's ERM Framework has a structured process for Operating Companies and Corporate Divisions to identify, analyse, evaluate, treat, communicate and monitor their risks. The risks are identified based on the Group's goals and objectives and assessed against the Group Risk Parameters. Each risk identified will be reassessed and monitored on an ongoing basis to ensure its relevance and appropriate risk action plans are taken to manage the risks. A risk escalation procedure has also been established to escalate significant changes in risks or emerging risks for management's actions.

RMD conducts Risk Tolerance studies to assess UMW-OG's risk tolerance level and risk appetite. The process involves active identification, assessment and monitoring of the key business risks via Risk Register review sessions with the respective stakeholders. Group top risks and the respective risk action plans are signed off by the respective owners and are reported to the BRMC and Board on a quarterly and half-yearly basis respectively.

## Management of Strategic and Operational Risks

The context within which the Group manages its risks and key focus of accountability is as follows:

**Strategic risks** are risks primarily caused by events that are external to the Group, but have a significant impact on its strategic decisions or activities such as declining global oil price. Accountability for managing strategic risks therefore rests with the Board and the President. The benefit of effectively managing strategic risks is that the Group can better pre-empt and adapt quickly to the changing demands that are placed upon the Group. It also means that the Group is able to react more timely to some external events that call for significant change.

**Operational risks** are inherent in the ongoing activities within different operating companies and corporate divisions of the Group. Typically, these are risks relating to foreign exchange, interest rates, fundings, trade debt collection, compliance, competency, technology, etc. Senior management needs ongoing assurance that operational risks are identified and managed. Accountability for managing operational risks rests specifically with the Heads of the operating companies and corporate divisions of UMW-OG.

## Risk Reporting

The Group's ERM Framework provides for regular review and reporting. The ERM reports include information on risk profiles, risk action plans ("RAP"s) and status updates. During the year under review, these reports were presented and deliberated four (4) times by the RMC, four (4) times by BRMC and four (4) times by the Board.

## Risk Management Activities

As part of the Group's efforts to instil a proactive risk management culture and ownership, the following activities were undertaken during the year under review:

- a. An ERM awareness session was conducted for selected employees both for operating companies and corporate divisions.
- b. Discussions and consultations with Heads of operating companies and corporate divisions to obtain endorsement of their key risks.
- c. Provided risk advisory and independent assessment as well as facilitated 48 risk assessment reviews across the Group.
- d. Refinement of the risk register template for purposes of risk registration and monitoring.
- e. Developed 12 Business Continuity Plan ("BCP") for both operating companies and corporate divisions.

## INTERNAL CONTROL FRAMEWORK

The Board confirms that there is an ongoing process for identifying, evaluating, monitoring and managing the significant risks of the Group throughout the year. Such process is applied consistently throughout the Group and is constantly reviewed by the Board with the assistance of IAD. The key features of the Group's internal control structure and environment are described as follows:

### a. Board and Board Committees

- The Board is the pillar of the Group's risk management and internal control practices. Maintaining a sound and effective internal control system is the Board's commitment to uphold and implement a strong culture and environment for the proper conduct of the Group's business operations.
- The Board has established several board committees namely the BAC, Board Executive Committee ("BEC"), BRMC, Board Nomination and Remuneration Committee, as well as Board Whistle-Blowing Committee, to assist the Board in discharging its responsibilities in providing oversight on the effectiveness of the Group's operations. The respective Board Committees operate within clearly-defined terms of reference, procedures and authority delegated and approved by the Board, which are reviewed from time to time to ensure that they are relevant and up-to-date.
- The Board met 6 times and the BEC, BAC, BNRC and BRMC meet on a quarterly basis with additional meetings convened as Special Board Meetings where situations require urgent Board deliberation and decisions. The

other Board Committees meet as and when required, to examine specific areas and issues and report to the Board on their deliberations together with recommendations. Further information on the Board and Board Committees can be found in the Statement of Corporate Governance of the annual report and in the Company's website at [www.umw-oilgas.com](http://www.umw-oilgas.com).

### b. Organisation Structure and Reporting Lines

- The Board has established a well-defined organisation structure that is aligned to business requirements with clearly defined delegation of responsibilities by the Board to its Board Committees and management that promotes accountability for appropriate risk management and control procedures.
- Apart from the Board Committees, the Board is supported operationally by the Management Committee which comprises of senior management headed by the President. In addition, there are management working committees which includes but not limited to Banking Committee, Tender Committee, Risk Management Committee, Management Audit Committee and Business Continuity Management Steering Committee which consist of the President and/or senior management staff.
- The Management Committee convened a total of nine (9) meetings during the year to discuss its strategic business agendas that include review of the Group's performance, channelling appropriate inputs to the Board for its oversight of the Group's operations and maintenance of effective control over the entire operations. The organisation structure and delegation of responsibilities are communicated throughout the Group which set out, amongst others, authorisation levels, segregation of duties and other risk and control procedures.

### c. Internal Audit Function

- UMW-OG has formed its own Internal Audit Department ("IAD") on 1st March 2017. Prior to that date, the Internal Audit function was outsourced to the Group Internal Audit Division ("GIAD") of UMW Holdings Berhad ("UMWH"), which had been performing the audit reviews of the Group prior to its listing on 1st November 2013.
- IAD is independent of the UMW-OG Group's business operations and has a mandate set out in its Internal Audit Charter. IAD is a corporate member of the Institute of Internal Auditor Malaysia ("IIAM") and subscribes to the standards issued by IIAM.
- During the financial year, IAD had carried out its functions in accordance with the 2017 internal audit plan approved by the BAC and adopts a risk-based approach in formulating the annual audit plan and aligns its activities to the key risks identified across the Group.
- IAD's primary objective is to provide independent, reasonable and objective assurance in addition to consulting services designed to add value and improve efficiency of the operations within the Group. It assists the Group to achieve its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

# Statement On Risk Management & Internal Control

For The Year Ended 31 December 2017

- IAD also monitored the implementation of action plans designed to improve on areas where control deficiencies were identified during the financial year. On a quarterly basis, IAD submitted its reports on major findings and significant control issues observed during the audit reviews, together with management's response and proposed action plans, to the BAC for its review and where needed, to recommend appropriate actions to strengthen controls.
- The BAC evaluates and monitors the performance of the internal audit function to assess its effectiveness in discharging its defined duties and responsibilities.

## d. Management Audit Committee ("MAC")

The Management Audit Committee ("MAC") is established by the BAC with the primary objective of assisting the BAC in fulfilling its fiduciary responsibilities relating to the adequacy and effectiveness of internal controls, risks management and governance processes for the Group. The committee comprises of the Chief Financial Officer, as the Chairperson, Manager of Risk Management Department as a permanent member, senior management of the company / division being audited and representative(s) from IAD headed by a Senior Manager and/or Head of IAD.

MAC's functions are:

- To review internal audit reports with management of the company under audit and internal auditors;
- To assess the adequacy and effectiveness of internal controls, risks management and governance processes;
- To assess the level of compliance with approved company policies, procedures and legal requirements;
- To review effectiveness or appropriateness of action plans recommended to address control deficiencies identified;
- To agree on the corrective actions to be taken and its implementation;
- To follow-up on status of the implementation of the agreed action plans; and
- To report to BAC on meetings held, actions agreed upon and status of implementation on a quarterly basis.

During the year, the MAC held several meetings to carry out its functions. The MAC had its meeting(s) prior to the quarterly BAC meetings.

## e. Comprehensive Budgeting and Forecasting System

For the development of its 2017 operating and capital budgets, the Group performed a comprehensive annual budgeting and forecasting exercise. The exercise included industry and market studies, formulation of business strategies and establishment of

key performance indicators ("KPIs") which were deliberated and approved by the Board in December 2016.

Budgets prepared by operating units and corporate divisions are regularly compared with the actual results and explanations on variances are incorporated in management reports which are prepared and reported on a quarterly basis to the Board. These management reports analyse and explain variances against plan and report on the achievement of the KPIs after taking into account the changes in market conditions and significant business risks. On a monthly basis, a rolling forecast on the financial performance is prepared based on actual performance to date and forecast performance for the remaining period of the year. The rolling forecast takes into account changes in market conditions and the industry the Group is operating in.

During the year under review, the Group continued to be adversely impacted by the significantly lower levels of exploration, development and production activities in the oil and gas industry caused by supply glut that had weighed on prices for the last two years. As a result, the 2017 budgets were revised downward to take into account the above material changes.

The Group employs a reward and recognition framework based on the achievement of KPIs that measures the goals and targets for each individual operating unit in alignment with the Group's business objectives and strategies.

## f. Policies and Procedures

The Board is committed to maintaining a strong control structure and environment for the proper conduct of the Group's business operations and has put in place the following:

### i. Written Policies and Procedures

Clearly defined and documented internal policies and guidelines have been established through the relevant charters, terms of reference, organisational structures and appropriate authority limits. The Group's policies and guidelines have been communicated throughout the Group including via UMW-OG SharePoint for implementation and compliance. These policies and guidelines are approved by the Board and regularly updated to reflect changing business requirements.

### ii. Limits of Authority and Responsibility

Clearly defined and documented lines and limits of authority, responsibilities and accountability have been established by the Group in the form of Financial Limits Authority Guidelines ("FLAG").

The FLAG outlines the authority of the Board and its Committees and that of management for all transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organisation remains structured to ensure appropriate segregation of duties. The FLAG is also regularly updated to reflect changing risks or to address operational deficiencies.



**g. Monitoring, Reporting and Reviewing**

The effectiveness of the Group's systems of risk management and internal control are monitored through monthly management review of financial and operating results, business processes, the state of internal controls and business risk profile by the respective Heads of operating companies and Corporate Divisions and reported to the Management Committee. In addition to the monthly reporting, the Budget Review Committee chaired by the President performed mid-term business reviews on all operating units and initiate corrective measures where needed. Apart from that, regular internal visits are also made to the operating units by senior management to monitor compliance with policies and to assess performance. The Board is updated on the business performance on a quarterly basis. During the year under review, additional monthly reporting to the Board was made on 2017 forecast performance as a result of drastic changes in market conditions of the oil and gas industry.

In addition, these reviews are supplemented by a comprehensive review undertaken by IAD on controls implemented at each individual business units and operations. Reports on the reviews carried out by IAD are submitted on a regular basis to management and the BAC. These reports assess the impact of control issues and recommend appropriate actions to be taken to strengthen controls.

The President and Chief Financial Officer report to the BAC on the status of management's action plans to address issues highlighted by the IAD on a quarterly basis.

Notwithstanding the above, the Group's interests are served through representation on the Board of the associated company and receipt and review of management and audited financial statements, and enquiries thereon. Such representation also provides the Board with information for timely decision making on the continuity of the Group's investment based on the performance of the associated company.

The monitoring, reviewing and reporting arrangements in place give reasonable assurance that the structure of controls and its operations are appropriate to the Group's operations. Other than some weaknesses identified and addressed during the year, the Board believes that the system of internal controls is adequate and effective in achieving the Group's business objectives.

**ASSURANCE TO THE BOARD**

In line with the Guidelines, the Board has received assurance from the President and Chief Financial Officer of UMW-OG stating that the Group's risk management and internal control systems have operated adequately and effectively to a large extent, in all material aspects, for the financial year ended 31 December 2017 up to the date of this Statement save for some control weaknesses identified and addressed during the year.

The Board is of the view that there is a continuous process in identifying, evaluating, monitoring and managing the significant risks faced by the Group and that during the financial year under review there were no significant weaknesses in the risk management and internal control systems of the Group which had resulted in material losses, contingencies or uncertainties requiring disclosure in the Annual Report. The Board is satisfied that the systems of risk management and internal control in the Group are sound and sufficient to safeguard shareholders' investments, stakeholders' interests and the Group's assets for the financial year under review and up to the date of the Annual Report save for some control weaknesses identified and addressed during the year.

The Board remains committed to ensure that appropriate initiatives and active measures are taken to improve and enhance the Group's risk management and internal control systems so that shareholders' investments, stakeholders' interests and the Group's assets are consistently safeguarded.

**REVIEW OF THIS STATEMENT**

The External Auditors, Messrs. Ernst & Young, have performed limited assurance procedures on the Statement in accordance with Malaysian Approved Standard on Assurance Engagements, ISAE 3000, 'Assurance Engagement Other Than Audits or Reviews of Historical Financial Information' and Recommended Practice Guide 5 (Revised), 'Guidance for Auditors on Engagements to Report on the Statement on Risk Management & Internal Control' included in the Annual Report.

Messrs. Ernst & Young have reported to the Board that nothing has come to their attention that causes them to believe that the Statement included in the Annual Report is not prepared, in all material respects, in accordance with the disclosures required by Paragraphs 41 and 42 of Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers, nor is the Statement factually inaccurate.

This Statement is made in accordance with the resolution of the Board dated 21 March 2018.

# Board Audit Committee Report

The Board Audit Committee (“BAC”) assists the Board of Directors (“Board”) of the Company in fulfilling its oversight responsibilities in areas such as the integrity of financial reporting, the effectiveness of system of internal controls and risk management processes and related governance and compliance matters. This report provides insights into BAC’s work and the issues considered during the year ended 2017.

BAC was established on 13 May 2013 and its Terms of Reference (“TOR”) was approved by the Board of Directors of the Company on 13 May 2013. The highlighted roles of the BAC are to review, evaluate and report to the Board on the following:

- Consider and recommend the appointment of the external auditors, the audit fee and any questions of resignation or dismissal;
- Review the quarterly and annual financial statements for recommendation to the Board for approval;
- Discuss reservations arising from interim and final audits;
- Review the adequacy and effectiveness of its risk management and internal control systems as well as financial reporting standards of the Group; and
- Consider any related party transactions that may arise within the Group.

Detailed TOR of the BAC can be found on the Company’s website at [www.umw-oilgas.com](http://www.umw-oilgas.com).

## Performance Review of the BAC

The Board Nomination and Remuneration Committee (“NRC”) had conducted the annual performance evaluation of the BAC for the FY2017 and the report of which was reviewed by the Board. The Board is satisfied that the BAC has discharged its duties in accordance with its TOR.

## The composition of the BAC and attendance of BAC Meetings for the financial year ended 31 December 2017:

Committee Member	Designation	Date of Appointment	Date of Resignation	Meeting Attendance
Razalee bin Amin	Chairman Independent Non-Executive Director	13 May 2013	N/A	7/7
Dato’ Afifuddin bin Abdul Kadir	Independent Non-Executive Director	22 November 2017	N/A	1/1
Cheah Tek Kuang	Independent Non-Executive Director	13 May 2013	N/A	7/7
Dato’ Ibrahim bin Marsidi	Independent Non-Executive Director	13 May 2013	N/A	7/7
Badrul Feisal bin Abdul Rahim	Non-Independent Non-Executive Director	1 October 2015	23 June 2017	5/5

*Note: Please refer to pages 34 to 37 for the profiles of the BAC members.*

The Chairman of the BAC, Razalee bin Amin, is a member of the Malaysian Institute of Accountants, a member of the Malaysian Institute of Certified Public Accountants and a member of the Financial Planning Association of Malaysia. The BAC therefore, meets the requirements of Paragraph 15.09(1)(c) of the MMLR of Bursa Malaysia.

The BAC comprises of four Non-Executive Directors, with the majority being Independent Directors in compliance with the provisions of Paragraph 15.09(1) of the MMLR of Bursa Malaysia. A total of seven meetings were held during the financial year ended 31 December 2017.

The President and Chief Financial Officer were invited and attended all BAC meetings to present the quarterly financials, facilitate deliberations and provide explanations on the audit issues, specific control lapse and issues arising from the relevant audit reports. The members of the BAC had two sessions with the external auditors without the presence of the Management.

The external auditors were invited to discuss on external audit terms of engagement, the audit strategy and audit planning memorandum. Minutes of each meeting are kept by the Company Secretary as evidence that the BAC has discharged its functions. The Chairman of BAC reports to the Board after each meeting. The approved minutes of BAC meetings are forwarded to Board members for information and significant issues are discussed at Board meetings.

## Summary of Activities of the BAC

In accordance with its TOR, the BAC undertook the following key activities for the financial year ended 31 December 2017:

### Financial Reporting

1. Assisted the Board in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the Company and the Group in accordance with Malaysian Financial Reporting Standards ("MFRS");
2. Reviewed the quarterly unaudited financial results including related disclosures for recommendation to the Board for approval;
3. Reviewed the annual audited financial statements of the Group and ensuring that statements comply with MFRS for recommendation to the Board for approval; and
4. Reviewed and examined the impairment assessments and the assumptions adopted in arriving at the recoverable amounts. The BAC considered the MFRS 136 on Impairment of Assets and the oil price developments during the deliberation prior to the recommendation to the Board for approval. Please see Note 2.2(e) in the Notes to Financial Statements.

### Internal Audit

1. Reviewed the Annual Internal Audit Plan, methodology, functions and resources;
2. Received and reviewed quarterly reports by the Management Audit Committee on the findings of group audit, on significant findings and compliance issues as well as the Management's responses;
3. Reviewed audit fieldworks, audit performance ratings and any key observation notes;
4. Reviewed ongoing Audit Plan by Internal Audit Department ("IAD");
5. Deliberated the performance and control gaps highlighted in the internal audit reports, audit recommendations and Management's responses to the control lapses; and
6. Reviewed and deliberated on special reviews conducted within the Group.

### External Audit

1. Reviewed the external audit terms of engagement, the audit strategy and the achievement of the agreed upon reporting timeframes for the audit of the financial statements;
2. Reviewed the external audit reports and discussed findings and any reservations arising thereon;
3. Met with the external auditors twice during the year without the presence of the Management of the Company and/ or the Group;
4. Obtained a written assurance from the external auditors confirming that they are, and have been independent throughout the conduct of the audit of the financial statements of the Company and the Group for the financial year ended 31 December 2017 in accordance with the By-laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants;
5. Reviewed the External Auditors' Assessment Policy to outline the guidelines and procedures for the BAC to assess and review the external auditors. The Board approved the External Auditors' Assessment Policy in November 2016;
6. Assessed the suitability and independence of the external auditors in accordance to the approved External Auditors' Assessment Policy. The assessment considered the following matters:
  - The external auditors' requisite skills and expertise, including industry knowledge to effectively audit the Group;
  - The independence and objectivity of the external auditors;
  - The planning and execution of audit plan approved by the BAC;
  - Key risks including fraud risks had been highlighted, discussed and factored in the audit plan; and
  - The effectiveness of communication between the external auditors and the BAC.
7. Evaluated the performance of the external auditors for FY2017 and BAC recommended to the Board that Messrs. Ernst & Young be appointed as external auditors for the year ending 31 December 2018 at the 8th AGM; and
8. Reviewed and considered the audit fees for the external auditors for recommendation to the Board for approval.

# Board Audit Committee Report

## Related Party Transactions

1. Reviewed and assessed the internal control procedures on related party transactions entered into by the Group with related parties and being satisfied that the Group has in place adequate procedures and processes to monitor, track and identify such transactions in a timely and orderly, recommended to the Board for approval;
2. Reviewed the pricing of transactions with related parties on quarterly basis to ensure that the transactions are not at terms more favourable than the prevailing market practices; and
3. Reviewed the Circular to Shareholders with regard to the proposed renewal of shareholders' mandate for existing recurrent related party transactions for recommendation to the Board for approval.

## Compliance Programmes

1. Reviewed the compliance framework as well as the regulatory and business requirements of the Group; and
2. Reviewed the Compliance Department's roles and focus, the Internal Control Risk Assessment ("ICRA") and ICRA timeline.

## Annual Report

1. Reviewed the BAC Report, the Statement on Risk Management and Internal Control and the Statement on Corporate Governance prior to their inclusion in the Annual Report for the Board's approval.

## Internal Audit Functions

The Group previously outsourced the function of internal audit to GIAD of UMW Holdings Berhad to accomplish its internal audit requirements. However, with the demerger of the Group with UMW Holdings Berhad, the Group has setup its own Internal Audit Department ("IAD") in 2017 to undertake the Internal Audit function. The IAD audits internal control practices and reports significant findings to the BAC together with recommended corrective actions. Management is responsible for ensuring that corrective actions are undertaken within an appropriate time frame.

All findings by IAD are treated in strictest confidence. IAD is independent of the activities it audits and performs its duties with impartiality and due professional care.

The BAC approves the internal audit plan of IAD for the Group each year. The scope of the internal audit covers the audit of principal areas of operations within the Group.

During the year, the IAD ensured that internal control measures were adequate and effective in mitigating key risks and that these are monitored. The monitoring process will form the basis for continually improving the risk management process in the context of the Group's overall goals.

The total cost incurred by the Group for internal audits on its business units for the financial year ended 31 December 2017 amounted to RM500,268.

Further details on the internal audit functions are set out in the Statement on Risk Management and Internal Control on page 99 to 100 of this Annual Report.

## Additional Compliance Information

### 1. UTILISATION OF PROCEEDS

Status of utilisation of Rights Issue Proceeds as at 31 March 2018:

Purpose	Proposed Utilisation	Actual Utilisation to date	Deviation
	RM million	RM million	RM million %
Part repayment of the bank borrowings of the Group	1,500.0	1,500.0	nil
Working capital requirements of the Group	310.0	310.0	nil
Defray expenses relating to Rights Issue	6.1	3.2	47.5%
<b>Total</b>	<b>1,816.1</b>	<b>1,813.2</b>	

### 2. AUDIT AND NON-AUDIT FEES

The amount of audit and non-audit fees incurred by the Company and the Group for the financial year ended 31 December 2017 is set out on page 174 of this Annual Report.

### 3. MATERIAL CONTRACTS

There were no material contracts outside the ordinary course of business entered into by the Company and its subsidiaries involving Director's and major shareholder's interest which were still subsisting at the end of the financial year ended 31 December 2017 or entered into since the end of the previous financial year.

### 4. RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

At the 7th Annual General Meeting ("AGM") held on 15 May 2017, the Company obtained a general mandate from its shareholders for recurrent related party transactions of a revenue or trading nature, to be entered into by its subsidiaries ("RRPT Mandate").

The RRPT Mandate is valid until the conclusion of the forthcoming 8th AGM of the Company to be held on 15 May 2018. The Company will not be seeking a renewal of the RRPT Mandate at the forthcoming 8th AGM of the Company.





## Financial Statements

108	Directors' Report
113	Statement by Directors
113	Statutory Declaration
114	Independent Auditors' Report
118	Consolidated Statement of Financial Position
120	Consolidated Statement of Comprehensive Income
121	Consolidated Statement of Changes in Equity
123	Consolidated Statement of Cash Flows
125	Statement of Financial Position
127	Statement of Comprehensive Income
128	Statement of Changes in Equity
129	Statement of Cash Flows
131	Notes to the Financial Statements



# Directors' Report

The directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2017.

## PRINCIPAL ACTIVITIES

The principal activities of the Group and the Company are referred to in Note 1 to the financial statements.

There have been no significant changes in the nature of the principal activities during the financial year.

## RESULTS

The results of the Group and of the Company for the financial year ended 31 December 2017 are as follows:

	Group RM'000	Company RM'000
Loss for the year	(1,129,275)	(1,534,092)
Attributable to:		
Equity holders of the Company	(1,126,999)	(1,534,092)
Non-controlling interests	(2,276)	–
	(1,129,275)	(1,534,092)

As at 31 December 2017, the Group had impaired its assets by RM982,089,000. Further details are disclosed in Note 4 to the financial statements.

Other than the above, there were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than as disclosed in the financial statements.

## DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year.

## **DIRECTORS OF THE COMPANY**

The names of the directors of the Company in office since the beginning of the financial year to date of this report are:

Dato' Abdul Rahman bin Ahmad (appointed on 19 January 2017)  
Rohaizad bin Darus #  
Razalee bin Amin  
Dato' Afifuddin bin Abdul Kadir  
Cheah Tek Kuang  
Dato' Ibrahim bin Marsidi  
Mohd Rashid bin Mohd Yusof (appointed on 23 June 2017)  
Haida Shenny binti Hazri (appointed on 23 June 2017)  
Rowina Ghazali Seth (appointed on 23 June 2017)  
Tan Sri Asmat bin Kamaludin (retired on 15 May 2017)  
Dr. Leong Chik Weng (resigned on 24 February 2017)  
Fina Norhizah binti Hj Baharu Zaman (resigned on 1 March 2017)  
Badrul Feisal bin Abdul Rahim (resigned on 23 June 2017)  
Rizal Rickman bin Ramli (appointed on 21 March 2018)

# Directors of the Company and certain of its subsidiaries

## **DIRECTORS OF THE COMPANY'S SUBSIDIARIES**

The name of the Directors of the Company's subsidiaries since the beginning of the financial year to the date of this report, excluding those who are already the Directors of the Company, are:

Abdul Hadi bin Abdul Bari  
Abdul Mutalib bin Idris  
Thum Sook Fun  
Izwan Radzi Megat bin Mohd Radzi  
Syed Rozhan bin Syed Hassan  
Kenzo Yamada  
Yoichi Onoe  
Satoru Umezu  
Wai Thuy Fong  
Kok Chong Mun  
Yeo Kiong Pung, George  
Antony Alexander Elliott  
Rafiza binti Ghazali (appointed on 6 February 2018)  
Mohd Hagitar bin Awang Teh (appointed on 31 May 2017)  
Hasnizal bin Mhd Azlan (resigned on 31 May 2017)  
Ooi Koe Leong (resigned on 8 February 2018)

# Directors' Report

## DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during the year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Company or a related corporation as shown in Note 21 and Note 23 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 31 to the financial statements.

## DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the directors in office at the end of the financial year did not have any interest in the shares of the Company or its related corporations except for the following:

	1 January 2017	Number of Ordinary Shares		31 December 2017
		Bought	Sold	

### The Company

#### Direct interest

Razalee bin Amin	203,000	–	–	203,000
Dato' Afifuddin bin Abdul Kadir	275,000	–	–	275,000
Dato' Ibrahim bin Marsidi	30,000	–	–	30,000
Rohaizad bin Darus	1,000,000	2,800,000	–	3,800,000

#### Indirect interest

Cheah Tek Kuang	26,000	10,311	–	36,311
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	1 January 2017	Number of Warrants		31 December 2017
		Bought	Sold	

### The Company

#### Direct interest

Rohaizad bin Darus	–	700,000	–	700,000
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## INDEMNITY AND INSURANCE COSTS

During the financial year, the Company maintained a Directors' and Officers' Liability Insurance for the purpose of Section 289 of the Companies Act 2016. The insurance premium for the Company is RM117,464.

## INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Corporation has agreed to indemnify its auditor, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit for an unspecified amount. No payment has been made to indemnify Ernst & Young during or since the financial year.

## ISSUE OF SHARES

During the financial year, the Company:

- (a) increased its issued and paid-up ordinary share capital by way of issuance of renounceable rights issue of 4,836,727,688 new ordinary shares on the basis of 14 rights shares for every 5 ordinary shares held in the Company, for working capital purpose.
- (b) issued 1,216,872,312 new Islamic Redeemable Convertible Preference Shares ("RCPS-i"), for working capital purpose.

## WARRANTS

On 25 October 2017, the Company allotted and issued 1,209,181,678 free warrants on the basis of 1 warrant for every 4 rights shares subscribed and 304,218,076 free warrants on the basis of 1 warrant for every 4 RCPS-i subscribed.

The warrants are valid for exercise for a period of 7 years from its issue date and will expire on 18 October 2024. During this period, each Warrant entitled the registered holder to subscribe for 1 new ordinary share in the Company at any time on or after 25 October 2017 to 18 October 2024, at an exercise price of RM0.395 per warrant. Any warrant not exercised by its expiry date will lapse thereafter and cease to be valid for all purposes. As at the reporting date 1,513,399,754 Warrants remained unexercised.

## OTHER STATUTORY INFORMATION

- (a) Before the statements of financial position and statements of comprehensive income of the Group and of the Company were made out, the directors took reasonable steps:
  - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for impairment on receivables and satisfied themselves that all known bad debts had been written off and that adequate allowance for impairment on receivables has been made; and
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
  - (i) the amount written off for bad debts or the amount of the allowance for impairment on receivables in the financial statements of the Group and of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

# Directors' Report

## OTHER STATUTORY INFORMATION (CONT'D.)

(e) As at the date of this report, there does not exist:

- (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (ii) any material contingent liability of the Group and of the Company which has arisen since the end of the financial year.

(f) In the opinion of the directors:

- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

## SIGNIFICANT EVENTS

Details of significant events are disclosed in Note 35 to the financial statements.

## AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Auditors' remuneration are disclosed in Note 23 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 5 April 2018.



**DATO' ABDUL RAHMAN BIN AHMAD**



**ROHAIZAD BIN DARUS**

## Statement by Directors

Pursuant to Section 251(2) of the Companies Act 2016

We, **DATO' ABDUL RAHMAN BIN AHMAD** and **ROHAIZAD BIN DARUS**, being two of the directors of **UMW OIL & GAS CORPORATION BERHAD**, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 118 to 195 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 5 April 2018.



**DATO' ABDUL RAHMAN BIN AHMAD**



**ROHAIZAD BIN DARUS**

## Statutory Declaration

Pursuant to Section 251(1)(b) of the Companies Act 2016

I, **RAFIZA BINTI GHAZALI**, being the officer primarily responsible for the financial management of **UMW OIL & GAS CORPORATION BERHAD**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 118 to 195 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by  
the abovenamed **RAFIZA BINTI GHAZALI**  
at Kuala Lumpur in the Federal Territory  
on 5 April 2018



**RAFIZA BINTI GHAZALI**

Before me,



# **Independent Auditors' Report**

to the members of UMW Oil & Gas Corporation Berhad  
(Incorporated in Malaysia)

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Opinion**

We have audited the financial statements of UMW Oil & Gas Corporation Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Company, and statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 118 to 195.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

### **Basis for opinion**

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Independence and other ethical responsibilities**

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

#### Impairment of non-current assets

##### **(a) Impairment of property, plant and equipment**

As at 31 December 2017, the property, plant and equipment of the Group mainly consist of drilling rigs, hydraulic workover units and drilling-related equipment. The carrying amount of the property, plant and equipment of the Group as at 31 December 2017 are RM3,643.2 million, as disclosed in Note 4 of the financial statements. The slow recovery in the oil and gas industry, the reduction in operating day rates of the drilling rigs and the idle status of the hydraulic workover units during the year are indications that the property, plant and equipment may be impaired. Management has estimated the recoverable amount of the property, plant and equipment using value in use based on discounted future cash flows.

Accordingly, impairment assessment performed for the aforementioned assets resulted in impairment losses of property, plant and equipment of RM982.1 million as disclosed in Notes 4 and 22 to the financial statements.



## REPORT ON THE FINANCIAL STATEMENTS (CONT'D.)

### Key audit matters (cont'd.)

#### Impairment of non-current assets (cont'd.)

##### (b) Impairment assessment of investment in subsidiaries

As at 31 December 2017, certain subsidiaries have reported continuing operating losses and/or depleting shareholders' funds. These are indications that the investment in these subsidiaries with a carrying amount of RM2,518.6 million may be impaired. The Company estimated the recoverable amount of the subsidiaries using value in use based on discounted future cash flows and compared the carrying amount of the investment in subsidiaries with their respective recoverable amounts. This resulted in impairment losses of investment in subsidiaries of RM1,327.9 million as disclosed in Notes 6 and 22 to the financial statements.

Given the significance of property, plant and equipment to the Group and investments in subsidiaries to the Company and the significant judgments and estimates involved in the assessment of the recoverable amount, we have identified the above impairment assessments as important to our audit.

Our procedures in reviewing the significant judgements and estimates in the impairment assessments involve, inter alia the following:

- Reviewed the methodology of impairment assessment;
- Reviewed the underlying key assumptions on which the cash flow projections are based, such as the assets' utilisation, operating day rates and efficiency rates;
- Corroborated the key assumptions with industry analysts' views, management's plans and existing contracts, where applicable;
- Evaluated the probability of securing significant future contracts by making enquiries with project teams to obtain an understanding of the status of negotiations and the likelihood of securing the contracts;
- Assessed the reasonableness of the discount factor used;
- Performed sensitivity analysis of the changes in key assumptions; and
- Assessed the adequacy of the disclosures on the assumptions and the outcome of the impairment test.

#### Inventory-related controls and stock takes

As at 31 December 2017, the inventories of the Group mainly consist of raw materials, spare parts, and consumables used in the subsidiaries' operations which entail the charter of drilling rigs and hydraulic workover units. As such, the inventories are situated at multiple locations, both onshore and offshore. We have identified this as a key audit area due to the multiple locations of the inventories, and material misstatement arising from the risk of potential delays in the recording of the receipt and utilisation of inventories. Further details of the inventories are disclosed in Note 10.

Our procedures in reviewing the inventory-related controls and stock takes are as the following:

- Obtained an understanding on the controls over the inventory, including the procedures for goods transferred between locations, guidelines for urgent purchases, the physical security of the inventory, and stock takes;
- Attended and observed physical stock takes conducted by management for selected locations to verify adherence to stock take processes;

# **Independent Auditors' Report**

to the members of UMW Oil & Gas Corporation Berhad  
(Incorporated in Malaysia)

## **REPORT ON THE FINANCIAL STATEMENTS (CONT'D.)**

### **Key audit matters (cont'd.)**

#### Inventory-related controls and stock takes (cont'd.)

- Evaluated the roll forward and roll backward of inventory from the point of stock take to the year end to assess for potential misstatement; and
- Reviewed and tested management's reconciliation between the book inventory balance and the physical count results.

## **INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITORS' REPORT THEREON**

The directors of the Company are responsible for the other information. The other information comprises the information included in the Group's annual report for financial year ended 31 December 2017 but does not include the financial statements of the Group and of the Company and our auditors' report thereon. The Group's 2017 Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or knowledge obtained in the audit or otherwise appears to be materially misstated.

## **RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

## **AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

## AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D.)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

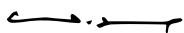
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 30 to the financial statements.

## OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



**ERNST & YOUNG**  
AF: 0039  
Chartered Accountants

Kuala Lumpur, Malaysia  
5 April 2018



**AHMAD ZAHIRUDIN BIN ABDUL RAHIM**  
No. 02607/12/2018 J  
Chartered Accountant

# Consolidated Statement of Financial Position

As At 31 December 2017

	Note	2017 RM'000	2016 RM'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	3,643,231	5,298,125
Land use rights	5	2,367	2,514
Investment in associate	7	2,303	2,571
Deferred tax assets	8	100	112
Derivative assets	9	–	5,071
Deposit at bank	13	–	336,450
		<b>3,648,001</b>	5,644,843
<b>Current assets</b>			
Inventories	10	194,841	211,916
Receivables	11	260,418	132,276
Tax recoverable		5,730	2,948
Derivative assets	9	–	489
Due from subsidiaries of former holding company	12	2,357	2,547
Deposits, cash and bank balances	13	680,747	555,021
		<b>1,144,093</b>	905,197
<b>TOTAL ASSETS</b>		<b>4,792,094</b>	6,550,040

	Note	2017 RM'000	2016 RM'000
<b>EQUITY AND LIABILITIES</b>			
<b>Non-current liabilities</b>			
Due to former holding company	12	–	308,000
Long term borrowings	14	<b>1,398,528</b>	2,272,773
		<b>1,398,528</b>	2,580,773
<b>Current liabilities</b>			
Taxation		<b>435</b>	634
Short term borrowings	15	<b>461,115</b>	1,499,745
Payables	16	<b>162,479</b>	205,397
Due to former holding company and subsidiaries of former holding company	12	<b>5,344</b>	2,290
		<b>629,373</b>	1,708,066
<b>Total liabilities</b>		<b>2,027,901</b>	4,288,839
<b>Equity</b>			
<b>Equity attributable to equity holders of the Company</b>			
Ordinary share capital	17	<b>3,732,346</b>	1,081,000
Share premium	17	–	1,372,819
Islamic Redeemable Convertible Preference Shares (“RCPS-i”)	17	<b>322,471</b>	–
Other reserves	18	<b>868,674</b>	837,298
Accumulated losses		<b>(2,160,128)</b>	(1,033,129)
		<b>2,763,363</b>	2,257,988
Non-controlling interests		<b>830</b>	3,213
<b>Total equity</b>		<b>2,764,193</b>	2,261,201
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,792,094</b>	6,550,040

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
Revenue	19	586,651	321,053
Other operating income	20	11,164	27,650
Changes in inventories		146	152
Finished goods purchased		(128)	(70)
Raw materials and consumables used		(73,334)	(54,425)
Employee benefits	21	(116,638)	(123,352)
Depreciation and amortisation		(259,057)	(291,191)
Impairment provisions	22	(982,135)	(781,200)
Other operating expenses	23	(177,210)	(178,966)
Loss from operations		(1,010,541)	(1,080,349)
Finance costs	24	(138,221)	(118,233)
Investment income	25	17,836	16,899
Share of results of associate		419	419
Loss before tax		(1,130,507)	(1,181,264)
Income tax credit/(expense)	26	1,232	(2,183)
<b>Loss for the year</b>		<b>(1,129,275)</b>	<b>(1,183,447)</b>
<b>Other comprehensive (loss)/income:</b>			
Foreign currency translation		(175,048)	98,520
Cash flow hedges:-			
Fair value (loss)/gain		(5,559)	8,437
Reclassified to profit or loss		-	(5,746)
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods (net of tax):		(180,607)	101,211
<b>Total comprehensive loss for the year</b>		<b>(1,309,882)</b>	<b>(1,082,236)</b>
<b>Loss attributable to:</b>			
Equity holders of the Company		(1,126,999)	(1,177,379)
Non-controlling interests		(2,276)	(6,068)
		<b>(1,129,275)</b>	<b>(1,183,447)</b>
<b>Total comprehensive loss attributable to:</b>			
Equity holders of the Company		(1,307,499)	(1,075,012)
Non-controlling interests		(2,383)	(7,224)
		<b>(1,309,882)</b>	<b>(1,082,236)</b>
Basic loss per share attributable to equity holders of the Company (sen)	27	(36.79)	(54.46)
Diluted loss per share attributable to equity holders of the Company (sen)	27	(31.55)	(54.46)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2017

	Non-distributable					Distributable					
	Share capital RM'000 (Note 17)	Share premium RM'000 (Note 17)	Share options reserve RM'000 (Note 18)	Capital reserve RM'000 (Note 18)	Gain on derecognition of financial liabilities RM'000 (Note 18)	Foreign currency translation reserve RM'000 (Note 18)	Hedging (Accumulated reserve RM'000 (Note 18)	Retained profits/ losses) RM'000	Total RM'000	Non- controlling interests RM'000	Total equity RM'000
At 1 January 2016	1,081,000	1,372,819	3,243	698	78,145	649,977	2,868	144,250	3,333,000	10,437	3,343,437
Loss for the year	-	-	-	-	-	-	-	(1,177,379)	(1,177,379)	(6,068)	(1,183,447)
Other comprehensive income for the year	-	-	-	-	-	99,676	2,691	-	102,367	(1,156)	101,211
Total comprehensive income/ (loss) for the year	-	-	-	-	-	99,676	2,691	(1,177,379)	(1,075,012)	(7,224)	(1,082,236)
At 31 December 2016	1,081,000	1,372,819	3,243	698	78,145	749,653	5,559	(1,033,129)	2,257,988	3,213	2,261,201



# Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2017 (cont'd)

	Non-distributable						Distributable						
	Share capital RM'000 (Note 17)	Share premium RM'000 (Note 17)	RCPS-i RM'000 (Note 17)	Warrant reserve RM'000 (Note 18)	Share options reserve RM'000 (Note 18)	Capital reserve RM'000 (Note 18)	Gain on derecognition of financial liabilities RM'000 (Note 18)	Foreign currency translation reserve RM'000 (Note 18)	Hedging reserve RM'000 (Note 18)	Accumulated losses RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 January 2017	1,081,000	1,372,819	-	-	3,243	698	78,145	749,653	5,559	(1,033,129)	2,257,988	3,213	2,261,201
Transactions with owners													
Effect of implementation of Companies Act 2016	1,372,819	(1,372,819)	-	-	-	-	-	-	-	-	-	-	-
Issue of ordinary shares pursuant to rights issue	1,281,733	-	-	169,285	-	-	-	-	-	-	1,451,018	-	1,451,018
Issue of RCPS-i	-	-	322,471	42,591	-	-	-	-	-	-	365,062	-	365,062
Rights issue expenses	(3,206)	-	-	-	-	-	-	-	-	-	(3,206)	-	(3,206)
Total transactions with owners	2,651,346	(1,372,819)	322,471	211,876	-	-	-	-	-	-	1,812,874	-	1,812,874
Loss for the year	-	-	-	-	-	-	-	-	-	(1,126,999)	(1,126,999)	(2,276)	(1,129,275)
Other comprehensive income for the year	-	-	-	-	-	-	-	(174,941)	(5,559)	-	(180,500)	(107)	(180,607)
Total comprehensive loss for the year	-	-	-	-	-	-	-	(174,941)	(5,559)	(1,126,999)	(1,307,499)	(2,383)	(1,309,882)
At 31 December 2017	3,732,346	-	322,471	211,876	3,243	698	78,145	574,712	-	(2,160,128)	2,763,363	830	2,764,193

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Consolidated Statement of Cash Flows

For The Year Ended 31 December 2017

	2017 RM'000	2016 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before tax	(1,130,507)	(1,181,264)
Adjustments for:		
Depreciation and amortisation	259,057	291,191
Impairment loss on property, plant and equipment (Note 4)	982,089	780,265
Interest expense	138,221	118,233
Investment income	(17,836)	(16,899)
Net (gain)/loss on disposal of property, plant and equipment	(297)	625
Property, plant and equipment written off	9	6,826
Impairment loss on receivables	1,483	–
Share of results of associate	(419)	(419)
Net fair value loss on investments in money market fund	–	52
Provision for impairment in amount due from subsidiaries of former holding companies	46	935
Net unrealised foreign exchange loss	10,406	17,430
Operating profit before working capital changes	242,252	16,975
(Increase)/decrease in receivables	(138,135)	157,198
(Increase)/decrease in inventories	(1,282)	666
Decrease in payables	(15,319)	(119,093)
Net changes in subsidiaries of former holding companies	3,197	(302)
Net cash generated from operations	90,713	55,444
Interest paid	(139,846)	(115,450)
Taxes paid	(1,747)	(3,947)
Net cash used in operating activities	(50,880)	(63,953)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	17,026	16,288
Purchase of property, plant and equipment	(17,179)	(57,036)
Proceeds from disposal of property, plant and equipment	11,084	401
Proceeds from disposal of money market fund	–	90,864
Dividend received from an associate	349	321
Cash outflow on investment in money market fund	–	(1,351)
Net cash generated from investing activities	11,280	49,487

# Consolidated Statement of Cash Flows

For The Year Ended 31 December 2017 (cont'd)

	2017 RM'000	2016 RM'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds on loan advances received from holding company	–	308,000
Repayment on loan advances received from former holding company	(308,000)	–
Repayment of long term borrowings	(2,125,382)	(259,614)
Drawdown of long term borrowings	1,407,381	646,644
Net movement in short term borrowings	(919,059)	(784,355)
Proceeds from issuance of ordinary shares	1,451,018	–
Proceeds from issuance of RCPS-i	365,062	–
Rights issue expenses	(3,206)	–
Placement of restricted cash deposits in licensed banks	(10,894)	(558,275)
Withdrawal of restricted cash deposits in licensed banks	558,275	–
Net cash generated from/(used in) financing activities	415,195	(647,600)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>375,595</b>	<b>(662,066)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>333,196</b>	<b>973,807</b>
<b>EFFECTS OF EXCHANGE RATE CHANGES</b>	<b>(38,938)</b>	<b>21,455</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>669,853</b>	<b>333,196</b>
Cash and cash equivalents comprise:		
Deposits with licensed banks - Non-current (Note 13)	–	336,450
Deposits with licensed banks - Current (Note 13)	610,130	483,386
Cash and bank balances (Note 13)	70,617	71,635
Less: Restricted cash (Note 13)	680,747	891,471
	(10,894)	(558,275)
	669,853	333,196

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

**Statement of  
Financial Position**  
As At 31 December 2017

	Note	2017 RM'000	2016 RM'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	2,025	2,568
Investment in subsidiaries	6	1,605,835	2,248,700
Due from related companies	12	774,828	1,635,124
		<b>2,382,688</b>	3,886,392
<b>Current assets</b>			
Receivables	11	2,032	1,221
Tax recoverable		1,837	175
Due from related companies	12	152,846	95,695
Due from subsidiaries of former holding company	12	813	783
Deposits, cash and bank balances	13	564,233	421,588
		<b>721,761</b>	519,462
<b>TOTAL ASSETS</b>		<b>3,104,449</b>	4,405,854
<b>EQUITY AND LIABILITIES</b>			
<b>Non-current liabilities</b>			
Due to former holding company	12	–	308,000
Due to related company	12	298,091	–
Long term borrowings	14	–	676,032
		<b>298,091</b>	984,032
<b>Current liabilities</b>			
Short term borrowings	15	–	1,035,674
Payables	16	2,312	9,273
Due to former holding company	12	3,926	1,447
Due to related companies	12	146,161	78
Due to subsidiaries of former holding company	12	379	552
		<b>152,778</b>	1,047,024
<b>Total liabilities</b>		<b>450,869</b>	2,031,056

# Statement of Financial Position

As At 31 December 2017 (cont'd)

	Note	2017 RM'000	2016 RM'000
<b>Equity</b>			
<b>Equity attributable to equity holders of the Company</b>			
Ordinary share capital	17	<b>3,732,346</b>	1,081,000
Share premium	17	–	1,372,819
Islamic Redeemable Convertible Preference Shares (“RCPS-i”)	17	<b>322,471</b>	–
Other reserves	18	<b>290,021</b>	78,145
Accumulated losses		<b>(1,691,258)</b>	(157,166)
<b>Total equity</b>		<b>2,653,580</b>	2,374,798
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,104,449</b>	4,405,854

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

**Statement of  
Comprehensive Income**  
For The Year Ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
Revenue	19	17,029	16,897
Other operating income	20	1,672	34,737
Employee benefits	21	(15,057)	(15,881)
Depreciation		(819)	(953)
Impairment provisions	22	(1,498,910)	(320,376)
Other operating expenses	23	(47,259)	(11,638)
Loss from operations		(1,543,344)	(297,214)
Finance costs	24	(62,743)	(57,857)
Investment income	25	70,859	69,297
Loss before tax		(1,535,228)	(285,774)
Income tax credit/(expense)	26	1,136	(1,688)
<b>Loss for the year, representing total comprehensive loss for the year</b>		<b>(1,534,092)</b>	<b>(287,462)</b>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Statement of Changes in Equity

For The Year Ended 31 December 2017

	I----- Non-distributable -----I					Distributable	
	Share capital RM'000 (Note 17)	Share premium RM'000 (Note 17)	RCPS-i RM'000 (Note 17)	Warrant reserve RM'000 (Note 18)	Gain on derecognition of financial liabilities RM'000 (Note 18)	Retained profits/ (Accumulated losses) RM'000	Total equity RM'000
<b>At 1 January 2016</b>	1,081,000	1,372,819	–	–	78,145	130,296	2,662,260
<b>Total comprehensive loss</b>	–	–	–	–	–	(287,462)	(287,462)
<b>At 31 December 2016</b>	1,081,000	1,372,819	–	–	78,145	(157,166)	2,374,798
<b>At 1 January 2017</b>	<b>1,081,000</b>	<b>1,372,819</b>	<b>–</b>	<b>–</b>	<b>78,145</b>	<b>(157,166)</b>	<b>2,374,798</b>
<b>Transactions with owners</b>							
Effect of implementation of Companies Act 2016	<b>1,372,819</b>	<b>(1,372,819)</b>	–	–	–	–	–
Issue of ordinary shares pursuant to rights issue	<b>1,281,733</b>	–	–	<b>169,285</b>	–	–	<b>1,451,018</b>
Issue of RCPS-i	–	–	<b>322,471</b>	<b>42,591</b>	–	–	<b>365,062</b>
Rights issue expenses	<b>(3,206)</b>	–	–	–	–	–	<b>(3,206)</b>
<b>Total transactions with owners</b>	<b>2,651,346</b>	<b>(1,372,819)</b>	<b>322,471</b>	<b>211,876</b>	–	–	<b>1,812,874</b>
<b>Total comprehensive loss</b>	–	–	–	–	–	<b>(1,534,092)</b>	<b>(1,534,092)</b>
<b>At 31 December 2017</b>	<b>3,732,346</b>	<b>–</b>	<b>322,471</b>	<b>211,876</b>	<b>78,145</b>	<b>(1,691,258)</b>	<b>2,653,580</b>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Statement of Cash Flows

For The Year Ended 31 December 2017

	2017 RM'000	2016 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before tax	(1,535,228)	(285,774)
Adjustments for:		
Depreciation of plant and equipment	819	953
Interest expense	62,743	57,857
Investment income	(70,859)	(69,297)
Net unrealised foreign exchange loss	101,159	10,246
Net fair value loss on investments in money market fund	–	52
Dividend income	(8,644)	(6,592)
Loss on disposal of plant and equipment	182	34
Provision for impairment in investment in subsidiaries	1,327,925	288,029
Provision for impairment in amount due from subsidiaries	170,985	32,347
Operating profit before working capital changes	49,082	27,855
(Increase)/decrease in other receivables	(75)	498
Decrease in other payables	(278)	(57)
Net changes in former holding company	2,479	–
Net changes in subsidiaries of former holding company	(205)	–
Net changes in related companies balances	436,870	123,266
Cash generated from operating activities	487,873	151,562
Tax paid	(525)	(2,483)
Net cash generated from operating activities	487,348	149,079
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	70,123	14,018
Advances to subsidiaries	(146,754)	(285,409)
Purchase of plant and equipment	(538)	(761)
Proceeds from disposal of plant and equipment	80	149
Proceeds from disposal of money market fund	–	76,327
Cash outflow on investment in money market fund	–	(737)
Dividend received from a subsidiary	8,644	6,592
Net cash used in investing activities	(68,445)	(189,821)



# Statement of Cash Flows

For The Year Ended 31 December 2017 (cont'd)

	2017 RM'000	2016 RM'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of long term borrowings	(676,032)	(28,863)
Net movement in short term borrowings	(1,035,674)	(486,047)
Proceeds on loan advances received from holding company	–	308,000
Repayment of loan advances received from former holding company	(308,000)	–
Interest paid	(69,426)	(56,827)
Proceeds from issuance of ordinary shares	1,451,018	–
Proceeds from issuance of RCPS-i	365,062	–
Rights issue expenses	(3,206)	–
Placement of restricted cash deposits in licensed bank	–	(221,825)
Withdrawal of restricted cash deposits in licensed bank	221,825	–
Net cash used in financing activities	(54,433)	(485,562)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>364,470</b>	<b>(526,304)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>199,763</b>	<b>726,067</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>564,233</b>	<b>199,763</b>
Cash and cash equivalents comprise:		
Deposits with licensed banks (Note 13)	558,317	421,024
Cash and bank balances (Note 13)	5,916	564
	564,233	421,588
Less: Restricted cash (Note 13)	–	(221,825)
	564,233	199,763

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Notes to the Financial Statements

31 December 2017

## 1. CORPORATE INFORMATION

UMW Oil & Gas Corporation Berhad (“UMW-OG”) is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad (“Bursa Malaysia”). The registered office of UMW-OG is located at Level 18, Block 3A, Plaza Sentral, Jalan Stesen Sentral 5, 50470 Kuala Lumpur.

On 11 July 2017, the Company ceased to be a subsidiary of UMW Holdings Berhad (“UMWH”) upon completion of the distribution of ordinary shares in the Company held in UMWH to the entitled shareholders of UMWH.

The principal activity of the Company is to carry on the business of an investment holding company and to provide full corporate management, administrative and professional services as well as financial support to its subsidiary companies. The principal activities of the subsidiaries and associate are described in Notes 30 and 7, respectively.

The Group is principally engaged in:

- (a) the provision of drilling services for exploration, development and production wells and workover services to the upstream sector of the oil and gas industry; and
- (b) the provision of threading, inspection and repair services for Oil Country Tubular Goods (“OCTG”) in Malaysia and overseas, with a focus on premium connections used in high-end and complex wells.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 5 April 2018.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements of the Group and of the Company comply with Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”) and the requirements of the Companies Act 2016 in Malaysia.

On 1 January 2017, the Group and the Company adopted the new and amended MFRSs (collectively referred to as “pronouncements”) issued by the Malaysian Accounting Standards Board (“MASB”) that are mandatory for the financial periods beginning on or after 1 January 2017 as described fully in Note 2.3.

MASB has also issued new and revised MFRS which are not yet effective for the Group and the Company and therefore, have not been implemented by the Group and the Company in these financial statements as set out in Note 2.4.

The financial statements of the Group and of the Company have been prepared on a historical cost basis unless otherwise indicated in the accounting policies below.

The financial statements are presented in Ringgit Malaysia (“RM”) and all values are rounded to the nearest thousand (RM’000) except when otherwise indicated.

# Notes to the Financial Statements

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies

#### (a) Basis of consolidation, subsidiaries and associate

##### (i) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the Company and its subsidiaries used in the preparation of the consolidated financial statements are prepared as of the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The Company controls an investee if and only if the Company has all the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its investment with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting rights of an investee, the Company considers the following in assessing whether or not the Company's voting rights in an investee are sufficient to give it power over the investee:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Subsidiaries are consolidated from the effective date of acquisition, being a date on which the Group obtains control, and continue to be consolidated until the date that such control ceases, being the effective date of disposal.

Intragroup transactions, balances and resulting unrealised gains are eliminated in full on consolidation. The consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Company.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

### **2.2 Summary of significant accounting policies (cont'd.)**

#### **(a) Basis of consolidation, subsidiaries and associate (cont'd.)**

##### **(i) Basis of consolidation (cont'd.)**

###### **Loss of control**

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets and liabilities of the subsidiary and any goodwill outstanding (net of any non-controlling interest) at the date the Group loses control, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost, is regarded as the cost on initial recognition of an investment in an associate.

###### **Business combinations**

Business combinations, other than business combinations under common control, are accounted for using the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of acquiree's identifiable net assets. For business combinations after 1 January 2011, acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with MFRS 139 either in profit or loss or as a change in other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. The accounting policy for goodwill is set out in Note 2.2(h).

# Notes to the Financial Statements

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (a) Basis of consolidation, subsidiaries and associate (cont'd.)

##### (i) Basis of consolidation (cont'd.)

###### **Business combinations under common control**

Business combinations under common control are accounted for in the consolidated accounts retrospectively from the date the ultimate holding company obtains the ownership interest. Assets and liabilities are recognised upon consolidation at their carrying amount in the consolidated financial statements of the ultimate holding company. Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are recorded is recognised directly in equity.

###### **Non-controlling interests**

Non-controlling interests in the consolidated statement of comprehensive income and consolidated statement of financial position represent the portion of profit or loss or net assets in subsidiaries not held by the Group. Non-controlling interests in the consolidated statements of financial position consist of the non-controlling interests' share of the fair value of the identifiable assets and liabilities of the acquiree as at acquisition date and the non-controlling interests' share of movement in the acquiree's equity since then.

Acquisitions of non-controlling interests are accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised directly in equity.

##### (ii) Subsidiaries

A subsidiary is an entity over which the Group has all the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its investment with the investee; and
- The ability to use its power over the investee to affect its returns.

##### (iii) Associate

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investment in associate is accounted for in the consolidated financial statements using the equity method of accounting as described in Note 2.2(a)(iv).

##### (iv) Equity method of accounting

Under the equity method, the investments in associate are carried in the consolidated statements of financial position at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in profit or loss. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

### **2.2 Summary of significant accounting policies (cont'd.)**

#### **(a) Basis of consolidation, subsidiaries and associate (cont'd.)**

##### **(iv) Equity method of accounting (cont'd.)**

In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss. An associate is equity accounted for from the date on which the investee becomes an associate.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investments is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the year in which the investment is acquired.

When the Group's share of losses in the associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available audited financial statements of the associate are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting year of the Group. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

##### **(v) Separate financial statements**

In the separate financial statements of the Company and the Group's subsidiaries, investments in subsidiaries and associate are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

#### **(b) Property, plant and equipment**

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment (including spare parts and standby-equipment) is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to initial recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively.

# Notes to the Financial Statements

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (b) Property, plant and equipment (cont'd.)

Periodic survey and drydocking costs are incurred in connection with obtaining regulatory certification to operate the rigs on an ongoing basis. Costs associated with the certification are deferred and amortised on a straight-line basis over the period between surveys and drydocking. All other repair and maintenance costs are recognised in profit or loss as incurred.

Assets-in-progress included in property, plant and equipment are not depreciated as these assets are not yet available for use. Depreciation of other property, plant and equipment is provided for on a straight-line basis over the estimated useful lives of the assets as follows:

Rigs and hydraulic workover units ("HWUs")	10 - 30 years
Drilling equipment	2 - 30 years
Buildings	10 - 20 years
Plant and machinery	2 - 30 years
Office equipment, furniture and fittings	3 - 12 years
Motor vehicles	5 years
Renovation and improvements	5 years

The residual value, useful life and depreciation method are reviewed at each financial year end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the period the asset is derecognised.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(r).

#### (c) Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised over their lease terms.

Upon the disposal of land use rights, the difference between the net disposal proceeds and the net carrying amount is recognised in profit or loss.

When an indication of impairment exists, the carrying amount of the land use rights is written down immediately to its recoverable value. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(r).

#### (d) Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

### **2.2 Summary of significant accounting policies (cont'd.)**

#### **(d) Financial assets (cont'd.)**

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and loans and receivables. The Group does not have any financial assets designated as available-for-sale or held-to-maturity investments.

##### **(i) Financial assets at fair value through profit or loss**

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other expenses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that are held primarily for trading purposes are presented as current whereas financial assets that are not held primarily for trading purposes are presented as current or non-current based on the settlement date.

##### **(ii) Loans and receivables**

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through amortisation process.

Loans and receivables are classified as current assets, except for those with maturity dates later than 12 months from the reporting date are classified as non-current.

Loans and receivables of the Group comprise of trade and other receivables (other than deferred expenses, accrued income and prepayments), amounts due from related companies, deposits and cash and bank balances.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e. the date that the Group commits to purchase or sell the asset.



# Notes to the Financial Statements

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (e) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

##### **Trade and other receivables and other financial assets carried at amortised cost**

To determine whether there is objective evidence that an impairment loss on financial assets has occurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio that passed the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

#### (f) Cash and cash equivalents

Cash and cash equivalents include cash and bank balances and deposits at call with licensed banks with a maturity of three months or less.

#### (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. In arriving at net realisable value, due allowance has been made for obsolete and slow-moving items.

Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

Finished goods, raw materials, spares and consumables - Weighted average

Cost of finished goods, raw materials, spares and consumables represent cost of purchase.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

### **2.2 Summary of significant accounting policies (cont'd.)**

#### **(h) Intangible assets**

##### **Goodwill**

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. On disposal of an entity, the carrying amount of goodwill is taken into account in determining gains and losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's Cash-Generating Units ("CGU") that are expected to benefit from the synergies of the combination.

The CGU to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the CGU may be impaired, by comparing the carrying amount of the CGU, including the allocated goodwill, with the recoverable amount of the CGU. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a CGU and part of the operation within that CGU is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair value of the operation disposed of and the portion of the CGU retained.

#### **(i) Foreign currencies**

##### **(i) Functional and presentation currency**

The financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RM, which is also the Company's functional currency.

##### **(ii) Foreign currency transactions**

Transactions in currencies other than the Company's and its subsidiaries' functional currency ("foreign currencies") are initially converted into functional currency at rates of exchange ruling at the transaction dates.

##### **Non-monetary items**

At each financial reporting date, foreign currency non-monetary items which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate when the fair values were determined.

# Notes to the Financial Statements

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (i) Foreign currencies (cont'd.)

#### (ii) Foreign currency transactions (cont'd.)

##### Monetary items

At each reporting date, monetary items denominated in foreign currencies are translated into functional currency at exchange rates ruling at that date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period.

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation are taken directly to the foreign currency translation reserve within other comprehensive income until the disposal of the foreign operations, at which time they are recognised in profit or loss.

#### (iii) Foreign operations

Financial statements of foreign subsidiaries which are consolidated are translated at year-end exchange rates with respect to the assets and liabilities, and at average exchange rates for the year, which approximate the exchange rates at the dates of the transactions with respect to profit or loss. All resulting translation differences are included in the foreign currency translation reserve within other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2006 are treated as assets and liabilities of the foreign operation and are recorded in the functional currency of the foreign operation and translated at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign operation before 1 January 2006 are deemed to be assets and liabilities of the parent company and are recorded in RM at the exchange rate ruling at the date of the transaction.

#### (j) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability.

Financial liabilities, within the scope of MFRS 139, are recognised in the statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

#### (i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Group that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

The Group and the Company have not designated any financial liabilities as at fair value through profit or loss.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

### **2.2 Summary of significant accounting policies (cont'd.)**

#### **(j) Financial liabilities (cont'd.)**

##### **(ii) Other financial liabilities**

The Group's other financial liabilities include trade payables, other payables (other than deferred income and provisions), loans and borrowings and amounts due to related companies.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

#### **(k) Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### **(l) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### **(m) Borrowing costs**

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

# Notes to the Financial Statements

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (n) Income tax

Income tax on the profit or loss for the period comprises current tax and deferred tax. Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries and associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except in respect of deductible temporary differences associated with investments in subsidiaries and associate, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

### **2.2 Summary of significant accounting policies (cont'd.)**

#### **(o) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

##### **(i) Revenue from provision of drilling and workover services and related expenses**

Revenue from the provision of drilling and workover services include minimum lease payments from customers under day-rate based contracts and other services. Revenue generated from day-rate based contracts, which are classified as operating leases by the Group, are recognised over the period the service is rendered.

Day-rate based contracts may include lump-sum fee for mobilisation and demobilisation which are recognised based on the policies stated in Note 2.2(o)(ii) and (iii). Fees received from customer under contract for upgrade to the rig is deferred and recognised over the contract term.

Additional payments for meeting or exceeding certain performance targets are recognised when it is probable that the economic benefits associated with the transaction will flow to the entity.

##### **(ii) Lump sum mobilisation fees received**

Lump sum mobilisation fees received on drilling and workover services contracts are deferred and recognised on a straight-line basis over the period that the related drilling services are performed.

Mobilisation costs incurred as part of a contract are deferred and recognised as expense over the contract period. The costs of relocating drilling rigs that are not under a contract are expensed as incurred.

##### **(iii) Demobilisation fees received**

Demobilisation costs are costs related to the transfer of a drilling rig to a safe harbour or different geographical area and are expensed as incurred.

Demobilisation fees on drilling and workover services contracts are recognised as and when services are rendered, or at the point when it becomes known and certain that demobilisation fee can be charged to the customer.

##### **(iv) Sale of goods**

Revenue from sale of goods is recognised net of sales discounts when transfer of significant risks and rewards of ownership has been completed. Revenue is recognised net of sales tax, goods and service tax and includes excise duties.

##### **(v) Rendering of services**

Revenue from services rendered is recognised net of service tax on accrual basis as and when services are performed.

##### **(vi) Rental income**

Rental income from operating leases are accounted for on a straight-line basis over the lease terms.

# Notes to the Financial Statements

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (o) Revenue recognition (cont'd.)

##### (vii) Dividend income

Dividend income is recognised when the shareholders' rights to receive payment is established.

##### (viii) Interest income

Interest income is recognised using the effective interest method.

##### (ix) Management fees

Management fees are recognised when services are rendered.

#### (p) Leases

##### (i) As lessee

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. All other leases are classified as operating leases. Finance lease assets are capitalised at the lower of the fair value of the leased asset or the present value of the minimum lease payments, at the inception of the lease. The corresponding lease obligations, net of finance charges are included in borrowings. The interest rate implicit in the lease is used as the discount factor in calculating the present value of the minimum lease payments. Initial direct costs incurred are included as part of the asset.

The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the outstanding balance of the liability for each period.

The depreciation policy for assets held under finance leases is consistent with that for depreciable property, plant and equipment as described in Note 2.2(b).

Lease rental payments on operating leases are recognised in profit or loss on a straight-line basis over the period of the lease.

##### (ii) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.2(o)(vi).

#### (q) Employee benefits

##### (i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

### **2.2 Summary of significant accounting policies (cont'd.)**

#### **(q) Employee benefits (cont'd.)**

##### **(ii) Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years.

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund. Some of the Group's foreign subsidiaries also make contribution to their respective countries' statutory pension schemes. The contributions are recognised as an expense in profit or loss as incurred.

#### **(r) Impairment of non-financial assets**

The carrying amounts of assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs.

An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss.

#### **(s) Segment reporting**

For management purposes, the Group is organised into operating segments based on nature of services which are managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the President who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 29, including the factors used to identify the reportable segments and the measurement basis of segment information.



# Notes to the Financial Statements

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (t) Fair value measurement

MFRS 13, Fair Value Measurement prescribed that fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

#### Financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. Where fair value cannot be reliably estimated, assets are carried at cost less impairment losses, if any.

#### (u) Hedge accounting

The Group uses interest rate swaps to manage its exposures to interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedging relationship is classified as:

- (i) Fair value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- (ii) Cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- (iii) Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of significant accounting policies (cont'd.)

#### (u) Hedge accounting (cont'd.)

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

##### **Cash flow hedges**

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income into cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss as other operating expenses.

Amounts recognised in other comprehensive income previously are reclassified from equity to profit or loss when the hedged transaction affects profit or loss, such as when the hedged interest income or interest expense is recognised or when a forecast sale occurs. Where the hedged item is a non-financial asset or a non-financial liability, the amounts recognised previously in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remain in equity until the forecast transaction or firm commitment affects profit or loss.

#### (v) Share capital

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

### 2.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2017, the Group and the Company adopted the following new and amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2017.

Description
MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)
MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)
Annual Improvements to MFRS Standards 2014 - 2016 Cycle -
Amendments to MFRS 12 Disclosure of Interests in Other Entities:
Clarification of the scope of disclosure requirement in MFRS 12
Adoption of the above pronouncement did not have any effect on the financial performance or position of the Group and the Company.

# Notes to the Financial Statements

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.4 Standards issued but not yet effective

The pronouncements that are issued but not yet effective up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 140 Transfer of Investment (Amendments to MFRS 140)	1 January 2018
Annual Improvements to MFRS Standards 2014 - 2016 Cycle	1 January 2018
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)	1 January 2019
MFRS 119 Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119)	1 January 2019
MFRS 16 Leases	1 January 2019
MFRS 128 Long-term Interests in Associates and Joint Ventures (Amendments to MFRS128)	1 January 2019
Annual Improvements to MFRS Standards 2015 - 2017 Cycle	1 January 2019
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 10 and 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The adoption of the above pronouncements is not expected to have a material impact on the financial statements in the period of initial application except for those discussed below:

#### MFRS 9 Financial Instruments

MFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. During 2017, the Group has performed a detailed impact assessment of all three aspects of MFRS 9. The assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group adopts MFRS 9.

Based on the analysis of the Group's and the Company's financial assets and liabilities as at 31 December 2017 on the basis of facts and circumstances that exist at that date, the Group and the Company do not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of MFRS 9. The Group and the Company will apply the simplified approach and record life time expected losses on all trade receivables, which is not expected to have a material impact to the impairment allowance.

#### MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

### **2.4 Standards issued but not yet effective (cont'd.)**

#### **MFRS 15 Revenue from Contracts with Customers (cont'd.)**

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective applications required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group and the Company plan to adopt the new standard on the stipulated effective date using the modified retrospective method and apply all the practical expedients available for modified retrospective method under MFRS 15.

The Group and the Company have undertaken an assessment of the impact and have concluded that MFRS 15 is not expected to have a significant impact on financial statements except for new disclosures in the financial statements.

#### **MFRS 16 Leases**

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows, whereas under MFRS 16, the lease payments will be split into a principal (which will be presented as financing cash flows) and an interest portion (which will be presented as operating cash flows).

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases. MFRS 16 also requires lessees and lessors to make more extensive disclosures than under MFRS 117.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

# Notes to the Financial Statements

31 December 2017

## 3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

### 3.1 Significant accounting estimates and assumptions

#### Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### (i) Deferred tax assets

Deferred tax assets are recognised for all unutilised tax losses, unabsorbed capital allowances and unabsorbed reinvestment allowances to the extent that it is probable that taxable profit will be available against which the losses, capital allowances and reinvestment allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The total carrying value of recognised and unrecognised tax losses, capital allowances and reinvestment allowances of the Group are as disclosed in Note 8.

#### (ii) Useful lives and residual values of rigs, HWUs, drilling equipment, and plant and machinery

The cost of rigs, HWUs, drilling equipment, and plant and machinery is depreciated on a straight-line basis over their estimated useful lives after allowing for residual values. Management estimates the useful lives and residual values by applying assumptions and estimates that reflect both historical experience and expectations regarding future operations, rig utilisation and asset performance, and also based on the common life expectancies applied in the respective industries. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amount of the Group's rigs, HWUs, drilling equipment, and plant and machinery at the reporting date is disclosed in Note 4.

#### (iii) Impairment of property, plant and equipment and investment in subsidiaries

During the current financial year, the Group and the Company have recognised impairment losses in respect of property, plant and equipment and investment in subsidiaries.

The management carried out the impairment test based on value in use of the CGU to which the property, plant and equipment and investment in subsidiaries are allocated. Estimating the value in use requires the management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of the impairment losses recognised are disclosed in Note 4 and Note 6.

#### 4. PROPERTY, PLANT AND EQUIPMENT

	Buildings RM'000	Rigs, HWUs and drilling equipment RM'000	Plant and machinery RM'000	Assets-in- progress RM'000	**Other assets RM'000	Total RM'000
<b>Group</b>						
<b>Cost</b>						
At 1 January 2016	34,401	7,011,653	78,171	61,623	33,191	7,219,039
Exchange differences	(467)	301,915	719	2,697	712	305,576
Additions	179	25,419	2,638	26,630	2,170	57,036
Write-offs	–	(8,886)	(1,251)	–	(463)	(10,600)
Disposals	(9)	(2,621)	(783)	–	(1,070)	(4,483)
Reclassification	–	52,056	946	(52,904)	(98)	–
At 31 December 2016/1 January 2017	<b>34,104</b>	<b>7,379,536</b>	<b>80,440</b>	<b>38,046</b>	<b>34,442</b>	<b>7,566,568</b>
Exchange differences	(794)	(648,815)	(1,737)	(3,542)	(1,760)	(656,648)
Additions	25	9,763	101	6,759	531	17,179
Write-offs	–	–	(5,893)	–	(19)	(5,912)
Disposals	–	(338,357)	(282)	(10,647)	(390)	(349,676)
Reclassification	161	6,368	(102)	(7,607)	1,180	–
At 31 December 2017	<b>33,496</b>	<b>6,408,495</b>	<b>72,527</b>	<b>23,009</b>	<b>33,984</b>	<b>6,571,511</b>
<b>Accumulated depreciation</b>						
At 1 January 2016	7,562	731,898	41,988	–	13,796	795,244
Exchange differences	18	65,566	454	–	830	66,868
Depreciation charge for the year	954	274,007	5,895	–	10,280	291,136
Write-offs	–	(2,186)	(1,249)	–	(339)	(3,774)
Disposals	(9)	(2,282)	(717)	–	(449)	(3,457)
Reclassification	–	897	–	–	(897)	–
At 31 December 2016/1 January 2017	<b>8,525</b>	<b>1,067,900</b>	<b>46,371</b>	<b>–</b>	<b>23,221</b>	<b>1,146,017</b>
Exchange differences	(59)	(179,104)	(1,567)	–	(1,478)	(182,208)
Depreciation charge for the year	574	249,824	2,733	–	5,870	259,001
Write-offs	–	–	(5,887)	–	(16)	(5,903)
Disposals	–	(338,556)	(243)	–	(90)	(338,889)
Reclassification	–	(47)	(29)	–	76	–
At 31 December 2017	<b>9,040</b>	<b>800,017</b>	<b>41,378</b>	<b>–</b>	<b>27,583</b>	<b>878,018</b>

**Notes to  
the Financial Statements**  
31 December 2017

**4. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)**

	Buildings RM'000	Rigs, HWUs and drilling equipment RM'000	Plant and machinery RM'000	Assets-in- progress RM'000	**Other assets RM'000	Total RM'000
<b>Group (cont'd.)</b>						
<b>Accumulated impairment losses</b>						
At 1 January 2016	–	342,161	–	–	–	342,161
Impairment losses (Note 22)	3,081	753,767	21,666	–	1,751	780,265
At 31 December 2016/1 January 2017	<b>3,081</b>	<b>1,095,928</b>	<b>21,666</b>	<b>–</b>	<b>1,751</b>	<b>1,122,426</b>
Exchange differences	–	(54,253)	–	–	–	(54,253)
Impairment losses (Note 22)	–	<b>982,073</b>	–	–	<b>16</b>	<b>982,089</b>
At 31 December 2017	<b>3,081</b>	<b>2,023,748</b>	<b>21,666</b>	<b>–</b>	<b>1,767</b>	<b>2,050,262</b>
<b>Net carrying amount</b>						
At 31 December 2017	<b>21,375</b>	<b>3,584,730</b>	<b>9,483</b>	<b>23,009</b>	<b>4,634</b>	<b>3,643,231</b>
At 31 December 2016	22,498	5,215,708	12,403	38,046	9,470	5,298,125

#### 4. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	<b>**Other assets RM'000</b>	<b>Assets-in- progress RM'000</b>	<b>Total RM'000</b>
<b>Company</b>			
<b>Cost</b>			
At 1 January 2016	5,414	74	5,488
Additions	697	64	761
Disposals	(183)	–	(183)
Reclassification	69	(69)	–
At 31 December 2016/1 January 2017	<b>5,997</b>	<b>69</b>	<b>6,066</b>
Additions	<b>403</b>	<b>135</b>	<b>538</b>
Disposals	<b>(262)</b>	<b>–</b>	<b>(262)</b>
Reclassification	<b>47</b>	<b>(47)</b>	<b>–</b>
At 31 December 2017	<b>6,185</b>	<b>157</b>	<b>6,342</b>
<b>Accumulated depreciation</b>			
At 1 January 2016	2,545	–	2,545
Depreciation charge for the year	953	–	953
At 31 December 2016/1 January 2017	<b>3,498</b>	<b>–</b>	<b>3,498</b>
Depreciation charge for the year	<b>819</b>	<b>–</b>	<b>819</b>
At 31 December 2017	<b>4,317</b>	<b>–</b>	<b>4,317</b>
<b>Net carrying amount</b>			
At 31 December 2017	<b>1,868</b>	<b>157</b>	<b>2,025</b>
At 31 December 2016	2,499	69	2,568

**\*\*** Included in the other assets are office equipment, furniture and fittings, renovation, improvements and motor vehicles.

Whilst crude oil price has improved compared to the end of the previous financial year, the trend of low capital spending by oil companies still continues. During the financial year, certain subsidiaries of the Group within the drilling services segment and oilfield services segment carried out a review of the recoverable amounts of their property, plant and equipment.

An impairment loss of RM982,089,000 (2016: RM780,265,000), representing write-down of the assets to the recoverable amount was recognised in "Impairment provisions" in the statement of comprehensive income for the financial year ended 31 December 2017, in respect of assets with recoverable amounts of RM3,507,052,000 (2016: RM5,194,005,185).

The recoverable amounts of the rigs, HWUs and drilling equipment were determined based on value in use of each asset, based on their respective cash flow projections discounted at pre-tax discount rates up to 19.3% (2016: 12.9%).



# Notes to the Financial Statements

31 December 2017

## 4. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

The calculation of value in use for the rigs, HWUs and drilling equipment are most sensitive to the utilisation rates, time charter rates and discount rate assumptions.

Any adverse change in the key assumptions used in value in use calculations would result in further impairment.

## 5. LAND USE RIGHTS

		Short term leasehold land RM'000
<b>Group</b>		
<b>Cost</b>		
At 1 January 2016		2,901
Exchange differences		(66)
At 31 December 2016/1 January 2017		<b>2,835</b>
Exchange differences		<b>(104)</b>
At 31 December 2017		<b>2,731</b>
<b>Accumulated amortisation</b>		
At 1 January 2016		270
Exchange differences		(4)
Amortisation for the year		55
At 31 December 2016/1 January 2017		<b>321</b>
Exchange differences		<b>(13)</b>
Amortisation for the year		<b>56</b>
At 31 December 2017		<b>364</b>
<b>Net carrying amount</b>		
At 31 December 2017		<b>2,367</b>
At 31 December 2016		2,514

## 6. INVESTMENT IN SUBSIDIARIES

	Company	
	2017	2016
	RM'000	RM'000
Unquoted shares, at cost		
In Malaysia	3,198,887	2,513,827
Outside Malaysia	22,902	22,902
	3,221,789	2,536,729
Less: Impairment losses (Note 22)	(1,615,954)	(288,029)
	1,605,835	2,248,700

Details of the subsidiaries are set out in Note 30.

## 7. INVESTMENT IN ASSOCIATE

	Group	
	2017	2016
	RM'000	RM'000
Unquoted shares, at cost	1,090	1,090
Share of post-acquisition reserves	1,213	1,481
	2,303	2,571

Details of the associate are as follows:

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2017	2016
			%	%
Oil-Tex (Thailand) Company Limited*	Thailand	Provision of logistic services for the oil and gas industry.	20	20

\* Audited by firm other than Ernst & Young.

Financial year end of Oil-Tex (Thailand) Company Limited is 31 March.

The financial statements of the associate are not coterminous with that of the Group as its financial year end is 31 March. For the purpose of applying the equity method of accounting, the management accounts for the 12-month period ended 31 December 2017 and 2016 of the associate have been used.

# Notes to the Financial Statements

31 December 2017

## 7. INVESTMENT IN ASSOCIATE (CONT'D.)

The summarised financial information of the associate, not adjusted for the proportion of ownership interest held by the Group is as follows:

	2017 RM'000	2016 RM'000
<b>Assets and liabilities:</b>		
Current assets	11,458	13,442
Non-current assets	1,623	2,757
<b>Total assets</b>	<b>13,081</b>	<b>16,199</b>
 Current liabilities, representing total liabilities	 1,803	 3,580
<b>Results</b>		
Revenue	9,788	11,767
Profit for the year	2,093	2,094
Total comprehensive income	403	4,090

Reconciliation of the summarised financial information presented above to the carrying amount of the Group's interest in associate is as follows:

	2017 RM'000	2016 RM'000
Net assets at 1 January	12,619	10,132
Profit for the year	2,093	2,094
Dividend paid	(1,744)	(1,603)
Other comprehensive income	(1,690)	1,996
<b>Net assets at 31 December</b>	<b>11,278</b>	<b>12,619</b>
 Share of net assets	 2,256	 2,524
Goodwill	47	47
<b>Carrying value of the Group's interest in associate</b>	<b>2,303</b>	<b>2,571</b>

## 8. DEFERRED TAXATION

	Group	
	2017 RM'000	2016 RM'000
At 1 January	(112)	894
Recognised in profit or loss (Note 26)	2	(1,003)
Exchange differences	10	(3)
At 31 December	(100)	(112)

The components and movements of deferred tax liabilities and assets during the financial year are as follows:

### Deferred tax liabilities:

	Accelerated capital allowances RM'000	Others RM'000	Total RM'000
At 1 January 2017	701	–	701
Recognised in profit or loss	881	–	881
At 31 December 2017	1,582	–	1,582
At 1 January 2016	5,996	241	6,237
Recognised in profit or loss	(5,300)	(251)	(5,551)
Exchange differences	5	10	15
At 31 December 2016	701	–	701

# Notes to the Financial Statements

31 December 2017

## 8. DEFERRED TAXATION (CONT'D.)

### Deferred tax assets:

	Unabsorbed capital allowances RM'000	Unabsorbed reinvestment allowances RM'000	Unutilised tax losses RM'000	Others RM'000	Total RM'000
At 1 January 2017	(701)	(3)	–	(109)	(813)
Recognised in profit or loss	(881)	2	–	–	(879)
Exchange differences	–	–	–	10	10
At 31 December 2017	(1,582)	(1)	–	(99)	(1,682)
At 1 January 2016	(3,629)	(55)	(1,166)	(493)	(5,343)
Recognised in profit or loss	2,934	52	1,166	396	4,548
Exchange differences	(6)	–	–	(12)	(18)
At 31 December 2016	(701)	(3)	–	(109)	(813)

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Unutilised tax losses	109,123	167,518	46,939	46,892
Unabsorbed capital and reinvestment allowances	36,507	38,304	–	2,990
Others	34,587	25,632	581	660
	180,217	231,454	47,520	50,542

The unutilised tax losses, unabsorbed capital and reinvestment allowances of the Group are available indefinitely for offsetting against future taxable profits of the respective entities within the Group.

Deferred tax assets have not been recognised in respect of these items as it is not probable that future taxable profits of the applicable Group entities will be sufficient to allow the benefits to be realised.

## 9. DERIVATIVES

	Notional amount RM'000	Group Fair value Asset RM'000	Liability RM'000
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### Hedging derivatives:

#### Interest rate swaps

##### Current

At 31 December 2017	-	-	-
At 31 December 2016	58,121	489	-

##### Non-current

At 31 December 2017	-	-	-
At 31 December 2016	602,788	5,071	-

#### Interest rate swaps

Interest rate swaps are used to manage exposure to interest rate movements on bank borrowings, by swapping a proportion of those borrowings from floating rates to fixed rates.

Hedge accounting is applied for the interest rate swaps, the fair value movement on the hedging instrument is recognised directly in other comprehensive income into cash flow hedge reserve.

The method and assumptions applied in determining the fair values of derivatives are disclosed in Note 32.

## 10. INVENTORIES

	Group 2017 RM'000	2016 RM'000
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### At cost:

Raw materials, spare parts and consumables	194,841	211,916
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The cost of inventories recognised as an expense during the year amounted to RM73,316,000 (2016: RM54,343,000).

# Notes to the Financial Statements

31 December 2017

## 11. RECEIVABLES

	Group	
	2017 RM'000	2016 RM'000
Trade receivables (Note (a))	243,887	116,960
Other receivables (Note (b))	16,531	15,316
<b>Total trade and other receivables</b>	<b>260,418</b>	<b>132,276</b>
<b>Total trade and other receivables</b>	<b>260,418</b>	<b>132,276</b>
Less:		
Prepayments (Note (b))	(7,867)	(7,686)
Deferred expenses (Note (b))	(752)	(1,404)
	<b>251,799</b>	<b>123,186</b>
Add:		
Due from former related companies (Note 12)	2,357	2,547
Deposits, cash and bank balances - Non-current (Note 13)	–	336,450
Deposits, cash and bank balances - Current (Note 13)	680,747	555,021
<b>Total loans and receivables</b>	<b>934,903</b>	<b>1,017,204</b>

### (a) Trade receivables

	Group	
	2017 RM'000	2016 RM'000
Trade receivables (Note (i))	175,505	79,702
Allowance for impairment (Note (ii))	(1,492)	(9)
	<b>174,013</b>	<b>79,693</b>
Accrued income	69,874	37,267
	<b>243,887</b>	<b>116,960</b>

The Group's normal trade credit terms for the financial year ended 31 December 2017 range from 30 days to 60 days (2016: 30 days to 60 days). Other credit terms are assessed and approved on a case-by-case basis. Trade receivables are non-interest bearing and are recognised at their original invoiced amounts which represent their fair values on initial recognition.

The Group has concentration of credit risk in the form of outstanding balances due from 8 (2016: 5) debtors representing 80% (2016: 86%) of the total net trade receivables.

## 11. RECEIVABLES (CONT'D.)

### (a) Trade receivables (cont'd.)

#### (i) Aged analysis of trade receivables

	Group	
	2017 RM'000	2016 RM'000
<b>Not past due nor impaired</b>	<b>80,053</b>	<b>17,524</b>
<b>Past due but not impaired:</b>		
1 - 60 days past due but not impaired	80,145	44,750
61 - 120 days past due but not impaired	2,080	2,550
121 - 180 days past due but not impaired	1,215	917
More than 180 days past due but not impaired	10,520	13,952
	<b>93,960</b>	<b>62,169</b>
<b>Impaired</b>	<b>1,492</b>	<b>9</b>
<b>Total trade receivables</b>	<b>175,505</b>	<b>79,702</b>

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records. None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

#### (ii) Receivables that are impaired

	Group	
	2017 RM'000	2016 RM'000
<b>Individually impaired</b>		
Trade receivables	1,492	9
Less: Allowance for impairment	(1,492)	(9)
	<b>–</b>	<b>–</b>
<b>Movement in allowance for impairment</b>		
At 1 January	9	9
Charge during the year	1,492	–
Reversal of impairment loss	(9)	–
<b>At 31 December</b>	<b>1,492</b>	<b>9</b>



# Notes to the Financial Statements

31 December 2017

## 11. RECEIVABLES (CONT'D.)

### (a) Trade receivables (cont'd.)

#### (ii) Receivables that are impaired (cont'd.)

Trade receivables that are individually determined to be impaired at the reporting date relate to trade disputes. These receivables are not secured by any collateral or bank guarantee.

### (b) Other receivables

	Group	
	2017	2016
	RM'000	RM'000
Deposits	1,713	1,896
Prepayments	7,867	7,686
Deferred expenses	752	1,404
Sundry receivables	6,199	4,330
	<b>16,531</b>	<b>15,316</b>

Prepayments mainly comprise of insurance premium and advance payments to vendors in respect of certain services.

Deferred expenses relate to mobilisation expenses incurred on drilling and workover contracts that are deferred and recognised on a straight-line basis over the term of the contract.

	Company	
	2017	2016
	RM'000	RM'000
Deposits	337	340
Prepayments	230	166
Sundry receivables	1,465	715
Total other receivables	<b>2,032</b>	<b>1,221</b>
Total other receivables	<b>2,032</b>	<b>1,221</b>
Less:		
Prepayments	<b>(230)</b>	<b>(166)</b>
Add:		
Due from subsidiaries - Non-current (Note 12)	<b>774,828</b>	1,635,124
Due from subsidiaries - Current (Note 12)	<b>152,846</b>	95,695
Due from subsidiaries of former holding companies (Note 12)	<b>813</b>	783
Deposits, cash and bank balances (Note 13)	<b>564,233</b>	421,588
<b>Total loans and receivables</b>	<b>1,494,522</b>	<b>2,154,245</b>

## 12. DUE FROM/(TO) RELATED COMPANIES AND FORMER RELATED COMPANIES

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
<b>Non-current:</b>				
Due from subsidiaries				
- interest bearing at 1.94% to 4.91% (2016: 1.40% to 4.20%) per annum	-	-	898,824	1,635,124
Less: Allowance for impairment losses (Note 22)	-	-	(123,996)	-
	-	-	774,828	1,635,124
<b>Current:</b>				
Due from subsidiaries				
- interest bearing at 1.75% to 5.13% (2016: 1.40% to 4.95%) per annum	-	-	232,182	128,042
Due from subsidiaries of former holding company				
- interest bearing at Nil% (2016: 7.10%) per annum	798	798	-	-
- non-interest bearing	2,540	2,684	813	783
	3,338	3,482	232,995	128,825
Less: Allowance for impairment losses (Note 22)	(981)	(935)	(79,336)	(32,347)
	2,357	2,547	153,659	96,478
Total amount due from related companies	2,357	2,547	928,487	1,731,602
<b>Non-current:</b>				
Due to former holding company				
- interest bearing at Nil% (2016: 5.53% to 5.54%) per annum	-	(308,000)	-	(308,000)
Due to subsidiaries	-	-	(298,091)	-
	-	(308,000)	(298,091)	(308,000)

# Notes to the Financial Statements

31 December 2017

## 12. DUE FROM/(TO) RELATED COMPANIES AND FORMER RELATED COMPANIES (CONT'D.)

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
<b>Current:</b>				
Due to former holding company	(3,926)	(1,447)	(3,926)	(1,447)
Due to subsidiaries				
- interest bearing at 4.22% (2016: Nil%) per annum	-	-	(146,161)	(78)
Due to subsidiaries of former holding company	(1,418)	(843)	(379)	(552)
	(5,344)	(2,290)	(150,466)	(2,077)
Total amount due to related companies	(5,344)	(310,290)	(448,557)	(310,077)

Amounts due from subsidiaries that are not expected to be realised within twelve months after the reporting period are classified as non-current.

The amounts due from/(to) former holding company and subsidiaries of former holding company are unsecured, non-interest bearing and repayable on demand unless otherwise disclosed.

At the reporting date, the Company has provided an allowance of RM203,332,000 (2016: RM32,347,000) for impairment of the amount due from subsidiaries with nominal amount of RM204,514,000.

## 13. DEPOSITS, CASH AND BANK BALANCES

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
<b>Non-current:</b>				
Deposit with licensed bank	-	336,450	-	-
<b>Current:</b>				
Deposits with licensed banks	610,130	483,386	558,317	421,024
Cash and bank balances	70,617	71,635	5,916	564
	680,747	555,021	564,233	421,588

Included in the current deposits with licensed banks amounting to RM10,894,000 are not available for general use by the Group due to restrictions by the lender in respect of term loan of USD365,000,000 obtained by the Group as disclosed in Note 14.

### 13. DEPOSITS, CASH AND BANK BALANCES (CONT'D.)

In the previous financial year, a current deposits with licensed banks included deposits which was not available for general use by the Group and the Company amounting to RM221,825,000 due to restrictions by the lender in respect of revolving credits of RM224,300,000 obtained by the Group and the Company as disclosed in Note 14. These deposits were required to be maintained throughout the duration of the drawdown of the revolving credits, and approval from the licensed bank is required for any withdrawal request. The deposits had been excluded from the cash and cash equivalent balance in the statements of cash flows.

In the previous financial year, the non-current deposit with licensed bank was related to an amount of USD75,000,000 (RM336,450,000) in respect of secured term loan of USD165,000,000 (RM740,190,000) with maturity of 5 years obtained by the Group as disclosed in Note 14. The deposit was required to be placed with the lender until the loan is repaid. The deposit had been excluded from the cash and cash equivalent balance in the consolidated statement of cash flows.

Also, in the previous year, current deposits with licensed bank included deposits of RM61,100,000 of the Group and of the Company for the purpose of meeting the next quarterly repayment of unsecured term loan as disclosed in Note 14 and Note 15.

The range of interest rates per annum of deposits as at the reporting date was as follows:

	Group		Company	
	2017 %	2016 %	2017 %	2016 %
Deposits with licensed banks	0.10 - 3.86	0.13 - 3.50	0.5 - 3.86	0.17 - 3.50

The range of maturities of deposits as at the reporting date was as follows:

	Group		Company	
	2017 Days	2016 Days	2017 Days	2016 Days
Deposits with licensed banks	1 - 90	1 - 90	1 - 30	1 - 30

### 14. LONG TERM BORROWINGS

	Group	
	2017 RM'000	2016 RM'000
<b>Secured (Floating rate)</b>		
Term loan	1,482,630	740,190
Less: Unamortised transaction costs	(39,928)	(18,831)
Less: Amount payable within one year (Note 15)	(44,174)	-
	<b>1,398,528</b>	721,359
<b>Unsecured (Floating rate)</b>		
Term loan	-	1,823,542
Less: Amount payable within one year (Note 15)	-	(272,128)
	-	1,551,414
<b>Total long term borrowings</b>	<b>1,398,528</b>	<b>2,272,773</b>

# Notes to the Financial Statements

31 December 2017

## 14. LONG TERM BORROWINGS (CONT'D.)

In the previous financial year, the secured term loan was fully repayable on 4 June 2021, and was secured by a charge over all existing and future assets of UMW Drilling 4 (L) Ltd., UMW Drilling 5 (L) Ltd. and UMW Drilling 7 (L) Ltd., and a charge over the Debt Service Reserve Account of the Group, where an amount of USD75,000,000 (RM336,450,000) was to be placed with the licensed bank until the loan is fully repaid, as disclosed in Note 13. The said loan has been fully paid during the current financial year.

On 21 November 2017, the Group raised USD365,000,000 of term loans. The secured term loan are fully repayable on 21 November 2022 and 21 November 2027 respectively and are secured by a charge over all existing and future assets of the Group.

The maturity of the Group's total long term and short term borrowings excluding transaction costs as at the respective reporting dates are as follows:

	Within 1 year RM'000 (Note 15)	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000	Total RM'000
<b>31 December 2017</b>					
<b>Secured</b>					
- Term loan	44,174	87,028	524,810	826,618	1,482,630
- Revolving credit	416,941	–	–	–	416,941
	<b>461,115</b>	<b>87,028</b>	<b>524,810</b>	<b>826,618</b>	<b>1,899,571</b>
<b>31 December 2016</b>					
<b>Secured</b>					
- Term loan	–	44,411	695,779	–	740,190
<b>Unsecured</b>					
- Term loan	272,128	226,945	879,341	445,128	1,823,542
- Revolving credit	1,227,617	–	–	–	1,227,617
	<b>1,499,745</b>	<b>271,356</b>	<b>1,575,120</b>	<b>445,128</b>	<b>3,791,349</b>

Changes in liabilities to arising from financing activities:

	Revolving credit RM'000	Group Unsecured term loan RM'000	Secured term loan RM'000	Total RM'000
<b>At 1 January 2017</b>	<b>1,227,617</b>	<b>1,823,542</b>	<b>721,359</b>	<b>3,772,518</b>
Drawdown	480,301	–	1,451,827	1,932,128
Repayment	(1,185,128)	(1,686,028)	(698,032)	(3,569,188)
The effect of changes in foreign exchange rate	(105,849)	(137,514)	(32,452)	(275,815)
<b>At 31 December 2017</b>	<b>416,941</b>	<b>–</b>	<b>1,442,702</b>	<b>1,859,643</b>

#### 14. LONG TERM BORROWINGS (CONT'D.)

	Company	
	2017	2016
	RM'000	RM'000
<b>Unsecured (Floating rate)</b>		
Term loan	–	733,758
Less: Amount payable within one year (Note 15)	–	(57,726)
<b>Total long term borrowings</b>	<b>–</b>	<b>676,032</b>

The maturity of the Company's total long term and short term borrowings as at the respective reporting dates are as follows:

	Within 1 year RM'000 (Note 15)	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000	Total RM'000
<b>31 December 2016</b>					
<b>Unsecured</b>					
- Term loan	57,726	57,726	173,178	445,128	733,758
- Revolving credit	977,948	–	–	–	977,948
	1,035,674	57,726	173,178	445,128	1,711,706

The range of weighted average effective interest rates per annum at the reporting date for secured and unsecured borrowings are disclosed in Note 15.

Changes in liabilities to arising from financing activities:

	Revolving credit RM'000	Company Unsecured term loan RM'000	Total RM'000
<b>At 1 January 2017</b>	<b>977,948</b>	<b>733,758</b>	<b>1,711,706</b>
Drawdown	35,264	–	35,264
Repayment	(929,299)	(679,735)	(1,609,034)
The effect of changes in foreign exchange rate	(83,913)	(54,023)	(137,936)
<b>At 31 December 2017</b>	<b>–</b>	<b>–</b>	<b>–</b>

# Notes to the Financial Statements

31 December 2017

## 15. SHORT TERM BORROWINGS

	Group	
	2017	2016
	RM'000	RM'000
<b>Secured (Floating rate)</b>		
Revolving credits	415,316	–
Term loans payable within one year (Note 14)	44,174	–
	<b>459,490</b>	<b>–</b>
<b>Unsecured (Floating rate)</b>		
Revolving credits	1,625	1,227,617
Term loans payable within one year (Note 14)	–	272,128
	<b>1,625</b>	<b>1,499,745</b>
<b>Total short term borrowings</b>	<b>461,115</b>	<b>1,499,745</b>

	Company	
	2017	2016
	RM'000	RM'000
<b>Unsecured - Floating rate</b>		
Revolving credits	–	977,948
Term loans payable within one year (Note 14)	–	57,726
<b>Total short term borrowings</b>	<b>–</b>	<b>1,035,674</b>

The range of weighted average effective interest rates per annum at the reporting date for borrowings were as follows:

	Group	
	2017	2016
	%	%
Secured term loan	4.49 - 4.99	3.67 - 4.00
Unsecured term loan	–	2.60 - 3.97
Revolving credits	3.75 - 6.15	1.35 - 4.30
	Company	
	2017	2016
	%	%
Revolving credits	–	1.35 - 3.06
Term loan payable within one year (Note 14)	–	3.07 - 3.64

## 16. PAYABLES

	Group	
	2017 RM'000	2016 RM'000
Trade payables:		
Trade payables	48,969	78,279
Accruals	70,159	69,408
	<b>119,128</b>	147,687
Other payables:		
Accruals	29,733	30,191
Provision for unutilised leave	591	640
Deferred income	94	1,994
Deposits received	–	137
Sundry payables	12,933	24,748
	<b>43,351</b>	57,710
Total trade and other payables	<b>162,479</b>	205,397
Total trade and other payables	<b>162,479</b>	205,397
Less:		
Deferred income	(94)	(1,994)
Provision for unutilised leave	(591)	(640)
Add:		
Due to former holding company - Non-current (Note 12)	–	308,000
Due to former holding company - Current (Note 12)	3,926	1,447
Due to subsidiaries of former holding company (Note 12)	1,418	843
Long term borrowings (Note 14)	1,398,528	2,272,773
Short term borrowings (Note 15)	461,115	1,499,745
<b>Total financial liabilities carried at amortised costs</b>	<b>2,026,781</b>	4,285,571

Trade payables are non-interest bearing and are normally settled within 30 days to 60 days (2016: 30 days to 60 days).

Included in other payables are sundry payables which are non-interest bearing and are normally settled within 30 days to 90 days (2016: 30 days to 90 days).

Deferred income relates to mobilisation fees received on drilling and workover contracts that are deferred and recognised on a straight-line basis over the term of the respective contracts.



# Notes to the Financial Statements

31 December 2017

## 16. PAYABLES (CONT'D.)

	Company	
	2017	2016
	RM'000	RM'000
Other payables:		
Accruals	850	7,815
Provision for unutilised leave	390	413
Sundry payables	1,072	1,045
Total other payables	2,312	9,273
Total other payables	2,312	9,273
Less:		
Provision for unutilised leave	(390)	(413)
Add:		
Due to former holding company - Non-current (Note 12)	–	308,000
Due to former holding company - Current (Note 12)	3,926	1,447
Due to subsidiaries (Note 12)	444,252	78
Due to subsidiaries of former holding company (Note 12)	379	552
Long term borrowings (Note 14)	–	676,032
Short term borrowings (Note 15)	–	1,035,674
Total financial liabilities carried at amortised costs	450,479	2,030,643

## 17. ORDINARY SHARE CAPITAL, SHARE PREMIUM AND ISLAMIC REDEEMABLE CONVERTIBLE PREFERENCE SHARES ("RCPS-i")

### (a) Ordinary share capital and share premium

	Group and Company			
	Number of ordinary shares '000	Share capital RM'000	Share premium RM'000	Total share capital and share premium RM'000
At 1 January 2016/31 December 2016/ 1 January 2017	2,162,000	1,081,000	1,372,819	2,453,819
Effect of implementation of Companies Act 2016	–	1,372,819	(1,372,819)	–
Rights issue during the year	4,836,728	1,281,733	–	1,281,733
Rights issue expenses	–	(3,206)	–	(3,206)
At 31 December 2017	6,998,728	3,732,346	–	3,732,346

## **17. ORDINARY SHARE CAPITAL, SHARE PREMIUM AND ISLAMIC REDEEMABLE CONVERTIBLE PREFERENCE SHARES (“RCPS-i”) (CONT’D.)**

### **(a) Ordinary share capital and share premium (cont’d.)**

The Companies Act 2016 (the Act), which came into effect on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amount standing to the credit of the share premium account of RM1,372,819,000 has become part of the Company’s share capital pursuant to the transitional provisions set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use the amount standing to the credit of its share premium account of RM1,372,819,000 for purposes as set out in Section 618(3) of the Act. There is no impact on the number of ordinary shares in issue or the relative entitlement of any shareholders as a result of this transition.

During the financial year, the Company issued renounceable rights issue of 4,836,727,688 new ordinary shares on the basis of 14 rights shares for every 5 ordinary shares held in the Company as disclosed in Note 35.

### **(b) RCPS-i**

During the financial year, the Company issued 1,216,872,312 new Islamic Redeemable Convertible Preference Shares (“RCPS-i”), as disclosed in Note 35.

RCPS-i is classified as equity instrument. Costs directly attributable to equity transactions are accounted for as a deduction, net of tax, from equity.

The main features of RCPS-i are as follows:

- (i) The RCPS-i shall be convertible into ordinary shares of the Company during the period from 25 October 2017 to the maturity date on 24 October 2022 by surrendering 1 RM0.30 nominal value of RCPS-i for one new ordinary share of the Company. Any remaining RCPS-i that are not converted by the maturity date shall be automatically converted into new ordinary shares of the Company at the conversion rate.
- (ii) Upon conversion of the RCPS-i into new ordinary shares, the RCPS-i shall rank equally amongst themselves, and will rank ahead in point of priority to the ordinary shares of the Company, in respect of payment out of the assets of the Company upon any liquidation, dissolution or winding up of the Company.
- (iii) RCPS-i holders agree (in and for compliance with Shariah) to waive their right to receive any distribution of profit with, such waiver to be decided by the Board at the relevant time on behalf of the RCPS-i holders.
- (iv) The Company may at any time before the maturity date, at its discretion, redeem all or part of the outstanding RCPS-i by giving notice in writing to the RCPS-i holder of its intention to do so, in cash at a redemption price which shall be aggregate of:
  - the issue price of the relevant RCPS-i being redeemed; and
  - redemption premium of 8% per annum on a cumulative but non-compounding basis calculated from the issue date, 25 October 2017, up to the redemption date, out of the distributable profits of the Company.

During the financial year, no RCPS-i was redeemed or converted. As at the reporting date, 1,216,872,312 RCPS-i remained outstanding.

## **18. OTHER RESERVES**

### **(a) Warrant reserve**

On 25 October 2017, the Company allotted and issued 1,209,181,678 free warrants on the basis of 1 warrant for every 4 rights shares subscribed and 304,218,076 free warrants on the basis of 1 warrant for every 4 RCPS-i subscribed.

The warrants are valid for exercise for a period of 7 years from its issue date and will expire on 18 October 2024. During this period, each warrant entitled the registered holder to subscribe for 1 new ordinary share/RCPS-i in the Company at any time on or after 25 October 2017 to 18 October 2024, at an exercise price of RM0.395 per warrant. Any warrant not exercised by its expiry date will lapse thereafter and cease to be valid for all purposes. During the financial year, no warrants for rights issue and RCPS-i were exercised. As at the reporting date, 1,209,181,678 warrants for rights issue and 304,218,076 warrants for RCPS-i remained unexercised.

# Notes to the Financial Statements

31 December 2017

## 18. OTHER RESERVES (CONT'D.)

### (a) Warrant reserve (cont'd.)

The value allocated to 1 warrant was based on the proportion of the fair value of 1 warrant, being the fair value of the warrant on the first day of its listing, over the combined fair value of 4 rights shares/RCPS-i and 1 warrant to the issue price of the right shares of RM0.30 each.

### (b) Share options reserve

Share options reserve represents the equity-settled share options granted by the ultimate holding company to the employees of the Group.

### (c) Capital reserve

Capital reserve relates to statutory reserves of an overseas subsidiary.

### (d) Gain on derecognition of financial liabilities

The gain on derecognition of financial liabilities arose as part of the settlement of liabilities due to the former holding company pursuant to a past internal reorganisation.

### (e) Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the Group's presentation currency.

### (f) Hedging reserve

Hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flows hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedge reserve will be reclassified to income statement only when the hedge transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item.

## 19. REVENUE

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Drilling and workover services	501,597	266,362	—	—
Sale of goods	24,496	5,113	—	—
Rendering of services	60,478	49,281	—	—
Gross dividend income from subsidiaries	—	—	8,644	6,592
Management fees from subsidiaries	—	—	8,305	10,218
Management fees from former fellow subsidiaries	80	87	80	87
Others	—	210	—	—
	586,651	321,053	17,029	16,897

## 20. OTHER OPERATING INCOME

Included in other operating income are:

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange gains	–	26,038	–	30,839
Net fair value gain on derivatives	2,580	–	–	–
Gain on disposal of property, plant and equipment	508	68	–	–
Rental income	447	1,051	683	951
Warranty income	7,310	–	–	–

## 21. EMPLOYEE BENEFITS

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Wages and salaries	86,932	89,464	11,650	12,207
Social security costs	457	369	78	73
Reversal of provision for unutilised leave	(19)	(92)	(23)	(70)
Pension costs - defined contribution plan	6,140	6,471	1,850	1,878
Termination benefits	239	3,864	–	573
Other employee related expenses	22,889	23,276	1,502	1,220
	116,638	123,352	15,057	15,881

Included in employee benefits is executive director's remuneration as follows:

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Salaries and other emoluments	957	1,161	957	1,161
Pension costs - defined contribution plan	152	171	152	171
Benefits-in-kind	140	182	130	173

## 22. IMPAIRMENT PROVISIONS

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment (Note 4)	982,089	780,265	–	–
Investment in a subsidiary (Note 6)	–	–	1,327,925	288,029
Amount due from subsidiaries (Note 12)	–	–	170,985	32,347
Amount due from former fellow subsidiaries (Note 12)	46	935	–	–
	982,135	781,200	1,498,910	320,376

# Notes to the Financial Statements

31 December 2017

## 23. OTHER OPERATING EXPENSES

Included in other operating expenses are:

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Non-executive directors' remuneration:				
- fees	515	648	515	648
- meeting allowances	245	277	245	277
- other emoluments	132	154	132	154
Rental of premises	7,423	9,149	2,832	3,279
Rental of equipment, barge and rig	8,686	16,446	95	548
Repair and maintenance of equipment and rigs	21,710	44,453	33	37
Auditors' remuneration:				
Statutory audit				
- auditors of the Company	781	675	146	146
- other auditors	54	53	-	-
Other services				
- auditors of the Company	467	156	444	10
Management fees payable to a former related company	77	1,099	77	1,099
Net impairment loss on receivables	1,483	-	-	-
Net fair value loss on money market fund	-	52	-	52
Loss on disposal of property, plant and equipment	211	693	182	34
Property, plant and equipment written off	9	6,826	-	-
Net foreign exchange loss	12,247	-	37,286	-

	Directors' fees		*Other emoluments	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000

### Group and Company

#### Non-executive directors:

Tan Sri Asmat bin Kamaludin	54	144	120	144
Badrul Feisal bin Abdul Rahim	36	72	23	30
Dr. Leong Chik Weng	12	72	8	54
Razalee bin Amin	72	72	50	51
Dato' Afifuddin bin Abdul Kadir	72	72	43	31
Cheah Tek Kuang	72	72	43	42
Dato' Ibrahim bin Marsidi	72	72	47	43
Fina Norhizah binti Hj Baharu Zaman	12	72	5	36
Mohd Rashid bin Mohd Yusof	38	-	14	-
Haida Shenny binti Hazri	38	-	11	-
Rowina Ghazali Seth	37	-	13	-
	515	648	377	431

## 23. OTHER OPERATING EXPENSES (CONT'D.)

	Directors' fees		**Other emoluments	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
<b>Group and Company</b>				
<u>Executive director:</u>				
Rohaizad bin Darus	10	9	1,239	1,505

\* Included in the other emoluments are meeting fees allowance, per diem allowance, car, petrol, telephone expenses and leave passage.

\*\* Include in the other emoluments are salary, gratuity, employer's statutory contribution, car, and petrol, leave passage, allowances, telephone expenses and club subscriptions.

## 24. FINANCE COSTS

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Interest expenses				
- Bank borrowings	123,334	107,764	47,778	47,940
- Due to former holding company	14,280	9,917	14,280	9,917
- Due to subsidiary	-	-	685	-
- Others	607	552	-	-
Net interest expenses	138,221	118,233	62,743	57,857

## 25. INVESTMENT INCOME

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Distribution income from:				
- Money market fund	-	1,234	-	738
Interest income from:				
- Deposits with licensed banks	17,836	15,665	13,730	13,354
- Subsidiaries	-	-	57,129	55,205
	17,836	16,899	70,859	69,297

# Notes to the Financial Statements

31 December 2017

## 26. INCOME TAX EXPENSE/(CREDIT)

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Income tax:				
Malaysian income taxes	724	1,702	415	1,551
Foreign income taxes	1,394	562	–	–
	<b>2,118</b>	2,264	<b>415</b>	1,551
(Over)/under provision in prior years:				
Malaysian income taxes	(3,424)	927	(1,551)	137
Foreign income taxes	72	(5)	–	–
	<b>(3,352)</b>	922	<b>(1,551)</b>	137
	<b>(1,234)</b>	3,186	<b>(1,136)</b>	1,688
Deferred taxation (Note 8):				
Relating to origination and reversal of temporary differences	(140)	(1,026)	–	–
Under provision in prior years	142	23	–	–
	<b>2</b>	(1,003)	<b>–</b>	–
Total income tax (credit)/expense	<b>(1,232)</b>	2,183	<b>(1,136)</b>	1,688

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2016: 24%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliations between tax expense and the accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2017 and 2016 are as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Loss before taxation	<b>(1,130,507)</b>	(1,181,264)	<b>(1,535,228)</b>	(285,774)
Taxation at Malaysian statutory rate of 24% (2016: 24%)	<b>(271,322)</b>	(283,503)	<b>(368,455)</b>	(68,586)
Effect of different tax rates in other jurisdictions	466	471	–	–
Income not subject to tax	<b>(22,324)</b>	(19,672)	<b>(15,074)</b>	(23,799)
Expenses not deductible for tax purposes	<b>307,533</b>	270,951	<b>384,669</b>	93,838
Utilisation of previously unrecognised deferred tax assets	<b>(17,023)</b>	(25)	<b>(783)</b>	(25)
Deferred tax assets not recognised	<b>4,748</b>	33,117	<b>58</b>	123
Under provision of deferred tax in prior years	142	23	–	–
(Over)/under provision of income tax in prior years	<b>(3,352)</b>	922	<b>(1,551)</b>	137
Share of results of associate	<b>(100)</b>	(101)	–	–
Tax (credit)/expense for the year	<b>(1,232)</b>	2,183	<b>(1,136)</b>	1,688

## 27. LOSS PER SHARE

### Basic

	2017	Group 2016
Net loss attributable to equity holders (RM'000)	(1,126,999)	(1,177,379)
Weighted average number of ordinary shares in issue ('000)	3,063,089	2,162,000
Basic loss per share (sen):	(36.79)	(54.46)

Basic loss per share is calculated by dividing the net loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

### Diluted

	2017	Group 2016
Net loss attributable to equity holders (RM'000)	(1,126,999)	(1,177,379)
Weighted average number of ordinary shares in issue and issuable ('000)	3,571,742	2,162,000
Diluted loss per share (sen):	(31.55)	(54.46)

Diluted loss per share is calculated by dividing the net loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue and issuable during the year.



# Notes to the Financial Statements

31 December 2017

## 28. CAPITAL COMMITMENTS

	Group	
	2017	2016
	RM'000	RM'000
Approved and contracted for:		
- land and buildings	–	321
- equipment, plant and machinery	2,981	8,361
- others	7	38
	2,988	8,720
Approved but not contracted for:		
- land and buildings	4,618	4,353
- equipment, plant and machinery	58,230	33,877
- others	1,359	6,235
	64,207	44,465
Total capital commitments	67,195	53,185

## 29. SEGMENT REPORTING

For management purposes, the Group is organised into business segments based on nature of services and has operating segments as follows:

- (i) The drilling services segment is principally involved in the provision of drilling services and workover rig services to the upstream oil and gas sector. This segment owns and operates several drilling rigs and HWUs, and acts as an agent for two providers of specialised equipment and service. The rigs are chartered out to oil majors for their exploration, development and production activities. The HWUs service offshore wells that involve the use of HWUs and its ancillary equipment to complete the removal and replacement of well equipment to restore the operation of suspended or under-performing wells;
- (ii) The oilfield services segment principally provide premium Oil Country Tubular Goods (“OCTG”) threading, repair and inspection services; and
- (iii) The others segment is involved in investment holding, provision of support services, management and corporate services which do not generate significant external revenue.

Transfer prices between operating segments are at terms agreed between the parties.

## 29. SEGMENT REPORTING (CONT'D.)

### (a) Business segments

2017

	Drilling services RM'000	Oilfield services RM'000	Others RM'000	Adjustments and eliminations RM'000	Note	Per consolidated financial statements RM'000
<b>Revenue:</b>						
External customers	568,772	16,867	1,012	–		586,651
Inter-segment	–	–	8,242	(8,242)	I	–
Total revenue	568,772	16,867	9,254	(8,242)		586,651
<b>Results:</b>						
Depreciation and amortisation	(254,172)	(3,636)	(1,249)	–		(259,057)
Impairment of property, plant equipment	(982,089)	–	–	–		(982,089)
Finance costs	(138,123)	(98)	–	–		(138,221)
Investment income	3,924	127	13,785	–		17,836
Share of results of associate	–	419	–	–		419
Other material non-cash items	(10,029)	196	(1,768)	–	II	(11,601)
Segment loss before tax	(1,106,524)	(5,428)	(18,555)	–		(1,130,507)
Income tax credit/(expense)	1,428	(288)	92	–		1,232
Segment loss after tax	(1,105,096)	(5,716)	(18,463)	–		(1,129,275)
<b>Assets:</b>						
Investment in associate	–	2,303	–	–		2,303
Additions to non-current assets	16,421	221	537	–	III	17,179
Segment assets	4,138,196	54,668	599,230	–		4,792,094
<b>Liabilities:</b>						
Segment liabilities	1,997,856	12,870	17,175	–		2,027,901

# Notes to the Financial Statements

31 December 2017

## 29. SEGMENT REPORTING (CONT'D.)

### (a) Business segments (cont'd.)

2016

	Drilling services RM'000	Oilfield services RM'000	Others RM'000	Adjustments and eliminations RM'000	Note	Per consolidated financial statements RM'000
<b>Revenue:</b>						
External customers	303,547	17,419	87	–		321,053
Inter-segment	–	–	10,145	(10,145)	I	–
Total revenue	303,547	17,419	10,232	(10,145)		321,053
<b>Results:</b>						
Depreciation and amortisation	(284,324)	(5,773)	(1,094)	–		(291,191)
Impairment of property, plant equipment	(764,485)	(15,780)	–	–		(780,265)
Finance costs	(118,142)	(91)	–	–		(118,233)
Investment income	2,028	239	14,632	–		16,899
Share of results of associate	–	419	–	–		419
Other material non-cash items	(5,678)	(57)	(19,198)	–	II	(24,933)
Segment (loss)/profit before tax	(1,155,764)	(34,131)	8,631	–		(1,181,264)
Income tax expense	(309)	(172)	(1,702)	–		(2,183)
Segment (loss)/profit after tax	(1,156,073)	(34,303)	6,929	–		(1,183,447)
<b>Assets:</b>						
Investment in associate	–	2,571	–	–		2,571
Additions to non-current assets	53,189	3,086	761	–	III	57,036
Segment assets	6,044,537	70,153	435,350	–		6,550,040
<b>Liabilities:</b>						
Segment liabilities	3,956,063	13,474	319,302	–		4,288,839

## 29. SEGMENT REPORTING (CONT'D.)

### (a) Business segments (cont'd.)

The following are the nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements:

- I. Inter-segment revenue are eliminated on consolidation.
- II. Other material non-cash income/(expenses) consist of the following items as presented in the respective notes to the consolidated financial statements:

	Note	2017 RM'000	2016 RM'000
Impairment lossess on receivables	23	(1,483)	–
Net gain/(loss) on disposal of property, plant and equipment	20, 23	297	(625)
Net fair value loss on money market fund	23	–	(52)
Net unrealised foreign exchange loss		(10,406)	(17,430)
Property, plant and equipment written off	23	(9)	(6,826)
		(11,601)	(24,933)

- III. Additions to non-current assets consist of:

	Note	2017 RM'000	2016 RM'000
Property, plant and equipment	4	17,179	57,036

### (b) Geographical segments

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Malaysia RM'000	Indonesia RM'000	Singapore RM'000	Others RM'000	Total RM'000
<b>31 December 2017</b>					
Revenue from external customers	577,556	–	–	9,095	586,651
Non-current assets	3,584,475	–	33,695	27,428	3,645,598
<b>31 December 2016</b>					
Revenue from external customers	313,786	–	–	7,267	321,053
Non-current assets	4,669,309	586,980	13,837	30,513	5,300,639

# Notes to the Financial Statements

31 December 2017

## 29. SEGMENT REPORTING (CONT'D.)

### (b) Geographical segments (cont'd.)

Non-current assets information presented above consist of the following items as presented in the consolidated statements of financial position:

	2017 RM'000	2016 RM'000
Property, plant and equipment	3,643,231	5,298,125
Land use rights	2,367	2,514
	<b>3,645,598</b>	5,300,639

## 30. SUBSIDIARIES

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2017 %	2016 %

### Subsidiaries of the Company:

UMW JDC Drilling Sdn. Bhd. #	Malaysia	Provision of drilling operations for the oil and gas industry	85	85
UMW Malaysian Ventures Sdn. Bhd.	Malaysia	Investment holding.	100	100
UMW Singapore Ventures Pte. Ltd.*	Singapore	Investment holding.	100	100
UMW Rig Asset (L) Ltd.	Malaysia	Investment holding.	100	100
Sumber Ribu Sdn. Bhd.	Malaysia	Provision for treasury management services	100	–
Sumber Wang (L) Ltd.	Malaysia	Provision for treasury management services	100	–

### Subsidiaries of:

**UMW Malaysian Ventures Sdn. Bhd.**  
**UMW Singapore Ventures Pte. Ltd.**  
**UMW Rig Asset (L) Ltd.**

UMW Workover Sdn. Bhd.	Malaysia	Provision of workover operations for the oil and gas industry	100	100
UMW Offshore Drilling Sdn. Bhd.	Malaysia	Contract offshore drilling business and operations and other engineering services for oil and gas exploration, development and production in Malaysia and overseas	100	100

### 30. SUBSIDIARIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest	
			2017 %	2016 %
UMW Drilling Co. Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling 2 (L) Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling 3 (L) Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling 4 (L) Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling 5 (L) Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling 6 (L) Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling 7 (L) Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling 8 (L) Ltd.	Malaysia	Ownership and leasing of rig.	100	100
UMW Drilling Academy Sdn. Bhd.	Malaysia	Provision of training and courses in relation to oil and gas drilling activities.	100	100
UMW Standard 1 Pte. Ltd.	Singapore	Ownership and leasing of rig.	100	100
UMW Standard 3 Pte. Ltd.	Singapore	Dormant.	100	100
UMW Offshore Drilling Ltd.	Cayman Islands	Contract drilling operations and other engineering services for oil and gas exploration, development and production.	100	100
Offshore Driller B324 Ltd.	Cayman Islands	Dormant.	100	100
Offshore Driller 4 Ltd.	Cayman Islands	Dormant.	100	100
UMW Oilpipe Services Sdn. Bhd.	Malaysia	Provision of threading, inspection, repair and maintenance services for OCTG.	100	100
UMW Oilpipe Services (Turkmenistan) Ltd.	Malaysia	Provision of threading, inspection, repair and maintenance services for OCTG.	51	51
UMW Oilfield Services (Tianjin) Co., Limited*	People's Republic of China	Provision of threading, inspection, repair and maintenance services for OCTG.	100	100
UOT (Thailand) Limited	Thailand	Provision of threading, inspection, repair and maintenance services for OCTG.	58.8	58.8

# In members' voluntary winding up on 26 February 2018.

\* Audited by firms other than Ernst & Young.

# Notes to the Financial Statements

31 December 2017

## 30. SUBSIDIARIES (CONT'D.)

### (a) Subsidiaries with non-controlling interests

Details and summarised financial information of subsidiaries which have non-controlling interests that are material to the Group are set out below. The summarised financial information presented below is the amount before inter-company elimination.

#### (i) Details of subsidiaries

	Proportion of ownership interest held by non-controlling interests	
	2017 %	2016 %
<b>Name of company</b>		
UMW JDC Drilling Sdn. Bhd.	15	15
UMW Oilpipe Services (Turkmenistan) Ltd.	49	49
UOT (Thailand) Limited	41.2	41.2

#### (ii) Summarised statements of financial position

	2017 RM'000	2016 RM'000
Non-current assets	2,268	3,104
Current assets	7,940	22,222
Current liabilities	(4,155)	(11,748)

#### (iii) Summarised statements of comprehensive income

	2017 RM'000	2016 RM'000
Revenue	1,158	63,901
Loss for the year	(6,996)	(15,834)
Other comprehensive (loss)/income	(545)	534
Total comprehensive loss	(7,541)	(15,300)
Dividends paid to non-controlling interests	–	(1,648)

### 30. SUBSIDIARIES (CONT'D.)

#### (a) Subsidiaries with non-controlling interests (cont'd.)

##### (iv) Summarised statements of cash flows

	2017 RM'000	2016 RM'000
Net cash used in operating activities	(12,209)	(9,302)
Net cash generated from investing activities	440	121
Net cash used in financing activities	–	(9,396)
Net decrease in cash and cash equivalents	(11,769)	(18,577)
Cash and cash equivalents at end of year	5,874	18,712

### 31. SIGNIFICANT RELATED PARTY DISCLOSURES

- (a) In addition to the related party transaction information disclosed elsewhere, transactions by the Group with its related parties are as follows:

Companies	Transacting Parties	Nature of Transactions	2017 RM'000	2016 RM'000
UMW Oil & Gas Corporation Berhad and its subsidiaries companies	U-TravelWide Sdn. Bhd., a subsidiary of UMWH	Purchase of services	897	513
UMW Oil & Gas Corporation Berhad	UMW Corporation Sdn. Bhd., a subsidiary of UMWH	Rental expense	971	2,595
		Management fees expense	75	1,099
UMW Oilpipe Services Sdn. Bhd.	UMW Industries (1985) Sdn. Bhd., a subsidiary of UMWH	Operating lease expense	50	224
UMW Oil & Gas Corporation Berhad	e-Lock Corporation Sdn. Bhd., an associate of UMWH in which Dr. Leong Chik Weng also has an interest	Purchase of services	26	54
UMW Oil & Gas Corporation Berhad	UMWH, holding company	Interest expense on advances from UMWH	8,388	9,917
UMW Oil & Gas Corporation Berhad and its subsidiaries companies	Toyota Capital Malaysia Sdn. Bhd., a subsidiary of UMWH	Operating lease expense	598	1,356
UMW JDC Drilling Sdn. Bhd. ("UJD")	Japan Drilling Co. Ltd., a corporate shareholder of UJD, and its subsidiaries	Purchase of goods and services	–	16,359
		Bareboat charter expense	–	2,308

On 11 July 2017, the Company ceased to be a subsidiary of UMWH upon completion of the distribution of ordinary shares in the Company held in UMWH to the entitled shareholders of UMWH.



# Notes to the Financial Statements

31 December 2017

## 31. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

- (b) In addition to the related party transaction information disclosed elsewhere, transactions by the Company with its subsidiaries are as follows:

	2017 RM'000	2016 RM'000
Dividend income	(8,644)	(6,592)
Management fees income	(8,305)	(10,305)
Interest income	(57,129)	(55,205)
Rental income	(683)	(951)
Services rendered income	(939)	(2,923)

- (c) Compensation of key management personnel

The aggregate compensation of key management personnel, including the executive director of the Company is as follows:

	2017 RM'000	2016 RM'000
Salaries and wages	4,386	5,514
Social security cost	10	11
Pension costs - defined contribution plan	687	780
Other staff related costs	442	626
	5,525	6,931

## 32. FAIR VALUE OF FINANCIAL INSTRUMENTS

### Determination of fair values

**Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value**

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value:

	Note
<b>Receivables</b>	
- Trade and other receivables	11
- Due from related companies	12
<b>Borrowings</b>	
- Floating rate borrowings (non-current)	14
- Floating rate borrowings (current)	15
<b>Payables</b>	
- Trade and other payables	16
- Due to related companies	12

## 32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

### Determination of fair values (cont'd.)

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

The carrying amounts of the current portion of loans and borrowings are reasonable approximation of fair value due to the insignificant impact of discounting.

The fair values of current loans and borrowings are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the reporting date.

### Held for trading investments

The fair value of these financial instruments are determined by reference to their published net asset values as at the reporting date.

### Derivatives

Interest rate swap contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and interest rate curves.

### Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- (a) Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- (b) Level 2 Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (c) Level 3 Input for the asset or liability that are not based on observable market data (unobservable input).

	Level 2	
	2017 RM'000	2016 RM'000

### Assets

Financial assets at fair value through profit or loss:

- Derivative assets	-	5,560
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The Group does not have any financial instruments classified as Level 1 and Level 3 as at the reporting date. There were no material transfers between Level 1, Level 2 and Level 3 during the financial year.

# Notes to the Financial Statements

31 December 2017

## 33. CAPITAL MANAGEMENT

Capital management is defined as the process of managing the composition of the Group's debt and equity to achieve and maintain an optimal capital structure and ensuring availability of funds to support its business and maximise its shareholder value.

The Group defines capital as total equity and net debt of the Group and manages its capital structure using a gearing ratio which is net debt divided by total equity plus net debt. For this purpose, borrowings from holding company and other investments, which consist of investments in money market fund, are included in deriving net debt of the Group and of the Company. The Group endeavours to maintain a gearing ratio that optimises the usage of capital.

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Loans and borrowings	1,859,643	3,772,518	–	1,711,706
Due to former holding company	3,926	309,447	3,926	309,447
Less: Deposits, cash and bank balances (Current)	(680,747)	(555,021)	(564,233)	(421,588)
Deposits, cash and bank balances (Non-current)	–	(336,450)	–	–
Net debt	1,182,822	3,190,494	(560,307)	1,599,565
Total equity	2,764,193	2,261,201	2,653,580	2,374,798
Total capital	3,947,015	5,451,695	2,093,273	3,974,363
Gearing ratio	0.30	0.59	*	0.40

\* The Company's loan has been fully repaid during the current financial year.

## 34. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks. The financial risk management practices of the Group seek to ensure that adequate financial resources are available for the development of the Group's business while managing credit, liquidity, interest rate and foreign currency risks. The principal aim of the Group's financial risk management practices is to identify, evaluate and manage financial risks with an objective to minimise potential adverse effects on the financial performance of the Group.

The Group's risk governance structure comprise the following:

- (i) a Board Risk Management Committee; and
- (ii) a Risk Management Committee.

### 34. FINANCIAL RISK MANAGEMENT (CONT'D.)

Responsibilities of the Board Risk Management Committee include:

- (i) to monitor the consistent enforcement of Enterprise Risk Management (“ERM”) policy across the Group;
- (ii) to review and endorse the risk parameters, risk appetite, risk profiles, risk treatment options, risk action plans and key risk indicators;
- (iii) to provide guidance and advice on appropriateness of risk treatment option selected and risk action plans development; and
- (iv) to provide half yearly reports to the Board on ERM.

The Risk Management Committee is made up of members of the Group’s senior management. This committee will be responsible to identify and assess risks and make recommendations on risk management to the Board Risk Management Committee of the Board of Directors.

Financial risk management objectives of the Group are as follows:

- (i) to minimise exposure to all financial risks including interest, credit, liquidity and foreign currency exchange risks;
- (ii) to accept certain level of financial risks including price risk and credit risk that commensurate with the expected returns on the underlying operations and activities; and
- (iii) to minimise liquidity risk by proper cash flow planning, management and control.

The Group’s financial risk management strategies include using:

- (i) derivatives to hedge its exposure to currency, interest and cash flow risks where appropriate. However, use of derivatives for speculation is specifically prohibited;
- (ii) credit controls that include evaluation, acceptance, monitoring and feedback to ensure that only reasonably creditworthy customers are accepted; and
- (iii) money market instruments, short term deposits and bank borrowings to manage liquidity risks.

The Group’s strategies and practices in dealing with its major financial risks are set out below:

#### **(a) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The functional currency of a majority of the companies within the Group is United States Dollar (“USD”). The Group relies primarily on the natural hedge between its USD-denominated revenue and USD-denominated borrowings and other liabilities to minimise its exposures to foreign currency risk.

The Group’s exposures to foreign currency risk primarily consist of trade receivables, trade payables, loans and borrowings, and deposits, cash and bank balances, as a result of transactions entered into in currencies other than the functional currencies.

As at 31 December 2017, approximately 15% (2016: 45%) of the Group’s trade receivables and approximately 33% (2016: 54%) of the Group’s trade payables are denominated in currencies other than the functional currency of the relevant companies in the Group.

# Notes to the Financial Statements

31 December 2017

## 34. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (a) Foreign currency risk (cont'd.)

The Group also holds deposits, cash and bank balances denominated in currencies other than functional currencies for working capital purposes. As at 31 December 2017, the Group has such balances amounting to RM47,369,000 (2016: RM37,709,000).

Material foreign currency exposures are hedged via forward exchange contracts by using foreign exchange facilities maintained with leading banks. The forward exchange contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

The table below demonstrates the sensitivity of the Group's and Company's loss after taxation as at year end to a reasonable possible change in the US Dollar exchange rates against RM with all other variables held constant:

	Group Effect on loss after taxation (Decrease)/increase		Company Effect on loss after taxation (Decrease)/increase	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
US Dollar/RM				
- strengthened 5% (2016: 5%)	(2,283)	(381)	(34,343)	(2,188)
- weakened 5% (2016: 5%)	2,283	381	34,343	2,188

### (b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk in respect of its placements with financial institutions and bank borrowings at floating rates. Its policy is to:

- (i) have an optimal mixture of short term deposits or placements; and
- (ii) manage its interest cost using a combination of fixed and floating rate debts.

The Group monitors interest rates prior to making deposits and bank borrowings to ensure that the applicable rates are established at acceptable levels. Interest rate swaps may be used to hedge against fluctuation in interest rate where appropriate.

### 34. FINANCIAL RISK MANAGEMENT (CONT'D.)

#### (b) Interest rate risk (cont'd.)

##### Sensitivity analysis for interest rate risk

The table below demonstrates the sensitivity of the Group's and the Company's loss after taxation, to possible reasonable changes in interest rates with all other variables held constant, through impact on interest income from placement of surplus funds and interest expense on floating rate borrowings.

	Basis points	Group Effect on loss after taxation Increase/(decrease)		Company Effect on loss after taxation Increase/(decrease)	
		2017	2016	2017	2016
		RM'000	RM'000	RM'000	RM'000
London Interbank Offered Rate	+ 50	<b>7,413</b>	9,355	–	4,241
	- 50	<b>(7,413)</b>	(9,355)	–	(4,241)
Cost of funds of lenders	+ 50	<b>2,077</b>	6,297	–	4,318
	- 50	<b>(2,077)</b>	(6,297)	–	(4,318)

#### (c) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligation. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including deposits, cash and bank balances), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

At the reporting date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position, including derivatives with positive fair values.

Credit risk of the Group is managed during the tendering stage where the credit worthiness of a potential customer or the payment records of an existing customer is evaluated prior to participating in a tender. The Group's customers are mainly local and overseas national oil companies, subsidiaries of credit-worthy international oil and gas companies or established international companies. For less established companies, credit risk is managed by obtaining advance payment and/or a collateral in the form of a bank guarantee.

# Notes to the Financial Statements

31 December 2017

## 34. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (d) Liquidity risk

Liquidity risk is the risk that the Group and the Company is unable to meet financial obligations when due, as a result of shortage of funds including arising from mismatch of maturities of financial assets and liabilities.

To ensure a healthy liquidity position, it is the Group's and the Company's policy to:

- (i) have the right mixture of liquid assets in its portfolio;
- (ii) maintain a healthy gearing ratio;
- (iii) finance long term assets with long term loans; and
- (iv) maintain a balance between flexible and structured financing options to finance its operations and investments.

The table below summarises the maturity profile of the Group's and the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations.

#### Group

	[----- 31 December 2017 -----]				
	On demand or within one year RM'000	More than one year and less than two years RM'000	More than two years and less than five years RM'000	Over five years RM'000	Total RM'000
<b>Financial liabilities:</b>					
Trade and other payables (exclude provisions and deferred income)	161,794	-	-	-	161,794
Due to former holding company	3,926	-	-	-	3,926
Due to former fellow subsidiaries	1,418	-	-	-	1,418
Borrowings	532,062	154,685	699,537	988,705	2,374,989
<b>Total undiscounted financial liabilities</b>	<b>699,200</b>	<b>154,685</b>	<b>699,537</b>	<b>988,705</b>	<b>2,542,127</b>

### 34. FINANCIAL RISK MANAGEMENT (CONT'D.)

#### (d) Liquidity risk (cont'd.)

##### Group (cont'd.)

	----- 31 December 2016 -----				
	On demand or within one year RM'000	More than one year and less than two years RM'000	More than two years and less than five years RM'000	Over five years RM'000	Total RM'000

##### Financial liabilities:

Trade and other payables (exclude provisions and deferred income)	202,763	–	–	–	202,763
Due to former holding company	1,447	–	383,419	–	384,866
Due to former fellow subsidiaries	843	–	–	–	843
Borrowings	1,588,133	336,867	1,727,849	475,552	4,128,401
Total undiscounted financial liabilities	1,793,186	336,867	2,111,268	475,552	4,716,873

##### Company

	----- 31 December 2017 -----				
	On demand or within one year RM'000	More than one year and less than two years RM'000	More than two years and less than five years RM'000	Over five years RM'000	Total RM'000

##### Financial liabilities:

Other payables (exclude provisions)	1,922	–	–	–	1,922
Due to former holding company	3,926	–	–	–	3,926
Due to subsidiaries and former fellow subsidiaries	444,631	–	–	–	444,631
Total undiscounted financial liabilities	450,479	–	–	–	450,479



# Notes to the Financial Statements

31 December 2017

## 34. FINANCIAL RISK MANAGEMENT (CONT'D.)

### (d) Liquidity risk (cont'd.)

#### Company (cont'd.)

	[----- 31 December 2016 -----]				
	On demand or within one year RM'000	More than one year and less than two years RM'000	More than two years and less than five years RM'000	Over five years RM'000	Total RM'000
<b>Financial liabilities:</b>					
Other payables (exclude provisions)	8,860	–	–	–	8,860
Due to former holding company	1,447	–	383,419	–	384,866
Due to subsidiaries and former fellow subsidiaries	630	–	–	–	630
Borrowings	1,059,813	79,881	227,741	475,552	1,842,987
Total undiscounted financial liabilities	1,070,750	79,881	611,160	475,552	2,237,343

There have been no material changes to the Group's and the Company's exposure to the above financial risks or the manner in which it manages and measures the risks for the financial years ended 31 December 2017 and 31 December 2016.

## 35. SIGNIFICANT EVENTS

- (a) On 4 May 2017, Maybank Investment Bank Berhad, on behalf of the Board of Directors of UMW-OG ("Board"), announced the following corporate proposals:
- (i) Proposed renounceable rights issue of up to 6,053,600,000 new shares in the Company ("Rights Shares") together with up to 1,513,400,000 free detachable warrants ("Warrants") at an issue price of RM0.30 per Rights Share on the basis of 14 Rights Shares for every 5 ordinary shares in the Company held at an entitlement date to be determined later ("Proposed Rights Issue With Warrants");
  - (ii) Proposed subscription of up to 4,847,539,594 new Islamic redeemable convertible preference shares in the Company ("RCPS-i") together with up to 1,211,884,898 free Warrants at an issue price of RM0.30 per RCPS-i by Permodalan Nasional Berhad ("PNB") and Funds under PNB's management ("Proposed Subscription");
  - (iii) Proposed exemption for PNB and persons acting in concert with it from the obligation to undertake a mandatory take-over offer for all the remaining shares and warrants in the Company not already owned by them arising from the completion of the Proposed Rights Issue with Warrants pursuant to paragraph 4.08(1)(b) of Rule 4, Part B of the Rules on Take-over, Mergers and Compulsory Acquisitions ("Rules") ("Proposed Exemption"); and
  - (iv) Proposed amendment to the Memorandum and Articles of Association of the Company's Constitution ("Proposed Amendment").

### 35. SIGNIFICANT EVENTS (CONT'D.)

The above corporate proposals were completed following:

- (i) The listing and quotation of 4,836,727,688 Rights Shares and 1,209,181,678 Warrants on the Main Market of Bursa Securities on 25 October 2017 pursuant to the Rights Issue With Warrants;
- (ii) The issuance of 1,216,872,312 RCPS-i and the listing and quotation of 304,218,076 Warrants on the Main Market of Bursa Securities on 25 October 2017 pursuant to the Proposed Subscription;
- (iii) The approvals by shareholders of the Company at the Extraordinary General Meeting held on 25 August 2017 and the Securities Commission on 6 September 2017 pursuant to the Proposed Exemption; and
- (iv) The approval by shareholders of the Company at the Extraordinary General Meeting held on 25 August 2017 pursuant to the Proposed Amendment.

As a result of the successful completion of the Rights Issue With Warrants and the Subscription, the Company has raised the intended gross proceeds of RM1,816,080,000 in full.

### 36. CONTINGENT LIABILITIES

UMW Offshore Drilling Sdn. Bhd. ("UOD" or "Claimant"), a wholly-owned subsidiary of the Group, had on 10 April 2015, served a Notice of Arbitration on Frontier Oil Corporation ("FOC" or "Respondent"), to seek, among others, an award for damages and/or compensation for all losses arising from the Respondent's breach of contract but not limited to the early termination fee amounting to USD19.2 million.

On 14 August 2015, UOD served its Statement of Claim and the Respondent filed its Statement of Defence dated 18 September 2015 denying, among others, that the Claimant is entitled to the early termination fee, damages, cost, interest or any other sums, without any counterclaim against UOD. The Statement of Reply dated 23 October 2015 was submitted by the Claimant.

On 24 August 2016, FOC served an Amended Statement of Defence and Counterclaim ("ASDC") seeking, among others, its alleged loss and damages on account of alleged non-performance and/or breach amounting to USD34.9 million.

UOD served its Amended Reply and Defence to Counterclaim ("ARDC") on the Respondent and further amended the ARDC in response to FOC's ASDC on 13 October 2016 and 24 April 2017. FOC filed its Statement in Reply to UOD's ARDC dated 23 November 2016. Thereafter, FOC submitted its revised ASDC on 25 June 2017 and UOD submitted its revised ARDC in response on 14 July 2017 accordingly.

The arbitration hearing is scheduled to be conducted in Singapore from 2 April 2018 to 6 April 2018.

UOD was advised by its solicitors that from the facts of its case, UOD has a good claim and a good defence to the Respondent's counterclaim.

# List of Properties

## PROPERTY OWNED BY THE GROUP

As at 31 December 2017

The details of land and buildings owned by the Group are set out below:

Location	Description	Existing Use	Date of issuance of CCC <sup>(1)</sup> or equivalent	Built-up area/Land area (Sq. Metres)	Restriction in interest	Net Book Value
UMW Oilfield Services (Tianjin) Co., Limited (“UOS-TJ”)	Industrial land comprising a detached factory	Currently used as the operating base for UOS-TJ’s business	25 June 2013 Refer to note <sup>(2)</sup>	6,564/ 13,909	Nil	RMB3,798,977 (RM2,366,763) (Land) RMB30,307,710 (RM18,881,703) (Building) Refer to note <sup>(3)</sup>
Jin Kai (Gua) No. 2010010, West Zone of Tianjin Development Zone, to the north of South Street and Greenbelt, to the south of Zhongnan fourth Street, to the east of Planning Use Land, and to the west of Xiaqing Road and Greenbelt, People’s Republic of China	(including warehouse, workshop, administration office and restroom), a guard house and a 3-storey research and development building					
No. 101, Central South Fourth Street, Tianjin Economic-Technological Development Area West Zone, 300462 Tianjin, People’s Republic of China	(including canteen, exhibition room, meeting room, research room and office)					
Leasehold for a period of 50 years, expiring on 2061						

### Notes:

- (1) Certificate of completion and compliance or certificate of fitness for occupation issued by the local authorities.
- (2) Property Ownership and Land Use Right Certificate (“POLUR Certificate”) dated 25 June 2013 issued by the Tianjin Municipal People’s Government and the Land Resources and Property Administration Bureau of Tianjin to UOS-TJ.
- (3) Based on the rate of RMB1 = RM0.623 as at 31 December 2017.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the 8th Annual General Meeting of UMW Oil & Gas Corporation Berhad will be held at **Dewan Tun Abdul Razak, Menara Kembar Bank Rakyat, No. 33, Jalan Rakyat, 50470 Kuala Lumpur, Malaysia** on **Tuesday, 15 May 2018 at 10.00 a.m.** for the following purposes:

## AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2017 and the Reports of the Directors and Auditors thereon.

*Please refer to Explanatory Note A*

2. To re-elect the following Directors, each of whom retires by rotation in accordance with Article 107 of the Company's Articles of Association and who being eligible, offer themselves for re-election:

- (i) Razalee bin Amin
- (ii) Dato' Ibrahim bin Marsidi

*Please refer to Explanatory Note B*

**Ordinary Resolution 1**  
**Ordinary Resolution 2**

3. To re-elect the following Directors, each of whom retires in accordance with Article 113 of the Company's Articles of Association and who being eligible, offer themselves for re-election:

- (i) Mohd Rashid bin Mohd Yusof
- (ii) Rowina Ghazali Seth
- (iii) Haida Shenny binti Hazri
- (iv) Rizal Rickman bin Ramli

*Please refer to Explanatory Note C*

**Ordinary Resolution 3**  
**Ordinary Resolution 4**  
**Ordinary Resolution 5**  
**Ordinary Resolution 6**

4. To re-elect Cheah Tek Kuang who retires pursuant to section 129 of the Companies Act, 1965 and Article 102 of the Articles of Association of the Company, as a Director of the Company.

**Ordinary Resolution 7**

5. (i) To approve the payment of the Non-Executive Directors' Fees for period from the current 8th Annual General Meeting of the Company in 2018 ("8th AGM") until the next 9th Annual General Meeting of the Company in 2019 ("9th AGM"), payable monthly; and

**Ordinary Resolution 8**

- (ii) Further to approve the payment of the Non-Executive Directors' Remuneration (other than the Non-Executive Directors' Fees) for the amount of up to RM307,500 for the period from the current 8th AGM until the next 9th AGM, payable monthly.

**Ordinary Resolution 9**

*Please refer to Explanatory Note D*

6. To re-appoint Messrs. Ernst & Young as the Company's Auditors for the year ending 31 December 2018 and to authorise the Board of Directors' to determine their remuneration.

**Ordinary Resolution 10**

*Please refer to Explanatory Note E*

# Notice of Annual General Meeting

## AS SPECIAL BUSINESS

To consider, if thought fit, to pass the following resolutions:-

### As Special Resolutions

**7. PROPOSED CHANGE OF COMPANY'S NAME FROM "UMW OIL & GAS CORPORATION BERHAD" TO "VELESTO ENERGY BERHAD" ("PROPOSED CHANGE OF NAME")**

**Special Resolution 1**

"THAT the name of the Company be hereby changed from "UMW Oil & Gas Corporation Berhad" to "**VELESTO ENERGY BERHAD**" with effect from the date of the Notice of Registration of New Name issued by the Companies Commission of Malaysia and that the Memorandum and Articles of Association ("M&A") of the Company be hereby amended accordingly, wherever the name of the Company appears.

AND THAT the Board of Directors' and/or Secretary of the Company be and are hereby authorised to give effect to the Proposed Change of Name and with full power to assent to any conditions, modifications, variations and/or amendments as may be required by the relevant authorities."

*Please refer to Explanatory Note F*

**8. PROPOSED ADOPTION OF A NEW CONSTITUTION OF THE COMPANY**

**Special Resolution 2**

"THAT approval be and is hereby given to amend and revise existing M&A of the Company, and in place thereof, a new Constitution as set out in the Circular to Shareholders dated 16 April 2018 (accompanying the Company's Annual Report 2017 for the financial year ended 31 December 2017) be and is hereby adopted as the Constitution of the Company; AND THAT the Board of Directors' be and is hereby authorized to assent to any modifications, variations and/or amendments as may be required by the relevant authorities including incorporating the change of name of the Company, (an agenda to be approved by the Shareholders under Special Resolution 1 above) and further to do all acts and things and take all such steps as may be considered necessary to give full effect to the foregoing."

*Refer to Explanatory Note G*

**9. To transact any other ordinary business for which due notice has been given in accordance with the Companies Act, 2016 ("CA, 2016") and the Articles of Association of the Company.**

### By Order of the Board

**Rafiza binti Ghazali (MIA 43580)**

Company Secretary

Kuala Lumpur

**16 April 2018**

## NOTES:

1. A member of the Company entitled to attend and vote at the Meeting may appoint a proxy to attend and vote in his/her stead. A proxy may but need not be a member of the Company.
2. The instrument appointing a proxy must be in writing under the hands of the appointer or his attorney duly authorised in writing or, if such appointer is a corporation, under its common seal or that of an officer or attorney duly authorised. If the Form of Proxy is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the Form of Proxy is signed under the attorney duly authorised, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A certified true copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed.
3. A member shall not be entitled to appoint more than one proxy.
4. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint a proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.

Every appointment submitted by an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, must specify the CDS Account Number.

5. The instrument appointing the proxy, together with the duly registered Power of Attorney referred to in Note 2 above, if any, must be deposited at the office of the Registrar, Securities Services (Holdings) Sdn Bhd at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Malaysia, not less than forty eight (48) hours before the time appointed for the AGM or any adjournment thereof.
6. For the purpose of determining a member who shall be entitled to attend the 8th AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Article 69(2) (b) of the Company's Articles of Association and section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositors as at **8 May 2018**. Only a depositor whose name appears on the General Meeting Record of Depositors as at **8 May 2018** shall be entitled to attend the said Meeting or appoint a proxy to attend and/or vote in his/her stead.

## EXPLANATORY NOTES TO THE AGENDA:

### **Explanatory Note A**

*This agenda item is intended for discussion only as section 340 (1) (a) of the CA, 2016 does not require a formal approval of the Shareholders for the Audited Financial Statements of the Company and hence is not put forward for voting.*

### **Explanatory Note B**

*Article 107 of the Company's Articles of Association expressly states that in every subsequent AGM, one-third of the Directors for the time being or the number nearest to one-third with a minimum of one, shall retire from office and the retiring Directors shall be eligible to seek re-election thereof.*

*Pursuant to Article 107 of the Company's Articles of Association, Razalee bin Amin and Dato' Ibrahim bin Marsidi are standing for re-election as Directors of the Company and being eligible, have offered themselves for re-election at this AGM.*

### **Explanatory Note C**

*Article 113 of the Company's Articles of Association provides that any Director so appointed shall hold office only until the next AGM and shall be eligible for re-election.*

*Pursuant to Article 113 of the Company's Articles of Association, Mohd Rashid bin Mohd Yusof, Rowina Ghazali Seth, Haida Shenny binti Hazri and Rizal Rickman bin Ramli are standing for re-election as Directors of the Company and being eligible, have offered themselves for re-election at this AGM.*

# Notice of Annual General Meeting

## Recommendation for Re-Election

The Board has agreed with the Board Nomination and Remuneration Committee's recommendation that the above Directors are eligible to stand for re-election respectively, based on the results of their individual assessment. Each Independent Non-Executive Directors' has provided his annual declaration of independence in the fourth quarter of 2017.

## Explanatory Note D

Article 100 of the Company's Articles of Association provides that the Directors' remuneration shall be determined by a fixed sum by an ordinary resolution of the Company in general meeting.

Section 230 (1) of the CA, 2016 provides that the fees of directors and any benefits payable to the directors of a listed company and its subsidiaries shall be approved at a general meeting.

At the last 7th Annual General Meeting of the Company held on 15 May 2017 ("7th AGM"), the Shareholders had approved the following Non-Executive Directors' Fees and Remuneration:-

Period	Chairman	Non-Executive Directors
7th AGM to 8th AGM	RM144,000 per annum	RM72,000 per annum

In addition, the Non-Executive Directors' Fees & Remuneration include meeting allowances, benefits-in-kind, emoluments and other claimable benefits payable to the Non-Executive Directors, details as shown below:-

Description	Chairman	Non-Executive Directors
Meeting Allowance (per meeting) for Board and Board Committee meetings	RM1,500	RM1,000
Benefits-in-kind	Medical Coverage, insurance, and other claimable benefits	
Per Diem Allowance (excluding out-of-pocket expenses)	RM500 per day (for events outside Lembah Klang) RM200 per day (for events within Lembah Klang)	

At a Board of Directors' Meeting held on 15 December 2017, YBhg Dato' Abdul Rahman bin Ahmad, (Non-Independent Non-Executive Chairman) agreed to receive RM1 only as a token, in lieu of Non-Executive Directors' Fees and Remuneration package for his directorship in the Company, until the next 9th Annual General Meeting in 2019.

Subsequently, the Board of Directors' at its Meetings held on 21 March 2018 and 5 April 2018 recommended the Non-Executive Directors' Fees and Remuneration Policy be revised as follows:-

	Chairman	Non-Executive Directors
Director's Fee	RM120,000 per annum	RM80,000 per annum
Board Committee Fee (for all Board Committee Members, except for Board Whistle-Blowing Committee members)	RM 15,000 per annum / per Committee	RM10,000 per annum / per Committee
Directors' Gratuity Entitlement (payable when a Director vacates the office), except for removal by Board of Directors' or by Shareholders	RM10,000 per year of service payable when vacating office	RM7,500 per year of service payable when vacating office

Other allowances, benefits-in-kind, emoluments and claimable benefits as stated above, remain unchanged.

The proposed revision to take effect from the date of Shareholders approval for Ordinary Resolution 7 and Ordinary Resolution 8, is obtained at this 8th AGM.

**Explanatory Note E**

*Pursuant to section 271 (4) (a) of the CA, 2016, the Shareholders are required to approve the re-appointment of Auditors who shall hold office until the conclusion of the next AGM and to authorise the Board of Directors' to determine their remuneration thereof.*

*The present Auditors, Messrs. Ernst & Young has indicated their willingness to continue its services for another year.*

*The Board Audit Committee and the Board of Directors' have considered the re-appointment of Messrs. Ernst & Young as Auditors of the Company, having undertaken an annual assessment of the suitability and independence of the external Auditors, have collectively agreed that Messrs. Ernst & Young has met the relevant criteria prescribed by Paragraph 15.21 of the Main Market Listing Requirement ("MMLR") of Bursa Malaysia.*

**Explanatory Note F**

*The proposed Special Resolution is set out in Appendix I of the Circular to Shareholders dated 16 April 2018 (accompanying the Company's Annual Report for the financial year ended 31 December 2017).*

**Explanatory Note G**

*The proposed Special Resolution, if passed, will bring the Company's Constitution in line with the provisions of the Companies Act, 2016 and the recent amendments to the MMLR of Bursa Malaysia. The proposed new Constitution is set out in Appendix II of the Circular to Shareholders dated 16 April 2018 (accompanying the Company's Annual Report for the financial year ended 31 December 2017).*

**STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING**

Pursuant to Paragraph 8.27 (2) of the MMLR of Bursa Malaysia.

Details of Directors seeking re-election/re-appointment as referred to in the Notice of AGM are set out in their respective profiles appearing on pages 32 and 41 of this Annual Report. Directors' interests in the securities of the Company are disclosed on pages 11 and 13 of this Annual Report.





# Form of Proxy



I/We \_\_\_\_\_  
(NAME AS PER NRIC / PASSPORT / CERTIFICATE OF INCORPORATION IN CAPITAL LETTERS)

with (New NRIC No.) \_\_\_\_\_ / (Old NRIC No.) \_\_\_\_\_ /

(Passport No.) \_\_\_\_\_ / (Company No.) \_\_\_\_\_

of \_\_\_\_\_  
(FULL ADDRESS IN CAPITAL LETTERS)

being a member of **UMW OIL & GAS CORPORATION BERHAD (878786-H)** ("Company") hereby appoint

\* ☐ \_\_\_\_\_  
(NAME AS PER NRIC / PASSPORT IN CAPITAL LETTERS)

with (New NRIC No.) \_\_\_\_\_ / (Old NRIC No.) \_\_\_\_\_ / (Passport No.) \_\_\_\_\_

of \_\_\_\_\_  
(FULL ADDRESS IN CAPITAL LETTERS)

or

\* ☐ the Chairman of the Meeting.

(\* Please tick one (1) box only)

as my/our proxy to vote for me/us and on my/our behalf at the 8th Annual General Meeting of the Company to be held at **Dewan Tun Abdul Razak, Menara Kembar Bank Rakyat, No. 33, Jalan Rakyat, 50470 Kuala Lumpur, Malaysia on Tuesday, 15 May 2018 at 10.00 a.m.** or at any adjournment thereof.

My/Our proxy is to vote as indicated below:

(Please indicate with an "X" in the appropriate box against each resolution how you wish your proxy to vote. If no instruction is given, this form will be taken to authorise the proxy to vote at his/her discretion.)

ORDINARY RESOLUTIONS	FOR	AGAINST
To re-elect Razalee bin Amin in accordance with Article 107 of the Company's Articles of Association <b>Ordinary Resolution 1</b>		
To re-elect Dato' Ibrahim bin Marsidi in accordance with Article 107 of the Company's Articles of Association <b>Ordinary Resolution 2</b>		
To re-elect Mohd Rashid bin Mohd Yusof in accordance with Article 113 of the Company's Articles of Association <b>Ordinary Resolution 3</b>		
To re-elect Rowina Ghazali Seth in accordance with Article 113 of the Company's Articles of Association <b>Ordinary Resolution 4</b>		
To re-elect Haida Shenny binti Hazri in accordance with Article 113 of the Company's Articles of Association <b>Ordinary Resolution 5</b>		
To re-elect Rizal Rickman bin Ramli in accordance with Article 113 of the Company's Articles of Association <b>Ordinary Resolution 6</b>		
To re-elect Cheah Tek Kuang in accordance with section 129 of the Companies Act, 1965 and Article 102 of the Company's Articles of Association <b>Ordinary Resolution 7</b>		
To approve the payment of Non-Executive Directors' Fees from the 8th Annual General Meeting ("8th AGM") of the Company in 2018 until the 9th Annual General Meeting ("9th AGM") of the Company in 2019, payable monthly <b>Ordinary Resolution 8</b>		
To approve the payment of Non-Executive Directors' Remuneration (excluding Directors' Fees) to the Non-Executive Directors' up to an amount of RM307,500.00 from the 8th AGM until the 9th AGM in 2019 of the Company, payable monthly <b>Ordinary Resolution 9</b>		
To re-appoint Messrs. Ernst & Young as the Company's Auditors for the year ending 31 December 2018 and to authorise the Directors to fix their remuneration <b>Ordinary Resolution 10</b>		
<b>SPECIAL BUSINESS</b>		
Proposed change of Company's name from "UMW Oil & Gas Corporation Berhad" to "Velesto Energy Berhad" <b>Special Resolution 1</b>		
Proposed adoption of a new Constitution of the Company <b>Special Resolution 2</b>		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2018

\_\_\_\_\_  
Name of Member  
(If the appointor is an attorney or a corporation please see Note 2 below)

\_\_\_\_\_  
Signature of Member(s) / Common Seal

**CDS Account No.**

**No. of Ordinary Shares Held**

**Notes :**

1. A member of the Company entitled to attend and vote at the meeting may appoint a proxy to attend and vote in his/her stead. A proxy may but need not be a member of the Company.
2. The instrument appointing a proxy must be in writing under the hands of the appointer or his attorney duly authorised in writing or, if such appointer is a corporation, under its common seal or that of an officer or attorney duly authorised. If the Form of Proxy is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the Form of Proxy is signed under the attorney duly authorised, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A certified true copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed.
3. A member shall not appoint more than one proxy.
4. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint a proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
5. The instrument appointing the proxy must be deposited at the office of the Company's registrar, Securities Services (Holdings) Sdn Bhd at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Malaysia, not less than forty eight (48) hours before the time appointed for the AGM or any adjournment thereof.
6. For the purpose of determining a member who shall be entitled to attend the meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Article 69(2)(b) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 8 May 2018. Only a depositor whose name appears on the General Meeting Record of Depositors as at 8 May 2018 shall be entitled to attend the said meeting or appoint a proxy to attend and/or vote in his/her stead.

1. Fold here

**THE REGISTRAR OF  
UMW OIL & GAS CORPORATION BERHAD**  
Company No. : 878786-H

AFFIX  
STAMP

**SECURITIES SERVICES (HOLDINGS) SDN. BHD.**

Level 7, Menara Milenium, Jalan Damanlela,  
Pusat Bandar Damansara, Damansara Heights,  
50490 Kuala Lumpur,  
Malaysia

2. Fold this flap to seal



A full-page background image featuring a worker in an orange jumpsuit and a green hard hat. The worker is positioned on the right side of the frame, looking down and slightly to the left. The background is a vibrant blue with a watercolor-like texture. The worker's jumpsuit has reflective white stripes on the sleeves and a name tag that reads "RUDIN".

**UMW OIL & GAS CORPORATION BERHAD**  
(878786-H)

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50470 KUALA LUMPUR,  
MALAYSIA.

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