

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)

2018

Environmental, Social and Governance Report

Date: 22 July 2019, 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” or “UEG”) is not only responsible to our investors, but also 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 2018 to 31 December 2018 (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 2018 Annual Report that was published on the Stock Exchange of Hong Kong on 25 April 2019 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 improvements. Please feel free to send your comments or suggestions related to this ESG report by contacting us at the address below:

Investor Relations Department
United Energy Group Limited
Suite 2505, 25th Floor, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong
Email: ir@uegl.com.hk

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. The Group has grown from a company based in China to one which is now a significant international independent energy company. As an

international business the footprint of the Group spans across many borders and nations, i.e. Pakistan, Iraq and Egypt etc. It is essential therefore for UEG to create impeccable operating standards and conscientiously self-regulate its business in order to build a strong and credible reputation as a global corporation and investor.

Overview of United Energy Pakistan (“UEP”)

UEP is an indirectly wholly-owned subsidiary of United Energy. In 2011, UEG acquired the BP Pakistan assets and since then on the back of an unprecedented investment and activity, has demonstrated robust year-on-year growth in production and reserve. Today, UEP is the largest foreign oil and gas exploration and production (“E&P”) company in Pakistan.

After acquiring BP Pakistan’s E&P business in 2011 at a consideration of US\$775 million, to date UEP has invested a total of US\$3.7 billion in Pakistan making it the largest foreign investor in Pakistan’s E&P sector. This investment includes aggressive drilling of exploration and developments wells, acquiring and processing over 7,500 square kilometer of 3D seismic data, and significant addition in gas processing plants and facilities along with pipeline infrastructure.

As a result of this significant investment and rapid activity, over the last 8 years UEP has grown gross production from approximately 25,000 barrels of oil equivalent (“boe”) per day (“boed”) in 2011 to approximately 90,000 boed in 2015 and has maintained the levels since. UEP holds 1P reserves of approximately 146 mboe, which corresponds to an average annual Reserve Replacement Ratio of >100% throughout UEG's operating history in Pakistan (from 2011 - 2018). Something that unmatched in Pakistan’s E&P sector. This growth in production has resulted in UEP adding approximately 400 million cubic feet per day (“mmscfd”) of new gas in to the system, which accounts for approximately 10% of total Pakistan’s indigenous gas production, significantly contributing to Pakistan’s energy needs and economic development.

In addition to the E&P business, UEG has also invested over US\$48 million in wind power sector in Pakistan. UEP Wind Power is a 99 MegaWatt power project located in Jhampir, Sindh and is among the top 14 priority projects in China Pakistan Economic Corridor (“CPEC”). The project was commissioned in time is currently supplying renewable electricity to the national grid.

In addition to the business activities, UEP consciously seeks to add value to the lives of people within its concession areas as well as the country in general. Over the years UEP has spent well

above its contractual requirement in social investments focused on education, health and capacity building.

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 2018)	664,281	240	856
Pakistan (Year 2017)	541,732	2,148	867

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 2018)	16.8	0.006	0.022
Pakistan (Year 2017)	18	0.094	0.038

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 reason for the drastic decrease in Hazardous Waste Produced in Year 2018 was on account of disposal of sludge from Badin and MKK concession areas as part of a pits & ponds decommissioning project which was carried out in late 2016,

and the project was completed in late 2017.

The increase of greenhouse gas emission in Year 2018 is mainly due to acquisition of UEP A&B and inclusion of its data, however, the tonne/thousand boe (“mboe”) of Greenhouse Gas (“GHG”) has decreased considering a larger proportionate increase in production compared to GHG emissions.

Use of Resources

	Electricity - Gross (kW)	Gas - Gross (mscfd)	Diesel - Gross (m ³)	Water Consumed - Gross (m ³)
Pakistan (Year 2018)	57,098	29,000	11,057	700,005
Pakistan (Year 2017)	28,723	21,000	9,174	328,860

Note: Resources consumed are on yearly basis unless otherwise specified

	Electricity - Gross (kW/mboe)	Gas - Gross (mscfd/mboe)	Diesel - Gross (m ³ /mboe)	Water Consumed - Gross (m ³ /mboe)
Pakistan (Year 2018)	1.45	0.73	0.28	16.7
Pakistan (Year 2017)	1	0.72	0.31	11.2

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.

UEP's electricity consumption increased mainly due to LPG plant upgrade (Naimat Complex, MKK) and Gulsher ETF etc. UEP A&B has high consumption due to turbine operations at Sawan CPF and Kadanwari CPF. Due to some drilling incidents during 2018, water consumption was increased by approximately 50,000 m³. The majority of water consumption increase in 2018 is from UEP A&B.

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 flow-lines / 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\$385,965,000 (2017: HK\$326,043,000) as at 31 December 2018 and incurred relevant actual costs of HK\$16,857,000 (2017: HK\$6,774,000) during 2018. The increase in provisions in 2018 was mainly due to the newly acquired subsidiaries during the year. 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 2018, the Group employs a total of 1,308 full time employees (2017: 930) 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, education 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 2018.

Employees by Education Category:

	Year 2018	Year 2017
Masters and Above	326	220
Bachelor	501	398
Junior College	229	102
Technical Secondary School & High School	185	177
Junior High School & Below	67	33
Total	1,308	930

Employees by Age Group:

	Year 2018	Year 2017
20 to 24 years	37	39
25 to 34 years	415	345
35 to 44 years	414	255
45 to 54 years	318	206
55 years and above	124	85
Total	1,308	930

Employees by Geographical Region:

	Year 2018	Year 2017
PRC	86	146
Pakistan	1205	776
Hong Kong	17	8
Total	1,308	930

Employees by Gender:

	Year 2018	Year 2017
Female	90	88
Male	1,218	842
Total	1,308	930

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 2018, 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 (“COC”). 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. In order to ensure this, UEP conducted six classroom sessions for 130 employees who are in supervisory positions outlining what is expected from them in terms of UEP’s COC. One more session was conducted specifically outlining the COC expectations for UEP’s Procurement and Supply Chain Team and how to conduct business with suppliers.

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) of Pakistan.

Development and Training



A group of employees who completed the Applied Emotional Intelligence program



Our new management team strategizing the integration of our new colleagues from UEP A&B



A mixed group of employees from various functions who attended our in-house Advanced Excel program



Leadership skills are extremely important to UEP and the Leadership Essentials program is our flagship intervention for our future leaders

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 2018	Year 2017
	Hours	Hours
Management skills	3,190	987
Legal	735	108
Technical	9,417	4,395
Language	256	620
Personal Effectiveness	2,725	667
Competence	2,351.5	963
Total	18,674.5	7,740

Note: The increase of training hours in 2018 is due to specific training sessions in technical and management skills. 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 based on its three focal areas for development, which includes education, health and capacity building for better income generation.

UEP

Education

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 non-government organization (“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 2018, UEP provided financial and operational support to four local schools (2 in district Sanghar, 1 in District Tando Allahyar and 1 in district Matiari) located in remote villages of

Sindh Province. Financial support was also extended to TCF School Halepota Campus in District Badin, to support and sustain the facility's operational cost.

UEP provided additional classrooms and much needed repair, fixtures and renovation works with required classroom furniture to 6 Government Primary Schools in District Badin, 6 Government Schools in District Matiari and 1 Government School in district Sanghar. This repair and renovation work not only upgraded the standard of the schools but also catered for the increase in student's enrollment.



The Citizen's Foundation School – Halipota Campus



Government Primary School Ali Akbar Nizamani - Badin

Health

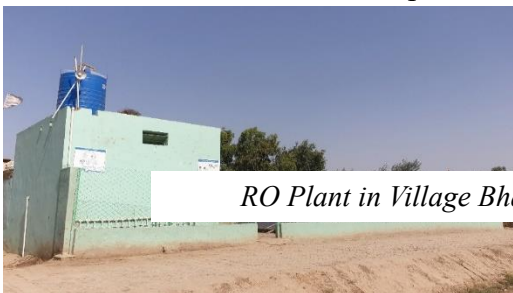
In 2018, UEP constructed a new Dialysis Center in Civil Hospital Mirpurkhas, and provided backup Solar Power provision to District Sanghar's Dialysis Center. UEP also extended support to Mother & Child Health Care Center along with provision of Reverse Osmosis ("RO") Water Treatment plant to Civil Hospital; both schemes are located in District Tando Allahyar, Sindh.



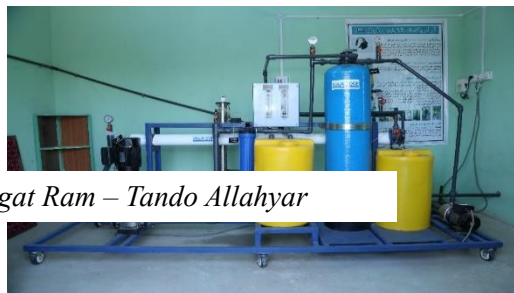
Dialysis Center – Civil Hospital Mirpurkhas

Others

For provision of clean drinking water to local communities, UEP installed Solar Powered Reverse Osmosis ("RO") plant in a remote village of district Tando Allahyar, while commencing installation works at two more RO plants in far flung villages of district Badin and Matiari, which will be completed in 2019.



RO Plant in Village Bhagat Ram – Tando Allahyar



UEP A&B

Education

Under primary education project, UEP A&B provided financial and operational support to 67 government primary schools (42 in district Khairpur, 14 in District Sukkur and 11 in district Ghotki) located in remote villages of Sindh Province. The support included approvals and disbursements of teacher salaries, monitoring and academic assessment.

Under Secondary scholarship 54 students of far flung area of Miano block desert continued their schooling at Army public school and college Pano Aqil. Out of 54 students 18 passed out grade 12 and remaining 36 students continued their education in class 9 to 12. Six girl students from Miano desert continued their education in class 9th at Pakistan Rangers Public School and College Chundiko.



Nayab (in orange oval) one of five girls completed their Engineering Degree. Nayab got Silver & Gold Medals as well.

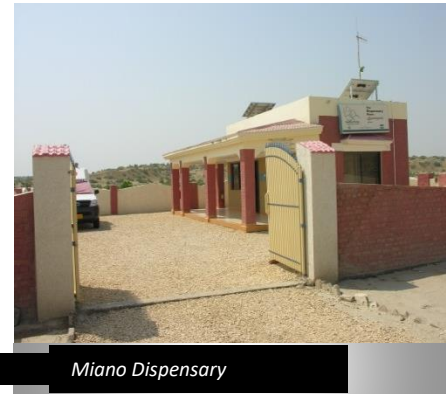
Under University Scholarship program, 5 girl students completed their graduation in software, electrical and industrial management disciplines from Mehran University of Engineering and Technology.

UEP A&B team mobilized local Non-Governmental Organization (“NGO”) to functionalize Government Primary School Ahmed Khan Rind, which had remained closed since last 2 decades. After series of meetings with NGO and Community, school was opened in 2018. Currently, it has more than 130 students, and 3 local teachers as appointed by local NGO with financial and technical support of Sindh Education Foundation. Additional fund is also earmarked under UEP A&B Social Welfare Obligation Fund (“SWOF”), for construction of two new class rooms and furniture for school in 2019.

Health

Miano Dispensary of taluka Salehpat district sukkur was provided the facilitation in getting free medicines from district health department. The dispensary was established by UEP A&B and handed over to Pakistan Rangers Sardargarh continuity of free treatment and medicines to local population.

UEP A&B extended its support to construct a new Basic Health Unit (“BHU”) Building at Ghaibi Khan Dero, Taluka Kambar, District Kamabarshadad Kot, under production bonus. Moreover, a fund is also dedicated for purchasing (4X4) ambulance for BHU, in order to provide emergency referral support to the community.



Miano Dispensary

Water Support

Rehabilitation of Mazarani Water Supply Scheme: UEP A&B also supported to rehabilitate Mazrani water supply scheme, which was badly damaged due to heavy rains and some other technical issues last year. Scheme was completed in 2018, and now providing clean drinking water to local communities of 12 villages, in taluka Warah, District Kamabarshadadkot. In addition to rehabilitation of water supply, two Low Service Resorvoirs (“LSRs”) were also constructed at much needed locations along with minor repair work of existing six LSRs.

Provision of 17000 litter water to community: UEP A&B also continued its support to provide 17000-liter water on every alternate day through water bowsers to the population of nine villages. Provision of drinking water through bowser continued for community of Miano and Latif blocks, the water is provided through bowsers from Peerano Patan water filling station located on the bank of Nara canal near Chundiko town.



Provision of 17,000 liters per day to local community of Miano

Others

Women of Miano and Nara areas were facilitated in preparing and marketing of handmade home usage stuff and clothing. The facilitation included designing, provision of raw material, sells and marketing in the area and projection of local handicrafts at various national level exhibitions.



8. 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.