

ENERGISING
A SUSTAINABLE FUTURE

2013
ANNUAL REPORT

www.deleum.com

DELEUM BERHAD (Co. No. 715640-T)
No. 2, Jalan Bangsar Utama 9, Bangsar Utama,
59000 Kuala Lumpur, Malaysia.
Tel : 603-2295 7788 Fax : 603-2295 7777

OUR MISSION

To Provide Sustainable Growth and Enhance Stakeholders' Value

OUR VISION

To be the Market Leader in our Operating Segments domestically and to establish regional presence by 2015

OUR SHARED VALUES

- Integrity
- Professionalism
- Health, Safety & Environment
- Excellence

COVER RATIONALE

Synergising our diverse range of products and services has been the driving force to enhance our capabilities across our three core business segments in the oil and gas sector value chain so as to ensure our business sustainability.

The three products, as featured on the cover (from left to right) namely compressor rotor of a gas turbine, slickline down hole tools and machinery component represent our focus in the three core business segments respectively - Power and Machinery, Oilfield Services and Maintenance, Repair and Overhaul.



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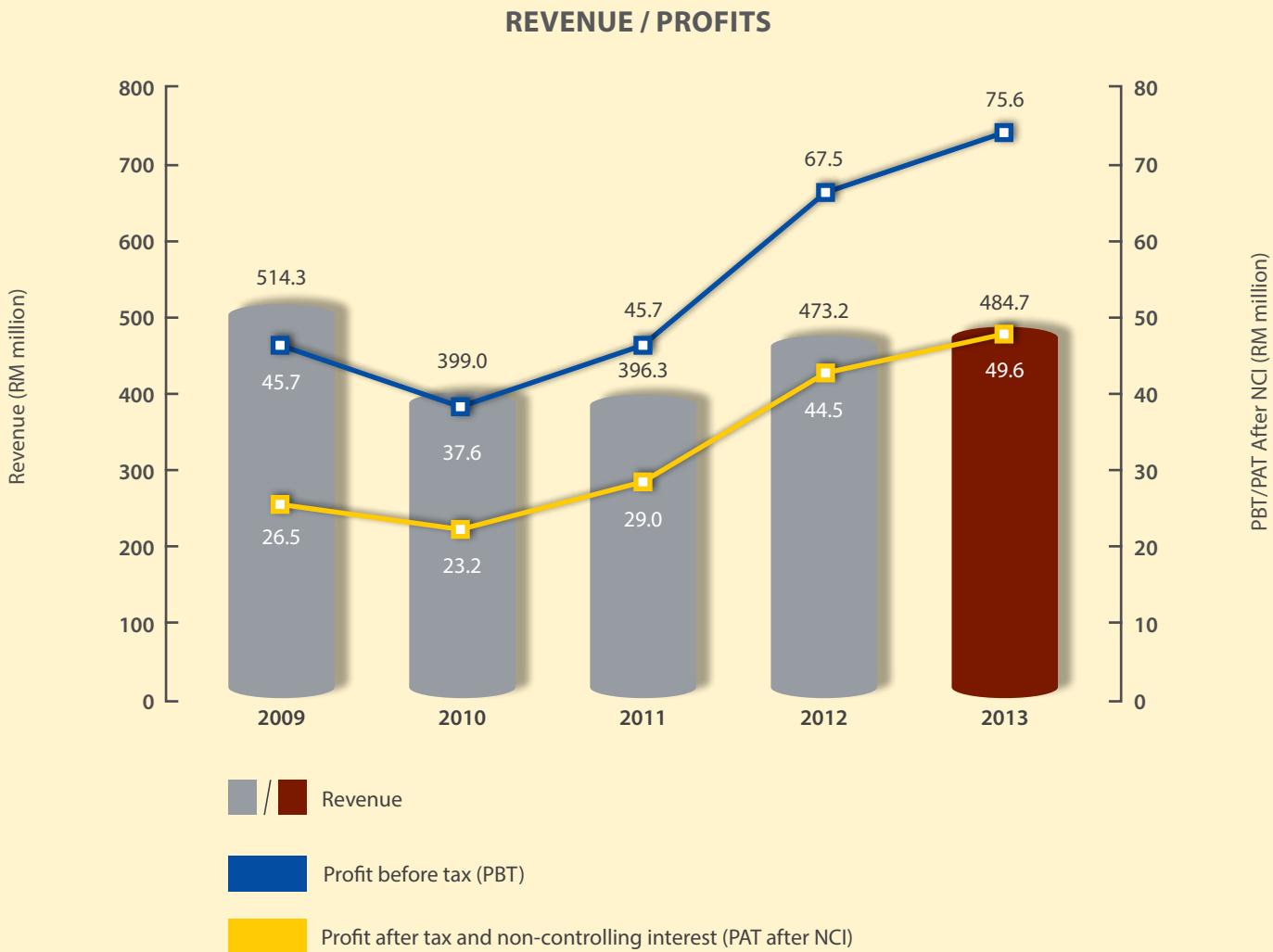
Faces of Deleum



Faces of Deleum (continued)



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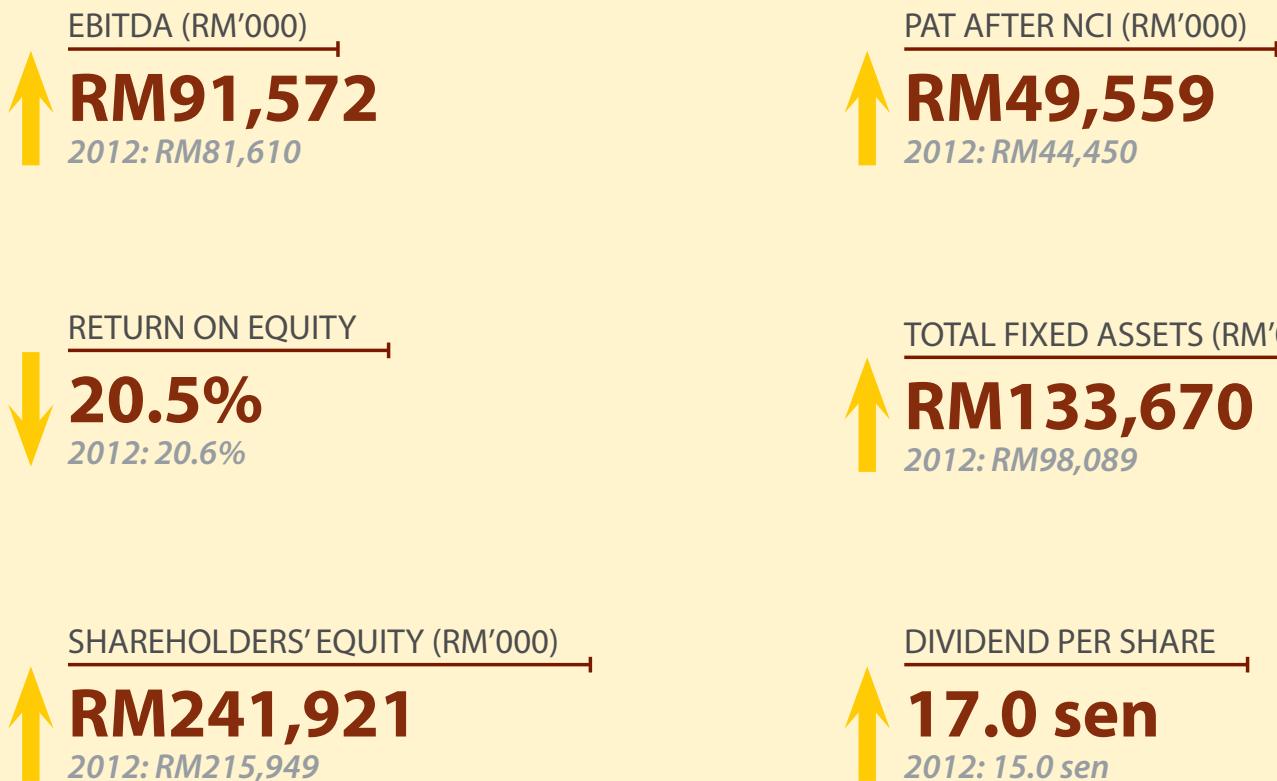
Financial Highlights for the financial years ended 31 December 2009-2013

Financial Year (RM'000)	2009	2010	2011	2012	2013
Revenue	514,293	399,045	396,303	473,240	484,684
Gross profit	79,275	75,950	79,574	107,724	128,644
EBITDA (Earning before interest, taxes, depreciation and amortisation)	56,754	50,908	59,520	81,610	91,572
Share of associates results'	9,651	9,744	13,679	15,579	15,973
Profit before tax	45,687	37,594	45,709	67,471	75,592
Profit after tax	35,734	30,213	34,711	54,214	58,662
Non-controlling interest	(9,284)	(6,977)	(5,678)	(9,764)	(9,103)
PAT after NCI	26,450	23,237	29,033	44,450	49,559

Financial Highlights

for the financial years ended 31 December 2009-2013 (continued)

FINANCIAL RESULTS HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER 2013



FINANCIAL RATIOS

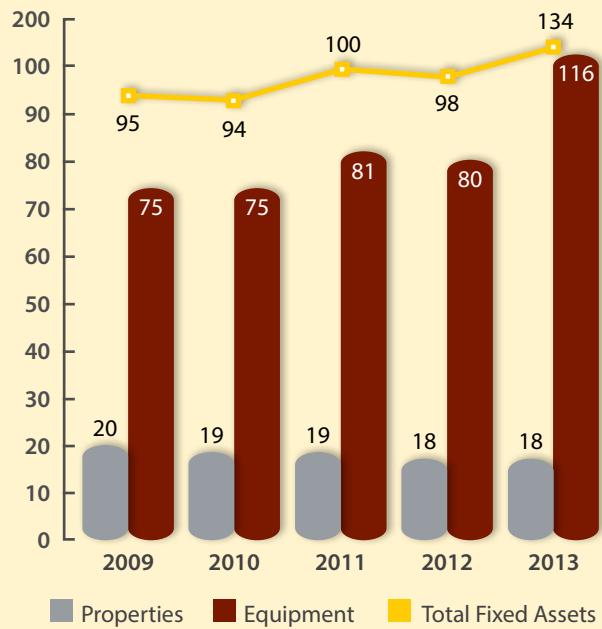
Financial Year	2009	2010	2011	2012	2013
Return on equity	16.4%	13.5%	15.4%	20.6%	20.5%
Return on total assets	9.7%	6.6%	8.6%	10.7%	9.9%
Gearing ratio	15.6%	12.5%	14.2%	8.8%	12.3%
Net asset per share (RM)	1.61	1.73	1.89	1.44*	1.61*
Gross dividend per share (Sen)	12.0	11.5	14.0	15.0	17.0
Gross dividend yield	7.6%	7.6%	8.9%	7.7%*	3.9%*

* Based on enlarged share capital of 150 million ordinary shares pursuant to issuance of 50 million bonus shares on 8 June 2012.

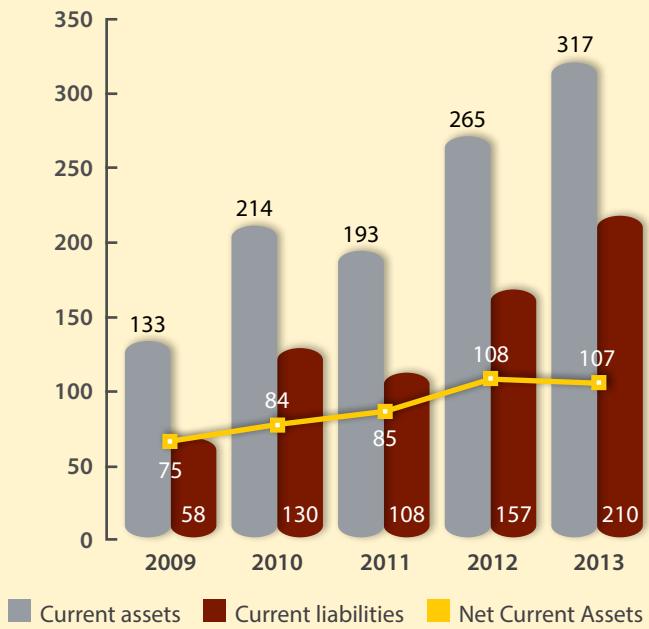
Financial Highlights

for the financial years ended 31 December 2009-2013 (continued)

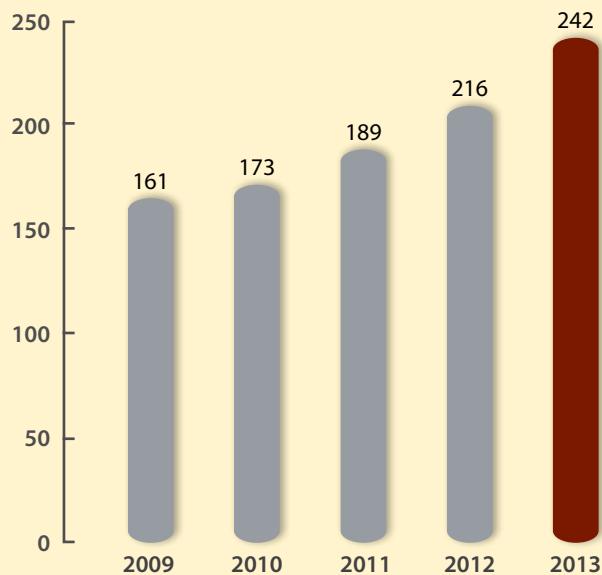
PROPERTY, PLANT AND EQUIPMENT (RM million)



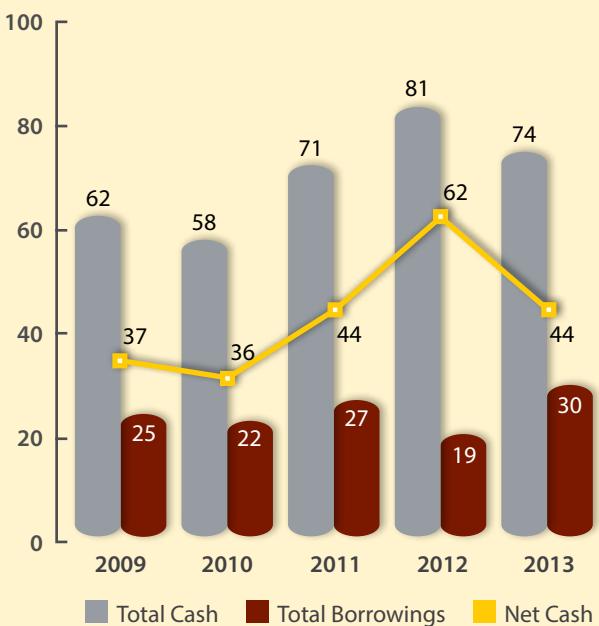
NET CURRENT ASSETS (RM million)



SHAREHOLDERS' EQUITY (RM million)



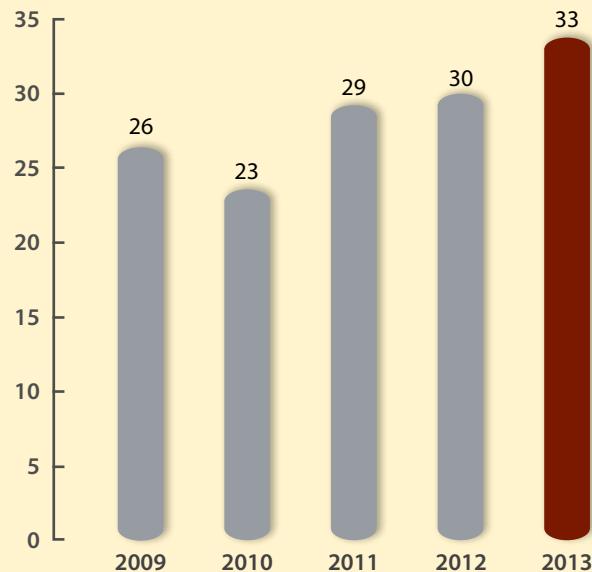
NET CASH (RM million)



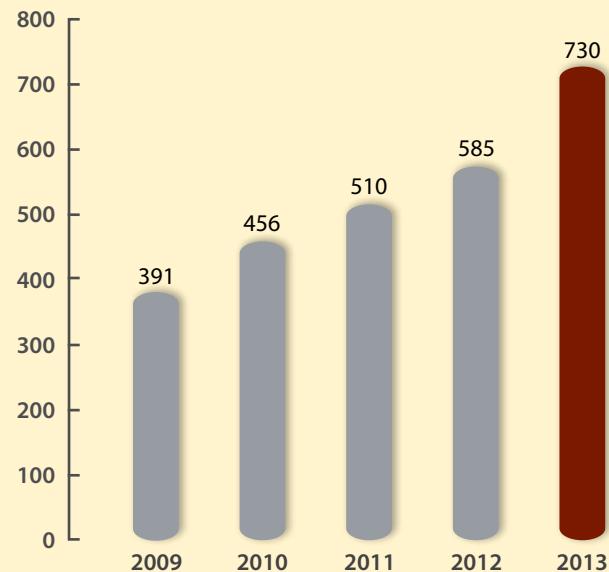
Financial Highlights

for the financial years ended 31 December 2009-2013 (continued)

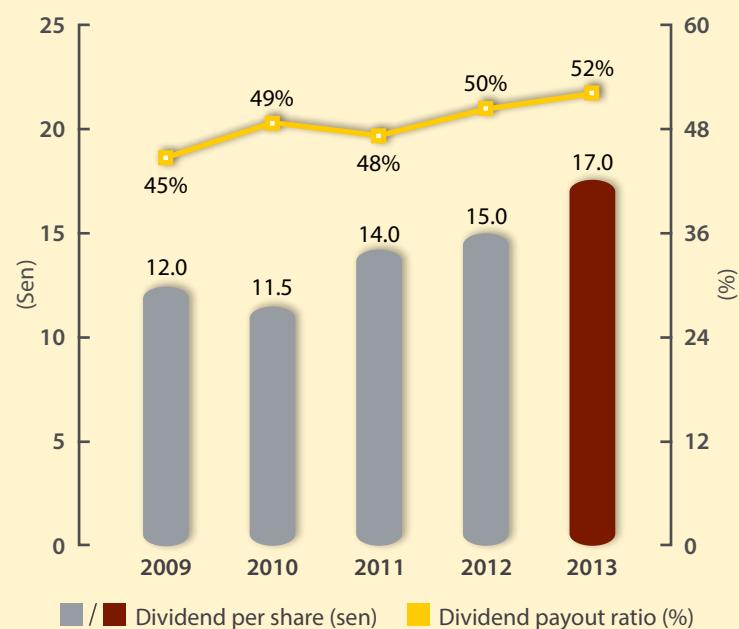
EARNINGS PER SHARE (Sen)



EMPLOYEES



DIVIDENDS



Corporate Information

BOARD OF DIRECTORS

Dato' Izham bin Mahmud

Non-Independent Non-Executive Chairman

Datuk Vivekananthan a/l M.V. Nathan

Non-Independent Non-Executive Deputy Chairman

Nan Yusri bin Nan Rahimy

Group Managing Director

Datuk Ishak bin Imam Abas

Independent Non-Executive Director

Chin Kwai Yoong

Independent Non-Executive Director

Tan Sri Dato' Seri Abdul Ghani bin Abdul Aziz

Non-Independent Non-Executive Director

Datuk Ir (Dr) Abdul Rahim bin Hashim

Senior Independent Non-Executive Director

AUDIT COMMITTEE

Datuk Ishak bin Imam Abas

Chairman

Chin Kwai Yoong

Dato' Izham bin Mahmud

Datuk Vivekananthan a/l M.V. Nathan

Datuk Ir (Dr) Abdul Rahim bin Hashim

JOINT REMUNERATION AND NOMINATION COMMITTEE

Datuk Ir (Dr) Abdul Rahim bin Hashim

Chairman

Dato' Izham bin Mahmud

Datuk Vivekananthan a/l M.V. Nathan

Datuk Ishak bin Imam Abas

Chin Kwai Yoong

RISK COMMITTEE

Tan Sri Dato' Seri Abdul Ghani bin Abdul Aziz

Chairman

Nan Yusri bin Nan Rahimy

Datuk Vivekananthan a/l M.V. Nathan

Chin Kwai Yoong

Datuk Ir (Dr) Abdul Rahim bin Hashim

COMPANY SECRETARIES

Lee Sew Bee

MAICSA No. 0791319

Lim Hooi Mooi

MAICSA No. 0799764

REGISTERED OFFICE/HEAD OFFICE

No. 2, Jalan Bangsar Utama 9, Bangsar Utama

59000 Kuala Lumpur, Malaysia

Tel : 603-2295 7788

Fax : 603-2295 7777

Email: info@deleum.com

Website: www.deleum.com

SHARE REGISTRARS

Symphony Share Registrars Sdn. Bhd.

Level 6, Symphony House, Pusat Dagangan Dana 1

Jalan PJU 1A/46, 47301 Petaling Jaya

Selangor Darul Ehsan, Malaysia

Tel : 603-7841 8000

Fax: 603-7841 8151/52

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad

Stock Code: 5132

AUDITORS

PricewaterhouseCoopers

Level 10, 1 Sentral, Jalan Travers, Kuala Lumpur Sentral

P.O. Box 10192, 50706 Kuala Lumpur, Malaysia

Tel : 603-2173 1188

Fax : 603-2173 1288

SOLICITORS

Zain & Co.

6th & 7th Floor, Akademi Etiqa

23, Jalan Melaka, 50100 Kuala Lumpur, Malaysia

Tel : 603-2698 6255

Fax: 603-2693 6488

PRINCIPAL BANKERS

Standard Chartered Bank Malaysia Berhad

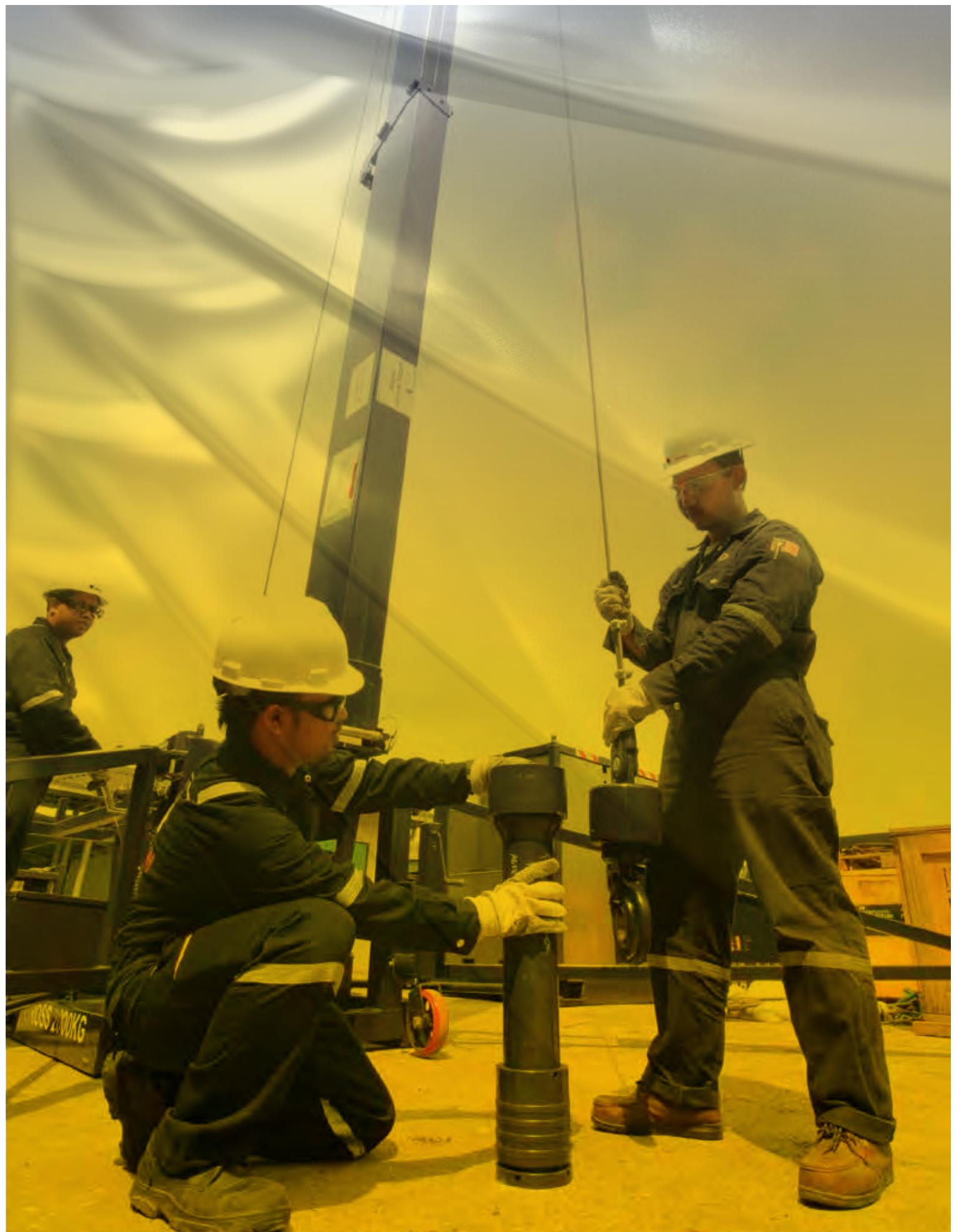
HSBC Bank Malaysia Berhad

Malayan Banking Berhad

AmBank (M) Berhad

Group Corporate Structure





BUILDING A **BRIGHTER** FUTURE

The foundation of Deleum begins with invaluable contributions, dedication and loyalty from employees, and continuous support from stakeholders. It is our goal to continuously seek for business opportunities, enhance our capabilities and optimise our performance in pursuit of sustainable growth.



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Profiles of Directors



DATO' IZHAM BIN MAHMUD

Non-Independent Non-Executive Chairman

Dato' Izham bin Mahmud (Malaysian, aged 73) was appointed to the Board on 21 December 2005.

He holds a Bachelor of Science Degree (Honours) in Economics from Queen's University Belfast, UK and a Master of Arts (Economics Development) from Vanderbilt University, USA. He is one of the co-founders of Deleum Services Sdn. Bhd. (Deleum Services) (formerly known as Delcom Services Sdn. Bhd.), a wholly-owned subsidiary of Deleum Berhad via his family holding company IM Holdings Sdn. Bhd.

He joined the Federal Treasury in 1965 and attained the level of Principal Assistant Secretary and was subsequently seconded to the Malacca State Development Corporation as General Manager in 1972. He embarked on his banking career in 1974 when he joined Aseambankers Malaysia Berhad where he served as General Manager and later Managing Director in 1979, a position he held until his retirement in 1996. During this period, he was also a Director of various subsidiaries of the Maybank Group and Cagamas Berhad.

Upon retirement, Dato' Izham joined Deleum Services as its Chairman and was subsequently appointed Executive Chairman in 2000. He was the Executive Chairman of Deleum Berhad until his retirement on 31 May 2010 and subsequently the Non-Executive Chairman. He also served as a Director of RHB Capital Berhad, RHB Bank Berhad, Renong Berhad, Opus Berhad, AMMB Holdings Berhad and AmlInvestment Bank Berhad.

Profiles of Directors (continued)



DATUK VIVEKANANTHAN A/L M.V. NATHAN

Non-Independent Non-Executive Deputy Chairman

Datuk Vivekananthan a/l M.V. Nathan (Malaysian, aged 73) was appointed to the Board on 21 December 2005. He is one of the co-founders of Deleum Services.

He joined ESSO Malaysia in 1962 in the Instrumentation and Electrical Engineering Services Department and undertook assignments at ESSO refineries in Malaysia and Thailand. He then worked for Mobil Refinery, Singapore and subsequently as Project Engineer with Avery Laurence (S) Pte. Ltd. on various first ever offshore projects in Brunei, Thailand and Indonesia and also attended training in Japan with Yokogawa Electric Works. He later joined Teledyne Inc. and was based in USA for training in management before being posted as Marketing Director of its Far East Operations.

In 1982, together with his founding partners he spearheaded Deleum Services' successful venture into the oil and gas industry. He was appointed as the Managing Director of Deleum Services and later re-designated as President. He was the Deputy Executive Chairman of Deleum Berhad until his retirement on 31 May 2010 and subsequently the Non-Executive Deputy Chairman.

He sits on the Board of International Conference and Exhibition Professionals (ICEP) (formerly WGC 2012 / the National Organising Committee of the 25th World Gas Conference in Kuala Lumpur) which is the organiser of conferences and exhibitions hosted by PETRONAS.

Profiles of Directors (continued)



NAN YUSRI BIN NAN RAHIMY

Group Managing Director

Nan Yusri bin Nan Rahimy (Malaysian, aged 42) was appointed to the Board on 1 March 2011.

He holds a Bachelor of Engineering Degree (Honours) in Mechanical Engineering from the Royal Melbourne Institute of Technology (now RMIT University), Australia and is a member of the Society of Petroleum Engineers.

He started his career with Deleum Services in April 1996 as a Marketing Executive supporting the turbomachinery business and was later re-designated to Application Engineer in November 1996. He subsequently held several senior positions within the Group including Senior Marketing Manager, Assistant VP - Business Development, VP - Exploration and Production and COO - Oilfield Services.

In August 2009, he was promoted to CEO of Deleum Oilfield Services Sdn. Bhd., a wholly-owned subsidiary of Deleum Berhad and in September 2010 promoted to CEO of Deleum Services before being appointed to his current position on 1 March 2011. He sits on the Board of iCEP as Alternate Director to Datuk Vivekananthan a/l M.V. Nathan.

Profiles of Directors (continued)



DATUK ISHAK BIN IMAM ABAS

Independent Non-Executive Director

Datuk Ishak bin Imam Abas (Malaysian, aged 68) was appointed to the Board on 21 March 2007. He is a Fellow of the Chartered Institute of Management Accountants and a member of the Malaysian Institute of Accountants (MIA).

Prior to joining PETRONAS in 1981, he was, amongst others, Finance Director of Pfizer (M) Sdn. Bhd., Bursar of Universiti Kebangsaan Malaysia, Finance Director of Western Digital (M) Sdn. Bhd. and Accountant in Pernas International Holdings Berhad.

During his tenure at PETRONAS, he held various senior positions including Deputy GM Commercial of PETRONAS Dagangan Berhad, Senior GM Finance of PETRONAS, Senior VP Finance of PETRONAS, CEO of KLCC (Holdings) Sdn. Bhd. and KLCC Property Holdings Berhad. He was also a member of the PETRONAS Board of Directors and Board Member of several of its subsidiaries. He retired from PETRONAS as Senior VP in April 2006 but continued to be CEO of KLCC (Holdings) Sdn. Bhd. and KLCC Property Holdings Berhad until his retirement in April 2007.

Currently, he is the Non-Executive Chairman of Putrajaya Holdings Sdn. Bhd. as well as Non-Executive Director of Kuala Lumpur City Park Berhad, KLCC Property Holdings Berhad and KLCC REIT Management Sdn. Bhd., all of which are subsidiaries of PETRONAS.

He is also Independent Non-Executive Director on the Boards of Standard Chartered Bank Malaysia Berhad, Standard Chartered Saadiq Berhad and Integrated Petroleum Services Sdn. Bhd.

Profiles of Directors (continued)



CHIN KWAI YOONG

Independent Non-Executive Director

Chin Kwai Yoong (Malaysian, aged 65) was appointed to the Board on 21 March 2007. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Malaysian Institute of Certified Public Accountants and the MIA.

He started his career with Price Waterhouse (currently known as PricewaterhouseCoopers) as an Audit Senior in 1974 and was promoted to Audit Manager in 1978. He was an Audit Partner in the firm from 1982 until his retirement in 2003. During his tenure as Partner, he was the Executive Director in charge of the Consumer and Industrial Products and Services Group and was the Director in charge of the Audit and Business Advisory Services and Management Consulting Services division.

He has extensive experience in the audits of major companies in the banking, oil and gas, automobile, heavy equipment, manufacturing, construction and property development industries. He was also involved in the corporate advisory services covering investigations, mergers and acquisitions and share valuations.

Currently, he sits on the Boards of ASTRO Malaysia Holdings Berhad, ASTRO All Asia Networks Plc., ASTRO Overseas Limited, Genting Berhad and Fraser & Neave Holdings Berhad. He is also a Director of Bank Negara Malaysia.

Profiles of Directors (continued)**TAN SRI DATO' SERI ABDUL GHANI
BIN ABDUL AZIZ***Non-Independent Non-Executive Director*

Tan Sri Dato' Seri Abdul Ghani bin Abdul Aziz (Malaysian, aged 69) was appointed to the Board on 30 April 2009. He holds a Master of Arts in International Relations and Strategic Studies from the University of Lancaster, UK, and a Master of Human Sciences (History and Civilisation) from the International Islamic University, Malaysia.

He joined the Royal Malaysian Air Force (RMAF) in 1964 and graduated as a qualified pilot in 1965. He served in the RMAF for 32 years and attained the position of Chief of Air Force in 1993 before retiring in November 1996.

He is the Managing Director of Penaga Dresser Sdn. Bhd., a subsidiary of Deleum Berhad. He is also the Independent Non-Executive Chairman of C.I. Holdings Berhad.

Profiles of Directors (continued)



DATUK IR (DR) ABDUL RAHIM BIN HASHIM

Senior Independent Non-Executive Director

Datuk Ir (Dr) Abdul Rahim bin Hashim (Malaysian, aged 60) was appointed to the Board on 15 November 2013.

He holds a B.Sc. (Electronics & Electrical) Engineering from the University of Birmingham, UK. He is an Associate Member of the American Institute of Chemical Engineers. He completed the Advanced Management Program at Harvard Business School in 1997. He is currently the Vice Chancellor / CEO of Universiti Teknologi PETRONAS.

Datuk Ir (Dr) Abdul Rahim started his career in PETRONAS as an Electrical Engineer soon after graduating in 1976. He has held various senior positions including Managing Director and CEO of PETRONAS Penapisan (Melaka) Sdn. Bhd. and Malaysian Refining Company Sdn. Bhd., VP of Human Resource Management Division, VP for Gas Business and VP of Research and Technology Division of PETRONAS, a position held until his retirement in December 2008. He also held directorships in several PETRONAS subsidiaries including PETRONAS Gas Berhad, PETRONAS Dagangan Berhad, PETRONAS Carigali Sdn. Bhd. and Malaysia LNG Sdn. Bhd., all of which he relinquished upon retirement.

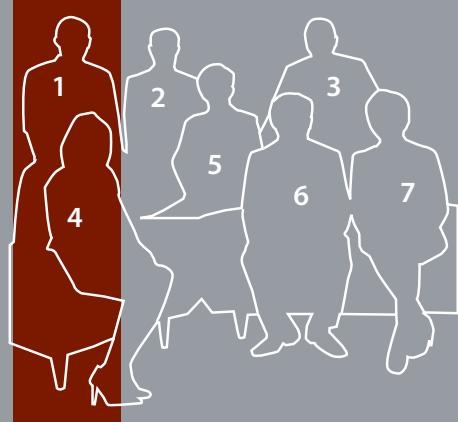
He is the Immediate Past President of the International Gas Union, the host of the 25th World Gas Conference held in Kuala Lumpur in 2012. He also helmed the presidency of Asia Pacific Natural Gas Vehicle Association from 2003 to 2007 and the presidency of the Malaysian Gas Association from 2003 to 2013. He has served as a Board Member of the Board of Engineers Malaysia.

Notes:

1. Directors' attendance at Board and Board Committees' meetings during the financial year ended 31 December 2013 are set out in the Statement of Corporate Governance and Audit Committee Report.
2. The above Directors have no family relationship with any Director and/or major shareholders of Deleum Berhad, have no conflict of interest with Deleum Berhad and have not been convicted of any offence within the past 10 years.

Currently, he is a member of the National Science and Research Council of Malaysia and the Energy Commission of Malaysia, and is a Director of SIRIM Berhad since 2004. He is also a Director of Institute of Technology PETRONAS Sdn. Bhd. since September 2010, Chairman of the Dewan Filharmonik PETRONAS and the Malaysian Philharmonic Orchestra since September 2013. He also sits on the Board of LanzaTech NZ Ltd. since March 2013.

Key Management



1. Khairiri bin Abd Karim
Chief Operating Officer
Deleum Rotary Services Sdn. Bhd.
2. Heng Phok Wee
Chief Operating Officer
Deleum Services Sdn. Bhd.
3. Ahmad Uzhir bin Khalid
Chief Operating Officer
Deleum Oilfield Services Sdn. Bhd.
4. Jayanthi Gunaratnam
Senior General Manager
Group Finance, Administration & Procurement
5. Mazrin bin Ramli
Chief Operating Officer
Deleum Primera Sdn. Bhd.
6. Nan Yusri bin Nan Rahimy
Group Managing Director
7. Lee Sew Bee
Senior General Manager
Group Corporate Services



PURSUIT OF **DISTINCTION**

Our commitment to shareholders, employees and other stakeholders at large has remained unchanged. It is our commitment to pursue strong financial and operational results to ensure sustainability and uphold high standards of Shared Values in Integrity, Professionalism, Health, Safety & Environment, and Excellence.



Chairman's Statement



Dato' Izham bin Mahmud
Chairman

“ THE BOARD HAS REMAINED MINDFUL OF THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2012, THUS REINFORCING THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE AND ETHICAL CONDUCT WHILE EMPHASISING A CULTURE OF HIGH PERFORMANCE AND ORGANISATIONAL EFFECTIVENESS. ”

DEAR SHAREHOLDERS,

On behalf of the Board of Directors (Board), I am pleased to present this Annual Report and Financial Statements of Deleum Berhad (Deleum or the Group) for the financial year ended 31 December 2013 (FY2013). The year under review marks the Group's significant efforts in transforming from a diversified service provider to an integrated services and solutions provider of specialised products and services in the Malaysian oil and gas industry.

The Group continues to address sustainable growth across its business segments by establishing increased efforts both organically and through long-term strategic partnerships in the oil and gas industry. As a trusted partner and responsible employer, we remain committed towards upholding the best practices of

integrity, professionalism, health, safety and environment with excellence in mind. The year 2013 has been a very encouraging year for us and it gives me great pleasure to share with you our notable highlights and accomplishments for the year under review.

FINANCIAL PERFORMANCE

I am pleased to report that the Group recorded a new high profit after tax and non-controlling interest of RM49.6 million, which is an increase of 11.5% from RM44.5 million in 2012. This commendable result is attributed to the stronger performance achieved by each of our business segments on the back of a marginal increase in revenue from RM473.2 million in 2012 to RM484.7 million in 2013.

Chairman's Statement (continued)

The positive results achieved by the Group in 2013 have demonstrated our business focus and strategy to capitalise on growing opportunities in the domestic oil and gas industry through constant efforts to expand our products and services offerings.

The details of the performance of the three business segments, namely Power and Machinery, Oilfield Services and Maintenance, Repair and Overhaul (MRO) are explained in the Management Discussion and Analysis section of this Annual Report.

DIVIDEND

Deleum remains committed to its dividend policy of distributing dividends of 50% of the Group's annual profit to shareholders of the Company, subject to the availability of adequate distributable reserves, operating cash flow requirements, financial commitments and expansion plans to sustain its existing operations and to support its future business growth. In respect of FY2013, we continued to reward our shareholders by declaring our highest ever dividend since listing, of 17.0 sen per ordinary share, an increase of 2.0 sen from 15.0 sen per ordinary share for FY2012. During the year, the Company paid a first interim single tier dividend of 6.0 sen per ordinary share to our shareholders on 25 September 2013 and subsequently declared a second interim single tier dividend of 11.0 sen per ordinary share which was paid on 26 March 2014. There is no final dividend proposed in respect of FY2013.

PROPOSED CORPORATE EXERCISES

On 11 March 2014, the Company made an announcement on the proposed corporate exercises to be undertaken for the best interest of the Company.

Proposed Bonus Issue

The Company proposed a bonus issue of 50 million new ordinary shares on the basis of one (1) bonus share for every three (3) existing shares held by the entitled shareholders of the Company, on an entitlement date to be determined (Proposed Bonus Issue). The Proposed Bonus Issue would result in the issued and paid-up share capital of Deleum increasing from RM150 million to RM200 million. The Proposed Bonus Issue aims to reward the entitled shareholders for their loyalty and continuing support while increasing the capital base of the Company.

Proposed Share Split

Concurrently, in order to enhance the marketability and trading liquidity of Deleum shares, a proposed share split involving the subdivision of every one (1) existing ordinary share of RM1.00 each held into two (2) new ordinary shares of RM0.50 each on an entitlement date to be determined (Proposed Share Split) was announced on the same day. Accordingly, upon the completion of the Proposed Bonus Issue and Proposed Share Split, the issued

and paid-up share capital of the Company will be RM200 million, comprising 400 million ordinary shares of RM0.50 each. The Proposed Share Split will result in an adjustment to the market price of Deleum shares to a more affordable entry price which is expected to appeal to a wider group of public shareholders and/or investors. The Proposed Share Split will also enable the existing shareholders of the Company to have a larger number of shares in the Company while maintaining their percentage of equity interest.

Proposed LTIP

At Deleum, we always recognise that our success hinges on our committed, dedicated and loyal employees who contribute and drive the Company to achieve sustainable growth and profitability. Hence, the Company proposed the establishment of a long-term incentive plan (Proposed LTIP) of up to 10% of the issued and paid-up share capital of the Company (excluding treasury shares, if any) at any point in time during the duration of the Proposed LTIP for executive directors of the Company and key employees of the Group.

The Company believes that the Proposed LTIP is a flexible and effective share incentive scheme, which aims to retain, motivate and reward eligible employees to optimise and sustain their performance standards and efficiency to maintain a high level of contribution through greater dedication and commitment to the Group.

The Company is seeking the shareholders' approval for the above-mentioned proposed corporate exercises at the Ninth Annual General Meeting, subject to the approval of the relevant authorities.

HIGHLIGHTS OF THE YEAR

I am particularly proud to share that during the year under review, Deleum Oilfield Services Sdn. Bhd. (Deleum Oilfield), a wholly-owned subsidiary of Deleum, had been awarded multiple contracts from various Production Sharing Contract (PSC) operators under a joint tender exercise for the provision of slickline equipment and services for PSC operators' drilling programmes and production operations, each for a duration of 5 years. With the award of these contracts, our number of operating slickline units will increase to approximately 50 units as compared to 26 units previously.

In addition, Turboservices Sdn. Bhd. (Turboservices), a subsidiary of Deleum, had secured Long Term Service Agreements (LTSA) to provide aftermarket turbomachinery maintenance services for Solar Turbines Incorporated's gas turbines in Malaysia to PETRONAS Group of Companies and PSC operators, replacing the existing agreements. The appointment of Turboservices subsists for a primary period of seven (7) years, with extension of an additional three (3) years.

Chairman's Statement (continued)

Consequently, the continuation of providing aftermarket turbomachinery maintenance services of gas turbines to various PSC operators and the award of the slickline contracts will further enhance the sustainability of our recurring services.

We continue to reinforce our commitment to delivering quality and timely services to our customers. I am also pleased to inform that Deleum Oilfield had once again been recognised by PETRONAS Carigali Sdn. Bhd. (PCSB) for its outstanding performance and we were presented with the Outstanding Vendor Award during the year under review. This award was given following the evaluation by PCSB of its vendors' performance in 2012, including Health, Safety and Environment (HSE), timeliness of service delivery, responsiveness and Non-Productive Time (NPT). PCSB has more than 450 vendors and contractors and Deleum Oilfield was selected as one of the 20 recipients of the award.

CORPORATE GOVERNANCE

I firmly believe that a strong commitment to good corporate governance serves to propel the organisation's growth in this vibrant and challenging industry. At Deleum, we constantly strive to uphold the best interests of our shareholders and other stakeholders by safeguarding our resources while concurrently sustaining business growth and enhancing the prospects of the Group's position in the oil and gas industry.

The Board has remained mindful of the Malaysian Code on Corporate Governance 2012, thus reinforcing the highest standards of corporate governance and ethical conduct while emphasising a culture of high performance and organisational effectiveness. To further enhance the adherence to good corporate governance, the Whistleblowing Policy was approved and implemented in May 2013 by the Board to promote stronger values of transparency, accountability and ethics within the Group.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

In the year under review, we have continued to ensure the sustainability of our business while being committed to achieving a balance among the interests of all stakeholders including our employees, the communities, environment and marketplace in which we operate.



Hari Raya celebration with the children
from Asrama Darul Falah PERKIM

Our HSE Committee continues to build upon its annual HSE Campaign through organising talks, workshops, programmes, activities and monthly bulletin boards to keep our employees updated on the latest safety measures and also to educate and increase their HSE awareness. The detailed programmes and activities are set out in the Quality, Health, Safety and Environment section on page 35 of this Annual Report.

The Group continues to invest time and effort in Corporate Responsibility initiatives especially in community development. The commencement of the '*Deleum Community Enrichment Programme*' is part of the Group's initiatives to support the nation's social and economic development. We hosted the Health and Safety Talk, donated essential supplies and also shared the joy of a festive occasion with the children from Asrama Darul Falah PERKIM, a shelter for orphans, the underprivileged and the needy. We are focused on initiatives to inculcate skills for life and to create awareness of best practices for healthy living and hygienic practices for needy children. In the year 2013, we continued with our blood donation campaign which was held at the Headquarters, in collaboration with *Pusat Darah Negara*, and successfully collected 69 pints of blood from employees, business associates and the public.

HUMAN CAPITAL DEVELOPMENT

Our focus on key factors such as professional development, performance enhancement, people development, retention of manpower and process improvements has been crucial in support of our business sustainability and growth. Therefore, the Group has established the balanced scorecard with the Key Performance Indicators system and competencies based performance assessment to measure and assess our continuous development of competencies more effectively. The Group also organised the '*Spirits of Champion*' – its first group-wide off-site programme for management and staff, which was initiated to

Chairman's Statement (continued)



Group Team Building – *'Spirits of Champion'*

bolster the development of leadership and team building within the organisation. Additionally, we implemented the Graduate Trainee Engineers Programme as part of our efforts in contributing towards sustainable development within the oil and gas industry by enhancing the work experience and employability of graduates.

ENTERPRISE RESOURCE PLANNING

In preparation of the Group's further expansion and growth, the Group proceeded with the implementation of Enterprise Resource Planning (ERP), a system capable of automating, integrating and re-engineering its existing business processes. The ERP system is expected to centralise and integrate the entire financial, project management, procurement, assets management and other relevant transactions under a single, central data source and provide real-time information on day-to-day operations. During the year under review, Deleum Rotary Services Sdn. Bhd., one of the key operating subsidiaries, had successfully gone live with the said ERP system. Moving forward, the Group aims to ensure a seamless rollout of the ERP system across the entire Group through a wave approach that is expected to be completed by 2015.

OUTLOOK

We remain positive about our prospects in the Malaysian oil and gas industry due to the increased efforts for new discoveries and intensified enhancement of production activities in support of the Economic Transformation Programme. In order to capitalise on the increased activities in the industry, the Group continues to enhance its competitive edge by transforming the Group into an integrated services and solutions provider.

The efforts of PETRONAS in enhancing and increasing its exploration and production activities, coupled with its substantial allocation of capital expenditure in the areas of production enhancement, asset integrity and rejuvenation of existing fields through Enhanced Oil Recovery have resulted in increasing business opportunities for us.

Looking ahead, the Group will continue to focus on its core business segments whilst looking diligently for opportunities to form strategic alliances, mergers and acquisitions in order to achieve and increase our prospects of growth, profitability and sustainability. In line with our aspiration to remain competitive, we are continually reinforcing our position and strength by enhancing our technical skills, technological expertise and expanding our capabilities to deliver innovative solutions to our customers in support of the increased demand in the industry.

ACKNOWLEDGEMENTS

On behalf of the Board, I wish to extend our gratitude to the Management and employees for dedicating their passion, professionalism and hard work towards another substantial year of progress. It has been yet, another significant year of business growth for Deleum. On that note, I would also like to sincerely thank and acknowledge the wisdom, the guidance and the counsel that my fellow Board members have provided over the years.

Also, on behalf of the Board, I would like to record our appreciation to Dato' Kamaruddin bin Ahmad, who has resigned from the Board on 21 October 2013, for his invaluable contributions. I also wish to extend a warm welcome to Datuk Ir (Dr) Abdul Rahim bin Hashim who joined the Board on 15 November 2013.

Last but not least, I would like to thank all of our shareholders and other stakeholders, particularly our customers, suppliers, business partners and financiers for their loyal support, patience, trust and confidence in Deleum throughout the years.

Dato' Izham bin Mahmud
Chairman

5 May 2014



SHARING ONE VISION

At Deleum, we are dedicated and committed towards pursuing our Mission, Vision and Shared Values. Together, we forge forward as ONE to become a reputable Integrated Services and Solutions provider in the oil and gas industry, and to maintain sustainable growth of our business. Our unwavering commitment to excellence is attributed to our sharing of the same vision, same commitment and same values as an organisation.



Management Discussion and Analysis



GROUP BUSINESS AND OPERATIONS

With over 30 years of operational experience in the oil and gas industry, Deleum has emerged as an established service provider which features a diverse range of specialised products and services particularly in the exploration and production sector. Significant efforts have been made by the Group in the recent years to evolve from a '*Product Oriented*' business to an '*Integrated Services and Solutions*' provider. The Group continues to address business sustainability by enhancing its capabilities across its core business segments for the oil and gas sector value chain.

The Group has three (3) main business segments consisting of Power and Machinery, Oilfield Services and Maintenance, Repair and Overhaul (MRO). Our business focus in growing these segments remains with the expansion of products and services offerings, which are further explained in the Business Performance Review of this section.

The Group is headquartered in Kuala Lumpur with operating supply bases in Kemaman Supply Base located in Kemaman, Terengganu and Asian Supply Base in Labuan. Our integrated facility in Senawang supports gas turbine overhaul and repair services for local and regional customers. For East Malaysia operations, we have offices and workshop facilities in Miri, Labuan, Kota Kinabalu and Bintulu. A Research and Development facility was set up in Petaling Jaya, Selangor for our specialty chemicals business. In support of growing the MRO business, two new workshop facilities have been established in Bintulu and Kemaman during the year, in addition to the existing offices and facilities in Kajang, Selangor and Sungai Besi, Kuala Lumpur.

FINANCIAL REVIEW

The Economic Transformation Programme (ETP) continues to set the tone for Malaysia's Oil, Gas and Energy industry with significant increase of activities in exploration and production, and further development in deepwater, marginal and stranded fields, and Enhanced Oil Recovery (EOR) in matured fields. Furthermore, PETRONAS' planned capital expenditure which will be intensified for upgrading and enhancing the integrity and yield of existing assets has spurred business opportunities for industry service providers like Deleum.

Management Discussion and Analysis (continued)

The Group delivered commendable results for the financial year ended 31 December 2013 (FY2013), turning in a reputable performance on the financial and operational fronts. The Group achieved a 11.5% increase in profit after tax and non-controlling interest from RM44.5 million in 2012 to RM49.6 million in 2013 on the back of a marginal increase in revenue from RM473.2 million to RM484.7 million. In spite of the challenging and competitive environment, the Group managed to deliver the best results since its inception, supported by the increase in contributions from all the business segments.

The Power and Machinery segment, the key revenue contributor to the Group, recorded segment results of RM64.0 million, a 10.2% increase as compared to RM58.1 million in 2012. The Oilfield Services segment had a stronger showing in 2013 by delivering a 43.9% increase in segment results of RM7.3 million as compared to RM5.1 million in 2012. The MRO segment had contributed to the growth of the Group by recording a profit of RM1.9 million as compared to a loss of RM1.0 million in the previous financial year.

Liquidity and Capital Resources

During the year, the cash and cash equivalents of the Group decreased by RM7.1 million from RM80.3 million to RM73.2 million due to a few notable key factors. The Group paid a higher tax amount of RM7.7 million with the higher results achieved during the year and increased its capital expenditure from RM22.2 million in the previous year to RM47.2 million mainly due to the award of new Pan Malaysian Slickline contracts. The capital expenditure also included the purchase of additional property, plant, equipment and office renovations as part of the Group's expansion plans to enhance sustainability and profitable growth. Furthermore, the Group made a higher dividend payout of RM24.0 million in the year 2013 to its shareholders as compared to RM16.5 million in the previous financial year.

Gearing Ratio

The gearing ratio of the Group as at 31 December 2013 was 0.12 times, an increase from 0.09 times as at 31 December 2012. The gearing ratio is calculated as total debt (RM29.6 million) divided by total shareholders' equity (RM241.9 million). Gearing ratio has increased, particularly due to a new term loan obtained by Deleum Oilfield Services Sdn. Bhd. (Deleum Oilfield) for the purchase of new slickline equipment for the Pan Malaysian Slickline contracts. As at 31 December 2013, Deleum Oilfield has drawn down a total of RM10.0 million from this term loan facility.

Contingent Liabilities

The Group has provided guarantees amounting to RM21.4 million to third parties in respect of operating requirements, utilities and maintenance contracts.

Capital Management

The Group's objective towards managing capital is to safeguard its ability to sustain growth and to maintain an optimum capital structure which maximises shareholders' value. In order to maintain or achieve optimal capital structure, Deleum may adjust the amount of dividends, return capital to shareholders, issue new shares or increase the borrowings.

The capital structure consists of borrowings, cash and cash equivalents, and total equity.



Installation of compressor rotor stators and spacer rings



Engine performance test

Management Discussion and Analysis (continued)

Future Commitments and Funding Sources

The Group has total capital commitments for property, plant and equipment amounting to RM196.8 million as at 31 December 2013. Capital expenditure of RM75.8 million has been authorised and contracted for, but not incurred as at 31 December 2013. The remaining RM121.0 million has been authorised, but not contracted for. Capital commitment that has been authorised and contracted for largely covers the purchase of new equipment for the Pan Malaysian Slickline contracts and the enhancement of facilities.

As at 31 December 2013, the Group has approximately RM44.1 million in net cash, after taking into account approximately RM29.6 million in bank borrowings. Net cash is calculated as cash and cash equivalents (including restricted cash) less total bank borrowings. Details of the borrowings and maturity profile of such borrowings are disclosed accordingly in the consolidated financial statements (Note 22).

BUSINESS PERFORMANCE REVIEW

Power and Machinery

The Power and Machinery segment continues to be the major revenue contributor within the Group. The segment focuses on the provision of a complete life cycle support of gas turbine generators, mechanical drives and compressor packages; turnkey solutions for combined heat and power plants; supply, installation, repair and maintenance of valves and flow regulators; umbilical and piping insulation solutions; transport and installation works, and provision of heavy lifting equipment for offshore installations.

To further strengthen the segment's aftermarket support and to enhance its local capabilities, the Group has an integrated facility in Senawang which offers overhaul and repair services for gas turbines as well as performs simulation tests on control retrofits for both local and regional customers. The integrated facility also serves as a training centre and is well equipped with simulators and training skids to facilitate hands-on training on related packages and system upgrades.

During the year under review, the Power and Machinery segment's contribution to the Group's revenue increased marginally by 0.7% from RM379.5 million in 2012 to RM382.2 million, mainly attributed to the higher sales from parts and services and exchange engine, and marketing fees earned in connection with the provision of an offshore facility. The increase was offset against lower contribution from retrofit projects. Despite the marginal increase in revenue, Power and Machinery segment results increased by RM5.9 million from RM58.1 million in 2012 to RM64.0 million for the year under review mainly attributed to the said marketing fees earned. In 2013, the Group managed to secure new gas turbine package orders for onshore and offshore oil and gas projects. The Group continues to see an increase in activities from the gas turbine rehabilitation and upgrade projects that provide an extensive fleet assessment programme as well as an integrated turnkey execution and implementation solution for customers.



Installation of lube oil connections

Management Discussion and Analysis (continued)



Quality control inspection on pressure control equipment



Slickline unit function test

During the year under review, Turboservices Sdn. Bhd. (Turboservices) was awarded Long Term Service Agreements (LTSA) to provide aftermarket turbomachinery maintenance services for Solar Turbines Incorporated's gas turbines in Malaysia to the Production Sharing Contract (PSC) operators, replacing the existing agreements, which further sustained the segment's recurring services. The appointment of Turboservices subsists for a primary period of seven (7) years, with extension of an additional three (3) years.

The control and safety relief valves business saw a marginal decrease in revenue by 2.2%, mainly due to the lower aftermarket service activities as compared to the year 2012. Despite the challenges and stiff competition in the control and safety relief valves business, the segment sees possibilities of continuing its positive contribution to the Group's revenue in the forthcoming year.

Oilfield Services

The Oilfield Services segment focuses mainly on upstream operations, topside and downhole support services which include the provision of slickline equipment and logging services, completion services, integrated wellhead maintenance services, Asset Integrated Solutions (A.I.S.), integrated chemical solutions, other oilfield products and technical services.

For FY2013, the Oilfield Services segment revenue reduced by RM1.7 million, from RM76.9 million in 2012 to RM75.2 million. This was mainly due to lower deployment of slickline equipment and services and related products and slickline third party sales. In spite of the contraction in revenue, Oilfield Services segment results had

improved by 43.9%, from RM5.1 million to RM7.3 million. Factors which contributed to this include improved margins in slickline business and the increased supply of drilling related products to support the heightened oil and gas activities driven by PETRONAS Drilling Programme.

During the year, Deleum Oilfield had once again been recognised by PETRONAS Carigali Sdn. Bhd. for its outstanding performance in 2012 and was presented with the Outstanding Vendor Award. The Group has demonstrated its capabilities through the attainment of multiple contracts from various PSC operators for the provision of slickline equipment and services, paving the way for larger opportunities of growth.

Within this segment, the Group continued its conscientious efforts to offer value added services for existing contracts, mainly through mechanical intervention and electronic data acquisition services.

In the quest to reinforce our strength and capabilities in Oilfield Services business, the A.I.S. unit was newly set up during the year to consolidate and integrate the segment's products and services into an integrated services and one-stop solutions provider.

The A.I.S. unit offers a diverse range of products and services and customised solutions through smart and viable integration of all types of assets within the segment and/or the Group. This has further bolstered the strength of the Group by being able to address the specific needs of customers, ranging from just a selection of specific services to customising solutions and managing complex projects.

Management Discussion and Analysis (continued)



In 2013, the A.I.S. unit had fared positively for the segment in securing pilot jobs for production enhancement, plug setting services, mechanical water shut-off and cement retainer setting work for drilling and exploration campaign as well as plug and abandonment work.

Chemical Services, a growing niche within the Oilfield Services segment, is a research-oriented unit that focuses on developing chemical solutions for production enhancement, flow assurance and well integrity. The offerings include a wide range of performance chemicals and Integrated Production Chemicals – designed to support activities such as production enhancement, well stimulations, tubing and wellbore cleaning, waste management, process equipment cleaning, flow line cleaning and integrated EOR services.

For the year under review, this unit developed and trademarked five (5) new chemical solutions, namely DEL-SOL, FLOW SURF®, LIQUID FILTER®, SAND LIFT™ and ScaleSTIM™. Among these solutions, DEL-SOL and SAND LIFT™ were developed and commercialised during the year. While DEL-SOL provides a holistic solution for naphthenate issues found in oilfields, SAND LIFT™ deconsolidates sand and increases buoyancy in tubing in order to ease sand removal.

Maintenance, Repair and Overhaul (MRO)

The MRO segment provides repair, servicing, maintenance and overhaul of motors, generators, transformers, pumps, valves, composite repair integrity for pipeline and also secondary structural repair for the oil and gas and general industries. The acquisition of Deleum Primera Sdn. Bhd. (Deleum Primera) during the fourth quarter of 2012 has continued to expand the capabilities of the MRO segment in the maintenance and repair services supply chain such as surface preparation services, corrosion prevention and painting.

The revenue contribution from the MRO segment during the year increased by RM10.5 million, from RM16.8 million to RM27.3 million, mainly due to increased contributions of RM9.8 million from Deleum Primera.

MRO sought to transform its core provision of maintenance, repair and overhaul services into an integrity based life cycle management and services. The Asset Integrity Management offered by the segment integrates the core products and services of both operating subsidiaries in the MRO segment, i.e. Deleum Rotary Services Sdn. Bhd. (Deleum Rotary) and Deleum Primera by applying the maintenance engineering concept of integrity management, advanced inspection and monitoring solutions. Its integrity management based solutions expand the capabilities of the MRO segment to perform online assessment and monitoring as well as provide online mitigation solutions via newly acquired technological frontiers.

Management Discussion and Analysis (continued)

During the year, Deleum Rotary secured its first Packaged Engineering, Procurement, Construction and Commissioning contract which marked its successful transition into the oil and gas industry in contribution towards the segment's growth. The implementation of Asset Integrity Management has also transformed Deleum Rotary beyond just being a provider of service, repair and maintenance in the general industries. Deleum Rotary further enhanced its capabilities by offering engineered repair solutions for pipe rack integrity and structural strengthening through its '*Hybrid Pipeline Repair*' integrated solution.

Deleum Primera continues to synergise products and services under the MRO segment with additional revenue streams gained from new projects throughout the year. In the year under review, Deleum Primera has obtained the sole distributorship of Sponge Jet Technology in Singapore, Brunei, Iraq and Turkmenistan in addition to existing markets in Malaysia and Indonesia. This has served as a gateway for the Group, in line with its mission to establish a regional presence in the Southeast Asian markets.

Sponge Jet Technology features an abrasive blasting method that produces low fugitive emissions to effectively and delicately clean aggressive profiling of industrial substrates, while remaining safe to the environment. It is recognised and accepted by PETRONAS, SIRIM, Department of Occupational Safety and Health (DOSH) and other major oil and gas companies.

Additionally, Deleum Primera continues to expand its products and services offerings in obtaining the sole distributorship of ENECON Corrosion Protection Technology. ENECON's advanced polymer technology expands the core capabilities of MRO to effectively address erosion, corrosion, wear and chemical attack problems on pipes, heat exchangers, shafts and susceptible components.

ASSOCIATE COMPANIES

The Group has two associate companies, namely Malaysian Mud And Chemicals Sdn. Bhd. (2MC) and Cambodia Utilities Pte. Ltd. (CUPL).

2MC is a joint venture company incorporated in 1985 to provide dry and liquid bulking services for East Malaysia offshore operations at the Asian Supply Base in Labuan. The bulking facility at the Asian Supply Base offers services for handling, storage, pumping and transportation of materials consumed in drilling operations.

CUPL is the first independent power producer in Cambodia, delivering a net capacity of 35MW electricity to the Phnom Penh transmission grid since 1997. The Power Purchase Agreement entered into with Electricite Du Cambodge will end in May 2015.

The share of associates' results for the current financial year was broadly similar to the previous year. During the year under review, profit contribution from 2MC increased by RM1.7 million mainly attributed to higher drilling activities in East Malaysia, offset by reduced contribution from CUPL of RM1.3 million due to lower throughput in 2013 resulted from sufficient power supply from other sources.

GROUP'S STRATEGIES

The Group has embarked on a business transformation plan to sustain and grow its core business segments – Power and Machinery, Oilfield Services and MRO through synergising its wide scope of products and services into an integrated services and solutions provider.



Internal lining coating



Commutator skimming

Management Discussion and Analysis (continued)



Chemical testing at laboratory

We remain focused and committed in the participation of exploration and production activities, and vast opportunities laid out by PETRONAS, along with its significant capital outlays to boost the production of oil and gas within the country. We strongly believe that with our in-house expertise, capabilities and established business relationships with relevant business associates and partners, it will further underpin our strength for development of innovative solutions, bringing considerable values to our customers, and stakeholders at large.

In preparation of the expected increase in exploration and production activities, the Group has purchased additional equipment to enhance its operational and laboratory facilities. The Group looks to enhance its human capabilities development by developing a series of extensive training initiatives to upscale its employees' capabilities to support the expanding operations and growth for the years to come.

Looking ahead, diversifying the portfolio of services as well as geographical reach has always been a mission that the Group is committed to, in ensuring the sustainability of the business and regional growth. Our presence in the Southeast Asian Markets through applications of Sponge Jet Technology and ENECON Corrosion Protection Technology along with integration of production enhancement, flow assurance and hybrid pipeline repair in the region has provided the Group a gateway to increase its presence in new and growing markets of neighbouring countries, namely Brunei, Cambodia, Indonesia, Myanmar, Thailand, Vietnam and the Middle East.

PROSPECTS

In 2014, the Group is highly motivated to continue its pursuit of sustainable growth, which is in tandem with the growth attained by the Malaysian oil and gas sector driven largely by the strong exploration and production activities undertaken by PETRONAS. The increase of exploration and production activities which include implementation of EOR, strengthened production effort through deep water exploratory drilling, revitalising matured fields and developing marginal fields, have led to a higher demand for products and services offered by the Group.

We acknowledge that competition will be intense and there may be factors beyond our control impacting the oil and gas industry. Thus, the Board and Management are cognisant of the challenges ahead. Accordingly, initiatives and mitigating actions are being undertaken to enhance our competitive position, in order to capitalise on the forthcoming opportunities.