



2016 ANNUAL REPORT



Enhancing Sustainability

This montage illustrates Deleum's value proposition as an Integrated Solutions Provider with its diversified services and products; delivering quality offerings through the synergy of our core business activities and our main asset, our people, who are at the heart of everything we do.

Together, the pieces form a silhouette that symbolises Deleum's fortitude and future-focused spirit of perseverance to continue enhancing our sustainability.



Our Mission

To provide Sustainable Growth and Enhance Stakeholders' Value



Our Vision

To be the Market Leader in our Operating Segments domestically and to achieve 20% Operating Profits contribution from International Business by 2019



Our Shared Values

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



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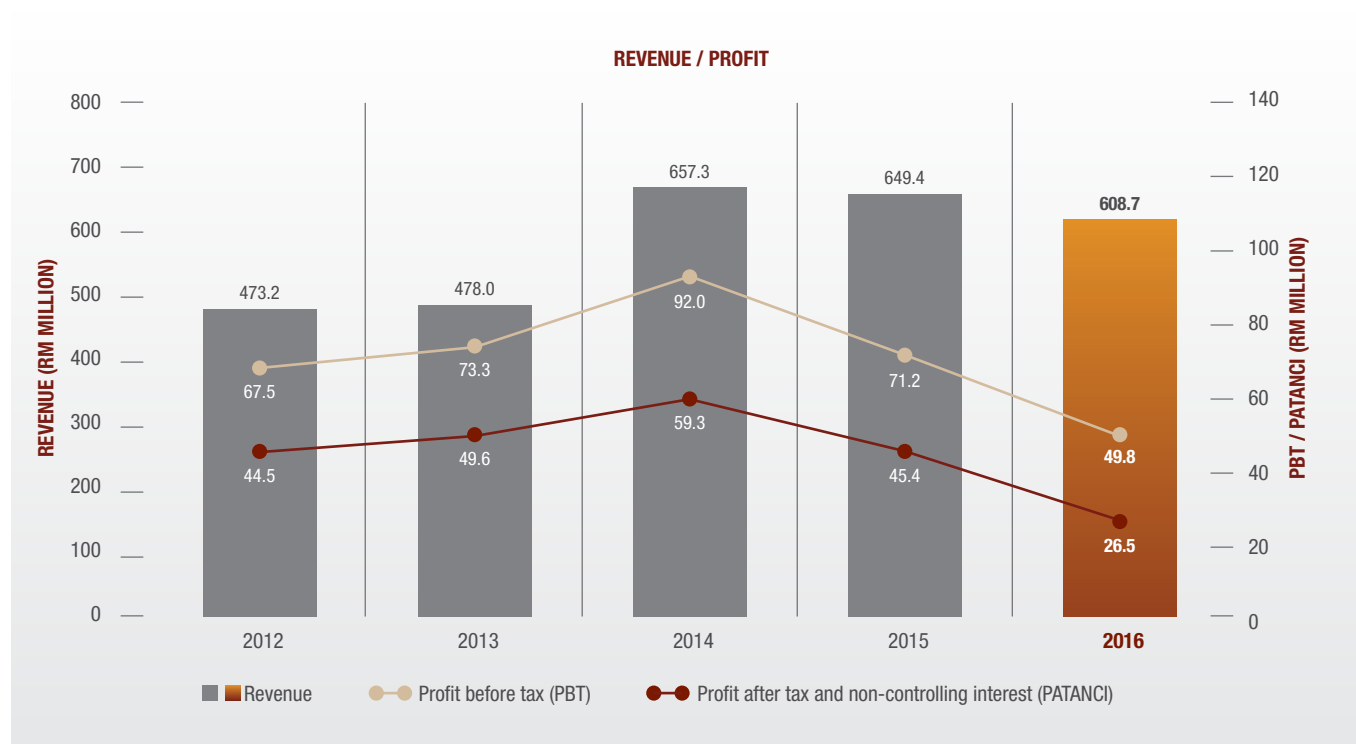


Our People



Financial Highlights

For The Financial Years Ended 31 December 2012 - 2016



	2012 (RM'000)	2013 (RM'000)	2014 (RM'000)	2015 (RM'000)	2016 (RM'000)
Revenue	473,240	477,955 [#]	657,273 [#]	649,398	608,652
Gross profit	107,724	122,701 [#]	157,969 [#]	149,176	128,521
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	81,610	91,572	116,861	108,275	87,502
Share of associates' results	15,579	15,973	13,727	5,642	223
Share of joint venture's results	-	-	-	775	684
PBT	67,471	73,327 [#]	91,994 [#]	71,152	49,767
Profit after tax	54,214	58,662	70,651	55,539	32,821
Non-controlling interest	(9,764)	(9,103)	(11,327)	(10,131)	(6,308)
PATANCI	44,450	49,559	59,324	45,408	26,513
Number of Shares ('000)	150,000	150,000	400,000	400,000	400,000

[#] For the financial year ended 31 December 2014, an overhaul facility within the Power and Machinery segment has been excluded as a discontinued operation. The comparative consolidated statement of comprehensive income for the financial year ended 31 December 2013 has been re-presented to show the discontinued operation separately from continuing operations. The said facility is presented as continuing operations in the financial year ended 31 December 2012.

EBITDA

RM87.5 mil2015:
RM108.3 mil

Return on Equity

8.8%2015:
15.5%

Shareholders' Equity

RM300.8 mil2015:
RM292.7 mil

PATANGI

RM26.5 mil2015:
RM45.4 mil

Total Fixed Assets

RM192.8 mil2015:
RM227.7 mil

Dividend per Share

3.5 sen2015:
5.5 sen

FINANCIAL RATIOS

	2012 (RM'000)	2013 (RM'000)	2014 (RM'000)	2015 (RM'000)	2016 (RM'000)
Return on equity	20.6%	20.5%	21.6%	15.5%	8.8%
Return on total assets	10.7%	9.9%	8.9%	6.7%	4.0%
Gearing ratio	8.8%	12.3%	56.5% [#]	46.9%	36.4%
Net asset per share (RM)	1.44	1.61	0.69*	0.73	0.75
Dividend per share (Sen)	15.0	17.0	7.5 [^]	5.5	3.5
Dividend yield	7.7%	3.9%	4.7%*	5.0%	3.5%

[#] For the financial year ended 31 December 2014, an overhaul facility within the Power and Machinery segment has been excluded as a discontinued operation. The comparative consolidated statement of comprehensive income for the financial year ended 31 December 2013 has been re-presented to show the discontinued operation separately from continuing operations. The said facility is presented as continuing operations in the financial year ended 31 December 2012.

* Based on enlarged share capital of 400 million ordinary shares pursuant to the completion of bonus issue and share split on 17 June 2014.

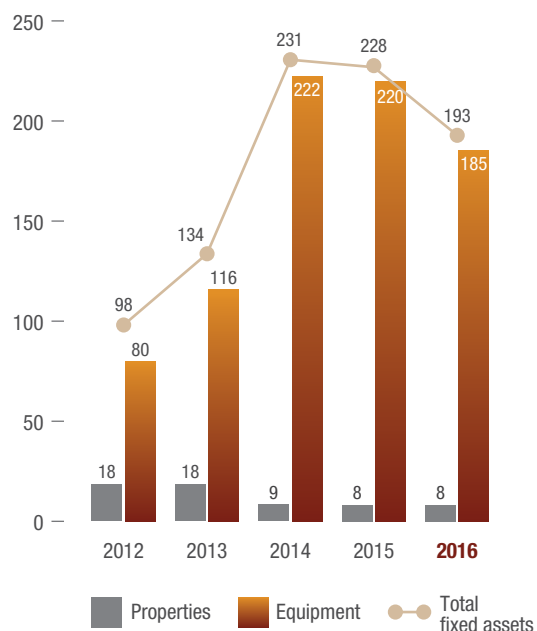
[^] 2014: 7.5 sen dividend per share is based on the enlarged share capital of 400 million ordinary shares. (2013: 17.0 sen dividend per share is based on the share capital of 150 million ordinary shares.)

Financial Highlights

For The Financial Years Ended 31 December 2012 - 2016

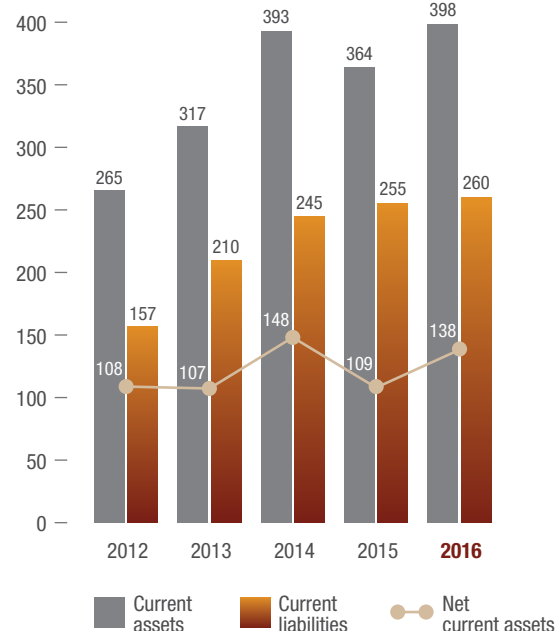
PROPERTY, PLANT AND EQUIPMENT

(RM million)



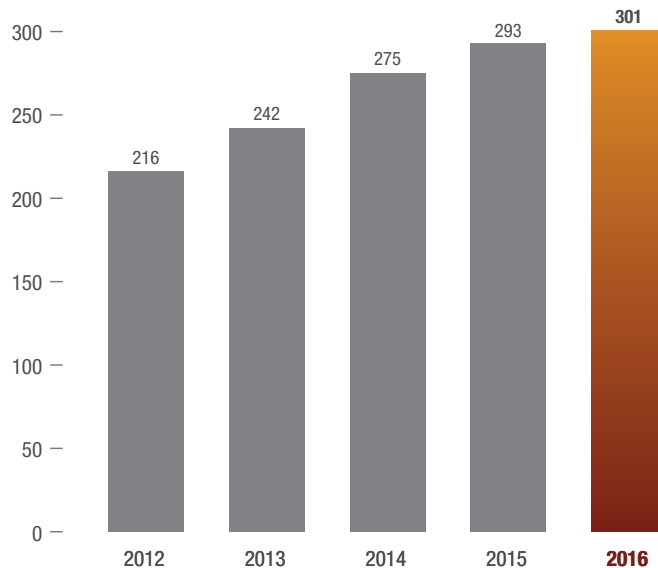
NET CURRENT ASSETS

(RM million)



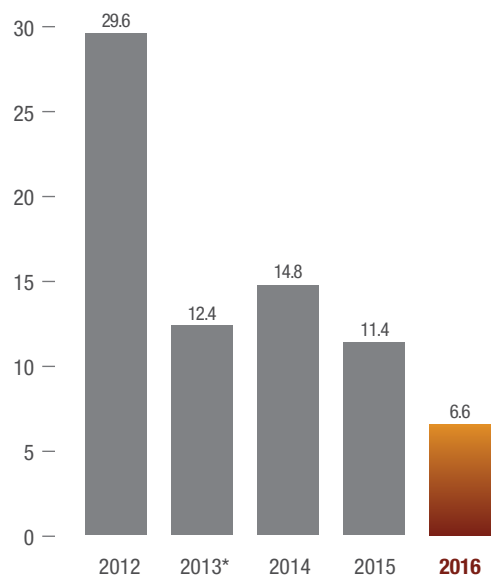
SHAREHOLDERS' EQUITY

(RM million)



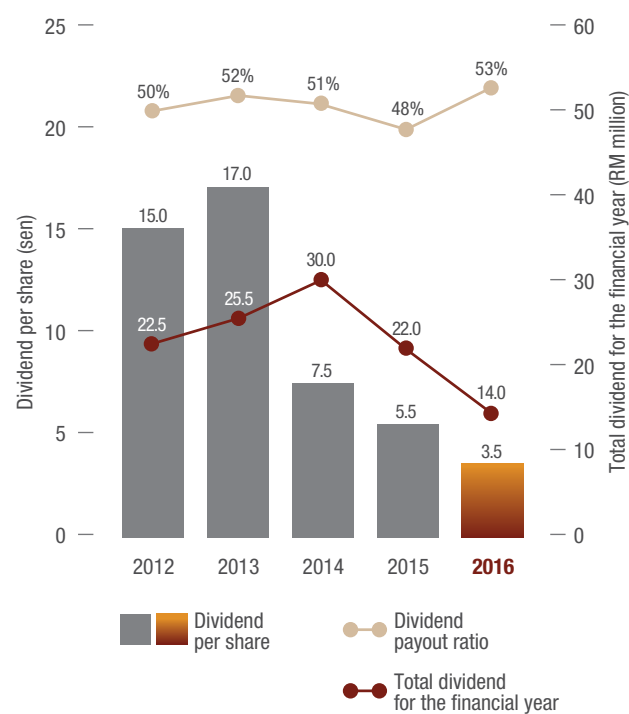
EARNINGS PER SHARE

(Sen)

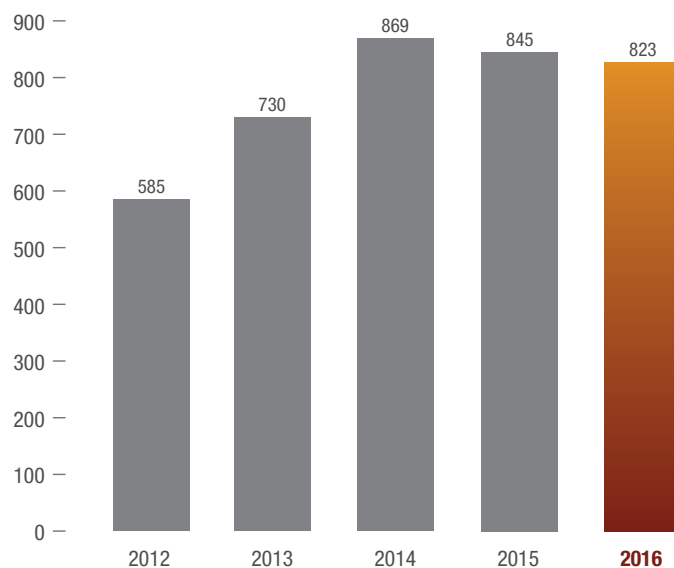


* EPS for 2013 has been adjusted retrospectively pursuant to the bonus issue and share split during the financial year ended 31 December 2014

DIVIDENDS



EMPLOYEES



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

DATUK CHIN KWAI YOONG

Independent Non-Executive Director

DATUK IR (DR) ABDUL RAHIM

BIN HASHIM

Senior Independent
Non-Executive Director

DATUK NOOR AZIAN

BINTI SHAARI

Independent Non-Executive Director

Audit Committee

Datuk Ishak bin Imam Abas

(Chairman)

Datuk Chin Kwai Yoong

Dato' Izhah 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' Izhah bin Mahmud

Datuk Vivekananthan a/l M.V. Nathan

Datuk Ishak bin Imam Abas

Datuk Chin Kwai Yoong

Datuk Noor Azian binti Shaari

Risk Committee

Datuk Chin Kwai Yoong

(Chairman)

Nan Yusri bin Nan Rahimy

Datuk Vivekananthan a/l M.V. Nathan

Datuk Noor Azian binti Shaari

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 : 603-7849 0777

Fax : 603-7841 8151/52

Stock Exchange Listing

Bursa Malaysia Securities Berhad

Main Market

Stock Code: 5132

Auditors

PricewaterhouseCoopers

Level 10, 1 Sentral, Jalan Rakyat

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

HSBC Bank Malaysia Berhad

Standard Chartered Bank Malaysia Berhad

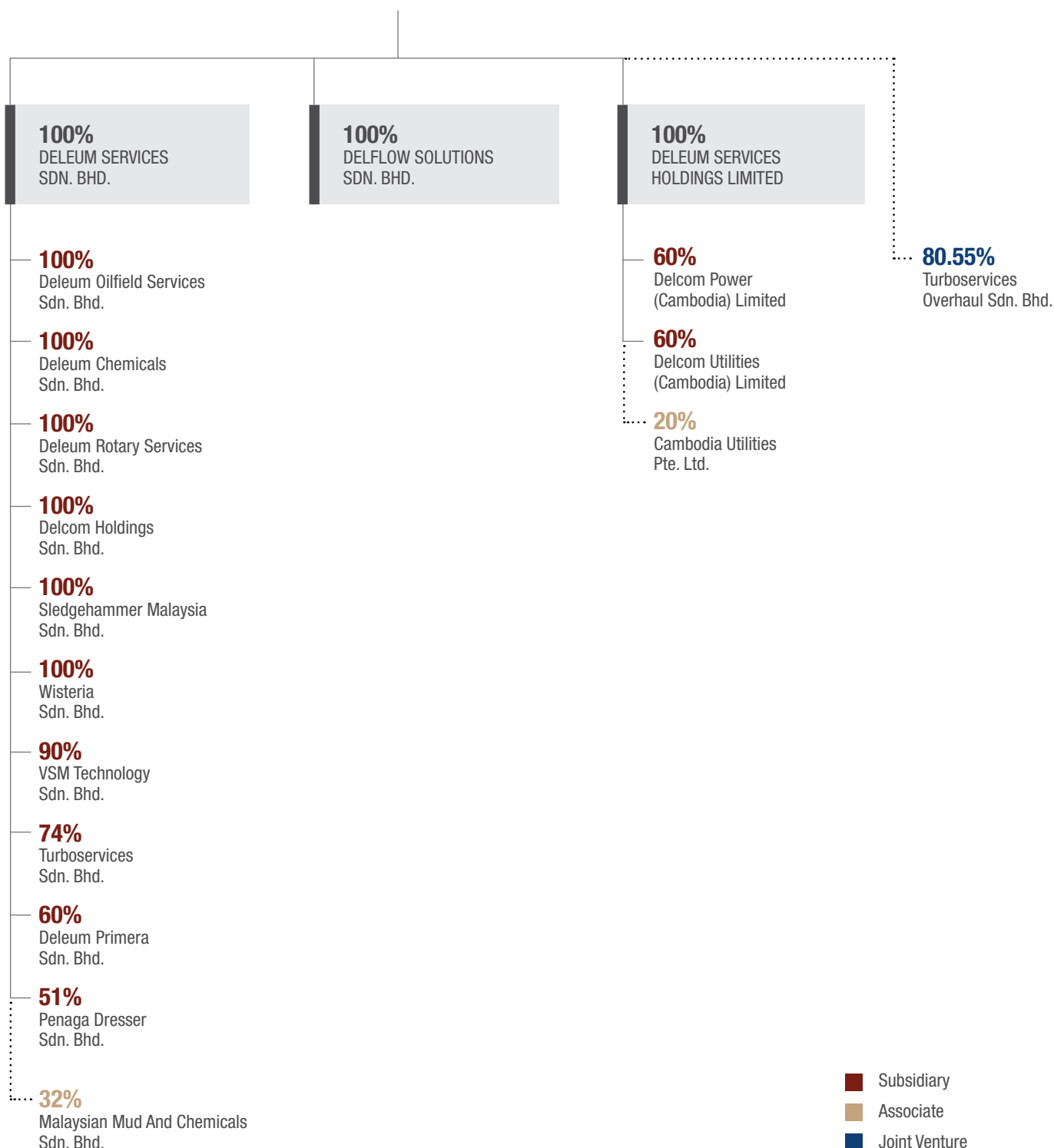
Malayan Banking Berhad

AmBank (M) Berhad

Group Corporate Structure

as at 31 March 2017

DELEUM BERHAD



Profiles of Directors

**DATO' IZHAM BIN MAHMUD****Non-Independent Non-Executive Chairman**

Dato' Izham bin Mahmud (Malaysian, aged 76, Male) 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.

Dato' Izham 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. In 1974, he embarked on his banking career and joined Aseambankers Malaysia Berhad as General Manager and was later promoted to Managing Director in 1979, a position he held until his retirement in 1996. During this period, he served as a Director of various subsidiaries of the Maybank Group and Cagamas Berhad.

He joined Deleum Services as its Chairman upon retirement 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 became the Non-Executive Chairman. He previously also served on the Boards of RHB Capital Berhad, RHB Bank Berhad, Renong Berhad, Opus Berhad, AMMB Holdings Berhad and AmlInvestment Bank Berhad.

**DATUK VIVEKANANTHAN A/L M.V NATHAN****Non-Independent Non-Executive Deputy Chairman**

Datuk Vivekananthan a/l M.V. Nathan (Malaysian, aged 76, Male) was appointed to the Board on 21 December 2005. He is one of the co-founders of Deleum Services.

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

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

He sits on the Board of International Conference and Exhibition Professionals (iCEP) (formerly known as WGC 2012/National Organising Committee of the 25th World Gas Conference), the organiser of conferences and exhibitions hosted by PETRONAS. He is an Honorary Member of the Malaysian Gas Association since May 2016 after having served as its Council Member from 2004 and Treasurer from 2008 until May 2016. Datuk Vivekananthan is a Director of Malaysian Philharmonic Orchestra and a member of the Board of Trustees of Dewan Filharmonik PETRONAS since November 2014.



NAN YUSRI BIN NAN RAHIMY

Group Managing Director

Nan Yusri bin Nan Rahimy (Malaysian, aged 45, Male) was appointed to the Board on 1 March 2011.

He graduated from the Royal Melbourne Institute of Technology (now RMIT University), Australia with a Bachelor of Engineering Degree (Honours) in Mechanical Engineering in 1996. He has been a member of the Society of Petroleum Engineers since 2004 and a member of the American Society of Mechanical Engineers since 2014.

Nan Yusri joined Deleum Services as a Marketing Executive supporting the turbomachinery business in April 1996 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 Vice President - Business Development, Vice President (VP) - Exploration and Production, Chief Operating Officer - Oilfield Services and Chief Executive Officer (CEO) of Deleum Oilfield Services Sdn. Bhd. (DOSSB). In September 2010, he was promoted to CEO of Deleum Services, the holding company of DOSSB, before being appointed to his current position.

He was appointed a Council Member of the Malaysian Gas Association in May 2016. He sits on the Board of International Conference and Exhibition Professionals (iCEP) (formerly known as WGC 2012/National Organising Committee of the 25th World Gas Conference) as Alternate Director to Datuk Vivekananthan a/l M.V. Nathan. He is also a member of the Student Development Advisory Council of Universiti Teknologi PETRONAS since December 2014.



DATUK ISHAK BIN IMAM ABAS

Independent Non-Executive Director

Datuk Ishak bin Imam Abas (Malaysian, aged 71, Male) 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.

He was the 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 prior to joining PETRONAS in 1981.

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 Board of Directors of PETRONAS and several of its subsidiaries. In April 2006, he retired from PETRONAS as Senior VP. He continued to be CEO of KLCC (Holdings) Sdn. Bhd. and KLCC Property Holdings Berhad until his retirement in April 2007.

Datuk Ishak is currently the Non-Executive Chairman of Putrajaya Holdings Sdn. Bhd. He is also the Non-Executive Director of KLCC Property Holdings Berhad, a public company listed on the Main Market of Bursa Malaysia Securities Berhad, Kuala Lumpur City Park Berhad and KLCC REIT Management Sdn. Bhd, all of which are subsidiaries of PETRONAS.

His directorships in other public companies are as Independent Non-Executive Director of Standard Chartered Bank Malaysia Berhad and Standard Chartered Saadiq Berhad. He is also a Non-Executive Director of Integrated Petroleum Services Sdn. Bhd.

Profiles of Directors



DATUK CHIN KWAI YOONG

Independent Non-Executive Director

Datuk Chin Kwai Yoong (Malaysian, aged 68, Male) 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 Malaysian Institute of Accountants.

He started his career with Price Waterhouse (currently known as PricewaterhouseCoopers) in 1974 as an Audit Senior and was promoted to Audit Manager in 1978. He was the Audit Partner of 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.

Datuk Chin has extensive experience in audits of major companies in 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, Datuk Chin sits on the Boards of ASTRO Malaysia Holdings Berhad and Genting Berhad, both of which are listed on the Main Market of Bursa Malaysia Securities Berhad. He is also a Director of Bank Negara Malaysia since March 2010.



DATUK IR (DR) ABDUL RAHIM BIN HASHIM

Senior Independent Non-Executive Director

Datuk Ir (Dr) Abdul Rahim bin Hashim (Malaysian, aged 63, Male) was appointed to the Board on 15 November 2013.

He graduated with a B.Sc. (Electronics & Electrical) Engineering from the University of Birmingham, UK in 1976 and has also completed the Advanced Management Programme at Harvard Business School in 1997.

He started his career in PETRONAS as an Electrical Engineer soon after graduation. He 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 and VP for Gas Business of PETRONAS. He was the VP of Research and Technology Division of PETRONAS from April 2006 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.

Datuk Ir (Dr) Abdul Rahim is the Past President of the International Gas Union (2009-2012), the host of the 25th World Gas Conference held in Kuala Lumpur in 2012. He 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.

Currently, he is the Vice Chancellor/CEO of Universiti Teknologi PETRONAS. He was a member of the National Science and Research Council of Malaysia and the Energy Commission of Malaysia. He is a director of Institute of Technology PETRONAS Sdn. Bhd. since September 2010 and Chairman of the Dewan Filharmonik PETRONAS and the Malaysian Philharmonic Orchestra since September 2013.

Datuk Ir (Dr) Abdul Rahim sits on the Board of SIRIM Berhad since 2004 and is also a director of LanzaTech NZ Ltd. He was appointed a member of the Board of Advisors of the Higher Education Leadership Academy under the Minister of Higher Education on 9 November 2015 for a period of 3 years.



DATUK NOOR AZIAN BINTI SHAARI

Independent Non-Executive Director

Datuk Noor Azian binti Shaari (Malaysian, aged 68, Female) was appointed to the Board on 1 January 2015. She is a Barrister-At-Law of Lincoln's Inn London having been called to the English Bar in May 1971.

Upon graduating, she joined the Malaysian Judicial and Legal Service and served for over 30 years until her retirement in July 2004. During her tenure with the said service, she held various positions, amongst them being Deputy Parliamentary Draftsman, Official Assignee Malaysia, Treasury Solicitor, Sessions Court Judge, Deputy Head of Civil Division, Chairman of the Special Commissioners for Income Tax and Chairman of Tribunal for Consumer Claims.

After her retirement from the Malaysian Judicial and Legal Service, she was appointed as a Judge of the High Court of Malaya and she presided over cases in the Commercial, Civil and Criminal divisions. She retired from her position as High Court Judge of Malaya in July 2014.

Datuk Noor Azian is a Registered Arbitrator with The Kuala Lumpur Regional Centre for Arbitration. She also sits on the Board of Affin Hwang Investment Bank Berhad.

Notes:

1. Directors' attendance at Board and Board Committee meetings during the financial year ended 31 December 2016 are set out in the Statement on Corporate Governance and Audit Committee Report.
2. The above Directors have no family relationship with any Director and/or major shareholder of Deleum Berhad, have no conflict of interest with Deleum Berhad, have not been convicted of any offence within the past five (5) years, and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2016.

Profiles of Key Senior Management



JAYANTHI A/P GUNARATNAM

Title

Group Chief Financial Officer

Nationality / Age / Gender

Malaysian / 44 / Female

Date of Appointment

1 January 2015

Academic / Professional Qualifications

- Bachelor of Accountancy (Honours), Universiti Utara Malaysia
- Member of Malaysian Institute of Accountants (MIA)

Working Experience

Joined Deleum in 2001, and has held various positions, the last being General Manager of Finance, Administration and Procurement

Present Directorship

- (i) Listed Entity : Nil
- (ii) Other Public Companies : Nil



LEE SEW BEE

Title

Senior General Manager
Group Corporate Services

Nationality / Age / Gender

Malaysian / 55 / Female

Date of Appointment

1 May 2013

Academic / Professional Qualifications

- Associate Member of The Institute of Chartered Secretaries and Administrators, UK (ICSA)
- Associate Member of The Malaysian Chartered Secretaries and Administrators (MAICSA)

Working Experience

Joined Deleum in 1989 as Company Secretary and the last position held was the Vice President of Corporate Services

Present Directorship

- (i) Listed Entity : Nil
- (ii) Other Public Companies : Nil



HENG PHOK WEE

Title

Chief Operating Officer
Deleum Services Sdn. Bhd.

Nationality / Age / Gender

Malaysian / 45 / Male

Date of Appointment

1 October 2010

Academic / Professional Qualifications

- Bachelor of Chemical Engineering (Honours), Universiti Teknologi Malaysia
- Master of Business Administration (MBA), Universiti Malaya

Working Experience

Joined Turboservices Sdn. Bhd. in 2008 as General Manager

Present Directorship

- (i) Listed Entity : Nil
- (ii) Other Public Companies : Nil



AHMAD UZHIR BIN KHALID

Title

Chief Operating Officer
Deleum Oilfield Services Sdn. Bhd.

Nationality / Age / Gender

Malaysian / 51 / Male

Date of Appointment

1 September 2010

Academic / Professional Qualifications

- Bachelor of Electrical Engineering
University of Idaho, USA

Working Experience

Joined Deleum Oilfield Services Sdn. Bhd. in 2010 with the current position

Present Directorship

- (i) Listed Entity : Nil
- (ii) Other Public Companies : Nil



MAZRIN BIN RAMLI

Title

Chief Operating Officer
Deleum Primera Sdn. Bhd.

Nationality / Age / Gender

Malaysian / 37 / Male

Date of Appointment

1 November 2011

Academic / Professional Qualifications

- Bachelor of Material (Honours)
Universiti Kebangsaan Malaysia

Working Experience

Joined Deleum Primera Sdn. Bhd. in 2011 with the current position

Present Directorship

- (i) Listed Entity : Nil
- (ii) Other Public Companies : Nil



AZMAN BIN JEMAAT

Title

Chief Operating Officer
Penaga Dresser Sdn. Bhd.

Nationality / Age / Gender

Malaysian / 49 / Male

Date of Appointment

1 March 2015

Academic / Professional Qualifications

- Bachelor of Mechanical Engineering,
University of Wollongong, Australia.

Working Experience

Joined Penaga Dresser Sdn. Bhd. in 2013 as General Manager

Present Directorship

- (i) Listed Entity : Nil
- (ii) Other Public Companies : Nil

Message from the Chairman

*"Deleum remains
resilient despite another
challenging year in 2016."*

DATO' IZHAM BIN MAHMUD
Chairman





Dear shareholders,

On behalf of the Board of Directors, I am pleased to present the Annual Report and Consolidated Financial Statements of Deleum Berhad (Deleum or the Group) for the financial year ended 31 December 2016 (FY2016).

The year 2016 was another challenging year for the oil and gas industry. The resilience of all oil and gas players across the value chain continued to be tested by volatile crude oil prices, subdued trade growth and further pressures on already low operating margins. This state of affair was further aggravated by a prolonged period of low crude oil prices and excess supply. Coupled with cost-cutting measures by oil majors, many players suffered a marked contraction in business activities and registered significantly reduced margins.

Deleum was not spared the effect of the year's deteriorating market conditions. Despite implementing aggressive cost saving measures to defer non-critical capital spending as well as closely monitoring our working capital and cash flows to meet our scheduled commitments, we turned in a lackluster performance for the financial year under review. Our results were affected primarily by compressed margins and a lower level of oil and gas activities.

PATANCI

FY2016:

RM26.5 mil

FY2015: RM45.4 mil

SHAREHOLDERS' EQUITY

FY2016:

RM300.8 mil

FY2015: RM292.7 mil

FINANCIAL PERFORMANCE

Against this backdrop, the Group posted a profit after tax and non-controlling interest (PATANCI) of RM26.5 million, 41.6% lower than the PATANCI of RM45.4 million posted in the financial year ended 31 December 2015 (FY2015). This decrease was attributed to a contraction in contributions from the Power and Machinery segment and lower associates' results. It was, however, cushioned by stronger performances from both the Oilfield Services and Integrated Corrosion Solution segments.

The Group's financial position at the end of FY2016 remained strong with total assets standing at RM664.6 million whilst shareholders' equity expanded by 2.7% to RM300.8 million from RM292.7 million in FY2015. Meanwhile, our cash and bank balances increased to RM140.4 million from RM134.7 million, whilst borrowings reduced to RM109.6 million from RM137.4 million in FY2015.

The details of the operational and financial performances of our three core business segments i.e. Power and Machinery, Oilfield Services and Integrated Corrosion Solution, can be found in the Management Discussion and Analysis section of this Annual Report.

Message from the Chairman



SHAREHOLDER RETURN

Your Board is grateful for your continued trust in us. Even as we remain focused on optimal business growth, we continue to commit to our dividend policy of distributing a gross dividend of 50% of the Group's annual profit attributable to the equity holders of the Company. However, this is subject to the availability of adequate distributable reserves, operating cash flows requirements, financial commitments, expansion plans and other relevant factors to sustain our existing operations and support future business growth.

In respect of FY2016, the Company paid a first interim single tier dividend of 1.25 sen per ordinary share on 26 September 2016 and subsequently paid a second interim single tier dividend of 2.25 sen per ordinary share on 28 March 2017. This brought the total dividend payout in respect of FY2016 to 3.50 sen per ordinary share totalling RM14.0 million, as compared to RM22.0 million for FY2015, which represented a dividend payout ratio of 52.8% of attributable earnings for the financial year.

Cumulatively, following Deleum's listing in 2007, the dividends we have paid to date amounted to RM174.5 million since the financial year ended 31 December 2007. We also take pride that Deleum is one of the few oil and gas service providers which is able to continue paying dividend during this challenging time.

FY2016 DIVIDEND
per share

3.50 sen

TOTAL DIVIDEND PAID
since listing

RM174.5 mil



DIVIDEND PAYOUT
ratio of

52.8%

of earnings
attributable
to equity holders
of the Company
for FY2016

CORPORATE GOVERNANCE

Deleum is committed to upholding the highest standards of corporate governance and to demonstrating ethical conduct in all its business undertakings. The Board recognises that maintaining a high level of ethics is critical to business integrity and performance and key to creating value. We also employ robust risk management and internal control practices. All these serve to ensure the sustainable growth of our business, strengthen investor confidence and enhance long-term shareholder value.

For our commitment to uphold excellent corporate governance practices, Deleum was awarded the Excellence Award for Top Corporate Governance and Performance by the Minority Shareholder Watchdog Group (MSWG) under the category of companies with a market capitalisation of between RM300 million and RM1 billion. This award marks the second consecutive year that Deleum has been recognised for its excellent corporate governance practices. We are honoured to receive this recognition and commit to strengthening our position in this area.



EXCELLENCE AWARD

TOP CORPORATE GOVERNANCE AND PERFORMANCE

by the **Minority Shareholder
Watchdog Group (MSWG)**

OUTLOOK

The outlook moving forward is likely to remain cautiously optimistic. Deleum will enhance integration across our core activities by leveraging on our financial strengths and resources to create opportunities for growth in the future. We will continue to work closely with our stakeholders to deliver more comprehensive customer-centric solutions, especially in the production enhancement initiatives. At the same time, we will stay focused on managing our costs and working capital as well as conserving our free cash to maintain our competitiveness whilst we set our sights on long-term sustainability.

As Deleum ventures forth, we will set our sights on increasing the contributions from our international business through delivering specialised and quality products and services. We will also focus our efforts on elevating our performance standards to be recognised internationally.

ACKNOWLEDGEMENTS

On behalf of your Board of Directors, I wish to extend my sincere gratitude to our Group Managing Director, Senior Management and staff for their hard work, professionalism and commitment to Deleum during the year under review. I also wish to convey my deep appreciation to all our shareholders as well as customers, suppliers, business partners and financiers for the steadfast support, trust and confidence in Deleum. We look forward to strengthening our ties as we strive ahead. Last but not least, my heartfelt thanks also goes to my fellow members of the Board, for their stewardship, astute guidance and valuable insights.

DATO' IZHAB BIN MAHMUD
Chairman

Management Discussion and Analysis

In 2016, the oil and gas industry continued to face challenging business conditions as the global crude oil market experienced a prolonged period of low prices. Against this backdrop, Deleum continued to adapt to market pressures by focusing its efforts on consolidating its diverse capabilities and resources, strengthening operational efficiencies and optimising cost management. Nevertheless, we were still affected by a marked contraction in business activities that led to a weaker financial performance.

Our strategic decision some five years ago in transforming ourselves into an integrated solutions provider from a product-centric player, continued to stand us in good stead as it enabled us to offer a wider spread of products and services as well as tap into diverse revenue streams. Over the course of the year, we implemented several measures to consolidate, integrate and innovate our businesses, all of which have strengthened the Group for a better future. Today, as a result of the many building blocks we have put in place to bolster our businesses, we remain confident of our ability to deliver sustainable growth for the long-term.



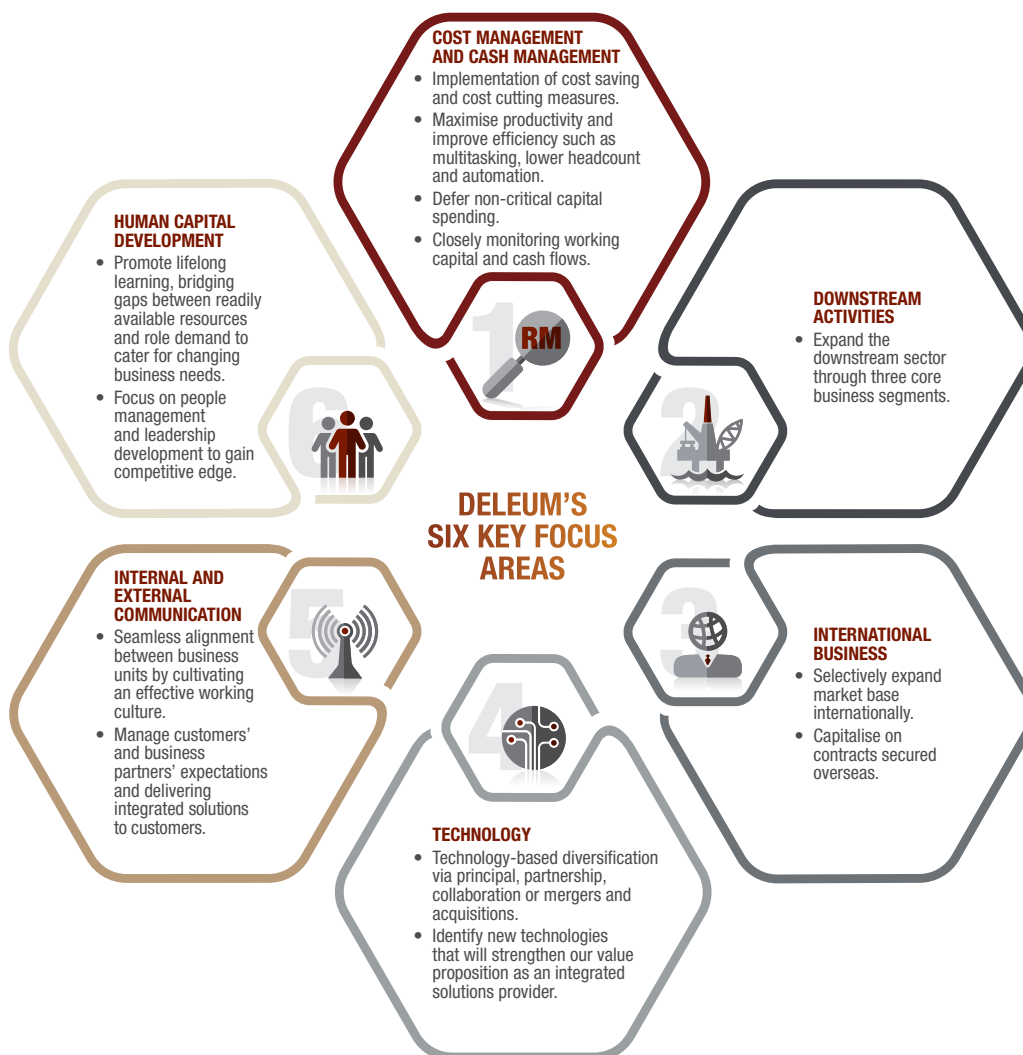
BUSINESS AND STRATEGY

Deleum Berhad is an investment holding company and through our subsidiaries we provide a varied range of supporting specialised products and services to the oil and gas industry, particularly on the exploration and production front. Over the years, we have moved from leveraging on agent-principal relationships to embracing joint ventures, partnerships and self-operated operations. Today, we are an integrated solutions provider that is focused on providing value-added solutions via our three core business segments, namely Power and Machinery, Oilfield Services and Integrated Corrosion Solution.

In line with our mission statement which is to provide sustainable growth and enhance stakeholders' value, we continue to position our businesses to be resilient. Whilst we have mainly focused our efforts on activities in the upstream sector, moving forward we are looking to expand our business activities into other areas including the downstream sector. We continue to proactively explore new avenues to expand our existing businesses through strategic and synergistic alliances in the energy sector, predominantly in the oil and gas arena.

Deleum also has plans to expand its business activities both locally and regionally. Our self-operated businesses in the Oilfield Services and Integrated Corrosion Solution segments are focused on expanding their footprints into neighbouring countries, namely Brunei, Indonesia, Thailand and Singapore as well as the Middle East. Whilst there have been efforts to venture overseas, the impact to date has been somewhat muted due to the current industry slowdown. We shall continue to explore these markets with a cautious approach to further understand the trading and regulatory conditions and the overall environment of the targeted countries. Furthermore, we believe that our success is going to be based on the strong belief of achieving an equitable business advantage by forging strong relationships with our business partners as well as customers.

In light of the new market realities, a three-year Strategic Plan was developed which set its sights on Six Key Focus Areas. These six areas which aimed at streamlining, strengthening and making our businesses more sustainable, are outlined as follows:



FINANCIAL PERFORMANCE

For the financial year ended 31 December 2016 (FY2016), Deleum registered revenue of RM608.7 million and profit after tax and non-controlling interest (PATANCI) of RM26.5 million. This was a 6.3% and 41.6% decline in revenue and PATANCI respectively in comparison with revenue of RM649.4 million and PATANCI of RM45.4 million for the financial year ended 31 December 2015 (FY2015).

The year under review saw the Power and Machinery segment generating lower segment results of RM35.9 million (FY2015: RM63.8 million) and revenue totalling RM429.1 million (FY2015: RM465.9 million). The Oilfield Services segment delivered higher segment results of RM12.5 million (FY2015: RM8.3 million) on the back of revenue of RM135.5

million (FY2015: RM137.9 million). The Integrated Corrosion Solution segment recorded a commendable 326.1% increase in its FY2016's segment results amounting to RM4.1 million (FY2015: RM1.0 million) supported by revenue of RM43.6 million (FY2015: RM45.2 million).

Despite the oil and gas sector's challenging operating environment and the decrease in profitability in FY2016, Deleum's revenue has been growing at a five-year compounded annual growth rate (CAGR) of 6.5%, with the Power and Machinery segment contributing some 70.5% of total revenue in FY2016. Moving forward, the Group has set its sights on strengthening all three of its core business segments with the aim of deriving a more equitable percentage contribution from the self-operated segments, namely the Oilfield Services and Integrated Corrosion Solution segments in the future.

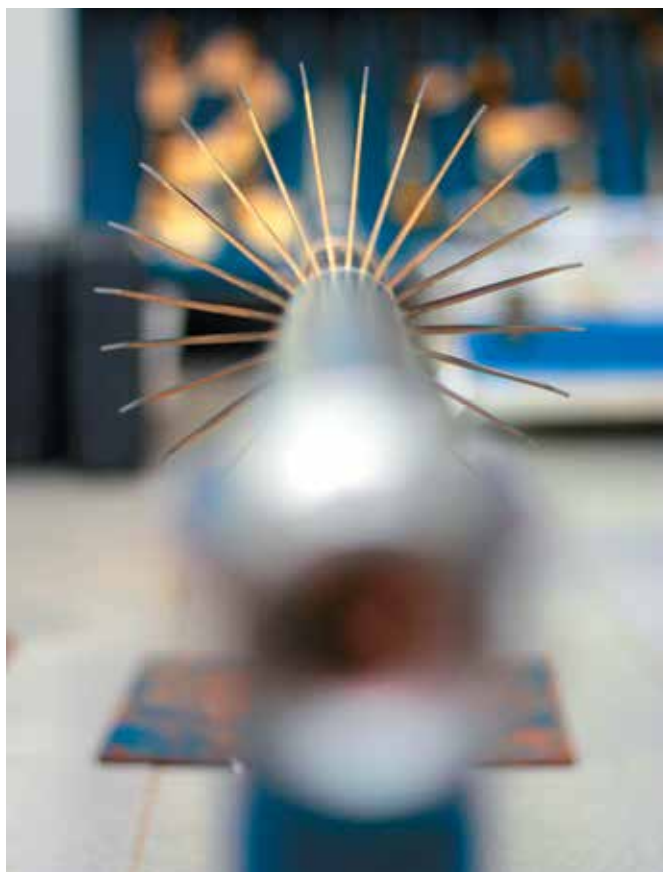
Management Discussion and Analysis

Liquidity and Capital Resources

The Group's cash and cash equivalents increased to RM129.6 million as at 31 December 2016 from RM123.8 million previously. The slight increase of RM5.8 million was mainly attributable to the lower capital expenditure incurred in FY2016 resulting from the Group deferring non-critical capital expenditure and the fulfilment of major capital-intensive contracts in the previous year. However, the increase in cash and cash equivalents was slightly offset by the repayment of borrowings amounting to RM31.7 million as well as the dividend payout of RM19.1 million in FY2016.

Gearing Ratio

The gearing ratio of the Group as at 31 December 2016 improved to 0.36 times as compared to 0.47 times as at 31 December 2015. The gearing ratio is calculated as total debt (RM109.6 million) divided by total shareholders' equity (RM300.8 million). The improved gearing ratio was attributable to the scheduled repayment of borrowings raised in prior years.



Contingent Liabilities

The Group has provided guarantees amounting to RM26.9 million to third parties in respect of operating requirements, utilities and maintenance contracts.

Capital Management

The Group's view on capital management is centred on protecting its ability to continue as a going concern and to maintain an optimum capital structure to maximise shareholders' value. In order to maintain or achieve optimal capital structure, Deleum may adjust the amount of dividends, return of capital to shareholders or issue new shares or debts. The capital structure consists of borrowings, cash and bank balances and total equity.

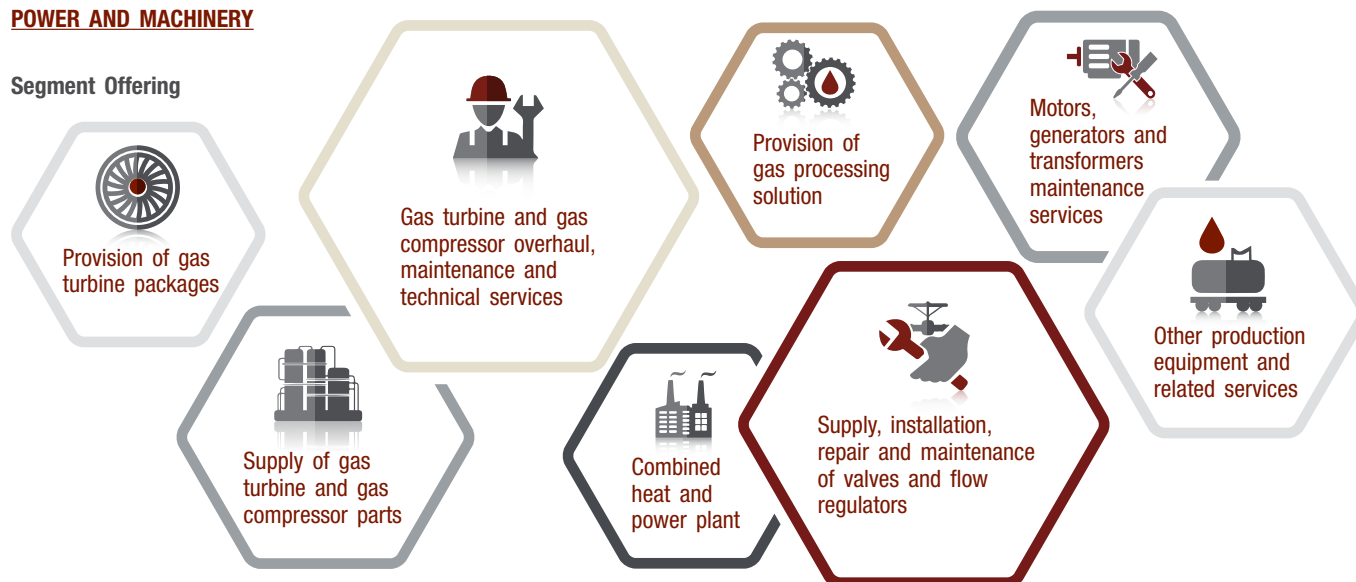
Future Commitments and Funding Sources

The Group's total capital commitments authorised for property, plant and equipment amounted to RM10.0 million as at 31 December 2016, of which RM0.2 million of capital expenditure has been contracted for, but not incurred. The remaining capital expenditure of RM9.8 million has not been contracted for. The capital commitment that has been authorised and contracted for relates to general contract requirements and enhancements to our workshop facilities, in addition to the purchase of other equipment to prepare the Group for its current operations and future expansion. Details of the borrowings and maturity profile of such borrowings are disclosed accordingly in Note 24 of the consolidated financial statements.

PERFORMANCE BY BUSINESS SEGMENTS

POWER AND MACHINERY

Segment Offering



Performance Highlights

For FY2016, the Power and Machinery (P&M) segment recorded lower segment results of RM35.9 million, some 43.8% lower than FY2015's segment results of RM63.8 million. The segment's revenue for FY2016 was RM429.1 million, a decrease of 7.9% from the previous year's revenue of RM465.9 million, attributable mainly to lower revenue from parts and services for scheduled maintenance and retrofit projects. The situation was further exacerbated by cost pressures affecting our customers and a one-off restructuring charge relating to the rotary business, resulting in reduced margin contributions from the P&M segment.

Operational Highlights

Consolidation continued to be a key theme for the P&M segment in FY2016. Customers deferred spending as cost pressures escalated which continued to make for a more challenging operating environment. Margins dropped further as a result of renegotiated pricing for existing contracts despite the ongoing belt tightening activities undertaken. Whilst the level of oil and gas activities remained low, the P&M segment continued to concentrate on supporting its existing installation base, working closely with customers to provide innovative solutions to optimise the efficiency of their equipment.

The year saw Deleum Rotary Services Sdn. Bhd. (DRSSB) which provides maintenance, repair and overhaul of motors and generators sets, facing difficult trading conditions as customers in general reduced their budgets and deferred maintenance activities. In line with the P&M segment's efforts to streamline its operations and optimise efficiencies, an internal restructuring exercise was carried out which resulted in the

closing down of the Kemaman Service Facility and impairment of certain tools and equipment. Notwithstanding that, DRSSB successfully updated its ISO Quality Management Systems certification to ISO9001:2015, underscoring its commitment towards delivering quality products and services to its customers.

Penaga Dresser Sdn. Bhd. (PDSB), which is in the control and safety valves business, too, faced downward pressure on its margins. However, due to the diversified nature of its business in servicing the exploration and production, refining, gas processing, petrochemicals and power generation sectors, PDSB remained resilient and profitable.

Over the course of the year, PDSB launched a new service facility in Miri, Sarawak to support all its activities in East Malaysia. Known as the Sabah-Sarawak Engineering Centre, the service facility has improved its operational efficiency and after-sales services to its customers in East Malaysia.

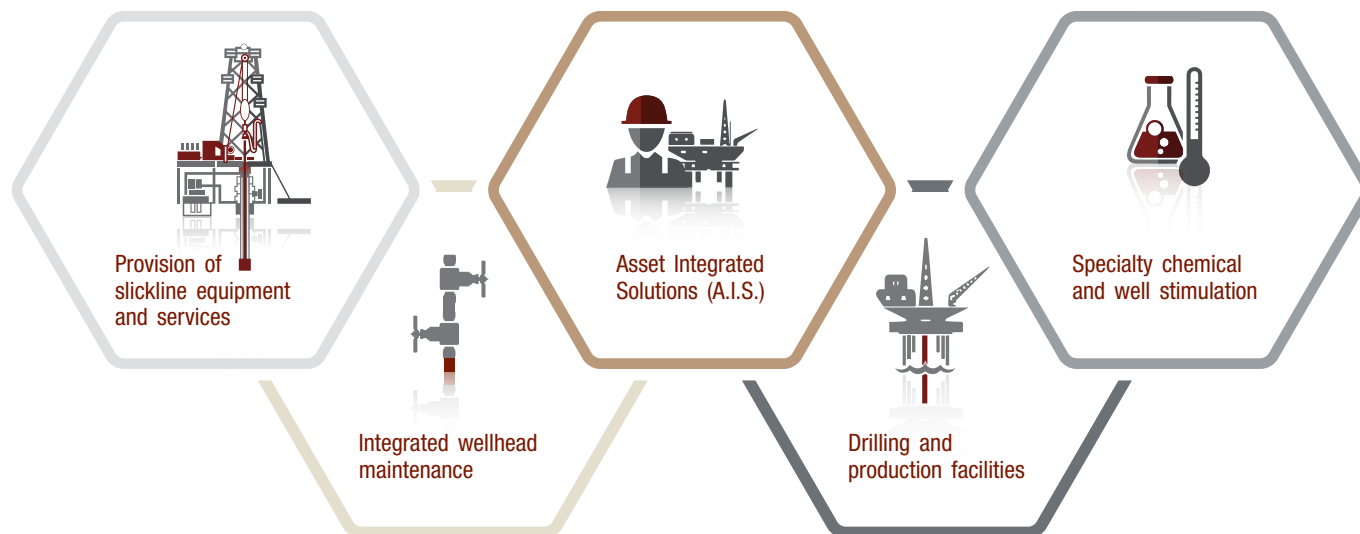
Looking Ahead

The outlook for the P&M segment for the financial year ending 31 December 2017 (FY2017) is expected to be similar to the preceding year with the segment facing continuous pressure on its revenue and margins. In view of this, the segment will continue to enhance its capabilities via consolidation and cross-training exercises to be able to cater to a broader range of technical requirements as well as to support its principals' local and regional expansion plans. The P&M segment is also looking to expand its scope and offerings in its overhaul, maintenance and technical services and valve business via technical collaboration with its principals and partners in response to new requirements from existing customers.

Management Discussion and Analysis

OILFIELD SERVICES

Segment Offering



Performance Highlights

The Oilfield Services (OS) segment turned in segment results of RM12.5 million, an increase from RM8.3 million in FY2015 despite a slight reduction in revenue to RM135.5 million in the year under review from RM137.9 million in FY2015. The improved results from this segment despite compressed margins in the slickline business was attributable to lower finance costs through the paring down of borrowings raised in prior years as well as favourable foreign exchange differences reported.

Operational Highlights

The OS segment mainly focuses on upstream activities, predominantly in the sub-surface section. Its three main business units are the Oilfield Operations (including Slickline business), Asset Integrated Solutions (A.I.S.) and Specialty Chemical and Well Stimulation. In FY2016, the products and services offered by the segment remained largely the same, albeit with a more subdued level of activity.

The Slickline business forms the core business of the OS segment. The Group operates the largest slickline packages in the country providing slickline equipment and services for the drilling programmes and production operations of Production Sharing Contract (PSC) operators in the Peninsular and East Malaysia. FY2016 saw a margin compression in the Slickline business due to fluctuating demands for slickline assets and price renegotiations by customers which led to a slight reduction in revenue.

The A.I.S. unit, a well data analysis and integrated services solutions provider which was set up in 2013, continued to show encouraging progress during the year under review. The A.I.S. unit offers a diverse range of products, services and customised solutions such as well intervention, subsurface engineering, drilling and completions as well as cased hole logging activities through the innovative and viable integration of resources and capabilities within the OS segment and across the Group.

In order for the OS segment to address industry challenges and to remain competitive in the market, the segment underwent a consolidation exercise to strengthen and expand its capabilities and services so as to be better equipped to capitalise on any future opportunities. The segment embarked on aggressive cost cutting measures to ensure its sustainability whilst optimising its manpower resources and assets utilisation.

In December 2016, the OS segment undertook a restructuring exercise and consolidated the subsurface functions (wellbore clean-up and well stimulation) within Deleum Chemicals Sdn. Bhd. (DCSB) and the well stimulation function within A.I.S. unit. The combined functionalities are now residing under the sphere of operations of the newly formed Specialty Chemical and Well Stimulation unit. The reorganisation and consolidation exercise has broadened and enhanced the product and service offerings of the OS segment whilst providing greater opportunities for cross-functional sales.



The Specialty Chemical and Well Stimulation unit will now focus its efforts on developing technical solutions utilising in-house developed chemical solutions aiming at facilitating production enhancement, flow assurance, well stimulation as well as efficiency improvements for hydrocarbon processing facilities and their related services. Its other activities include integrated tank cleaning and waste management, de-bottle necking of hydrocarbon processing equipment, integrated pipeline cleaning, integrated Improved Oil Recovery (IOR) services and integrated water desalination, as well as treatment and injection services.

In addition to the reorganisation and consolidation within the OS segment, the year also saw the Electronic Data Acquisition System (EDAS) business transferred from the Oilfield Operation unit to the A.I.S. unit and rebranded as the Cased Hole Logging Services business. This reorganisation has helped in the streamlining of the Cased Hole Logging Services business and Well Intervention business activities within the A.I.S. unit. Subsequently, it has also driven integration across the OS segment towards providing more collective and comprehensive solutions to its customers. The existing Pan Malaysia Slickline Contracts also provide a suitable platform for the execution of Cased Hole Logging and Well Intervention services using slickline as a conveyance. This has already made an impact on the business model and direction of the OS segment.

The year also saw the OS segment conducting a 'tool exercise' or a trial run in collaboration with a multinational innovation and technology company for a new technology known as Thru-Tubing Electrical Submersible Pump (TTESP) at Deleum's Training Well facility located at the Asian Supply Base, Labuan. The tool exercise, which involves a major oil and gas operator in Malaysia, provides a new alternative for enhancing oil production for low pressure wells by way of delivering an artificial lift during production activities without the need for well workovers. The installation of the first TTESP in the pilot well offshore is scheduled to commence activities in 2017.

DCSB offers a wide range of Specialty Performance Chemicals and Integrated Production Chemicals designed to support activities such as well stimulation, tubing and wellbore cleaning. Three new chemical solutions were developed by DCSB in 2016, namely, the DeWis, Del-DelMul LT and De-Del-HScide. This brings the number of chemical solutions developed in-house to 15 solutions. The year also saw DCSB making improvements to its existing chemical solutions, namely, Antifoulant GP-HX AQUA and Antifoulant GP-HX (Version 2.0), which can now be used to dissolve deposited foulants due to the predominant composition of insoluble inorganics and corrosion components.

In FY2016, both Deleum Oilfield Services Sdn. Bhd. and DCSB successfully updated their respective ISO Quality Management Systems certifications to ISO9001:2015. DCSB also completed the transition of its existing ISO Environmental Management Systems certification to ISO14001:2015. These international accreditations underscore Deleum's commitment towards delivering quality products and improving the environmental aspects and impact of its product offerings.

Looking Ahead

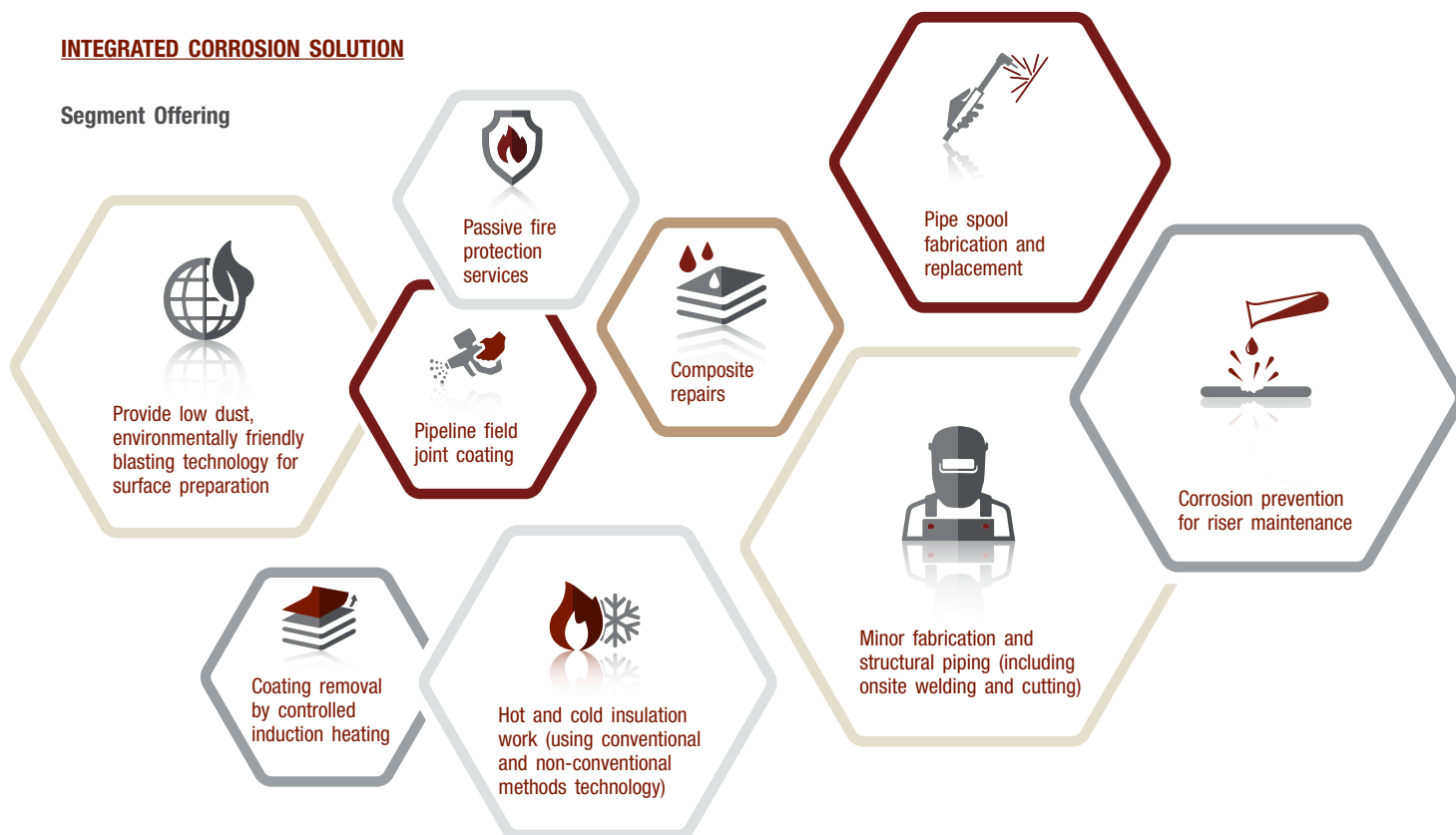
The OS segment will continue to focus on strengthening its capabilities and expanding its products and services as it ventures into new frontiers. Not only will it aim to bolster its position as a market leader in Slickline services in Malaysia, the segment will also continue to explore opportunities in the mid and downstream sectors, driving research activities to improve its existing products range and ramping up penetration into regional and international markets. Meanwhile, the A.I.S. unit will continue to develop its technical expertise and to acquire the necessary tools for provision of required services especially for Cased Hole Logging Services. There are also plans to pursue and forge technical partnerships with multinational technology establishments. The Specialty Chemical and Well Stimulation unit will focus on implementing a more aggressive marketing plan to capitalise on the local opportunities previously unexplored whilst maintaining its efforts to pursue business opportunities abroad.



Management Discussion and Analysis

INTEGRATED CORROSION SOLUTION

Segment Offering



Performance Highlights

The Integrated Corrosion Solution (ICS) segment posted improved segment results of RM4.1 million for FY2016. This was a 326.1% leap from the RM1.0 million recorded in the previous year despite only a marginal decrease in revenue to RM43.6 million in FY2016 from RM45.2 million previously. This was attributable mainly to improved margins as a result of cost reduction initiatives implemented in particular lower equipment rental charges, increased utilisation of company owned assets, improvements in logistic management and manpower utilisation. This was achieved despite a slight reduction in work orders for corrosion protection and maintenance from the Pan Malaysia Painting and Alternative Blasting Contracts.

Operational Highlights

The ICS segment, which comes under the ambit of Deleum Primera Sdn. Bhd. (DPSB), underwent challenging conditions in FY2016 including project deferments. To keep its operations profitable, DPSB continued to leverage on intensive cost control measures which included the redeployment of human capital and a reduction in external manpower resources. As a result of these measures, the business was successful in enhancing its margins. DPSB also focused its efforts on enhancing its operational performance by strengthening customer engagement and market penetration activities.

The ICS segment was successful in securing several major brownfield maintenance contracts in FY2016, reflecting its proven ability to deliver quality works on a timely basis. In September 2016, DPSB received one-year contract extensions for its existing contracts from PETRONAS Carigali Sdn. Bhd., both of which run from November 2016 until November 2017. These contracts cover works relating to the provision of painting and alternative blasting for Peninsular and East Malaysia operations.

DPSB also succeeded in executing a contract for the provision of Passive Fire Protection (PFP) works for the Malikai platform. Covering a 12,000 m² area, this contract highlights DPSB's capabilities and strengthens its credentials as a credible PFP provider. DPSB was also appointed the sole contractor for a de-sanding campaign on Three Centre's Cargo-Oil-Tank (COT) for works relating to Floating Production, Storage and Offloading (FPSO) activities at the Kikeh Field in Sabah.

The ICS team continues to focus its efforts on surface preparation and maintenance projects through creating opportunities and diversifying its services. The team is leveraging on a suite of environmental friendly green technologies that have brought proven cost savings and all around improvements to operational safety. These include the Sponge-Jet technology which features an abrasive blasting method that produces low fugitive emissions to effectively and delicately clean aggressive profiling of industrial substrates, whilst remaining safe to the environment. DPSB is the sole distributor for this technology in Malaysia, Indonesia, Singapore, Brunei, Turkmenistan, Kuwait and Iraq. DPSB is also the sole distributor in Malaysia, Indonesia, Singapore and Brunei for Rust and Paint Removal (RPR) technology, a highly cost-effective, environmental friendly and extremely efficient method for removing paint and corrosion products from steel surfaces. This technology is already showing promising potential with DPSB securing its first contract for the RPR technology within the first few months of its appointment.

For FY2016, DPSB achieved 2.5 million free lost time injury (LTI) man-hours for works on the Plant Rejuvenation and Revamp 4 (PRR4) Project in Kerteh, Terengganu. DPSB also successfully attained ISO9001:2015 Quality Management Systems certification which demonstrates DPSB continuous commitment in delivering quality products and services to all of its customers.



Looking Ahead

As DPSB ventures forth, it will continue to source and bid for jobs whilst establishing its brand name. It will continue to focus on promoting its green technologies as demand for innovation in this area by oil and gas players begins to pick up. This unit will also work on tank-water de-sanding and cleaning works which will enable it to venture into the earlier phase of the maintenance value chain thereby providing opportunities to offer blasting, painting or coating services. The segment is also well-equipped to execute maintenance projects for pipelines and vessels as well as undertake structural integrity activities. It is currently exploring opportunities to offer its services in other industries such as marine, shipping, construction and power plants.

JOINT VENTURE

Turboservices Overhaul Sdn. Bhd., a joint venture (80.55%) with Solar Turbines International Company (19.45%), continues to enhance its ability to repair and overhaul a wide range of Solar Turbines' equipment in Malaysia.







ASSOCIATE COMPANIES

The Group has two associate companies, namely Malaysian Mud And Chemicals Sdn. Bhd. (2MC) and Cambodia Utilities Pte. Ltd. (CUPL). For FY2016, 2MC recorded lower results which was attributable to the decrease in drilling activities in the oil and gas industry which led to lower results from its operations. CUPL, on the other hand, remains dormant since the expiry of its build, operate and transfer agreement with Electricite Du Cambodge, Cambodia in 2015.

Management Discussion and Analysis

BUSINESS RISKS

In line with Bursa Malaysia Securities Berhad's new disclosure requirements, we are highlighting the key anticipated or known risks that we are exposed to that may have a material effect on our operations, performance, financial condition, and liquidity. We also discuss the plans or strategies to mitigate these risks.

KEY RISK	DESCRIPTION	MITIGATION MEASURES
Operational 	Operational risk relates to the risk of loss as a consequence of inadequate or ineffective process, people and systems and events beyond our control. The key operational risk is the risk of not generating sufficient income against a challenging operating environment following the slump in crude oil prices.	<ul style="list-style-type: none"> The Group ensures integration across the business segments to offer customers holistic solutions, new technological products and services in collaboration with and support from partners and suppliers. The Group has introduced and continues to implement cost effective processes in managing operational risks to prevent financial loss or damage to the Group's reputation.
Market 	Market risk is the risk of market volatilities affecting exchange rates and interest rates which may affect the values of our financial assets and liabilities. The key market risk is currency volatility as a portion of the Group's revenue and costs are conducted in foreign currencies.	<ul style="list-style-type: none"> The Group has established a Foreign Exchange (FOREX) Management policy to minimise potential FOREX impact. The Group undertakes close monitoring of foreign currency assets and liabilities denominated in the same currency to maximise the benefit of natural hedges.
Legal 	Legal risk is the risk of financial loss or damage to the Group's reputation arising from failure to comply with contractual terms or the Group's interest is not properly protected.	<ul style="list-style-type: none"> The Group's Legal Department has assessed and identified the key terms and conditions of the existing major contracts for ongoing monitoring and management of the contracts by the respective business units.
Safety 	The safety of people and assets is of utmost priority in the oil and gas industry and any adverse incident could result in significant financial loss and damage to the Group's reputation.	<ul style="list-style-type: none"> The Group has established comprehensive safety policies and processes that clearly set out the safety measures which must be strictly adhered to by our employees and contractors. Periodic audits of our health and safety procedures and practices, drills, continuous health and safety meetings and reviews are conducted internally and externally.
Regulatory 	Regulatory risk is the risk of inability to participate in business activities as a consequence of the withdrawal or suspension of licenses / permits by the regulators and the issuing authorities. All oil and gas industry participants in Malaysia are required to be licensed by PETRONAS.	<ul style="list-style-type: none"> The Group has procedures and processes in place to ensure that its activities are conducted in compliance with the licensing requirements. Continuous monitoring is done to ensure the validity of our licenses / permits including updates or changes to the regulatory requirement of the licenses / permits.
Human Capital 	Human capital risk is the risk of execution failures caused by not having the right personnel within the Group to execute operations effectively. The oil and gas industry demands highly skilled and technically competent personnel.	<ul style="list-style-type: none"> The Group has in place a Human Resource Framework and a progressive compensation scheme for the employees. The emphasis on human capital development coupled with talent management and incentive-driven remuneration aim to motivate employees to move towards continuous improvement whilst supporting the Group's operations.



MOVING FORWARD

The agreement between the Organisation of Petroleum Exporting Countries (OPEC) and a number of non-OPEC countries to cap surplus crude oil production has indeed provided some positivity in the potential recovery of crude oil prices. However, there are still uncertainties about OPEC's efforts to curb the world's oil glut with the disruption to inventories by unconventional producers which may lead to oil prices falling back under USD50 per barrel. This may alter the outlook of USD50-60 per barrel as forecasted earlier stemming from the OPEC agreement to hold down production.

Nevertheless, amidst this guarded and uncertain outlook, Deleum expects the level of the Group's operating activities to be maintained. We are confident that given our cautious approach, ongoing contracts and strong principal partnerships, our activity levels will not be materially affected. However, the compression on margins will remain, thereby providing a challenge in maintaining our net earnings moving forward.

The sustainability of the Group's business has become crucial and we have established a task force to spearhead the initiatives under our Six Key Focus Areas and bring them to fruition. For FY2017, whilst

predominantly focusing in the domestic market, there will be a particular emphasis on Cost Management and Cash Management, Downstream Activities and International Business. This will see Management staying vigilant and focusing our efforts on optimising cost efficiencies and working capital as well as conserving our free cash. On the downstream front, we will continue to explore opportunities through our three core business segments. We will also selectively expand our market base internationally in potential markets, though these markets may take slightly longer to commercialise. This is expected to help reduce our dependency on the domestic market whilst moderating our risk in the longer term. Looking into the future, we would like to see bigger contributions from our self-operated businesses through these initiatives.

The Group will continue to focus its efforts in strengthening its business fundamentals and core competencies to remain profitable. Our revitalised strategy, organisational and operational structure, all have been designed to see us through the industry downturn and we will continue to be guided by our shared values as well as our commitment to upholding integrity and ensuring good compliance. As a Group, we have weathered many storms and have shown our mettle. As we continue to exhibit a spirit of excellence in all that we undertake, we are confident of the prospects of Deleum's sustainable long-term growth.

Quality, Health, Safety and Environment (QHSE)

DELEUM REMAINS STEADFAST IN OUR COMMITMENT TO SAFEGUARD THE WELFARE OF OUR EMPLOYEES, ASSETS, ENVIRONMENT AND SOCIETY AT LARGE IN LINE WITH OUR HSE SLOGAN WHICH IS “COLLECTIVE RESPONSIBILITY TOWARDS HSE EXCELLENCE”.

We continue to cultivate an organisational culture that reinforces the importance of QHSE in work-life and day-to-day operations with emphasis on aligning to industry's best practices. Our employees supported by the Board and Management are committed towards taking necessary measures to improve QHSE performance by adhering to the Group's established policies and procedures and customers' requirements at all times.

As of 31 March 2017, the Group has achieved 7.8 million free lost time injury (LTI) man-hours since 25 August 2012. Total Recordable Case Frequency (TRCF) of 1.04 for the year is below the average local oil and gas industry target of 1.24.

As part of our efforts to provide excellent service to our customers, the Group subscribes to certifications of internationally recognised quality and environmental management systems. During the year under review, Deleum Primera Sdn. Bhd. attained ISO 9001:2015 Quality Management System (QMS) certification. The QMS certifications for Turboservices Sdn. Bhd., Deleum Oilfield Services Sdn. Bhd. and Deleum Rotary Services Sdn. Bhd. (DRSSB) were successfully updated from ISO 9001:2008 to ISO 9001:2015. Deleum Chemicals Sdn. Bhd. successfully updated its Environmental Management System certification from ISO 14001:2004 to ISO 14001:2015. These certifications were issued by Det Norske Veritas – Germanischer Lloyd (DNV-GL).

DRSSB maintains the International Electrotechnical Commission Certification Scheme for Explosive Atmosphere (IECEx Certification) from Simtars which approves the facilities and equipment of DRSSB, and endorses the competency of the personnel in handling, repairing and overhauling motors.

The recognitions we received in testimony of our commitment to QHSE practises and standards included the following:

- PCSB-SBO : Certificate of Appreciation For Outstanding Performance and Lasting Contribution in achievement of 3 Million Man-hours without LTI for year 2016
- PCSB-SBO : Certificate of Appreciation For Outstanding Performance and Lasting Contribution in achievement of Highest UAUC Contribution for the year 2016
- JX Nippon Oil EX : Certificate of Recognition for Contribution To HSE Performance for the year 2016
- PCSB-SKO : HSE Achievement Award For Contributing In 8 million Safe Man-hours Without LTI for the year 2009 – 2016

HSE CAMPAIGN AND AWARENESS

In line with the Group's objective of creating a culture of safety, Deleum held its annual HSE Campaign and various briefings and employee engagement programmes to emphasise on safety, health and environmental awareness. We also conducted our first Contractor Engagement Programme during the financial year where our expectations were conveyed to the contractors.

We continue to publish our Monthly Safety Bulletin that provides latest information and best practices for HSE in the workplace, home and environment. Safety meetings are held regularly by the Group QHSE and the Safety and Health Committee to address and update on QHSE matters such as safety performance, QHSE plan and policies. The Group QHSE also participated in various safety meetings and engagement sessions conducted by customers.

The Health Safety and Environment Manual System (HSEMS) is reviewed and updated regularly and routine safety inspections at the operations sites are conducted on a monthly basis.

EMPLOYEE TRAINING

In ensuring continuous improvement of our HSE performance, relevant trainings were provided to enhance employees' knowledge and competencies including those governed by contractual and regulatory requirements, as well as ISO standards to which Deleum subscribes to.

Among the key training programmes held during the year included:

- Lead Auditor Training - Competence ISO 9001 Lead Auditor certified by IRCA
- Radiation Protection Officer (RPO)
- H2S Awareness
- Basic Offshore Safety Induction and Emergency Training (BOSIET)
- Scheduled Waste Management
- Safe Chemical Handling and Spillage Control

Corporate Responsibility

AT DELEUM, WE BELIEVE IN THE IMPORTANCE OF SUSTAINABILITY IN OUR BUSINESS OPERATIONS WHILE ALSO SAFEGUARDING THE INTEREST OF THE RELEVANT STAKEHOLDERS, NAMELY OUR EMPLOYEES, THE COMMUNITY AT LARGE, THE ENVIRONMENT AND THE MARKETPLACE IN WHICH WE OPERATE. AS A RESPONSIBLE CORPORATE CITIZEN, DELEUM IS COMMITTED TO BALANCING OUT ITS ECONOMIC AMBITIONS WITH ENVIRONMENTAL AND SOCIAL CONSIDERATIONS FOCUSING ON THREE KEY AREAS I.E. COMMUNITY, ENVIRONMENT AND WORKPLACE.

COMMUNITY OUTREACH AND DEVELOPMENT

Over the years, we have undertaken various community development initiatives with growing participation from our employees who continue to actively devote their time and resources towards these initiatives. Our flagship initiative, the Deleum Community Enrichment Programme, which supports national and economic development initiatives, continues to make good advances in the area of providing equitable access to quality education for the underprivileged communities. Our involvement in the PINTAR school adoption programme is in line with the national aspiration to develop human capital to be adequately prepared to face future challenges. PINTAR, which stands for Promoting Intelligence, Nurturing Talent and Advocating Responsibility, is a programme launched by Khazanah in 2008 and driven by PINTAR Foundation that promotes school adoptions with the objectives to help achieve better education outcomes.

In FY2016, we continued with our adoption of Sekolah Kebangsaan Kampung Bakam, a primary school in Miri, Sarawak. We are grateful that through our efforts here, attendance at the school and the Ujian Pencapaian Sekolah Rendah (UPSR) results has improved in comparison to the previous years.

THE ENVIRONMENT AND WORKPLACE

In line with the belief that sustainability comes from within, the Group continues to improve its efforts towards preserving the surrounding environment, and raising awareness on environmental issues is embedded in our workforce. We have been mindful with the consumption of resources such as energy and water as well as managing solid waste reduction through our 3R (Reduce, Reuse and Recycle) activities.

Our workforce is our greatest asset and an essential component of our overall strategy to grow sustainably and to remain competitive. We embrace workplace diversity and provide equal employment opportunity for all without regard to gender, age and ethnicity. We believe that through the diversity in the workforce, we have a better understanding of the needs of our various customers, partners and stakeholders. In line with our shared values, the Group aims at recognising and rewarding talents with the opportunity to develop themselves towards excellence.

To this end, Deleum continues to prioritise continuous development and skills upgrading for our people. Under our Human Resource Strategic Plan, various initiatives are in place to develop leadership qualities, technical and non-technical competencies, as well as the development of our employees into high-performing talents.



Raya celebration with Pusat Aktiviti Kanak-kanak (PAKK) Chow Kit at Bukit Kiara Equestrian & Country Resort.

MOVING FORWARD

As we continue to grow our business, our people carry out our commitment to corporate responsibility and focus on providing impactful effort and to uphold the highest standards of ethics that will translate into socially responsible behaviours to our stakeholders within the three focal areas.

Corporate Responsibility



22-23 JANUARY 2016

LEADERSHIP CAMP FOR SK KAMPUNG BAKAM, MIRI

Deleum co-organised a Leadership Camp in collaboration with Curtin University Sarawak for the students of SK Kampung Bakam, Miri to motivate and inspire the students to be future leaders.



2 MAY 2016

PERSONAL FINANCIAL MANAGEMENT TALK

Together with Agensi Kaunseling dan Pengurusan Kredit (AKPK), Deleum organised a talk on 'Personal Financial Management' that focused on money and debt management skills. The two-hour session received overwhelming response from fellow employees.



1 JULY 2016

RAMADHAN DONATION DRIVE

Deleum organised a Donation Drive for Rumah Kebajikan Nur Hati in conjunction with the holy month of Ramadhan where contributions in the forms of monetary, goods and essential items were made.



26 JULY 2016

DELEUM PRIMERA RAYA OPEN HOUSE

Deleum Primera shared the joy of welcoming the month of Syawal with the children of Rumah Anak-Anak Yatim Darul Taqwa by hosting a lively Raya open house.



27 JULY 2016

RAYA CELEBRATION WITH PUSAT AKTIVITI KANAK-KANAK (PAKK) CHOW KIT

In conjunction with the month of Syawal, a Raya Celebration was hosted with the children from the PAKK Chow Kit at Bukit Kiara Equestrian & Country Resort.

1 JULY 2016

GOTONG-ROYONG DAY

Gotong-Royong Day was organised in Bangsar HQ to promote Health, Safety and Environment at workplace to cultivate cleanliness and safety habit among employees which included tidying up of workstations and common areas and management of documents.



28 AUGUST 2016

TREASURE HUNT WITH ASRAMA DARUL FALAH (ASDAF) PERKIM

Deleum organised a Treasure Hunt with children from the ASDAF PERKIM at Forest Research Institute of Malaysia (FRIM), Kepong that aimed to foster problem-solving and interpersonal skills. This activity was also a platform to educate the children on the importance of preserving and protecting of the environment.



22 SEPTEMBER 2016

BLOOD DONATION DRIVE 2016

The annual 'Blood Donation Drive' campaign was held in collaboration with Pusat Darah Negara (PDN). The event received overwhelming response and good support from both employees and public. A total of 69 pints were collected.



24 SEPTEMBER 2016

MURAL PAINTING

Deleum contributed to mural paintings that graced the walls of SK Kampung Bakam, Miri providing to an attractive learning environment with support and collaboration from Curtin University College, Miri as part of 'Deleum Community Enrichment Programme'.



25 OCTOBER 2016

DEEPAVALI DONATION DRIVE

In the spirit of Deepavali, contributions were given to Siddharthan Care Centre to enhance their daily living.



6 OCTOBER 2016

FEEDING THE NEEDY

In this maiden collaboration with Feeding The Needy (FTN), Deleum's employees banded together in helping the less fortunate by distributing food and snacks to them along Jalan Tuanku Abdul Rahman, Kuala Lumpur.



25 NOVEMBER 2016

SAFETY AND SELF-DEFENCE TALK

This 2-hour educational talk focused on the daily aspects of safety, crime prevention and self defence.



15 DECEMBER 2016

CHRISTMAS DONATION DRIVE

During this season of joy and giving, aids were given to Salvation Army Joyhaven Elderly Home to assist in their daily needs.

Activities of 2016

CORPORATE AND BUSINESS ACTIVITIES



22 – 25 MARCH 2016

OFFSHORE TECHNOLOGY CONFERENCE ASIA 2016 (OTC ASIA 2016)

Deleum participated in the OTC Asia 2016 in Kuala Lumpur Convention Centre to further promote the Group's diverse range of supporting specialised products and services. Deleum was also selected to present a technical paper titled: *'Remediation Of Well Impaired By Complex Organic Deposits Embedded With Naphthenate and Contaminated With Inorganics'*.



24 MAY 2016

11TH ANNUAL GENERAL MEETING

The 11th Annual General Meeting was held at the Sime Darby Convention Centre, Kuala Lumpur and attended by a diverse group of shareholders.



7-9 OCTOBER 2016

PRESTIGE PROGRAMME

Deleum lent its support as part of the Organising Committee in the 2016's PRESTIGE Programme held and organised by Malaysian Gas Association in The Saujana Hotel Kuala Lumpur where selected engineering students from participating universities were given the opportunity and exposure to learn from the professionals in the oil and gas industry.



13-16 NOVEMBER 2016

ABU DHABI INTERNATIONAL PETROLEUM EXHIBITION & CONFERENCE 2016 (ADIPEC 2016)

Deleum exhibited in the ADIPEC 2016 to explore international opportunities and to promote its products and services in the dynamic oil and gas market.



EMPLOYEES' SPORTS AND RECREATIONAL ACTIVITIES



28 JANUARY 2016

TREKKING

Miri employees banded together to conquer Canada Hill in Miri being part of a healthy and adventurous initiative.



20 FEBRUARY 2016

WHITE WATER RAFTING

The participants were elated with the thrill of paddling and rafting for 9 km through the serrated Selangor River.



2 MARCH 2016

VOLLEY PONG TOURNAMENT

Employees of Miri office organised a Volley Pong Tournament where great team spirit was demonstrated throughout the event.



17 MARCH 2016

PILOXING CLASS

Employees in Miri enjoyed a session of Piloxing which was a creative mix between Pilates and boxing which was fun and entertaining.



24 JULY & 26 JULY 2016

RAYA OPEN HOUSE

The Raya Open House occasions in Bangsar and Kemaman respectively witnessed employees, some dressed in traditional costumes sharing the festive spirit whilst enjoying an array of delectable local delicacies.



Activities of 2016

EMPLOYEES' SPORTS AND RECREATIONAL ACTIVITIES



12 AUGUST 2016

NIGHT GO-KART

This adrenaline-pumped activity saw active participation and healthy competition among the employees who raced to their hearts' content for the champion's spot in KL Sepang International Kart Circuit.



**7 SEPTEMBER &
29 NOVEMBER 2016**

BADMINTON TOURNAMENT

A badminton tournament was held for Miri employees that witnessed great participation and sportsmanship.



2 NOVEMBER 2016

DEEPAVALI GATHERING

A delightful gathering that celebrated the Festival of Lights with the employees donning the traditional Indian attires with delicious arrays of food in tow.



30 NOVEMBER 2016

SNOOKBALL LEAGUE

This fun and interactive game gathered football fanatics and pool players alike at the Snookball Game Center, Evolve Concept Mall where employees had a fun time competing with one another in this one-of-a-kind sporting event.

Statement on Corporate Governance

THE BOARD OF DIRECTORS (THE BOARD) OF DELEUM BERHAD (DELEUM OR THE COMPANY) REMAINS STEADFAST IN ITS COMMITMENT IN ENSURING THAT THE HIGH STANDARDS OF CORPORATE GOVERNANCE (CG) ARE CONSISTENTLY OBSERVED AND PRACTISED THROUGHOUT DELEUM AND ITS SUBSIDIARIES (COLLECTIVELY THE GROUP) IN FURTHERANCE OF THE GROUP'S MISSION, VISION AND SHARED VALUES.

As a testament to Deleum's corporate governance commitments, Deleum was recognised by the Minority Shareholder Watchdog Group (MSWG) as a recipient of the "Excellence Award for Top CG and Performance" under the category of companies with a market capitalisation of between RM300 million and RM1 billion. This award marks the second consecutive year that Deleum has been recognised for its excellent corporate governance practices.

This statement describes the main corporate governance practices of the Company and how the Company has applied the main principles of corporate governance, in particular those set out in the Malaysian Code on Corporate Governance (MCCG) 2012.

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

1.1 Clear functions of the Board and Management

The Board has collective responsibility and accountability for the overall management, direction and performance of the Company and provides leadership within a framework of prudent and effective controls which enables risk to be appropriately assessed and managed.

It has the ultimate and overall responsibility for the entire affairs of the Group and the proper and effective conduct of its business. It directs the Company's strategic planning, financial, operational and resource management, key policies, risk assessment and management and provides effective oversight of Management. There are matters reserved set out in the Board Charter for the Board's collective decision, which include the following:

- the overall corporate strategy and direction, business plans and annual budget including major capital commitments;
- participation in tenders or projects exceeding the prescribed value as set out in the Project Risk Management Guideline in relation to the core business of the Group and any amount outside the core business;
- material acquisitions and disposals of undertakings and properties; and
- key policies and the delegation of authority guidelines of the Company.

During the year, matters relating to the above were tabled by Management to the Board for discussion, consideration and approval.

Whilst the Board retains full responsibility for guiding and monitoring the Company in discharging its responsibilities, it delegates the performance of certain of its functions to the Board Committees as detailed in this statement which provide the Board with recommendations and advice.

The Board has also delegated limits of authority to the Group Managing Director as specified in the Delegation of Authority Guidelines (DAG) on corporate and operational matters. The DAG sets out the specific approval thresholds for the Group Managing Director and it is regularly reviewed to reflect the dynamic changes within the Group. The Group Managing Director further delegates the authorities granted to him to the operational management team and other executives separately as provided in the operational DAG. Such authorities included the approval of sales, procurement, capital expenditure, operational banking matters, human resources matters and other operational matters.

All matters not specifically reserved to the Board and which are necessary for the day-to-day operations of the Group are delegated to Management to operate within the DAG. Specifically, the responsibilities of Management, amongst others, are:

- formulating, recommending and implementing the approved strategies and policies of the Group;
- managing the Group's resources, including but not limited to the Group's human, physical and financial resources to achieve the Group's objectives;
- developing, implementing and managing the Group's risk management and internal compliance and control systems and operate within the risk appetite set by the Board;
- keeping pace with industry and economic trends in the Group's operating environment; and
- providing the Board with accurate, timely and clear information to enable the Board to perform its responsibilities.

Statement on Corporate Governance

1.2 Clear roles and responsibilities

The Board has established clear roles and responsibilities to assume the following principal duties and responsibilities in discharging its fiduciary and leadership functions:

- (i) Reviewing and approving corporate strategies, business plans, budget and key policies whereby Management presents to the Board its recommended strategies and budget annually, together with its proposed business plans for the ensuing year, for the Board's review and endorsement.

The Board plays a pivotal role in reviewing the Group's strategic direction and approving strategic plan of the Group. The Board deliberated annually on the Group's strategic and business plans as proposed and presented by the Management including the annual capital and budget for the ensuing year.

The Board reviews and deliberates on the Management's views and assumptions in ensuring the best decisions are reached after considering all relevant aspects. It gives input and provides guidance to the Management. In furtherance of this, the Board then reviews and approves the annual budget for the ensuing year.

On 30 November 2016, the Board approved the Strategic Plan and Budget for 2017 of the Group.

- (ii) Reviewing, adopting and approving the Group's key operational initiatives, major investments and funding decisions including major capital commitments, participation in tenders or projects exceeding the prescribed value, material acquisitions and disposals and key policies.
- (iii) Overseeing the conduct of the Group's businesses whereby the Group Managing Director is responsible for the day-to-day management of the business and operations of the Group and implementation of the Group strategies and policies as approved by the Board. He is well supported by the management team.

The Board is well informed of the progress of the Group. The Group Managing Director appraises the Board on a quarterly basis on industry, business, prospects and issues faced by the Group.

- (iv) Reviewing the risk management processes within the Group and ensuring the implementation of appropriate internal controls and mitigating measures to address such risk.

Through the Risk Committee (RC), the Board oversees the risk management framework of the Group. The RC advises and updates the Board on areas of risk and the adequacy of compliance and control procedures throughout the Group.

Details of the Group's risk management framework are set out in the Statement on Risk Management and Internal Control (SRMIC) of this Annual Report.

- (v) Maintaining shareholders and investors relations whereby the Group strives to maintain an open and transparent channel of communication with its shareholders, investors, analysts and the public at large with the objective of providing a clear and complete picture of the Group's performance and financial position. The Group believes that a constructive and effective investor relationship is important and essential factor in enhancing value for its shareholders. Further details on the shareholders and investors relations are set out in Section 8 under this Statement.

- (vi) Reviewing the adequacy and integrity of the Group's internal control and management information systems in compliance with relevant laws, rules, regulations directives and guidelines.

Details of the Group's internal control systems and its effectiveness are set out in the SRMIC of this Annual Report.

- (vii) Reviewing the establishment of succession planning framework of Senior Management which are aligned to the Group's objectives.

The Board, through the Joint Remuneration and Nomination Committee (JRNC), ensures that there is effective succession planning of the Senior Management in the Group.

During the year, the JRNC had deliberated the matter on succession planning at JRNC meeting held on 15 March 2016, and proposed that a Talent Management Framework be established which was duly agreed by the Board. The framework includes the establishment of leadership competencies model and assessment of key roles through various assessment tools. This will include the establishment of role requirement for the role of the Group Managing Director and the identification and assessment of potential successors to determine the gaps and to ascertain the level of readiness.

The Board also assumes the following duties and other functions and responsibilities:

- approval of annual and quarterly financial results and annual reporting;
- reviewing the effectiveness of the external auditors and their independence;
- reviewing and approving remuneration practices of the Group with particular emphasis on compensation payable to Senior Management;
- reviewing, adopting and implementing appropriate corporate disclosure policies and procedures; and
- appointment of senior management positions, such as Group Managing Director, Chief Financial Officer, Chief Operating Officer and Senior General Manager, and assuming responsibility in succession planning within the Group.

1.3 Ethical standards through Code of Conduct

Directors' Code of Ethics

The Board has adopted and implemented a Directors' Code of Ethics (Code) which outlines certain standards of business conduct and ethical behaviour to be observed by all Directors in discharging their duties and responsibilities to enhance high standards of personal integrity and professionalism. The Code sets out, amongst others, the Directors' obligations in observing high standards of corporate governance, compliance with legal and statutory requirements, adherence to and upholding the principles of integrity, objectivity, accountability, openness, honesty and leadership and acting in good faith in the best interest of the Group.

Under the Code, the Directors are required to avoid situation where there is a real or apparent conflict of interest between them as individuals and the interest of the Group or situation where Board members have an interest in any entity or matter that may influence their judgement in the discharge of responsibilities. A Board member who has a clear and substantial interest in a matter under consideration by the Board should declare that interest at any meeting where the matter is to be discussed. He should withdraw from the meeting and abstain during the relevant discussion or decision. The Board confirmed that no conflict of interest situation arose in the financial year just ended.

The Code is available on the Company's corporate website www.deleum.com.

Code of Business Conduct

The corporate culture of integrity and honesty is applicable across the Group. The Group has in place a Code of Business Conduct (COBC) as a guidance to its directors and employees as well as its contractors, subcontractors, consultants, agents and other service providers with regard to the Group's standard of integrity and rules of conduct to be observed in the performance of work and business practices. They are refrained from all improper conduct, dishonest or unethical behaviour in their business dealings with the Group.

The COBC covered the areas of, amongst others, conflict of interest, anti-bribery and anti-corruption, gifts, hospitality and entertainment, health, safety and environment, confidentiality, harassment, drug and alcohol policy and consequences of violation of the COBC.

The COBC was last updated in November 2015 in line with the current business environment. Employees were briefed on the COBC annually by the Group Managing Director at the town hall briefing. All new employees are briefed on the COBC and other key policies of the Group by the Human Resource department to ensure their awareness and conformity of the same. Employees are also required to ascertain their understanding of the COBC via online awareness test annually. The COBC is available in both English and Bahasa Malaysia to ensure maximum accessibility especially for the large number of offshore based employees and is accessible via the Group's intranet and posted in the Company's corporate website.

Statement on Corporate Governance

Whistleblowing Policy

Deleum has established a Whistleblowing Policy to provide an avenue and an independent feedback channel through which employees, customers, suppliers, professional advisers, contractors, sub-contractors and any other third parties providing services to the Group may, in good faith and have reasonable grounds, report any wrongdoing in accordance with the procedures in the policy without fear of reprisal. Under the policy, a whistleblower will be accorded with protection of confidentiality of identity. Any employee or external party who has knowledge or is aware that any improper conduct has been, is being, or is likely to be committed within the Group is encouraged to report through the reporting channels as prescribed below. All cases will be dealt with in accordance with the policy and the investigation procedures.

The policy prescribes in details the reporting channels that are available including a dedicated email: whistle@deleum.com which is administered by the Company Secretary and accessible by the Senior Independent Director. Letters/documents/reports may also be addressed to the Senior Independent Director. The Audit Committee (AC) shall be updated as and when there are cases reported. There were no cases reported in 2016.

The policy is reviewed regularly and was last reviewed on 27 February 2017 and is available on the Company's corporate website.

1.4 Strategies promoting sustainability

The Board is cognisant of the importance of business sustainability and in assuming the Group's business, the impact on the environment, social and governance were taken into consideration on top of safeguarding the interest of the Group's employees, the community at large and marketplace in which the Group operates.

Details of the activities in relation to corporate social responsibility and health, safety and environment are set out separately in the relevant sections of this Annual Report.

1.5 Access to information and advice

The members of the Board have full and unrestricted access to all information pertaining to the business and affairs of the Group. Prior to the meetings of the Board and Board Committees, all Directors are furnished with the agenda together with comprehensive Board papers containing information relevant to the business of the meetings. As a practice, Board papers in general are circulated an average five (5) days before the meetings. This allows the Directors to have sufficient time to read the papers and to obtain further information, explanations or clarifications, where necessary, in order that deliberations at the meetings are focused and constructive.

The Board is updated with the overview of the Group's financial performance and business activities at quarterly meetings. The financial performance is measured against the approved budget and the corresponding periods.

The minutes of each Board meeting is circulated to all Directors for their perusal and comments, if any, prior to confirmation. In discharging their duties, all the Directors have full access to the advice and services of the Company Secretaries and other Key Management personnel. The relevant Key Management personnel are invited to attend the Board and Board Committee meetings to report on matters relating to their areas of responsibility and to brief and provide clarifications and details on recommendations so as to enable the Directors to make independent and informed decisions.

The Directors are also empowered to seek external independent professional advice at the Group's expense should they consider it necessary in the furtherance of their duties. Approval may be obtained at the Board meeting where the matter is deliberated or from the Chairman of the Board. No Director had sought the services of any professional advisor during the year in the discharge of his/her duties.

External advisors may also be invited to relevant Board or Board Committee meetings, if necessary. During the year, external consultants were invited to present to the JRNC proposal on the succession management programme for the Group.

The Directors are apprised of all the Company's announcements to Bursa Malaysia Securities Berhad (Bursa Securities). They are also apprised of the restriction in dealing with the securities of the Company at least 30 days prior to the release of the announcement of quarterly financial results. In addition, close periods are strictly enforced on Directors and Key Management personnel maybe in possession of market sensitive information prior to that information being made available to the public.

1.6 Company Secretaries

The Board is supported by suitably qualified, experienced and competent Company Secretaries in the discharge of its duties and responsibilities and has unhindered access to their advice and services. The Company Secretaries are members of The Malaysian Institute of Chartered Secretaries and Administrators (MAICSA).

The Company Secretaries play an advisory and consultancy role to the Board in relation to the Company's constitution, Board's policies and procedures, and compliance with corporate governance matters and relevant regulatory requirements, codes, guidelines and legislations. Besides, they are responsible for organising and facilitating Board and Board Committee meetings, the preparation and/or circulation of notices, agendas and Board papers. Prior to the meetings, the agendas for the meetings were established in consultation with the respective Chairs. At the meetings, the Company Secretaries are responsible for ensuring that all relevant procedures are complied with. The Company Secretaries ensure that the deliberations at the meetings are well captured and minuted and the resolutions passed are recorded properly and accurately and kept in the statutory books at the registered office of the Company. Matters that required the necessary actions are communicated to the relevant Management personnel.

The appointment and removal of the Company Secretaries are decided and agreed by the Board as a whole.

1.7 Board Charter

The Board Charter was adopted by the Board in 2012 and reviewed from time to time to ensure its consistency with the Board's objectives and responsibilities, the relevant standards of corporate governance and best practices and relevance to the current environment.

The Board Charter sets out, amongst others, composition of the Board, its roles/duties and responsibilities, division of responsibilities and powers between Chairman, Deputy Chairman and Group Managing Director, establishment of Board Committees, processes and procedures for convening Board meetings as well as operations and processes of the Board to promote the standards of corporate governance in line with the Group's shared values.

The Board Charter was last reviewed and revised on 27 February 2017 and is available on the Company's corporate website.

2. STRENGTHEN COMPOSITION

The Board has established three (3) Board Committees namely the AC, the JRNC, and the RC. The Board Committees operate within their own clearly defined Terms of Reference.

The Board Committees will deliberate and review matters within their Terms of Reference in greater detail and report on matters deliberated together with their recommendations to the Board. The Board is kept apprised of the activities and the decisions of the Board Committees through circulation of minutes of the meetings of the Board Committees and oral presentations made by the Chairman of the respective Board Committees at Board meetings.

2.1 Joint Remuneration and Nomination Committee

The JRNC comprises of Non-Executive Directors, a majority of whom are Independent Directors. The Chairman of the JRNC, Datuk Ir (Dr) Abdul Rahim bin Hashim is the Senior Independent Non-Executive Director of the Company. The members of the JRNC are as follows:

NO.	NAME	DESIGNATION
1	Datuk Ir (Dr) Abdul Rahim bin Hashim	Chairman of JRNC / Senior Independent Non-Executive Director
2	Dato' Izham bin Mahmud	Member / Non-Independent Non-Executive Chairman
3	Datuk Vivekananthan a/I M.V. Nathan	Member / Non-Independent Non-Executive Deputy Chairman

Statement on Corporate Governance

NO.	NAME	DESIGNATION
4	Datuk Ishak bin Imam Abas	Member / Independent Non-Executive Director
5	Datuk Chin Kwai Yoong	Member / Independent Non-Executive Director
6	Datuk Noor Azian binti Shaari	Member / Independent Non-Executive Director

The JRNC is primarily responsible for the following:

- (i) reviewing and recommending appropriate remuneration packages including short and long term incentives for Executive Directors and Key Management personnel;
- (ii) identifying and recommending new candidates to be appointed to the Board as well as Directors to the Board Committees;
- (iii) developing, maintaining and reviewing the criteria to be used in the recruitment process and annual assessment of all Directors;
- (iv) evaluating the effectiveness of the Board, Board Committees and each individual Director, including reviewing the Board's required mix of skills, knowledge, expertise, experience, professionalism and other qualities and core competencies;
- (v) undertaking an annual assessment of the independence of the Independent Directors including those who have served more than nine (9) years based on the criteria to ensure that Independent Directors can continue to bring independence and objective judgement;
- (vi) assisting the Board in examining the size of the Board with a view to determining the impact of the number of directors on its effectiveness;
- (vii) formulating policies on Board composition, nomination and election process;
- (viii) reviewing and ensuring that all Directors receive appropriate induction and continuous training programmes; and
- (ix) reviewing the Board's succession plan.

During the financial year ended 31 December 2016 (FY2016), two (2) meetings of the JRNC were held which were attended by all members.

The Board is satisfied that the JRNC is discharging its duties in accordance with its Terms of Reference which is available on the Company's corporate website.

As appointed by the Board, the JRNC also undertook the role of the Plan Committee for the implementation and administering of the Group's Long-Term Incentive Plan (LTIP) in accordance with the By-Laws of the LTIP. The LTIP which is aimed at driving performance as well as retention strategy for key and senior positions, was approved by the shareholders on 27 May 2014.

During FY2016, the following activities were undertaken by the JRNC:

- (i) discussed and reviewed the annual bonus for the employees and the Group Managing Director in respect of FY2015 and made recommendations for the Board's approval;
- (ii) discussed salary adjustments in respect of FY2016 to employees and the Group Managing Director taking into consideration the economic climate and challenges of the oil and gas industry;
- (iii) conducted annual evaluation of the Board's effectiveness and performance covering the assessment of the Board as a whole, each individual Director, each Board Committee, and independence of the Independent Directors;
- (iv) assessed and recommended the retention of two (2) Independent Directors, who have served for a cumulative term of more than nine (9) years but less than twelve (12) years, to continue to act as Independent Directors of the Company. This was in line with the Group's policy;
- (v) reviewed the training courses attended by the Directors;
- (vi) reviewed the Directors who are due for re-election/re-appointment at the Company's Eleventh Annual General Meeting (AGM) and recommended their re-election/re-appointment;
- (vii) reviewed the proposed key performance indicators (KPIs) for the Group Managing Director and recommended the same for the Board's approval;
- (viii) discussed the succession planning for the Group Managing Director and senior management and the establishment of the proposed Talent Management Framework;
- (ix) reviewed the second grant allocation, performance targets and participants of the LTIP.

The second grant of 4,641,900 ordinary shares in the Company (Deleum Shares) under the LTIP (2nd Grant) comprising 1,598,700 Deleum Shares under Restricted Share Incentive Plan (RS Award) and 3,043,200 Deleum Shares under Performance Share Incentive Plan (PS Award) to selected eligible employees was made on 22 March 2016. The relevant announcement in respect of the 2nd Grant was made to Bursa Securities on the same day. The RS Award was segregated into three (3) tranches over three (3) years with annual vesting depending on the achievement of the performance targets with the first vesting due on 22 March 2017. The PS Award set the performance targets over a three-year accumulative results with the vesting due in March 2019. The first vesting cycle of the RS Award in relation to the 2nd Grant did not vest as the pre-determined performance targets in respect of FY2016 was not met mainly on the back of the challenges affecting the oil and gas industry. The second vesting of the RS Award in relation to the 2nd Grant will be dependent on the Group meeting the pre-determined targets.

Board and Workforce Diversity

The Board believes that the requirement for diversity in gender, age and ethnicity can bring a greater range of viewpoints to boardroom debate and improve board dynamics. In this regard, the Board takes into consideration a candidate's background, gender, age and ethnicity and will make the necessary appointment based on good blend of competencies, skills, merits, extensive experience and knowledge and contribution to the overall working of the Board and the needs of the Group. Presently the Board has one female Director. On balance if the candidates are of equal standing, the Board will do so to ensure there is greater women representation on the Board.

The Board is satisfied that given the present mix of skills, independence, work experiences and industry knowledge, the Board composition meets the needs of the Group in line with the nature and scale of the business operations.

The Board recognises that workforce diversity in terms of gender, ethnicity and age, amongst others, can bring a variety of experiences and perspectives towards meeting the changing needs of the business environment and organisational growth.

Diversity in relation to the Group's workforce is covered under the Equal Opportunity Policy whereby Deleum is committed to provide fair and equal opportunity in employment and nurturing with the Group regardless of race, nationality, ethnic origin, age, religion or belief, gender, marital status, disability, or any other characteristic unrelated to the performance of the job. Recruitment will, thus, be based on a candidate's background, qualification, experience and competency per the requirements of the job function taking into consideration workforce diversity and any applicable regulatory requirements.

As at 31 December 2016, the workforce of the Group comprised 823 employees in the proportion of 77% male and 23% female. The higher ratio of male employees is due to the nature of the Group's activities which are largely performed offshore. Currently, there are 36 employees holding senior management positions of the Group, of which 10 are female.

2.2 Recruitment processes and annual assessment of Directors

Appointment and Re-election of Directors

The appointment of Directors is undertaken by the Board as a whole through a formal process as set out in the provisions of the Company's Constitution and upon the recommendation by the JRNC.

In general, the Board appoints its members through a selection process which involves the identification of candidate for directorship, evaluation and deliberation of suitability of candidate by the JRNC and recommendation to the Board. The JRNC in recommending new appointments to the Board will assess the suitability of an individual to be appointed to the Board by giving due consideration to the individual's skills, industry experience and knowledge, character, integrity and time to effectively discharge his or her role, gender, age and ethnic diversity. In respect of Independent Directors, the JRNC will assess whether the individual is able to exercise independent judgement and to demonstrate the values and principles associated with independence.

There was no appointment in FY2016.

In accordance with the Company's Constitution, at each AGM, one-third (1/3) of the Directors for the time being, or if their number is not three (3) or multiple of three (3), then the number nearest to one-third (1/3), shall retire from office and be eligible for re-election.

Statement on Corporate Governance

Directors who are appointed by the Board during a financial year are subject to re-election by the shareholders at the next AGM to be held following their appointments.

All Directors, including the Group Managing Director, shall retire from office once at least in every three (3) years but shall be eligible for re-election.

The JRNC had assessed one (1) Director namely Datuk Ir (Dr) Abdul Rahim bin Hashim, the Senior Independent Director standing for re-election pursuant to Article 78 of the Company's Constitution.

The JRNC also assessed the re-appointment of three (3) Directors namely Dato' Izham bin Mahmud, the Chairman, Datuk Vivekananthan a/l M.V. Nathan, the Deputy Chairman and Datuk Ishak bin Imam Abas, an Independent Director who retired and re-appointed as Directors at the last AGM held on 24 May 2016 pursuant to Section 129 of the Companies Act 1965 (CA 1965). With the repeal of the CA 1965, a person of or over the age of seventy (70) years is not required to retire and seek re-appointment at AGM. However, as their re-appointment at the last AGM was for a term ending at the conclusion of the forthcoming AGM, they have consented to seek shareholders' approval for re-appointment as Directors of the Company at the Twelfth AGM to be held on 18 May 2017. Subsequent thereof, they will be subject to retirement by rotation and re-election in accordance with the Company's Constitution.

The JRNC agreed that the abovementioned four (4) Directors met the criteria of character, experience and knowledge, integrity, competence and time commitment to effectively discharge their respective roles as Directors and recommended to the Board for endorsement of the Directors for re-election/re-appointment at the forthcoming Twelfth AGM.

Annual Assessment of Board, Board Committees and Individual Directors

The Board through the JRNC annually assesses the effectiveness of the Board as a whole, Board Committees and the contribution of each individual Director by way of a set of customised questionnaires. Summary of results of the annual assessment are tabled to the JRNC for deliberation and reported to the Board.

In January 2017, questionnaires were distributed to each member of the Board and Board Committees for the assessment/self-assessment in respect of the Board of Directors, individual Directors and Board Committees. The parameters used in the assessment are briefly as below:

- (a) Board as a whole - structure, operation and interaction as well as Board's roles and responsibilities;
- (b) Individual Directors - contribution to interaction, quality of input, understanding of his/her role and training needs;
- (c) Independent Directors are further measured on his/her ability to exercise independent judgement and ability to demonstrate the values and principles associated with independence; and
- (d) Board Committees namely AC, JRNC and RC - structure and composition, operation and interaction, accountability and responsibilities.

During the meeting held in February 2017, summary of results of the assessments were tabled at the JRNC meeting for deliberation. Subsequently, the Chairman of the JRNC made an oral presentation to the Board based on the results of the assessments at the Board meeting held on 27 February 2017.

The outcome of the evaluation highlighted that a management risk committee should be set up to deal dynamically and proactively with risk matters which are integral to business operations.

At the Board meeting held on 27 February 2017, the Board confirmed that:

- the Board's size and composition is appropriate given the scale of the Group's business and operations, and well balanced, thereby constituting an effective Board able to discharge its duties professionally and efficiently;
- individual Directors of the Company possessed the required competence and character to manage the Group's affairs and created value for the organisation and its shareholders; and
- the Board Committees are effective in discharging their duties and responsibilities in accordance with their Terms of Reference.

2.3 Remuneration policies and procedures

The details of Directors' remuneration for FY2016 are as follows:

Remuneration of Executive Director (Group Managing Director)

For FY2016, the Group Managing Director received the following total remuneration from the Company and did not receive any remuneration from the subsidiaries of the Group:

DIRECTOR / GROUP MANAGING DIRECTOR	REMUNERATION (RM)					TOTAL
	FEES	SALARIES AND BONUSES	DEFINED CONTRIBUTION PLAN	ESTIMATED MONETARY VALUE OF BENEFITS-IN-KIND	OTHER* EMOLUMENTS	
Nan Yusri bin Nan Rahimy	-	1,350,000	202,500	31,150	6,763	1,590,413

* Other emoluments comprised club subscription fees and contribution to Social Security Organisation (SOCSO)

As set out in the contract of employment of the Group Managing Director, Encik Nan Yusri bin Nan Rahimy, the compensation payable to him consists of:

- Monthly salary;
- LTIP;
- Annual discretionary bonus based on the Group's performance and as recommended by the JRNC and approved by the Board;
- Defined contribution plan;
- Medical and insurance coverage and club subscriptions; and
- Car and driver.

The Group Managing Director's remuneration package is structured so as to link to corporate and individual performance, aligned with the corporate objectives, and approved by the Board. He is not entitled to any Director's fee from the Group nor is he entitled to receive any meeting allowances for Board or Board Committee meetings.

Termination of the contract may be exercised by either party by giving three (3) months' notice in writing.

During FY2016, Encik Nan Yusri bin Nan Rahimy was granted 218,200 Deleum Shares under RS Award and up to maximum of 680,600 Deleum Shares under PS Award pursuant to the 2nd Grant of the LTIP as announced on 22 March 2016. The shares granted will be vested only upon fulfilment of vesting conditions including performance targets.

Remuneration of Non-Executive Directors

Non-Executive Directors are entitled to Directors' fees and additional fees for chairing or sitting in Board Committees except for the Chairman and Deputy Chairman who do not receive any additional fees. They are each provided a car, a driver and club subscriptions. Non-Executive Directors are not entitled to participate in the LTIP of Deleum or any incentive plan for employees of the Group.

Directors' Fees:

DESIGNATION	FEE PER MONTH (RM)
Chairman	25,000
Deputy Chairman	25,000
Members of the Board	4,000

Board Committees' Fees:

DESIGNATION	AC (FEE PER MONTH) (RM)	JRNC (FEE PER MONTH) (RM)	RC (FEE PER MONTH) (RM)
Chairman	2,500	1,000	1,000
Members of the Committee	2,000	1,000	1,000

Statement on Corporate Governance

Fixed meeting allowances are also paid to Non-Executive Directors covering expenses incurred in the course of their duties except for the Chairman and Deputy Chairman.

The Board as a whole determines the remuneration of Non-Executive Directors which is subject to the approval of the shareholders at the AGM. There is no change in the Non-Executive Directors' remuneration framework during FY2016 and no increase in fees payable to any Director during the financial year.

For FY2016, the total remuneration paid by the Company to the Non-Executive Directors individually are set out below. They did not receive any remuneration from the subsidiaries of the Group:

DIRECTORS	FEES (RM)	SALARIES AND BONUSES (RM)	DEFINED CONTRIBUTION PLAN (RM)	ESTIMATED MONETARY VALUE OF BENEFITS-IN-KIND (RM)	MEETING ALLOWANCES (RM)	OTHER* EMOLUMENTS (RM)	TOTAL (RM)
Dato' Izham bin Mahmud Chairman of Board	300,000	-	-	35,200	-	4,323	339,523
Datuk Vivekananthan a/I M.V. Nathan Deputy Chairman of Board	300,000	-	-	35,200	-	21,047	356,247
Datuk Ishak bin Imam Abas Chairman of AC	90,000	-	-	-	22,500	-	112,500
Datuk Chin Kwai Yoong Chairman of RC	96,000	-	-	-	24,500	-	120,500
Datuk Ir (Dr) Abdul Rahim bin Hashim Chairman of JRNC	84,000	-	-	-	18,500	-	102,500
Datuk Noor Azian binti Shaari	72,000	-	-	-	15,000	-	87,000
Total	942,000	-	-	70,400	80,500	25,370	1,118,270

* Other emoluments comprised club subscription fees

Directors and Officers of the Group are covered under a Directors and Officers Liability Insurance Scheme against any liability incurred by them in their discharge of duties while in office. However, they are not indemnified if any negligence, fraud, breach of duty or trust is proven against them.

The number of Directors whose total remuneration received during the financial year falls within the required disclosure band is as follows:

Executive Director (Group Managing Director)

REMUNERATION BAND (RM)	NUMBER OF DIRECTORS
RM1,550,001 – RM1,600,000	1

Non-Executive Directors

REMUNERATION BAND (RM)	NUMBER OF DIRECTORS
RM50,001 – RM100,000	1
RM100,001 – RM150,000	3
RM300,001 – RM350,000	1
RM350,001 – RM400,000	1

3. REINFORCE INDEPENDENCE

3.1 Annual Assessment of Independence

The assessment of the independence of each of the Independent Directors is undertaken annually according to set criteria as prescribed by the Main Market Listing Requirements (Listing Requirements) of Bursa Securities. In addition, the individual's ability to exercise independent judgement and to demonstrate the values and principles associated with independence such as impartiality, objectivity, and consideration of all stakeholders' interests is also assessed.

Based on the evaluation, the JRNC and the Board concluded that all the Independent Directors of the Company continue to demonstrate conduct and behaviour that are essential indicators of independence, and that each of them is independent of the Company's management and free from any business or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interest of the Company. The Board was satisfied that the Independent Directors continued to exercise independent and objective judgement and acted in the interest of the Company and its stakeholders. None of the Independent Directors have any interests in the Company other than shares held amounting to less than 1% and no other areas of business conflicts.

3.2 Tenure of Independent Directors

Recommendation 3.2 of the MCGG 2012 states that the tenure of an independent director should not exceed a cumulative term of nine (9) years. However, the Board believes that a Director's independence should not be determined through the length of service as there are significant advantages to be gained from long-serving Directors who over the years have developed deeper understanding of the Group's business and possess tremendous insight and in-depth knowledge of the Group's business and affairs. Nevertheless, the Board does not encourage a Director whose term of appointment has exceeded a cumulative period of 12 years to be retained as Independent Director.

Both Datuk Ishak bin Imam Abas and Datuk Chin Kwai Yoong, who are the Independent Directors of the Company, have served more than nine (9) years but less than 12 years at the forthcoming AGM to be held on 18 May 2017. The JRNC and the Board have assessed, reviewed and determined that Datuk Ishak bin Imam Abas and Datuk Chin Kwai Yoong have remained objective and continued to be independent and unbiased in expressing their views and in participating in deliberations. They continued to bring

independent thought and provided objectivity in decision making of the Board and Board Committees.

During their tenure as Independent Directors, they have contributed substantial time and efforts, exercised due care in all undertakings of the Company, and had acted and carried out their fiduciary duties in the interest of the Company and minority shareholders. The length of their service on the Board do not in any way interfere with their exercise of independent judgement as they are independent-minded and had provided the necessary checks and balances in the best interest of the shareholders. Both of them have met the independent guidelines set out in the Listing Requirements of Bursa Securities.

Datuk Ishak bin Imam Abas, having held various senior positions in PETRONAS since 1981 until his retirement as Senior Vice President in 2006, has vast experience and a depth of knowledge of the oil and gas industry. He was also a member of the Boards of PETRONAS and several of its subsidiaries during that period.

Datuk Chin Kwai Yoong was an Audit Partner of an international accounting firm and has extensive experience in audits of major companies which included oil and gas companies. He is currently Audit Committee Chairman of Astro Malaysia Holdings Berhad and Bank Negara Malaysia.

3.3 Seeking Shareholders' Approval

The Board will seek shareholders' approval at the forthcoming Twelfth AGM to retain Datuk Ishak bin Imam Abas and Datuk Chin Kwai Yoong as Independent Directors of the Company pursuant to Recommendation 3.3 of the MCGG 2012.

3.4 Separation of positions of the Chairman and Group Managing Director

The Board practises a clear demarcation of responsibilities whilst maintaining the balance of power and authority. The positions of the Chairman, Deputy Chairman and Group Managing Director are held by separate persons and the clear separation of powers, roles and responsibilities ensures a balance of power and authority and further enhances the independence of the Board. There is no family relationship between the Chairman, Deputy Chairman and Group Managing Director.

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The Chairman leads the Board and is responsible for the leadership and governance of the Board, ensuring its effectiveness on all aspects of its role. He presides over Board meetings and encourages positive contributions of all Directors at Board meetings and promoting an environment for open, robust and effective debate between all Board members. He is primarily responsible for the orderly conduct and effective working of the Board, and acts as a liaison between the Board and Management. The Chairman is non-executive and he is not involved in the day-to-day management of the Group.

The Deputy Chairman supports the Chairman and also assists in high level business development and customer relations. The Chairman and Deputy Chairman work closely with the Group Managing Director in the development of business, corporate policies and strategies for the Group.

The Group Managing Director leads the Management of the Company and oversees the day-to-day running and management of the business and operations of the Company, advancing long-term shareholder value and implementation of the Board's policies and decisions.

3.5 Board Composition and Balance

The Board, as of the date of this statement, comprises seven (7) Directors with one (1) Executive Director and six (6) Non-Executive Directors, as follows:

NO.	NAME	DESIGNATION
1	Dato' Izham bin Mahmud	Non-Independent Non-Executive Chairman
2	Datuk Vivekananthan a/l M.V. Nathan	Non-Independent Non-Executive Deputy Chairman
3	Nan Yusri bin Nan Rahimy	Group Managing Director
4	Datuk Ishak bin Imam Abas	Independent Non-Executive Director
5	Datuk Chin Kwai Yoong	Independent Non-Executive Director
6	Datuk Ir (Dr) Abdul Rahim bin Hashim	Senior Independent Non-Executive Director
7	Datuk Noor Azian binti Shaari	Independent Non-Executive Director

The Board composition is well balanced and in compliance with the requirements mandated by the Listing Requirements of Bursa Securities which stipulate that at least two (2) Directors or one-third (1/3) of the Board, whichever is higher, must be independent.

The Chairman of the Board is non-executive and non-independent by virtue of him being a substantial shareholder in which case in accordance with the MCGG 2012, Independent Directors should account for more than 50% of the Board members. In this regard, during FY2016 and presently, Independent Directors accounted for more than 50% of the Board members.

The profiles of each Director are presented on pages 10 to 13 of this Annual Report.

4. FOSTER COMMITMENT

4.1 Time Commitment

Board meetings for the ensuing financial year are planned and scheduled in advance by the Company Secretaries before the end of the financial year to enable all Directors to plan ahead.

The Chairman encourages active participation and full deliberation of issues brought up at the Board meetings. Decisions reached at the meetings normally reflect the consensus of the Board and not the views of any individual or group.

The Board Charter of Deleum provides that any Director, subject to the limitations on the number of directorships under the Listing Requirements or applicable laws, may accept new directorships which are not in conflict with the interests of Deleum's business and do not detrimentally affect his performance as a Director. In accepting such appointment, a Director shall take into consideration time spent on the appointment to enable him to devote sufficient time to carry out his duties to the Company. A Director shall seek guidance from the Chairman of the Board if there is any potential conflict of interest and shall upon appointed, notify the Company Secretary who shall inform the Chairman and other members of the Board accordingly.

All Directors are expected to devote sufficient time for the effective discharge of their functions. None of the Directors of Deleum serve in more than five (5) listed companies and the Group Managing Director of the Company does not serve as a director in other listed companies. The present directorships in external organisations held by Deleum's Directors do not give rise to any conflict of interests nor impair their ability to discharge their responsibilities to the Company.

The Board recognises the need to spend time with Senior Management to discuss on the business strategies, plans and performances of the Group. All Board members have committed their time to this effect. In preparing the strategies and budget for the Group for 2017, the Group Managing Director had met with the Directors individually to discuss and obtain their views.

During FY2016, seven (7) meetings of the Board were held to approve quarterly financial results, statutory financial statements, the annual report, dividends, business plans as well as to review the performance of the Company and its operating subsidiaries, governance matters and other business development matters. The Board is satisfied with the level of time commitment given by Directors towards fulfilling their roles and responsibilities as Directors as evidenced by their attendance at the Board, Board Committee meetings and the AGM as follows:

Attendance of Directors to the meetings held during FY2016

NAME OF DIRECTOR	BOARD MEETINGS	AGM	BOARD COMMITTEE MEETINGS		
			AC	JRNC	RC
Dato' Izham bin Mahmud	7/7	1/1	4/4	2/2	-
Datuk Vivekananthan a/l M.V. Nathan	6/7	1/1	4/4	2/2	4/4
Nan Yusri bin Nan Rahimy	7/7	1/1	-	-	4/4
Datuk Ishak bin Imam Abas	7/7	1/1	4/4	2/2	-
Datuk Chin Kwai Yoong	7/7	1/1	4/4	2/2	4/4
Datuk Ir (Dr) Abdul Rahim bin Hashim	7/7	1/1	4/4	2/2	-
Datuk Noor Azian binti Shaari	6/7	1/1	-	2/2	4/4
Total number of meetings	7	1	4	2	4

4.2 Directors' Training and Induction

The Board believes that continuous training for Directors is vital for the Directors to gain insight and be kept updated on changes and developments in the market place, state of economy and corporate regulatory framework.

On a quarterly basis, the Directors are briefed and updated on any relevant amendments to the Listing Requirements of Bursa Securities as well as applicable new statutory and regulatory requirements, corporate governance, accounting standards and taxation.

In addition, the Directors also attended various training programmes, seminars and conferences including those organised by the relevant regulatory authorities to be apprised, updated and to further enhance their knowledge and understanding of the business environment, regulatory requirements and corporate governance. All the Directors have attended the Mandatory Accreditation Programme prescribed by Bursa Securities.

The Company Secretaries keep the Directors informed of relevant external training programmes and the training programmes attended by Directors are recorded and maintained by the Company Secretaries.

Statement on Corporate Governance

For FY2016, Directors' attendance at briefings, seminars, conferences and training programmes are as follows:

DIRECTOR	PROGRAMMES
Dato' Izham bin Mahmud	<ul style="list-style-type: none"> Corporate Governance (CG) Breakfast Series with Directors: "Future of Auditor Reporting – The Game Changer for Boardroom" SIDC & UNGC Programme: "Creating a better world - The Role of Corporate ASEAN in driving the Sustainable Development Goals" Board Chairman Series: "Leadership Excellence From the Chair"
Datuk Vivekananthan a/I M.V. Nathan	<ul style="list-style-type: none"> CG Breakfast Series with Directors: "Improving Board Risk Oversight Effectiveness" Economic Outlook 2016 Offshore Technology Conference Asia 2016
Nan Yusri bin Nan Rahimy	<ul style="list-style-type: none"> All About Redundancy & Retrenchment An Industry in Transition Offshore Technology Conference Asia 2016 Oil & Gas Innovation Forum 2016 Offshore Technology Conference 2016, Houston Malaysian Investor Relations Association (MIRA) Insight: "Predicting The Next Cycle" 7th National Energy Forum Advocacy Sessions on Management Discussion & Analysis for Chief Executive Officers and Chief Financial Officers Malaysia Petroleum Resources Corporation (MPRC) Industry Networking Talk on Oil & Gas Business Opportunities in Kazakhstan
Datuk Ishak bin Imam Abas	<ul style="list-style-type: none"> CG Breakfast Series with Directors: "Anti-Corruption & Integrity – Foundation of Corporate Sustainability"
Datuk Chin Kwai Yoong	<ul style="list-style-type: none"> CG Breakfast Series with Directors: "The Strategy, the Leadership, the Stakeholders and the Board" The Lean Enterprise - Driving Innovation and Agility in the Development of New Products Based on the Principles of: "Accept That You Know Nothing; Test Smart; Measure Smart and Iterate at Speed" Global Entertainment & Media Outlook 2016 – 2020 Strategic Discussions - Telecommunications, Media and Technology
Datuk Ir (Dr) Abdul Rahim bin Hashim	<ul style="list-style-type: none"> Inaugural Lecture: "Engineering Resources for Future Life - The need for radical innovation" Offshore Technology Conference Asia 2016 – as Panel Speaker Professorial Lecture: "Embedding Carbon Nanotubes into Separation Technology - A Chemical Engineer's Perspective" Academy of Sciences Malaysia (ASM) Envisioning Malaysia 2050 Foresight Initiative Workshop Universiti Teknologi PETRONAS Management Forum Human Resource Programme International Engineering Alliance (IEA) Workshop PETRONAS Cultural Beliefs (PCB) Forum World Engineering Science and Technology Congress (ESTCON) 2016 Global Innovation Summit
Datuk Noor Azian binti Shaari	<ul style="list-style-type: none"> Ring the Bell for Gender Equality Women Power Network Risk Management Programme For Audit and Risk Committee: "I am Ready to Manage Risks!" Empowering Women Series: "For Senior Women Leaders" Amendments to Listing Requirements of Bursa Securities, Companies Act 2016, Proposed Code of CG 2016 and Policy Document on CG FIDE Forum: "Strategy to Leverage Technology for Business Solutions" CG Breakfast Series with Directors: "The Cybersecurity Threat and How Board Should Mitigate the Risks"

The Board through the JRNC had assessed the training needs of each Director and is satisfied that the Directors have received the necessary training during FY2016.

5. UPHOLD INTEGRITY IN FINANCIAL REPORTING

5.1 Compliance with applicable financial reporting standards

Financial Reporting

The Board is responsible to present a balanced, clear and comprehensive assessment of the Group's financial position, performance and prospects through the quarterly and annual audited financial statements released to the shareholders. It also ensures that the financial statements of the Group give a true and fair view of the state of affairs of the Group.

The Board is assisted by the AC to oversee the Group's financial reporting process, the quality of its financial reporting and also to ensure that the financial statements are drawn up following appropriate accounting policies and in accordance with the provisions of the Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS) and the Companies Act. The accounting policies, once adopted, are consistently applied and supported by reasonable judgments and estimates.

The Group Managing Director and the Group Chief Financial Officer provided assurance, in writing, to the AC that adequate processes and controls are in place, that appropriate accounting policies had been adopted and applied consistently, and that the relevant financial statements gave a true and fair view of the state of affairs of Deleum.

The Board is satisfied that in preparing the financial statements of the Group for FY2016, the Directors have:

- adopted the appropriate accounting policies and applied them consistently;
- ensured compliance with the MFRS, IFRS, the CA 1965 and any material departures have been disclosed and explained in the financial statements;
- made estimates and judgments which are reasonable and prudent;
- ensured the financial statements have been prepared on a going concern basis; and
- inquired of Management and the Auditors in respect of any fraud or irregularities impacting the Group. No such matter was reported to the Board in 2016.

Audit Committee

The composition of the AC and a summary of its activities during the financial year are set out in the AC Report on pages 59 to 64 of this Annual Report.

5.2 Assessment of suitability and independence of External Auditors

The Company's external auditors continue to report to the Company on their findings which are reported in the Company's financial reports with respect to each year of audit on the statutory financial statements and the review of the quarterly announcements. The AC and the Board have established formal and transparent arrangements to maintain appropriate relationships with the Company's external auditors in respect of all their professional services rendered to the Group.

As prescribed in the AC's Terms of Reference, the AC is responsible for the recommendations of the appointment of external auditors, considering the adequacy of experience, resources, audit fee and any issues regarding resignation or dismissal of the external auditors.

The external auditors also submitted their independence statement to the Board as part of their audit process. In order to further maintain independence of the external auditors, the audit partner-in-charge is rotated every five (5) years with the next rotation in financial year 2017.

Assessment of the external auditors is disclosed in the AC Report of this Annual Report.

6. RECOGNISE AND MANAGE RISKS

6.1 Establishment of sound framework to manage risks

The Enterprise Risk Management (ERM) Policy and ERM Framework ensure a proper and structured enterprise risk management processes for the identification, assessment, response, monitoring and reporting of risks on an enterprise wide basis.

Statement on Corporate Governance

Risk Committee

The RC comprises the following Directors and during FY2016, four (4) meetings of the RC were held and attended by all members:

NO.	NAME	DESIGNATION
1	Datuk Chin Kwai Yoong	Chairman of RC / Independent Non-Executive Director
2	Datuk Vivekananthan a/I M.V. Nathan	Member / Non-Independent Non-Executive Deputy Chairman
3	Nan Yusri bin Nan Rahimy	Member / Group Managing Director
4	Datuk Noor Azian binti Shaari	Member / Independent Non-Executive Director

The RC is primarily responsible for the following:

- (i) reviewing the Group's risk profile and appetite and establishing and monitoring the effectiveness of the risk management framework, systems, plans, and processes for identifying, evaluating, monitoring and reporting of risks;
- (ii) identifying, reviewing and evaluating risks facing the Group and reviewing the adequacy of the Group's processes and procedures to identify and mitigate key organisational risks;
- (iii) ensuring that continuous risk assessment and monitoring of key risk indicators and exposures are performed by Management based on the Group's risk profile and appetite and that adequate risk mitigation processes, action plans and controls formulated and implemented by Management are functioning effectively;
- (iv) making necessary recommendations to the Board on risk management and control, where appropriate; and
- (v) updating the Board on the activities of the RC at the quarterly Board meetings.

The Terms of Reference of the RC was last reviewed on 27 February 2017 and is available on the Company's corporate website.

During FY2016, the following activities were undertaken by the RC:

- (i) reviewed the Group key risks profile comprising Operational, Financial, Regulatory, Legal, Human Capital and Safety and Environmental risks. Action plans established to prevent and mitigate the risks were also reviewed and discussed;
- (ii) reviewed COBC Questionnaire for Employees' online awareness test; and
- (iii) reviewed Control Self-Assessment Checklist for Quality, Health, Safety and Environment Function of the business units.

More comprehensive information is set out in the SRMIC on pages 54 to 58 of this Annual Report.

6.2 Internal Audit Function

Deleum engaged the services of BDO Governance Advisory Sdn. Bhd. as the outsourced Internal Audit Function, which reports directly to the AC and is independent from Management.

A summary of the Internal Audit Function's responsibilities and activities is set out in the AC Report of this Annual Report.

7. ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

7.1 Corporate Disclosure Policies

The Board values the importance of an effective open dialogue with the shareholders and investment community. In this respect, the Group has established processes to ensure disclosures made are clear, accurate, relevant and timely for the shareholders and investment community to make informed investment decisions and enjoy equal access to the information.

Information on the Group's business operations and financial performance is disseminated through various readily accessible channels including the announcements of quarterly and annual results via Bursa Securities, Annual Report, media releases and the Company's corporate website. The various disclosures are guided by the Listing Requirements of Bursa Securities as well as the Group's Corporate Disclosure Policy which outlines the timing and manner of disclosure of material information. The Group maintains high confidentiality measures with regard to undisclosed material information.

7.2 Leverage on information technology for effective dissemination of information

Deleum's corporate website at www.deleum.com provides quick access to the corporate information of the Group and is regularly updated to incorporate the latest development of the Group. The Group's corporate information, financial results, governance information, statutory announcements, stock information, press release and activities are assessable via the Company's corporate website. The website also has an e-mail alerts service where shareholders and anyone who are interested may register to receive the latest announcements on the Group via e-mail. Shareholders' and other stakeholders' queries and concerns affecting the Group can be conveyed to Datuk Ir (Dr) Abdul Rahim bin Hashim, the Senior Independent Non-Executive Director of Deleum who can be reached as follows:

Datuk Ir (Dr) Abdul Rahim bin Hashim

c/o Company Secretary
No. 2, Jalan Bangsar Utama 9
Bangsar Utama
59000 Kuala Lumpur
Tel : +603-2295 7790
Fax : +603-2295 7777
Email : AbdulRahim.Hashim@deleum.com

Shareholders and investors may also direct their queries to the following person:

Ms. Lee Sew Bee

Senior General Manager
– Group Corporate Services/Company Secretary
Tel : +603-2295 7790
Fax : +603-2295 7777
Email : SewBee.Lee@deleum.com

8. STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

8.1 Encourage shareholder participation at general meetings

AGM is an important channel as it is the principal forum for dialogue and interaction amongst shareholders, the Board and Management, and for receiving constructive feedback from shareholders. Shareholders who are unable to attend are allowed to appoint proxies to attend and vote on their behalf.

The Notice of AGM is sent to shareholders at least 21 days ahead of the meeting date together with the Audited Financial Statements and agenda for the meeting. The forthcoming Twelfth AGM of the Company will be convened

on 18 May 2017. At the AGM, the Group Managing Director presents the Group's financial highlights and business activities to the shareholders.

The external auditors are also requested to be present at each AGM to answer questions on the conduct of the audit.

8.2 Poll voting

Pursuant to the Listing Requirements, all resolutions as set out in the Notice of the forthcoming Twelfth AGM will be voted by poll and the results will be published in the Company's corporate website.

8.3 Effective communication and proactive engagements

The Group continued to engage with the analysts and fund managers on investor relations. The Group held analyst briefings quarterly to provide constant updates to the investment community. Additional briefings and small group meetings and tele-conferences were also held as and when required. The presentation of the analysts briefings were posted on website to ensure universal access to the same. These investor relations initiatives provide an avenue for dialogue between institutional investors, fund managers and analysts with the Senior Management. It also serves as an effective platform for the fund managers and analysts to receive a balanced and complete view of the business operations, financial performance, key operating statistics and corporate development and challenges facing the Group.

8.4 Dividends

Deleum continues to commit to its dividend policy of distributing 50% of the Group's annual profit attributable to the equity holders of the Company, subject to the availability of adequate distributable reserves, operating cash flow, financial commitments and expansion plans. For FY2016, the Company declared two (2) dividend payments amounting to 3.5 sen per share which were paid within 30 days from the entitlement date.

COMPLIANCE STATEMENT

The Board recognises and subscribes to the importance of the principles and best practices set out in the MCGG 2012. In this respect, where practical and appropriate, the Board has applied the principles and recommendations under the MCGG 2012 for FY2016.

The Board has deliberated, reviewed and approved this Statement on Corporate Governance on 27 February 2017.

Statement on Risk Management And Internal Control

THE STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL IS MADE IN ACCORDANCE WITH PARAGRAPH 15.26 (B) OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (BURSA SECURITIES) AND IS IN LINE WITH THE MALAYSIAN CODE ON CORPORATE GOVERNANCE (MCCG) 2012.

BOARD RESPONSIBILITIES

The Board of Directors (the Board) of Deleum Berhad affirms its overall responsibility for reviewing the adequacy and effectiveness of Deleum Berhad and its subsidiaries (the Group)'s risk management and internal control systems. The systems in place are designed to ensure key risk areas are managed to an acceptable level to achieve the Group's business objectives. The Group's risk management and internal control systems is an ongoing process designed to meet the Group's particular needs based on the Group's business direction and to manage the risks in line with changes to the business environment, operating conditions and regulatory requirements.

The Board is aware that the risk management and internal control systems can only provide reasonable and not absolute assurance against the risk of material errors, misstatement, fraud or occurrences of unforeseeable circumstances.

RISK MANAGEMENT

The Risk Committee (RC) is chaired by an Independent Non-Executive Director. The RC meets on a quarterly basis to review the effectiveness of the risk management process and reports arising from risk management activities and to discuss new and emerging risks.

The duties and responsibilities of the RC are set out in the Statement of Corporate Governance.

The day to day management of risks is the responsibility of the Group Managing Director (GMD) and the heads of business units are responsible in representing the GMD's obligation to all business units. The Senior Management team assisted by Group Risk continuously supports the GMD in integrating risk management strategies, policies, risk tolerance, risk appetite and reviewing the application of risk management practices across the Group in line with Deleum's Enterprise Risk Management (ERM) Framework.

The RC has noted the key risks faced by the Group comprising of operational risk, market risk, legal risk, safety risk, regulatory risk and human capital risk. This also includes the potential impact and likelihood of the risks occurring, the effectiveness of controls and the action plans being undertaken to manage the risks to the desired levels. These key risks are reviewed by the Board on a quarterly basis.

KEY RISKS FOR 2016

Operational Risk

Operational risk relates to the risk of loss as a consequence of inadequate or ineffective processes, people and systems and events beyond our control. Operational risk is the risk of not generating sufficient income against a challenging operating environment following the slump in crude oil prices since 2014. To manage this and other operational risks, the Group is widening its integration across the business units to offer customers holistic solutions, new technological products and services in collaboration with partners whilst emphasising on strict cost disciplines.

The Management's mandate is to manage operational risks in a cost effective manner to prevent financial loss or damage to the Group's reputation. The risk management processes adopted by the Group are described later in this Statement.

Market Risk

Market risk is the risk of market volatilities affecting exchange rates and interest rates which may affect the values of our financial assets and liabilities.

One of the Group's key market risk is currency volatility. A major portion of the Group's revenue and costs are conducted in foreign currencies, primarily the USD. Traditionally these currency exposures were mitigated by a relative stable RM / USD relationship and that of a natural hedge in that foreign currency receivables and payables were denominated in the same currencies. For these reasons, the Group did not engage in currency hedging. However, following the collapse in crude oil prices, the stated aim of the US Reserve Bank to normalise interest rates and the recent ruling from Bank Negara Malaysia on Foreign Exchange Administration have heightened currency volatilities. Following this, a Foreign Exchange (FOREX) Management Policy for the Group has now been established to address the potential FOREX impact.

Legal Risk

Legal risk is the risk of financial loss or damage to the Group's reputation arising from failure to comply with contractual terms or the Group's interest is not properly protected.

The Group's Legal Department has assessed and identified the key terms and conditions of the existing major contracts for ongoing monitoring and management of the contracts by the respective business units to mitigate the risk of loss arising from failure to comply with key contractual obligations.

Safety Risk

The safety of people and assets is of utmost priority in the oil and gas industry and any adverse incident could result in significant financial loss and damage to the Group's reputation. Hence, the Group has in place comprehensive safety policies and processes to address this risk and its effectiveness could be measured by the fact that the Group had recorded 7.8 million free lost time injury (LTI) man-hours with 1678 days without LTI since 25 August 2012. In recognition of this record, in 2016, the Group was awarded HSE Achievement Awards by PETRONAS Carigali Sdn. Bhd. (PCSB), a major oil and gas operator in Malaysia.

Regulatory Risk

Regulatory risk is the risk of inability to participate in business activities as a consequence of the withdrawal or suspension of licences/permits by the regulators and the issuing authorities.

All oil and gas industry participants in Malaysia are required to be licensed by PETRONAS. Accordingly, the Group's operations are governed by a number of licences issued by PETRONAS. The Group has procedures and processes in place to ensure that its activities are conducted in compliance with the licensing requirements.

Human Capital Risk

Human capital risk is the risk of execution failures caused by not having the right personnel within the Group to execute operations effectively.

Strong execution of the Group's business strategies require employees with the necessary balance of knowledge and skills demanded by customers. But competition for skilled and competent personnel is a key challenge given that these personnel are highly sought not only within the country but regionally and globally. The Group recognises that it must have the ability to attract, motivate and above all retain key talents. To mitigate these risks, the Group has in place a Human Resource Framework and a progressive compensation scheme for the employees. In the quest to retain key talents, the Group has established a Long-Term Incentive Plan in 2014 comprising both performance and restricted shares.

Risk Management Process

The risk management process in Deleum is consistent with The Committee of Sponsoring Organizations of the Treadway Commission (COSO) ERM Framework.

The risk management approach taken in Deleum is a bottom-to-top review process. The development of risk profiles requires assessment at the business unit level before escalating upwards to the executive suite and the RC. These assessments require considerable inputs from all levels of employees and a clear understanding by all employees that managing risks is a collective responsibility of all employees.

Risk Briefings and Awareness Sessions

During the year, risk briefings were held with senior managers on a quarterly basis whilst an awareness session was also conducted during the year with middle management of a business unit to ensure the processes involved are understood.

Risk Assessments

Risk assessments were conducted at the three key business units and at the Group level, where the existing risk profiles were reviewed and updated. In the case of large-scale projects, they are assessed through a formalised Project Risk Management process. The assessment would consider relevant internal and external factors that may expose the Group to potential risks classified under the key risks classifications that the Group had identified.

Statement on Risk Management And Internal Control

CONTROL STRUCTURE

The key features of the Group's control structure are as follows:

- **The Board**

The Board provides direction and oversight and is supported by the Joint Nomination and Remuneration Committee (JRNC), Audit Committee (AC) and RC. Their terms of reference and responsibilities are defined, and together with the Board Charter are available for reference on the Company's corporate website.

The specific lines of responsibility, accountability and delegation of authority as approved by the Board to facilitate the Group's daily operations rest with the GMD and the Senior Management team accordingly.

- **Strategic Business Planning, Budget and Reporting**

A strategic plan and budget, setting out the overall objectives and strategies is prepared and approved by the Board in November before the commencement of the new financial year. Comprehensive budgets are prepared by the business units and corporate resources units, and submitted to Group Finance Department which consolidated these into a Group Budget and thereafter presented to the Board on an annual basis for approval.

The strategic plan covers the key focus areas of the Group for the coming year, operating and financial performance, key business indicators, Quality, Health, Safety and Environment (QHSE), resource utilisation, cash flow performance, project achievement, facilities management and human resource initiatives.

Upon approval of the strategy and budget paper, the Group's performances are tracked and measured against the budget on a monthly basis. The performances are monitored monthly by the GMD and follow up action taken by the heads of business units, where necessary.

The Board reviews the results against budget and historical results on a quarterly basis in conjunction with the public announcement of the Group's quarterly results under the Main Market Listing Requirements (Listing Requirements) of Bursa Securities. Concurrently, Management provides a rolling forecast/outlook of the business and any changes in plans and direction are deliberated and sanctioned by the Board accordingly.

- **Audit Committee**

The AC evaluates the adequacy and integrity of the Group's internal control systems. The AC reviews internal control matters raised by the internal and external auditors and Management. Where appropriate, the AC is briefed on matters pertaining to corporate governance, financial reporting standards, Listing Requirements, legal and regulatory requirements as well as key matters affecting the interim and annual financial statement. Details of the AC's activities and responsibilities are further discussed and are set out in the Audit Committee Report on pages 59 to 64 of this Annual Report.

- **Internal Audit**

The Internal Audit Function is undertaken by BDO Governance Advisory Sdn. Bhd. (BDO), a firm that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors.

BDO's primary role is to review the state of the internal controls maintained by the Group and to provide assurance to the AC on the adequacy and integrity of the internal controls and governance framework of the Group. They provide an independent and objective assessment on the adequacy and effectiveness of the risk management, internal control and governance processes.

Internal Audit reviews are executed based on an approved internal audit plan and the plan is prepared by BDO and discussed with Management and then proposed to the AC for its consideration and approval before being rolled out for the year.

The work scope which is risk based and focuses on the significant business and support units is developed in conjunction with Management and the AC. Any revisions to the plan are discussed with the Management and presented to the AC for approval.

The findings of the Internal Audit reviews together with Management's responses are discussed and agreed with the auditors before being presented to the AC on a quarterly basis.

The cost incurred for the outsourced Internal Audit Function in respect of the financial year ended 31 December 2016 amounted to RM89,724 (2015: RM96,618).

Details of the Internal Audit reviews conducted during the year can be referred to the Audit Committee Report.

During the year under review, one private meeting was held with the AC without the presence of Executive Director and Management or employees of the Group to discuss areas of concern. No material concerns affecting the conduct of its audits were raised by the internal auditors at the meeting.

- **Group Values and Code of Business Conduct (COBC)**

The Group values are communicated through the Group's corporate statement and each employee is required to comprehend and observe the Group's COBC upon commencement of employment. The Group's Shared Values and COBC are available on the Company's corporate website and Group's intranet accessible by all employees.

Furthermore, statements on COBC and/or business policies and principles from business partners and customers are communicated to all employees together with a reminder of the Group's COBC.

The COBC has been communicated to all relevant stakeholders and is published in the intranet and the Company's corporate website. For contractors, subcontractors, vendors and other service providers, the COBC is directly communicated through the updated terms and conditions of purchase of goods and/or services.

To ensure that all employees are aware and familiar with the COBC, Management conducted a questionnaire based awareness test program for the employees to affirm their acceptance of the COBC and to assess their understanding and compliance of the COBC. The test is to be conducted on an annual basis.

- **Authorisation Limits**

Authorisation limits in respect of organisational requirements for decision-making limits such as purchasing of goods and/or services, cash management and disbursements, contracting and banking transactions, human resources and approval of agreements for ordinary course of business are clearly defined and documented for each level of management within the Group. The guidelines also set out matters reserved for the Board's decision. The limits are reviewed and updated regularly to reflect the business environment, operational and structural changes.

- **Policies and Procedures**

Documented internal policies and procedures are in place to ensure compliance with internal controls and the relevant rules and regulations. They are reviewed regularly by Management and periodically through the Internal Audits conducted to ensure that the gaps in policies and controls are addressed and where required, policies and procedures are augmented and revised to meet with the changing business dynamics. The Process Improvement section within the Group reviews the efficiency and effectiveness of the processes and procedures to ensure standardisation within the Group.

- **Quality Management System (QMS) and Environmental Management System (EMS) Audit**

Annual audits by internal and external QMS and EMS auditors are carried out to ensure compliance with requirements of ISO 9001:2008 and ISO 14001:2004 certifications. In September 2016, the Group transited from ISO 9001:2008 to ISO 9001:2015 and ISO 14001:2004 to ISO 14001:2015. The certifications provide assurance to customers of the delivery of quality products and services.

During the year under review, audits for the purposes of ISO certification were performed by approved auditors on Turboservices Sdn. Bhd., Deleum Oilfield Services Sdn. Bhd., Deleum Chemicals Sdn. Bhd., Deleum Rotary Services Sdn. Bhd., the Human Resource Department and Procurement Department. Deleum Primera Sdn. Bhd. was included into the Quality Management System when the transition into ISO 9001:2015 was made. The audits confirmed these companies continued in compliance with the relevant ISO standards.

- **Corporate Secretariat**

The Company Secretarial function is under the stewardship of the Company Secretaries whose roles and responsibilities are discussed in the Statement of Corporate Governance.

Statement on Risk Management And Internal Control

ADEQUACY AND EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Board had reviewed the effectiveness of the Group's risk management and internal control systems for the year under review and up to the date of approval of this Statement for inclusion in the annual report.

The Board is satisfied with the Group's ongoing process for identifying, evaluating, managing and monitoring the risks of the business, including the scope and frequency of reports on both risk management and internal controls.

The Board is of the opinion that there are sound and sufficient controls and appropriate management action plans in place to meet the business objectives and strategies of the Group.

No weaknesses in internal control that have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's annual report were noted. Deleum's internal control systems are not extended to the associate companies in which the Group's interests are safeguarded through board representation.

CONCLUSION

The external and internal auditors, in the course of executing their work based on the pre-approved review plans had highlighted their findings and recommendations for addressing the deficiencies and lapses in controls noted during their work. On the basis of the work conducted, they did not note any significant deficiencies in internal controls.

For the financial year under review, the Board had received representations from the GMD and Group Chief Financial Officer, that the risk management and internal control processes were adequate to safeguard shareholders' investments and the Group's assets.

REVIEW OF THIS STATEMENT

As required by Paragraph 15.23 of the Listing Requirements of Bursa Securities, the external auditors had reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide (RPG) 5 (Revised) issued by the Malaysian Institute of Accountants. RPG 5 (Revised) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

Based on the procedures performed, nothing had come to their attention that caused them to believe that the Statement on Risk Management and Internal Control set out above was not prepared in all material respects in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers nor was factually incorrect.

This statement is made in accordance with the resolution of the Board dated 27 February 2017.

Audit Committee Report

THE BOARD OF DIRECTORS (THE BOARD) OF DELEUM BERHAD (DELEUM OR THE COMPANY) IS PLEASED TO PRESENT THE REPORT OF THE AUDIT COMMITTEE (AC) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (FY2016).

During FY2016, the AC has continued to play a key oversight role on behalf of the Board. The AC provides assistance to the Board in fulfilling the Board's responsibilities to Deleum and its shareholders by reviewing and monitoring integrity of the financial reporting process and accounting records of Deleum and its subsidiaries (the Group). The AC also reviews the Group's management of risk, system of internal control, audit process, compliance and governance. In addition, the AC monitors the independence and effectiveness of the external auditors, and receives reports and presentations from internal auditors relating to their internal control review.

The composition of the AC meets the requirements of paragraph 15.09(1) of the Bursa Malaysia Securities Berhad (Bursa Securities) Main Market Listing Requirements (Listing Requirements) which stipulates that the AC must be composed of not fewer than three (3) members, all must be non-executive directors, with a majority of them being independent directors and at least one member must be a member of the Malaysian Institute of Accountants (MIA) or fulfilled the requirements as prescribed under the Listing Requirements. Datuk Ishak bin Imam Abas and Datuk Chin Kwai Yoong are members of the MIA.

(I) CONSTITUTION

The AC had discharged its function and carried out its duties as set out in the Terms of Reference (TOR) of the AC which is accessible through the Company's corporate website at www.deleum.com under the 'Corporate Profile' section. Where necessary, the TOR will be reviewed accordingly.

(II) MEMBERSHIP

The AC comprises five (5) members of the Board with the majority of three (3) Independent Non-Executive Directors and two (2) Non-Independent Non-Executive Directors, as follows:

NO.	NAME	APPOINTMENT DATE	DESIGNATION
1	Datuk Ishak bin Imam Abas	21 March 2007	Chairman of AC / Independent Non-Executive Director
2	Datuk Chin Kwai Yoong	21 March 2007	Member / Independent Non-Executive Director
3	Dato' Izham bin Mahmud	16 August 2010	Member / Non-Independent Non-Executive Chairman
4	Datuk Vivekananthan a/l M.V. Nathan	16 August 2010	Member / Non-Independent Non-Executive Deputy Chairman
5	Datuk Ir (Dr) Abdul Rahim bin Hashim	15 November 2013	Member / Senior Independent Non-Executive Director

(III) COMMITTEE MEETINGS

During FY2016, the AC held four (4) meetings which were attended by all members as reflected below:

NAME	NO. OF ATTENDANCE AND MEETINGS
Chairman : Datuk Ishak bin Imam Abas	4/4
Members : Datuk Chin Kwai Yoong	4/4
: Dato' Izham bin Mahmud	4/4
: Datuk Vivekananthan a/l M.V. Nathan	4/4
: Datuk Ir (Dr) Abdul Rahim bin Hashim	4/4

By invitation, the Group Managing Director, the Group Chief Financial Officer and other relevant senior management personnel, and representatives from the external and internal auditors attend the AC meetings to brief and provide clarification to the AC on their areas of responsibility.

The external auditors were present during deliberations at all AC meetings on matters relating to external audit and internal audit. Time was also set aside for both the external and internal auditors to have private discussions with the AC in the absence of Executive Director and Management or employees of the Company.

Besides the external and internal auditors, Management presented their reports on the financial results and other matters that required the AC's approval. At the Board meeting, the Chairman of the AC presented the recommendations of the AC and highlighted the relevant findings and issues.

Audit Committee Report

The AC meetings were conducted in accordance with the requisite quorum as stipulated in the TOR of the AC, which requires at least two (2) members to be present and majority of the members present to be Independent Directors. In addition to the AC meetings, certain AC members have pre-AC meetings with Management and discussions with external auditors on the quarterly and annual results prior to the AC meetings to enable early escalation of any significant issues to the AC with a view to a timely resolution. The Company Secretary is the Secretary of the AC who keeps records of the minutes of the AC meetings. Minutes of the AC meetings are circulated to the AC members after the meetings for review and comments before confirmation at the next AC meeting and subsequently tabling to the Board at Board meeting for notation.

(IV) SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE

During the financial year under review, the AC's key focus areas were as follows:

- Quarterly and annual financial results and annual reporting;
- External audit;
- Internal audit; and
- Related party transactions.

1. Financial Results and Annual Reporting

- (a) Reviewed with Management and the external auditors the appropriateness of the unaudited quarterly interim reporting and annual financial statements, before recommending them to the Board for consideration and approval and the release of the Group's results to Bursa Securities, with emphasis being given to:

- the quality and appropriateness of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- key areas in which significant judgements and estimates have been applied and used for the preparation of the financial statements;
- whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- any correspondence from regulators in relation to financial reporting; and
- the significant audit issues the AC considered in relation to the financial reporting.

When considering the quarterly interim reporting and annual financial statements, the AC considered the quarterly financial reporting from the Group Finance function and the report from the external auditors on their quarterly review and annual audit. In this respect, the AC reviewed the significant audit and accounting issues and the Group's critical accounting policies, with particular focus on the following:

Asset Impairment Testing

The judgements in relation to asset impairment largely relate to the assumptions underlying the calculation of the value in use of the business being tested for impairment, primarily the achievability of the long-term business plans and macroeconomic assumptions underlying the valuation process.

This review was centred on two entities that were trading at a loss in the current and previous years giving rise to an impairment indicator that these assets might not be used profitably. Management had reviewed the usage of these assets consisting mainly plant and equipment against the related business plans for the coming year. The review indicated that assets with a carrying value of RM4.4 million were unlikely to be used for the generation of income. Accordingly, an impairment charge of the same amount was recognised in the financial statements of the current year.

The AC has satisfied itself that the assessment and related actions taken by Management have been properly prepared and reviewed by the external auditors.

Deferred tax asset recognition

The level of deferred tax asset recognition in relation to accumulated tax losses are underpinned by a range of judgements. Deferred tax asset is recognised for deductible temporary differences and unutilised tax losses only to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences and tax losses can be utilised. Significant management judgement is required to determine the amount of the deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

A review was carried out on certain companies of the Group that suffered losses in the current and prior years to ascertain whether the deferred tax assets recognised in the books could be utilised to relieve tax charges arising from future profits. The review was conducted by Management against the approved business plans of the companies under consideration and it was concluded that deferred tax assets amounting to RM3.1 million be reversed hence accounting for the higher tax rate in relation to the pre-tax profit of the current year.

The AC considered the Management's policy and assessment on the Group's entities' deferred tax asset recognition, and considered the views of the external auditors and is satisfied that the policy has been applied consistently and appropriately.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. The Group has diversified range of business activities that different recognition method is applied for goods, services and performance milestone.

The AC is satisfied that the Group has applied the policy consistently and appropriately regarding the revenue recognition.

- (b) Reviewed the annual consolidated audited financial statements for the year under review before recommending to the Board for consideration and approval. The review was to ensure that the financial reporting and disclosures were updated and in compliance with:
 - Listing Requirements of Bursa Securities;
 - Provisions of the Companies Act 1965 and other relevant legal and regulatory requirements; and
 - Applicable approved Malaysian Financial Reporting Standards and International Financial Reporting Standards.
- (c) Reviewed the Statement on Corporate Governance, Statement on Risk Management and Internal Control and AC Report to ensure adherence to legal and regulatory reporting requirements prior to the Board's approval for inclusion into the Annual Report.

2. External Audit

- (a) Reviewed the external auditors' scope of work, audit plan and audit strategy for FY2016 to ensure appropriate focus on the key risk areas.
- (b) Reviewed the external auditors' report to the AC in relation to the reviews of the quarterly results and announcements along with resolution of issues highlighted in their report to the AC.
- (c) Reviewed the external auditors' report to the AC for the year under review in relation to the audit and accounting issues arising from the audit and Management's responses.
- (d) Reviewed the internal control findings, system of internal control, discussed the impact on the overall soundness of the internal control procedures and processes which included a review of the post implementation of the Enterprise Resource Planning (ERP) system with recommendation for further improvement.
- (e) Reviewed other matters relating to accounting, auditing, financial reporting practices and processes, legal, regulatory and taxation matters of the Group.
- (f) Reviewed the independence and objectivity of the external auditors.
- (g) Monitored the non-audit related fees paid to the external auditors, Messrs PricewaterhouseCoopers (PwC) so that the services provided did not affect the objectivity and independence of the external auditors. The fees paid to PwC in FY2016 in relation to non-audit services were RM103,450 compared to the fees paid in relation to the statutory audit and other audit related fees of RM457,410.
- (h) Reviewed the performance and effectiveness of the external auditors and recommended to the Board for their re-appointment, remuneration and fees for statutory audit.
- (i) Reviewed with the external auditors the impact of new or proposed changes in accounting standards, regulatory requirements and the extent of compliance.
- (j) Discussed with the external auditors on the impact of the requirements under the new and revised International Standards on Auditing released by the International Auditing and Assurance Standards Board which was effective for audit reports for financial statements with a financial year/period ended on or after 15 December 2016, including key audit matters and other information.

Audit Committee Report

- (k) Held two (2) private meetings with the external auditors without the presence of the Executive Director and Management or employees of the Company. The meetings focused on an assessment by the external auditors on management attitudes and responses to adherence to the Group's core values of ethics and integrity, adequacy and competencies of the Group's accounting staff, in addition to discussions on key audit matters. The AC is satisfied that where appropriate actions were taken to address the issues and concerns raised by the external auditors arising from these meetings.
- (l) Carried out evaluation of the external auditors and internal auditors, the details of which are in Section (VI) of this Report.

3. Internal Audit

- (a) Reviewed and approved the Internal Audit Plan prepared by the internal auditors, BDO Governance Advisory Sdn. Bhd. (BDO) to ensure the adequacy of its scope and coverage of the Group's activities.
- (b) Reviewed and assessed the resources, performance and competency of the internal auditors.
- (c) Reviewed the Internal Audit reports, audit recommendations made and Management's responses to these recommendations, including actions taken to improve the system of internal control and procedures, amongst others, covering the following areas:
 - review of the inventory management systems of Deleum Oilfield Services Sdn. Bhd. (DOSSB) on East Malaysia operations to ensure compliance with DOSSB's policies on inventory management as well as adequacy of insurance policies, security measures and safeguarding of the assets;
 - follow-up review on contract compliance review on DOSSB's Pan Malaysia Slickline Contracts where all audit findings had been resolved;
 - internal control review on Group Quality, Health, Safety and Environment (QHSE) to ensure compliance with Group QHSE policies and procedures as well as HSE legal and other requirements such as Occupational Safety & Health Administration;
 - review of Deleum Primera Sdn. Bhd.'s business operations and compliance with key contract requirements as part of the organisation's ongoing process to evaluate the adequacy and effectiveness of internal controls within the Group; and
 - post implementation review of the ERP system at DOSSB and Turboservices Sdn. Bhd. to assess the extent to which the intended improvements to the Group's control environment have been achieved through the implementation of the system.

- (d) Ensured that appropriate and prompt remedial actions and improved procedures were implemented by Management arising from the findings raised in the internal audit reviews and in respect of outstanding issues identified from the follow-up audits.
- (e) Reviewed the Statement on Risk Management and Internal Control to ensure that it is consistent with their understanding of the state of internal controls of the Group.
- (f) Held one (1) private meeting with the internal auditors without the presence of the Executive Director and Management or employees of the Company to discuss any areas of concern.

4. Related Party Transactions

- (a) Apprised of the recurrent related party transactions to ensure that the amounts transacted were within the approved shareholders' mandate obtained. During FY2016, announcement was made to Bursa Securities pursuant to the Listing Requirements where the actual value of the recurrent related party transactions of Penaga Dresser Sdn. Bhd., a 51% owned subsidiary of the Group with related parties had exceeded 10% of the estimated value under the approved shareholders' mandate.
- (b) Reviewed the related party transactions of the Group to ensure that they are based on the Group's normal commercial terms and are not to the detriment of the Group's minority shareholders.
- (c) Reviewed the adequacy of procedures and processes in identifying, monitoring, reviewing and reporting of related party transactions.
- (d) Reviewed the circular to shareholders in respect of the annual shareholders' mandate for recurrent related party transactions prior to recommendation to the Board for consideration and approval.

5. Whistleblowing

The Group has put in place a Whistleblowing Policy to provide an avenue for employees and any other parties who deal or provide services to the Group to report, in genuine concerns, any wrongdoing in accordance with the procedures in the policy. The AC shall be updated as and when there are cases reported or any concerns raised. There was no reported case of wrongdoing in 2016.

Further details of the Whistleblowing Policy is set out in the Statement on Corporate Governance of this Annual Report.

6. Training

Members of the AC are encouraged to stay abreast of developments in accounting, finance and relevant regulatory matters in order to discharge their duties effectively. During FY2016, the AC members attended seminars and training sessions offered by regulators and other appropriate bodies or organisations. They were also briefed by Management, external and internal auditors on corporate governance practices, changes to accounting, taxation, auditing and reporting requirements as well as the Listing Requirements.

(V) INTERNAL AUDIT FUNCTION

The AC is supported by BDO, a well-established firm that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors, as the Internal Audit Function (IAF) of the Group.

The IAF's primary role is to assist the AC in reviewing the state of the systems of internal control maintained by Management and provide assurance to the AC on the adequacy and integrity of the internal control and governance framework of the Group. The IAF reviews and assesses whether the systems of internal control procedures are effective, and provides recommendations to strengthen internal control procedures and processes.

The IAF, based on its findings, noted that there was no material absence or lapses in internal controls that could result in the Group being exposed to major downside risks, material losses, contingencies or uncertainties that would require disclosure in the Group's annual report. Deleum's internal control system is not extended to the associate companies, in which the Group's interests are safeguarded through board representation.

The IAF functions independently of the activities it audits and reports directly to the AC. The AC reviews and approves the internal auditors' annual audit plan. The IAF also works closely with the external auditors to avoid any activity overlap and to share their findings.

During the financial year, the internal auditors attended all four (4) AC meetings and the cost incurred for the outsourced IAF in respect of FY2016 amounted to RM89,724. The activities carried out by the IAF were as follows:

- (a) Conducted Internal Audit engagements consistent with the annual audit plan presented and approved by the AC. The plan adopts a risk-based methodology by focusing on key risk areas. The work performed included financial and operational reviews across the three (3) main business segments with emphasis on contract compliance and project management, and the ERP implementation. Their findings, together with related recommendations and Management's responses thereto, were reported to the AC on a quarterly basis.

- (b) Reviewed the adequacy and integrity of the system of controls to ensure there is a systematic methodology in identifying, assessing and managing risk areas with regard to:

- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations;
- safeguarding of assets and resources; and
- compliance with laws, regulations and contractual obligations within the Company's governance, operations and information systems.

- (c) Conducted follow-up reviews on actions taken by Management in implementing their recommendations within the agreed timelines.

The Company continues to outsource its IAF to BDO as opposed to establishing an in-house IAF after considering a few factors, such as the size of the Group as well as in-house resources and difficulty in attracting and retaining qualified and competent internal audit staff. Since its engagement in 2007, BDO has built up a good understanding of the Group's business and the peculiarities of the industry in which the Group operates, and is capable of focusing its time on the higher risk auditable areas.

The AC is satisfied with the services provided by BDO, which have added value and are cost effective. The AC intends to continue with the engagement of BDO as IAF of the Group due to the knowledge of and familiarity with the operations of the Group and industry that BDO has accumulated through its tenure of experience with Deleum.

(VI) EVALUATION

1. External Auditors

The AC reviewed and evaluated the suitability, performance and independence of external auditors with feedback obtained from the AC members, Management and senior Finance personnel engaged with the audit. Self-assessment by the external auditors, PwC was also carried out for this purpose. Summary of the results of the completed questionnaires were tabled to the AC for review and deliberation at AC meeting. The evaluation of the external auditors covered the areas of:

- governance and independence;
- communication and interaction with the AC with focus on their audit planning/audit strategy, audit findings/audit finalisation and completion;
- quality of services and sufficiency of resources in respect of the firm, processes, technical knowledge and audit team; and
- audit fee.

Audit Committee Report

In the evaluation, the AC also takes into account the relevant professional and regulatory requirements, the effectiveness of the audit process and the relationship with the external auditors as a whole, including the provision of any non-audit services.

As part of the annual audit exercise, the Company also obtained written assurance from PwC confirming that they are and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements. PwC was appointed as the external auditors of Deleum since its inception in 2005. PwC has complied with the requirement of the MIA and the firm's Guidelines in rotating audit partners every five (5) years with FY2016 being the last year of the current engaging partner. The Group also restricted the employment of former employees of the external auditors to ensure independence of the external auditors and for avoidance of any conflict of interest. During FY2016, there was no employment of former employees of the external auditors reported to the AC.

The non-audited services conducted during FY2016 comprised mainly of tax services including workshops for Goods and Services Tax. As a policy, before appointing the external auditors to undertake any non-audit services, considerations would be given as to whether this would create a threat to the external auditors' independence or objectivity. The Management is obliged to obtain confirmation from the external auditors on their independence. All engagements of the external auditors to provide non-audit services are subject to the approval of the AC.

During FY2016, the amount of audit fees and non-audit fees paid/payable to PwC or a firm or corporation affiliated to PwC by the Company and the Group respectively were as follows:

	COMPANY (RM)	GROUP (RM)
Statutory audit fee	231,340	457,410
Non-audit fee	16,102	103,450

The provision of non-audit services by PwC during FY2016 did not compromise its independence and objectivity as the non-audit services was conducted by different teams from the statutory audit team of PwC. The AC concluded that it continued to be satisfied with the performance of PwC and that throughout the year the objectivity and independence of PwC in relation to the audit was not in any way impaired by either the nature of the non-audit related services, the level of non-audit fees charged, or any other facts or circumstances.

The Board on the recommendation of the AC, is satisfied that PwC remains effective, objective and independent in carrying out its role as external auditors of the Company. The Board has at the Board meeting held on 27 February 2017 approved the AC's recommendation for the re-appointment of PwC for the ensuing year to be tabled at the forthcoming Twelfth Annual General Meeting for shareholders' approval.

2. Internal Auditors

The AC had reviewed and evaluated the suitability, adequacy of scope, competency, quality of services and sufficiency of resources of the IAF in respect of FY2016 with feedback obtained from the AC members, Management and external auditors as well as self-assessment by the internal auditors prior to the meeting. Summary of results of the assessment was tabled to the AC for deliberation at the meeting.

The AC was satisfied with the performance and suitability of the IAF and approved the renewal of the outsourced IAF for the ensuing year.

3. Audit Committee

The Board through the Joint Remuneration and Nomination Committee (JRNC) had conducted annual evaluation and assessment on the performance of the AC and its members in respect of FY2016. The AC members had also carried out a self-assessment on an annual basis to monitor their overall effectiveness in meeting their responsibilities.

The evaluation focused on the structure and process including the composition and level of accountability and responsibility demonstrated. The JRNC was satisfied that the AC had carried out its duties and responsibilities effectively as per its TOR and had demonstrated a high level of diligence, independence and commitment in discharging its responsibilities. The results of the evaluation were reported to the Board accordingly.

The AC members have considerable accounting, financial and business experience and the Board is satisfied with the composition of the AC and considers that the membership as a whole has sufficient relevant expertise and resource to discharge effectively its responsibilities.