

# **UNITED ENERGY GROUP LIMITED**

## **聯合能源集團有限公司\***

*(Incorporated in Cayman Islands and continued in Bermuda with limited liability)*

**(Stock Code: 467)**

**2017**

### **Environmental, Social and Governance Report**

**Date: 1 June 2018, Hong Kong**

*\* For identification purposes only*

## **1. ABOUT THIS REPORT**

Being a responsible corporate citizen, United Energy Group Limited (“United Energy” or the “Company”, and together with its subsidiaries, the “Group”) is not only responsible to our investors, but to a wider spectrum of stakeholders including our customers, suppliers, creditors, debtors, employees and the social community that is affected by our operation. In fact, investors nowadays are increasingly demanding responsible investment that takes into account social and environmental issues as well as the inseparable goal of return on investment. In addition, there are overwhelming evidence suggesting that the globe we are living in is encountering an unprecedented climate change, such as rising carbon dioxide levels in the air, increasing global temperature, loss of mass of the earth’s polar ice sheets and the rising of sea level. This report is to strengthen our communication with our stakeholders on our management approach and performance on material environmental, social and governance issues for the period of 1 January 2017 to 31 December 2017 (the “reporting period”).

## **2. REPORTING STANDARD**

This environmental, social and governance report of United Energy (“ESG report”) is prepared in accordance with the Environmental, Social and Governance Reporting Guide (“Reporting Guide”) issued by the Stock Exchange of Hong Kong. This ESG report is to be read in conjunction with the Company’s 2017 Annual Report that was published on the Stock Exchange of Hong Kong on 15 March 2018, in particular the Corporate Governance Report contained therein.

## **3. CONTACT INFORMATION FOR FEEDBACK**

Any feedback on this ESG report is most welcome for us to make improvement. Please feel free to send your comments or suggestions related to this ESG report by contacting us at the address below:

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Suite 2505, 25<sup>th</sup> Floor, Two Pacific Place, 88 Queensway, Hong Kong  
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## **4. CORPORATE PROFILE**

The Group is principally engaged in upstream oil and natural gas business, including development of strategic energy reserves, focusing on the investment and operation of oil, natural gas and other energy related business. This is accomplished by the merger and

acquisition of oil and natural gas assets; the exploration and production of crude oil and natural gas. The Group acquired the Pakistan Assets from British Petroleum in 2011. The Group has been a leading investor in the upstream oil and gas sector in Pakistan since 2012. After 6 years' operation, Pakistan Assets become the major operation of the Group.

## 5. OUR ENVIRONMENT

At United Energy, we work to protect the natural environment as one of our core principles. To reduce the impact of our operation in Pakistan, we systematically manage the business environment impact through an environmental management system ISO-14001 and integrate environmental requirements into the operation system. Below is a summary of the emission data for the reporting period.

### Emission

	Greenhouse Gas Emission - Gross (tonne)	Hazardous Waste Produced - Net (tonne)	Non-hazardous Waste Produced - Net (tonne)
Pakistan (Year 2017)	541,732	2,148	867
Pakistan (Year 2016)	658,191	750	907

*Note: Emissions are on yearly basis unless otherwise specified*

	Greenhouse Gas Emission - Gross (tonne/mboe)	Hazardous Waste Produced - Net (tonne/mboe)	Non-hazardous Waste Produced - Net (tonne/mboe)
Pakistan (Year 2017)	18	0.094	0.038
Pakistan (Year 2016)	22	0.032	0.039

*Note: Emissions are on yearly basis unless otherwise specified*

We strive to comply with all internal and external (i.e. government or regulatory body) policies regarding emission and discharges resulting due to our operations. The Group complies with regulatory policies enacted by Sindh Environmental Protection Agency by Government of Sindh through quarterly monitoring of emission through third party agency. Furthermore, hazardous and non-hazardous wastes are handled through approved contractors with valid licenses and competent workforce conforming to Sindh Environmental Protection Act, 2014 and regulations made thereunder.

The decrease of greenhouse gas emission in Year 2017 is mainly due to choke back of high CO<sub>2</sub> / H<sub>2</sub>S wells in our concessions as well as choke back to maintain gas specifications. The reason for the drastic increase in Hazardous Waste was on account of disposal of sludge from concession areas as part of a pits & ponds decommissioning project which was carried out in late 2016, and the project was completed in 2017.

### Use of Resources

	Electricity - Gross (kW)	Gas - Gross (mscfd)	Diesel - Gross (m <sup>3</sup> )	Water Consumed - Gross (m <sup>3</sup> )
Pakistan (Year 2017)	28,723	21,000	9,174	328,860
Pakistan (Year 2016)	20,670	25,000	8,529	352,627

*Note: Resources consumed are on yearly basis unless otherwise specified*

	Electricity - Gross (kW/mboe)	Gas - Gross (mscfd/mboe)	Diesel - Gross (m <sup>3</sup> /mboe)	Water Consumed - Gross (m <sup>3</sup> /mboe)
Pakistan (Year 2017)	1	0.72	0.31	11.2
Pakistan (Year 2016)	0.7	0.83	0.28	11.7

*Note: Resources consumed are on yearly basis unless otherwise specified*

The Group's business nature includes drilling, seismic acquisition, operation of plants, laying of flow lines etc. This results in the consumption of energy and water. It is inevitable that our activities will to a certain extent have a negative impact on the operation area. To minimize the impact, regular monitoring and testing activities are conducted to ensure harmful emissions and discharges are not released in the environment prior to treatment. To reduce the reliance on fresh water, treated domestic waste water is used as utility water for residential camps. The Group endeavors to utilize the natural resources judiciously. We do consider equipment's energy efficiency rating and energy consumption data at the time of evaluation and ordering to ensure the equipment is cost-effective from operational point of view. In case of drilling rigs, we ensure all contractors have equipment that are compliant with the regulatory requirements for emissions and efficient use of energy.

The increase of use of resources (electricity) in Year 2017 is mainly due to commissioning of a gas processing facility and upgradation of our LPG plant. The decrease in consumption of gas is mainly due to closure of two camps in one of our concessions.

The Group is involved in the production of crude oil, condensate, natural gas and LPG and none of these products are packaged. Natural gas is sold to the customer via gas flowlines / pipelines. Crude oil / condensate is transported via bowsers to the refineries / export terminal. LPG is sold to the LPG marketing companies via bowsers.

### **The Environment and Natural Resources**

Oil and gas exploration and production activities may result in land subsidence and damage to the environment of the concession areas. Pursuant to the relevant regulations and laws, the Group is required to restore the concession areas back to acceptable conditions. We firmly believe our activities must not negatively affect the environment in its areas of operations. To minimize the impact, regular monitoring and testing activities are conducted to ensure harmful emissions and discharges are not released in the environment prior to treatment. The Group provided accumulated provisions of decommissioning costs of HK\$326,043,000 (2016: HK\$290,848,000) as at 31 December 2017 and incurred relevant actual costs of HK\$6,774,000 (2016: HK\$28,425,000) during 2017. The increase in provisions in 2017 was mainly due to the commissioning of a gas processing facility, addition of new wells and an upgrade of our LPG plant. The actual costs incurred during 2017 were significantly lower primarily on account of pits and ponds decommissioning project in our concessions that was carried out in 2016 was unusually bigger for HSE reasons requested by Environmental Protection Agency (EPA). The amounts provided in relation to the decommissioning costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

## **6. OUR EMPLOYEES**

As at 31 December 2017, the Group employs a total of 930 full time employees (2016: 920) in Hong Kong, the People's Republic of China (the "PRC") and Pakistan. Employees are the core assets of the Group and we offer competitive remuneration package to retain the best people. Remuneration of our employees is commensurate with their capabilities, duration of service and prevailing market competition. It is reviewed annually with reference to employee's performance and prevailing market practices. Below is a summary of the Group's workforce as of 31 December 2017.

**Employees by Education Category:**

	Year 2017	Year 2016
Masters and Above	220	238
Bachelor	398	366
Junior College	102	155
Technical Secondary School & High School	177	130
Junior High School & Below	33	31
<b>Total</b>	<b>930</b>	<b>920</b>

**Employees by Age Group:**

	Year 2017	Year 2016
<b>20 to 24 years</b>	39	22
<b>25 to 34 years</b>	345	329
<b>35 to 44 years</b>	255	253
<b>45 to 54 years</b>	206	215
<b>55 years and above</b>	85	101
<b>Total</b>	<b>930</b>	<b>920</b>

**Employees by Geographical Region:**

	Year 2017	Year 2016
<b>PRC</b>	146	164
<b>Pakistan</b>	776	750
<b>Hong Kong</b>	8	6
<b>Total</b>	<b>930</b>	<b>920</b>

**Employees by Gender:**

	Year 2017	Year 2016
<b>Female</b>	88	82
<b>Male</b>	842	838
<b>Total</b>	<b>930</b>	<b>920</b>

### **Compliance with Labor Standards**

We offer equal opportunity employment to all qualified employees and do not discriminate against any individual on grounds of race, gender, age, marital status etc. This is to ensure that every employee has the same chance to realize their potential and it is also our responsibility to provide a workplace that is free from harassment, violence and discrimination of any kind.

During 2017, the Group complied with all relevant laws and regulations regarding employment of workforce. The Group complies with the Labor Law, the Labor Contract Law, the Social Insurance Law and relevant regulations of the PRC in respect of the work schedule of employees, the staff diversity, the labor relations and the administration for social insurance. For Hong Kong operation, the Group also complies with the Employment Ordinance and the Mandatory Provident Fund Schemes Ordinance to provide relevant remuneration, benefits, insurance and working environment to our employees. Besides, the Group complies with the Immigration Ordinance during employment of new employees. The Pakistan operation also complied with all relevant labor laws including the Mines Act, the Sindh Terms of Employment (Standing Orders) Act 2015 and the Sindh Shops and Commercial Establishment Act 2015. In addition, the Company has a full suite of policies related to all aspects of Human Resources Management. These policies are readily available on our intranet site for employees to download.

The Group also maintains clear policy of no child and / or forced labor which is clearly outlined in our Code of Conduct. All employees are expected to be aware of and abide by these commitments and to report any abuses in operations within or linked to the business.

### **Occupational Health and Safety**

Upstream oil and gas operation requires specialized technical skills and it could have widespread impact on health and safety if employees are not equipped with the required skills and knowledge. The Group has inherited an international health, safety and environmental management system. It is committed to conduct its business activities in a safe and efficient manner, and care for everyone involved or impacted by its activities. Our occupational health and safety management system is certified with OHSAS-18001. We complied with the provisions of the Petroleum Act (1934), Petroleum Rules (1937), OGRA Ordinance (2002), the Mineral and Industrial Gases Safety Rules (2010), the Oil and Gas (Safety in Drilling and Production) Regulations (1974), Mines Act (1923), Consolidated Mines Rules (1962) and LPG Rules (2001).

## Development and Training



*UEP conducted its 6th session for team leaders and managers on the UEP Code of Conduct*



*A leadership team member discussed his personal leadership point of view during the Leadership Team offsite workshop*



*Engineers and technicians took part in the Reliability Centered Maintenance session*



*The coaching of high performance training for team leaders and managers in UEG Beijing*

The Group has clearly defined process that assesses employees' training needs. This is done through assessments using our competency management system with the consultation of management to ensure budgets are allocated effectively in line with the needs of the business. Training is provided to bridge the gaps in technical and soft skill competences ensuring well rounded professional and personal development of all employees. The table below outlines a summary of the trainings we have provided to our employees during the reporting period.

Training Area	Year 2017	Year 2016
	Hours	Hours
Management skills	987	696
Legal	108	68
Technical	4,395	3,048
Language	620	597
Personal Effectiveness	667	84
Competence	963	48
<b>Total</b>	<b>7,740</b>	<b>4,541</b>



*Note: The increase of training hours in 2017 is due to specific training sessions in technical and management skills as well as competency-based online courses. This is in line with the needs of the business to bridge the gaps and enhance competency levels across the organization.*

## **7. OUR COMMUNITY**

The Group is committed to enhance the lives of the local communities it operates. We select projects on the basis of its three focal areas for development, which includes education, health and capacity building for better income generation.

Over the past years, we have established over a dozen primary schools in partnership with The Citizens Foundation (TCF) (website: <http://www.tcf.org.pk>), the renowned NGO, which provides quality primary education to over 2,000 less privileged children of the community. In the Health sector, support has been provided to dialysis centers, cardiac units and eye-care centers by providing them with medical equipment. Vocational trainings have been provided to local youth enabling them to earn sustainably and support their families. Besides the three focal areas, the Group also engages in projects which cater to the essential needs of the community living in remote areas. These projects include providing water through solar power and distributing food rations / shelter during natural calamities such as floods.

In 2017 in partnership with TCF, one Secondary Level and four Primary Level Schools are established in our concession areas which are located at remote villages of Sindh Province thus making a total of 10 Schools on sustainable model with TCF. We also supported the Government Girls Degree College at Tando Adam, District Sanghar and witnessed the inauguration of landmark project 'UEP Block' consisting of an Auditorium, additional class rooms with required facilities and furniture / fixtures. Dilapidated government schools received financing for much needed repairs.

In the Health Sector we provided Dialysis Machines, Dental Units, ECG / Ultrasound Machines, X-Ray Units, Ambulances and other equipment to different Government Hospitals in MKK & Badin Block. Anti Snake Venom (ASV) and Anti Rabies Venom (ARV) were also provided free of cost to local community in Badin Block throughout the year. Through these interventions, we strive to enhance the living standards of the local communities.

## **8. OUR OPERATION**

### **Product Responsibility**

Products of the Group are oil, natural gas and liquefied petroleum gas. We are firmly committed to ensuring production storage and delivery as per all relevant local and international safety standards. Our Code of Conduct emphasizes the importance of safety of all stakeholders which is a value to which we strictly adhere. All products storage tanks at our facilities are designed as per applicable American Petroleum Institute (“API”) codes and undergo engineering design, hazard and operability review. In addition, the Group implements a comprehensive set of standards and operating procedures to ensure operational safety in all its facilities. We regularly monitor the specifications of oil and gas to ensure that the product meets all the requirements of sales agreements with various parties. Through monitoring and flexible operations, any deviations in product specification are identified and rectified on an immediate basis.

Robust emergency response procedures and incident management procedures are in place and regular drills are conducted to ensure safety of all stakeholders in the event of any safety incident.

### **Supply Chain Management**

Procurement and supply chain management (“PSCM”) is at the foundation of the Group’s best business practices and performance. Our PSCM model is split into specialized sector-wise procurement teams along with dedicated support from Logistics, Materials Management and Performance Management teams. At the end of the procurement process cycle, our inventory management teams are responsible for ensuring conformity and quality of products procured by following applicable best industry guidelines and procedures. They are also responsible for ensuring availability of materials and spares to support the Company’s maintenance programs. A rigorous procurement evaluation system, called Contractor Performance Management (“CPM”) is established to assess the performance of our contractors in the key business areas of health, safety & environment, deliverability, quality and capability. Potential areas of improvement are identified through this system and action plans are developed to improve the contractor’s performance. CPM model also enables us to provide our contractors with fair, transparent and competitive opportunities of doing business with us.

### **Anti-corruption**

The Group has clear-cut policies to prevent employees from corruption, theft, fraud and embezzlement. Our Employee Handbook clearly states that employees should not offer, solicit or accept anything of material value to or from a fellow employee, customer, supplier or other business associate in relation to the Group's affairs without the knowledge and consent of the Company. The contravention of these policies will be subject to disciplinary action and may lead to termination of employment.

In addition, our Pakistan operation also annexes the UEP Code of Conduct to all contracts that it executes and contractors are required to comply with its terms. UEP Code of Conduct specifically prohibits payment of any bribe or facilitation payments to any government official or to and by any employee of UEP. The compliance with anti-corruption and anti-money laundering laws of Pakistan is also mandated in addition to the legislation implementing the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and the United Nations Convention Against Corruption. The contractors, sub-contractors, agents or consultants are required to comply with the anti-extortion and anti-money laundering laws and to apply effective disclosure controls and procedures to provide reasonable assurance that non-compliance is prevented, detected and deterred. Breach of the UEP Code of Conduct by a contractor or its employees is considered a material breach of contractor's obligations and may lead to termination of the contract.

## **9. CONCLUSION**

The board of directors (the "Board") of the Company is responsible for evaluating and determining the Group's environmental, social and governance risks, the formulation of the corresponding strategies, and ensuring that appropriate effective environmental, social and governance risk management and internal control systems are established and maintained. Through regular analysis and independent assessments by the internal audit function, the Board also determines whether the aforesaid systems are sufficient and effective.

The Group understands the importance of ESG report and is committed to make continuous improvements in incorporating social responsibilities into business in order to better meet the changing needs of an advancing society.