SAPURA ENERGY BERHAD
(Company No : 950894-T)
Incorporated in Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 JULY 2018

THE FIGURES HAVE NOT BEEN AUDITED

I. CONDENSED CONSOLIDATED INCOME STATEMENT

		Individual Quarter		Cumulative Quarter	
		Current year quarter	Preceding year corresponding quarter	Six months to	Six months to
		31/07/2018	**31/07/2017**	**31/07/2018**	**31/07/2017**
		RM'000	RM'000	RM'000	RM'000
1.	**Revenue**	**1,259,703**	**1,656,208**	**2,314,648**	**3,425,779**
	Other operating income	3,041	23,405	6,636	38,459
	Operating expenses	(1,012,777)	(1,269,126)	(1,854,520)	(2,631,412)
	Profit from operations	**249,967**	**410,487**	**466,764**	**832,826**
	Depreciation and amortisation	(221,425)	(271,668)	(443,072)	(547,378)
	Finance income	8,094	3,427	13,731	7,990
	Finance costs	(247,092)	(216,561)	(475,027)	(420,880)
	Net foreign exchange gain	37,018	30,808	47,748	68,126
	Gain on disposal of property, plant and equipment	-	-	-	5,583
	Share of profit from associates and joint ventures	93,770	77,263	202,009	191,876
	(Loss)/profit before taxation	**(79,668)**	**33,756**	**(187,847)**	**138,143**
	Taxation	(46,284)	(4,372)	(74,649)	(81,345)
	(Loss)/profit after taxation	**(125,952)**	**29,384**	**(262,496)**	**56,798**
	Attributable to:				
	Owners of the Parent	(126,055)	28,927	(261,789)	56,461
	Non-controlling interests	103	457	(707)	337
		(125,952)	**29,384**	**(262,496)**	**56,798**
2.	**Earnings per share (sen)**				
	Basic/Diluted	**(2.12)**	**0.49**	**(4.40)**	**0.95**

The condensed consolidated income statement should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

SAPURA ENERGY BERHAD
(Company No : 950894-T)
Incorporated in Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 JULY 2018

THE FIGURES HAVE NOT BEEN AUDITED

II. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		**Cumulative Quarter**	
	Current year quarter	Preceding year corresponding quarter	Six months to	Six months to
	31/07/2018	**31/07/2017**	**31/07/2018**	**31/07/2017**
	RM'000	RM'000	RM'000	RM'000
(Loss)/profit after taxation	**(125,952)**	**29,384**	**(262,496)**	**56,798**
Other comprehensive income:				
Items that may be reclassified to income statements in subsequent periods:				
Foreign currency translation differences	112,633	(127,246)	130,901	(267,772)
Cash flow hedge:				
- Changes in fair value of derivatives	(92,768)	50,202	(63,980)	41,871
- Foreign exchange gain/(loss) on hedged items	84,675	(40,564)	111,998	(100,412)
Share of other comprehensive income/(loss) of associates and joint ventures:				
- Foreign currency translation differences	34,564	(11,166)	19,343	(40,775)
- Changes in fair value of derivatives	(67)	(3,435)	25,404	(13,602)
Item that has been reclassified to income statements in current year:				
Transfer of exchange differences arising upon dissolution of joint ventures	-	(52,757)	-	(52,757)
Total comprehensive income/(loss)	13,085	(155,582)	(38,830)	(376,649)
Attributable to:				
Owners of the Parent	12,975	(155,919)	(38,063)	(376,058)
Non-controlling interests	110	337	(767)	(591)
Total comprehensive income/(loss)	13,085	(155,582)	(38,830)	(376,649)

The condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

SAPURA ENERGY BERHAD
(Company No : 950894-T)
Incorporated in Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 JULY 2018
THE FIGURES HAVE NOT BEEN AUDITED

III. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	UNAUDITED As at end of current financial period **31/07/2018** RM'000	**AUDITED** As at end of preceding financial year **31/01/2018** RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	11,583,170	11,454,733
Expenditure on oil and gas properties	4,172,811	3,938,046
Goodwill on consolidation	8,062,013	7,899,113
Other intangible assets	16,282	19,767
Investment in associates and joint ventures	1,804,263	1,557,506
Deferred tax assets	141,874	103,690
Derivative assets	198,583	262,563
Trade receivables	38,921	30,537
	26,017,917	25,265,955
Current assets		
Inventories	460,295	376,555
Trade and other receivables	2,893,624	2,530,111
Tax recoverable	100,487	103,913
Cash and cash equivalents	994,235	1,716,235
	4,448,641	4,726,814
TOTAL ASSETS	**30,466,558**	**29,992,769**
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	8,066,410	8,066,410
Shares held under trust	(114,942)	(114,942)
Other reserves	1,667,345	1,443,619
(Accumulated losses)/Retained profits	(206,910)	54,879
	9,411,903	9,449,966
Non-controlling interests	(368)	399
Total equity	9,411,535	9,450,365
Non-current liabilities		
Borrowings	11,116,782	14,692,954
Other payables	102,722	1,620
Provision for assets retirement obligation	209,946	196,118
Deferred tax liabilities	1,108,935	1,023,726
	12,538,385	15,914,418
Current liabilities		
Borrowings	5,755,971	1,722,201
Trade and other payables	2,613,061	2,797,114
Provision for assets retirement obligation	14,112	25,086
Income tax payable	133,494	83,585
	8,516,638	4,627,986
TOTAL LIABILITIES	21,055,023	20,542,404
TOTAL EQUITY AND LIABILITIES	**30,466,558**	**29,992,769**
Net assets per share (RM)	**1.58**	**1.59**

The condensed consolidated statement of financial position should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

SAPURA ENERGY BERHAD
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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 JULY 2018

THE FIGURES HAVE NOT BEEN AUDITED

IV. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Parent					Non-controlling interests	Total equity
	Share capital	Shares held under trust	Other reserves	Retained profits/ (Accumulated losses)	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Six months to 31 July 2018 (Unaudited)							
At 1 February 2018	8,066,410	(114,942)	1,443,619	54,879	9,449,966	399	9,450,365
Total comprehensive income/(loss)	-	-	223,726	(261,789)	(38,063)	(767)	(38,830)
At 31 July 2018	8,066,410	(114,942)	1,667,345	(206,910)	9,411,903	(368)	9,411,535
Six months to 31 July 2017 (Unaudited)							
At 1 February 2017	8,066,410	(93,304)	2,485,032	2,617,980	13,076,118	4,190	13,080,308
Total comprehensive (loss)/income	-	-	(432,519)	56,461	(376,058)	(591)	(376,649)
Transactions with owners:							
Purchase of shares held under trust	-	(46,000)	-	-	(46,000)	-	(46,000)
Dividend on ordinary shares	-	-	-	(59,628)	(59,628)	-	(59,628)
Total transactions with owners	-	(46,000)	-	(59,628)	(105,628)	-	(105,628)
At 31 July 2017	8,066,410	(139,304)	2,052,513	2,614,813	12,594,432	3,599	12,598,031

The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

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(Company No : 950894-T)
Incorporated in Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 JULY 2018

THE FIGURES HAVE NOT BEEN AUDITED

V. CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	UNAUDITED Six months to **31/07/2018** RM'000	**UNAUDITED** Six months to **31/07/2017** RM'000
(Loss)/profit before taxation	**(187,847)**	**138,143**
Adjustments	634,890	761,293
Operating profit before working capital changes	447,043	899,436
Changes in working capital ^	(320,071)	66,947
Cash generated from operations	126,972	966,383
Taxation paid	(34,877)	(49,809)
Net cash generated from operating activities	**92,095**	**916,574**
Cash flows from investing activities		
Purchase of property, plant and equipment	(127,566)	(297,196)
Purchase of expenditure on oil and gas properties	(133,616)	(169,192)
Payment of deferred consideration ^	(118,571)	(130,866)
Advances to joint venture	(57,080)	-
Other items	12,080	17,444
Net cash used in investing activities	**(424,753)**	**(579,810)**
Cash flows from financing activities		
Finance costs paid	(412,022)	(354,131)
Dividend paid on ordinary shares	-	(59,628)
Purchase of shares held under trust	-	(46,000)
Net repayment of revolving credit, term loans, Islamic Facility and Sukuk Programme	-	(1,119,057)
Net repayment of hire purchase and finance lease creditors	(3,044)	(6,572)
Net cash used in financing activities	**(415,066)**	**(1,585,388)**
Net decrease in cash and cash equivalents	**(747,724)**	**(1,248,624)**
Effect of exchange rate translation	25,724	(40,024)
Cash and cash equivalents at beginning of year	1,716,235	3,519,509
Cash and cash equivalents at end of period	**994,235**	**2,230,861**

^ The comparatives have been changed to conform with the current period's presentation.

The condensed consolidated statement of cash flows should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated interim financial statements for the period ended 31 July 2018 have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("BMSB"). These condensed consolidated interim financial statements also comply with International Auditing Standards ("IAS") 34: Interim Financial Reporting issued by the International Accounting Standards Board.

The unaudited condensed consolidated interim financial statements for the financial period ended 31 July 2018 should be read in conjunction with the audited financial statements for the financial year ended 31 January 2018.

The accounting policies and methods of computation adopted by Sapura Energy Berhad ("the Company") ("SEB") and its subsidiaries ("the Group") in these condensed consolidated interim financial statements are consistent with those adopted in the most recent annual audited financial statements for the year ended 31 January 2018 except for the following:

On 1 February 2018, the Group and the Company have adopted the following revised MFRSs and Amendments to MFRS that have been issued by the Malaysian Accounting Standards Board ("MASB").

Effective for annual periods beginning on or after 1 January 2018:

Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)
Amendments to MFRS 2: Share-based Payment: Classification and Measurement of Share-based Payment Transactions
MFRS 9: Financial Instruments
MFRS 15: Revenue from Contracts with Customers
MFRS 15: Revenue from Contracts with Customers: Clarifications to MFRS 15
Amendments to MFRS 128: Investments in Associates and Joint Ventures (Annual Improvements 2014-2016 Cycle)
Amendments to MFRS 140: Investment Property: Transfers of Investment Property
IC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The adoption of the above standards and interpretations are not expected to have a material impact on the financial statements in the period of application except as discussed below:

(i) MFRS 9: Financial Instruments

MFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. During the financial period ended 31 July 2018, the Group and the Company have performed an impact assessment on MFRS 9 and concluded that the adoption of the new standard did not have a significant impact to the interim financial statements.

The Group and the Company applied the simplified approach and assessed the lifetime expected losses on all trade receivables, which did not have a material impact on the impairment allowance.

1. Basis of preparation (cont'd.)

The adoption of the above standards and interpretations are not expected to have a material impact on the financial statements in the period of application except as discussed below: (cont'd.)

(ii) MFRS 15: Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers. MFRS 15 supersedes the current revenue recognition guidance including MFRS 118: Revenue, MFRS 111: Construction Contracts and the related interpretations when it became effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group and the Company have undertaken an assessment of the impact and have concluded that MFRS 15 did not have a significant impact on the results and financial position of the Group and the Company.

2. Seasonality and cyclicality of operations

The Group's operations are not materially affected by any seasonal or cyclical factors except for severe weather conditions.

3. Unusual items due to their nature, size and incidence

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows for the current financial period, other than as disclosed in these condensed consolidated interim financial statements.

4. Changes in estimates

There were no changes in estimates that have a material effect in the current financial period, other than as disclosed in these condensed consolidated income statement.

5. Debt and equity securities

There were no issuance and repayment of debt securities, share buy-back, share cancellations, shares held under trust and resale of shares held under trust during the quarter ended 31 July 2018.

6. Subsequent events

(a) On 4 September 2018, Sapura Upstream Sdn. Bhd. (formerly known as Sapura Exploration and Production Sdn. Bhd.) ("Sapura Upstream"), a wholly-owned subsidiary of the Company, has announced its first foray into Australia via the farm-in to 3 offshore exploration permits held by Finder Exploration Pty Ltd, a private oil and gas company based in West Perth, Australia. Following the signing of Farm-in Agreements on 4 September 2018 and subject to securing the requisite regulatory approvals, Sapura Upstream will acquire interests in blocks EP 483 & TP/25, WA-412-P and AC/P 61.

6. Subsequent events (cont'd.)

(b) On 12 September 2018, the Group has entered into a Heads of Agreement with Austria's OMV Aktiengesellschaft ("OMV AG") to form a strategic partnership. OMV AG intends to acquire a 50% stake in the Company's wholly-owned subsidiary, Sapura Upstream. The proposed transaction is based on an enterprise value of USD 1.6 billion. The parties have agreed to continue ongoing negotiations on an exclusive basis.

There was no other material event subsequent to 31 July 2018 which has not been reflected in these condensed consolidated interim financial statements.

7. Changes in the composition of the Group

There was no significant change in the composition of the Group during the current financial period.

8. Contingent liabilities

(a) The Group has provided corporate guarantees given to financial institutions for credit facilities granted to joint ventures amounting to RM755.1 million (31 January 2018: RM816.8 million).

(b) Other than as described in Note 8 (a) above and Note 14 (b), there were no other changes in contingent liabilities in the current financial period.

9. Capital commitments

Capital expenditure for property, plant and equipment and expenditure on oil and gas properties approved and not provided for in these condensed consolidated interim financial statements as at 31 July 2018 is as follows:

Approved and contracted for:	**31/07/2018**
	RM'000
Group	528,768

10. Taxation

Taxation comprises the following:

	Individual Quarter		**Cumulative Quarter**	
	Current year quarter	Preceding year corresponding quarter	Six months to	Six months to
	31/07/2018	**31/07/2017**	**31/07/2018**	**31/07/2017**
	RM'000	RM'000	RM'000	RM'000
Current taxation:				
Malaysian taxation	(11,503)	(29,965)	9,618	23,314
Foreign taxation	21,989	15,387	38,494	32,745
Deferred taxation	35,798	18,950	26,537	25,286
	46,284	4,372	74,649	81,345

Domestic income tax is calculated at the Malaysian statutory corporate tax rate of 24% of the estimated assessable profit for the year.

Income from petroleum operation in Malaysia is calculated at the Malaysian petroleum income tax rate of 38%.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

11. Status of corporate proposals announced

(a) On 24 August 2018, the Company proposed to undertake a recapitalisation exercise which will entail the following:

(i) Proposed renounceable rights issue of up to 9,986,925,145 new ordinary shares in the Company at an issue price of RM0.30 per rights share together with up to 998,692,515 free detachable warrants on the basis of five rights for every three shares held and one free warrant for every ten right shares subscribed at an entitlement date to be determined later;

(ii) Proposed renounceable rights issue of up to 2,396,862,035 new Islamic Redeemable Convertible Preference shares ("RCPS-i") in the Company at an issue price of RM0.41 per RCPS-i on the basis of two RCPS-i for every five share held in the Company at an entitlement date to be determined later; and

(iii) Proposed amendments to the constitution of the Company.

On 18 September 2018, the Company has submitted an application to Bank Negara Malaysia to seek its approval for the issuance of RCPS-i to non-resident shareholders of SEB.

On 21 September 2018, the Company has submitted an application to the Shariah Advisory Council of the Securities Commission Malaysia to seek its approval for the structure of RCPS-i.

On 25 September 2018, the Company announced that it has procured the following undertakings in respect of the Proposed Rights Issue of Shares with Warrants and Proposed Rights Issue of RCPS-i (collectively, "Proposed Rights Issue"):

(i) letter of undertaking dated 21 September 2018 from Sapura Technology Sdn. Bhd. ("STSB") in connection with the Proposed Rights Issue, where STSB will subscribe to a minimum of RM300 million worth of Proposed Right Issue; and

(ii) letters of undertaking dated 24 September 2018 from Permodalan Nasional Berhad ("PNB") and AmanahRaya Trustees Berhad ("PNB Funds") (collectively, "PNB Group") in connection with the Proposed Rights Issue, where PNB Group will:

(a) in respect of the Proposed Rights Issue:

(aa) subscribe in full for all the Rights Shares with Warrants that the PNB Group shall be entitled to under the Proposed Rights Issue of Shares with Warrants as at the entitlement date; and

(bb) at an allocation to be determined later and subject to the availability of additional Right Shares and Warrants not taken up or not validly taken up by other entitled shareholders and/or their renouncees by way of excess application ("Excess Shares"), subscribe to such Excess Shares, resulting in the PNB Group having shareholdings of 40% of the enlarged share capital of SEB immediately following the implementation of the Proposed Rights Issue of Shares with Warrants; and

(b) in respect of the Proposed Rights Issue of RCPS-i, subscribe in full for all the RCPS-i that the PNB Group shall be entitled to under the Proposed Rights Issue of RCPS-i as at the entitlement date and at an allocation to be determined later, subscribe for all the remaining RCPS-i not taken up or not validly taken up by other entitled shareholders and/or their renouncees by way of excess application.

(collectively, the "Undertakings")

11. Status of corporate proposals announced (cont'd.)

(a) (cont'd.)

In conjunction with the Undertakings, the Company has been advised that PNB Group intends to seek an exemption under Paragraphs 4.08(1)(b) and 4.08(1)(c) of Rule 4, Part B of the Rules from the obligation to undertake the Mandatory Offer.

(b) On 25 September 2018, the Company proposed an establishment of an Executive Share Option Scheme ("ESOS") of up to 10% of the total number of issued shares of SEB (excluding treasury shares, if any) at any point in time ("Proposed ESOS").

The primary objective of the Proposed ESOS is to further enhance the alignment of both the senior management and executive director(s) of SEB and its subsidiary companies to the long term objectives and business plan of SEB and ultimately, overall shareholders' interest.

The Proposed ESOS involves the granting of options to the senior management and executive director(s) of SEB and relevant subsidiaries who meet the criteria of eligibility for participation as set out in the by-laws of the Proposed ESOS to subscribe for new ordinary shares in the Company shares at specified prices ("ESOS Option(s)" or "Option(s)").

On 26 September 2018, the Company announced that the listing application in relation to Note 11 (a) and (b) above has been submitted to BMSB.

There were no other corporate proposals announced but not completed as at the date of this announcement.

12. Borrowings

	Short term borrowings		Long term borrowings		Total borrowings	
	Foreign denomination RM'000	RM denomination RM'000	Foreign denomination RM'000	RM denomination RM'000	Foreign denomination RM'000	RM denomination RM'000
As at 31 July 2018						
Secured						
Hire purchase	2,954	2,116	31	178	2,985	2,294
Unsecured						
Revolving credits	797,748	952,100	-	-	797,748	952,100
Term loans	4,001,053	-	3,118,221	-	7,119,274	-
Islamic Facility	-	-	1,601,208	1,872,090	1,601,208	1,872,090
Sukuk Programme	-	-	1,111,725	3,413,329	1,111,725	3,413,329
	4,801,755	954,216	5,831,185	5,285,597	10,632,940	6,239,813
Total		5,755,971		11,116,782		16,872,753

12. Borrowings (cont'd.)

	Short term borrowings		Long term borrowings		Total borrowings	
	Foreign denomination RM'000	RM denomination RM'000	Foreign denomination RM'000	RM denomination RM'000	Foreign denomination RM'000	RM denomination RM'000
As at 31 January 2018						
Secured						
Hire purchase	1,055	5,079	110	177	1,165	5,256
Unsecured						
Revolving credits	762,581	952,100	-	-	762,581	952,100
Term loans	1,386	-	6,820,682	-	6,822,068	-
Islamic Facility	-	-	1,534,595	1,868,894	1,534,595	1,868,894
Sukuk Programme	-	-	1,066,067	3,402,429	1,066,067	3,402,429
	765,022	957,179	9,421,454	5,271,500	10,186,476	6,228,679
Total		1,722,201		14,692,954		16,415,155

13. Derivative financial instruments

The Group has entered into Islamic Cross-Currency Swap ("ICRCS") contracts with various banks to hedge part of the Group's borrowings.

Details of the derivative outstanding at the reporting date are as follows:

	As at 31 July 2018		As at 31 January 2018	
	Notional Value RM'000	**Assets Fair Value RM'000**	**Notional Value RM'000**	**Assets Fair Value RM'000**
5 years Islamic Cross-Currency Swap	2,704,606	198,583	2,704,606	262,563

The Group treats the derivatives as cash flow hedges. The Group uses cash flow hedges to mitigate the risk of variability of future cash flows attributable to foreign currency fluctuation over the hedging period on its borrowings.

There is no gain/(loss) recognised in the profit or loss arising from fair value changes of derivatives.

14. Material litigation

(a) Sarku Engineering Services Sdn. Bhd.

On 20 February 2006, Sarku Engineering Services Sdn. Bhd. (“SESSB”), a wholly-owned subsidiary of the Company entered into a contract with Oil and Natural Gas Corporation Limited (“ONGC”) for the performance of works by SESSB to revamp 26 well platforms located in Mumbai High South field offshore site (“Contract”).

On 21 September 2012, SESSB commenced arbitration proceedings by filing a statement of claim against ONGC in relation to disputes pursuant to the Contract for a sum of Indian Rupee (“INR”) 1,063,759,201 and USD123,819,632 (including interest, costs, losses and damages).

On 17 December 2012, ONGC has filed their reply to the Statement of Claim. No counter claims have been filed by ONGC. Documents and witness statements have been filed.

Further examination in chief took place in January 2014 whereby revised list of documents were exchanged and has been taken on record.

The cross examination of ONGC’s witness were on 22 to 23 December 2014 and 5 to 7 January 2015.

In January 2018 and February 2018 sittings, SESSB have concluded its arguments on each of the claims filed before the Tribunal. On 5 February 2018, submissions were made by SESSB’s external counsel and thereafter arguments were closed.

Thereafter, ONGC counsel commenced their arguments in defence on 6 February 2018 and continued on the 2 to 4 May 2018. They have concluded their arguments in the said sittings and have handed over written note of their arguments.

SESSB external counsel will address the Tribunal in rejoinder arguments on behalf of SESSB on the next rescheduled dates of hearing which are 21, 22 and 23 November 2018. SESSB counsel is required to submit detailed written submissions before the hearing dates.

SESSB has been advised by its solicitors, that SESSB has a reasonable basis for its claims against ONGC.

14. **Material litigation (cont'd.)**

(b) Sapura Fabrication Sdn. Bhd.

On 18 March 2011, Sapura Fabrication Sdn. Bhd. ("SFSB"), a wholly-owned subsidiary of the Company entered into a contract with Petrofac (Malaysia-PM304) Limited ("PML") to provide works for the engineering, procurement and construction of well head platforms for the Cendor Phase 2 Development Project and the Cendor field is located in Block PM 304 in the Malaysian sector of the South China Sea ("Contract").

On 26 March 2018, SFSB received a 'Commencement Request' to the Director of Asian International Arbitration Centre formally initiating a claim by way arbitration proceedings from PML in relation to disputes pursuant to the Contract for a sum of USD14,743,541 and RM831,188.

On 26 April 2018, SFSB responded to PML's claim and made a counter claim for a total amount of RM11,023,719.56.

The arbitrators have been appointed and parties attended the 1st Arbitrators meeting on 21 July 2018.

PML filed their Statement of Claim on the 21 September 2018 and it is currently being reviewed by SFSB's solicitors. The tentative hearing date has been scheduled on 23 September 2019.

SFSB has been advised by its solicitors that PML's claim can be legally defended and SFSB has a reasonable basis for its claims against PML.

15. **Review of Group Performance**

15.1 Current quarter vs. corresponding quarter of the preceding year

	Individual Quarter		
	3 months to		
	31/07/2018	**31/07/2017**	**Changes**
	RM'000	RM'000	%
Revenue	1,259,703	1,656,208	(23.9)
Profit from operations	249,967	410,487	(39.1)
(Loss)/profit before taxation	(79,668)	33,756	(>100.0)
(Loss)/profit after taxation	(125,952)	29,384	(>100.0)
(Loss)/profit attributable to owners of the Parent	(126,055)	28,927	(>100.0)

The Group revenue of RM1,259.7 million was 23.9% lower than RM1,656.2 million in the corresponding quarter of the preceding year ("Q2 FY2018"), mainly attributable to the lower revenue from Engineering and Construction and Drilling business segments.

In the current quarter, the Group recorded a loss before taxation of RM79.7 million. The Group financial performance was lower by RM113.4 million compared to the profit before taxation of RM33.8 million in Q2 FY2018, in line with the lower revenue.

15. Review of Group Performance (cont'd.)

15.2 Current period vs. corresponding period of the preceding year

	Cumulative Quarter 6 months to 31/07/2018	31/07/2017	Changes
	RM'000	RM'000	%
Revenue	2,314,648	3,425,779	(32.4)
Profit from operations	466,764	832,826	(44.0)
(Loss)/profit before taxation	(187,847)	138,143	(>100.0)
(Loss)/profit after taxation	(262,496)	56,798	(>100.0)
(Loss)/profit attributable to owners of the Parent	(261,789)	56,461	(>100.0)

The Group revenue of RM2,314.6 million was 32.4% lower than the corresponding period of the preceding year ("corresponding period") of RM3,425.8 million, primarily due to the lower revenue from the Engineering and Construction and Drilling business segments.

In the current period, the Group recorded a loss before taxation of RM187.8 million. The Group financial performance was lower by RM326.0 million compared to the profit before taxation of RM138.1 million in the corresponding period, in line with the lower revenue.

15.3 Current quarter vs. immediate preceding quarter

	Individual Quarter 3 months to 31/07/2018	30/04/2018	Changes
	RM'000	RM'000	%
Revenue	1,259,703	1,054,945	19.4
Profit from operations	249,967	216,797	15.3
Loss before taxation	(79,668)	(108,179)	26.4
Loss after taxation	(125,952)	(136,544)	7.8
Loss attributable to owners of the Parent	(126,055)	(135,734)	7.1

The Group revenue of RM1,259.7 million was 19.4% higher than the immediate preceding quarter ("Q1 FY2019") of RM1,054.9 million, primarily due to the higher revenue from all business segments.

In the current quarter, the Group recorded a loss before taxation of RM79.7 million. The Group financial performance was higher by 26.4% compared to the loss before taxation of RM108.2 million in Q1 FY2019 in line with the higher revenue.

16. Segment information

The Group organises its business activities into four major segments as follows:

(i) Engineering and Construction ("E&C");
(ii) Drilling;
(iii) Exploration and Production ("E&P"); and
(iv) Corporate

	3 months to 31/07/2018	
	Revenue	**Operating (loss)/profit**
	RM'000	RM'000
E&C	779,518	(20,491)
Drilling	253,533	(58,293)
E&P	227,587	27,824
	1,260,638	(50,960)
Corporate expenses and eliminations	(935)	(28,708)
Group revenue / loss before taxation	**1,259,703**	**(79,668)**

17. Review of Segment Performance

17.1 Current quarter vs. corresponding quarter of the preceding year

	Revenue 3 months to			**Operating (loss)/profit 3 months to**		
	31/07/2018	**31/07/2017**	**Changes**	**31/07/2018**	**31/07/2017**	**Changes**
	RM'000	RM'000	%	RM'000	RM'000	%
Business Segments:						
E&C	779,518	1,261,111	(38.2)	(20,491)	126,651	(>100.0)
Drilling	253,533	278,574	(9.0)	(58,293)	(85,010)	31.4
E&P	227,587	161,982	40.5	27,824	22,381	24.3
	1,260,638	1,701,667		(50,960)	64,022	
Corporate expenses and eliminations	(935)	(45,459)	97.9	(28,708)	(30,266)	5.1
Group revenue/ (loss)/profit before taxation	**1,259,703**	**1,656,208**	(23.9)	**(79,668)**	**33,756**	(>100.0)

Business Segments:

Engineering and Construction

The segment recorded revenue of RM779.5 million, which was 38.2% lower than the revenue of RM1,261.1 million in Q2 FY2018, in line with the lower activities during the current quarter.

The segment recorded a loss before taxation for the current quarter of RM20.5 million which was lower by RM147.1 million compared to profit before taxation of RM126.7 million in Q2 FY2018, in line with the lower revenue in the current quarter.

17. **Review of Segment Performance (cont'd.)**

17.1 Current quarter vs. corresponding quarter of the preceding year (cont'd.)

Business Segments: (cont'd.)

Drilling

The segment revenue for the current quarter of RM253.5 million was 9.0% lower than the revenue of RM278.6 million in Q2 FY2018, mainly due to the unfavourable effect of US Dollar weakening against Ringgit Malaysia quarter on quarter.

The segment recorded a loss before taxation of RM58.3 million, which was lower by 31.4% compared to the loss before taxation of RM85.0 million in Q2 FY2018 due to the favourable impact from the lower depreciation costs in the current quarter as a result of asset impairment exercise in Q4 FY2018.

Exploration and Production

The segment recorded revenue of RM227.6 million, which was 40.5% higher than the revenue of RM162.0 million in Q2 FY2018. The increase was due to the higher liftings and the effect of the higher average realised oil and gas price achieved in the current quarter compared to Q2 FY2018.

The segment recorded a profit before taxation of RM27.8 million which was 24.3% higher compared to Q2 FY2018, in line with the higher revenue.

17.2 Current period vs. corresponding preceding period

	Revenue 6 months to			**Operating profit/(loss) 6 months to**		
	31/07/2018	**31/07/2017**	**Changes**	**31/07/2018**	**31/07/2017**	**Changes**
	RM'000	RM'000	%	RM'000	RM'000	%
Business Segments:						
E&C	1,445,139	2,463,270	(41.3)	15,967	308,078	(94.8)
Drilling	436,919	663,965	(34.2)	(126,977)	(64,209)	(97.8)
E&P	437,359	356,254	22.8	36,778	46,963	(21.7)
	2,319,417	3,483,489		(74,232)	290,832	
Corporate expenses and eliminations	(4,769)	(57,710)	91.7	(113,615)	(152,689)	25.6
Group revenue/ (loss)/profit before taxation, after impairments	**2,314,648**	**3,425,779**	(32.4)	**(187,847)**	**138,143**	(>100.0)

17. Review of Segment Performance (cont'd.)

17.2 Current period vs. corresponding preceding period (cont'd.)

Business Segments:

Engineering and Construction

The segment revenue for the current period of RM1,445.1 million was 41.3% lower compared to the corresponding period, in line with the lower activities during the current period.

The segment recorded a profit before taxation for the current period of RM16.0 million which was lower by RM292.1 million compared to profit before taxation of RM308.1 million in the corresponding period, in line with the lower revenue in the current period.

Drilling

The segment revenue for the current period of RM436.9 million was lower by 34.2% compared to the corresponding period, mainly due to certain rigs which were off contract during the current period and the unfavourable effect of US Dollar weakening against Ringgit Malaysia.

The segment recorded a loss before taxation for the current period of RM127.0 million which was higher by RM62.8 million compared to loss before taxation of RM64.2 million in the corresponding period, in line with the lower revenue in the current period.

Exploration and Production

The segment recorded revenue of RM437.4 million, which was 22.8% higher than the revenue of RM356.3 million in the corresponding period. The increase was due to the higher liftings and the effect of the higher average realised oil and gas price achieved in the current period.

The segment recorded a profit before taxation for the current period of RM36.8 million which was lower by 21.7% compared to profit before taxation of RM47.0 million in the corresponding period.

18. Additional disclosure information

18.1 Foreign exchange exposure/Hedging policy

Foreign currency (a currency which is other than the functional currency of the Group entities) risk is the risk that the fair value or future cash flows of the Group's financial instrument will fluctuate because of the changes in foreign exchange rates.

The Group has transactional currency exposures arising mainly from revenue or costs and advances that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily RM and US Dollar ("USD"). The foreign currencies in which these transactions are denominated are mainly in USD and RM.

The Group maintains a natural hedge, whenever possible, by borrowing in the currency of the country in which the assets or investment is located or by borrowing in the currencies that match the future revenue stream to be generated from its investments. Where possible, the strategy is to match the payments for foreign currency payables against receivables denominated in the same foreign currency.

The Group has entered into ICRCS contracts with various banks to hedge part of the Group's borrowings. Further details on derivative financial instruments are disclosed in Note 13.

18. Additional disclosure information (cont'd.)

18.2 Trade and other receivables

	As at 31/07/2018	As at 31/01/2018
Non-current	RM'000	RM'000
Trade receivables, representing total non-current trade receivables	38,921	30,537
Current		
Trade receivables	1,842,730	1,576,527
Less: Provision for impairment	(34,446)	(34,446)
	1,808,284	1,542,081
Other receivables	1,085,340	988,030
Total current trade and other receivables	2,893,624	2,530,111
Total trade and other receivables	2,932,545	2,560,648

Trade receivables are non-interest bearing. The Group's normal trade credit term ranges from 30 to 120 days (as at 31 January 2018: 30 to 120 days). Other credit terms are assessed and approved on a case-by-case basis. Overdue balances are reviewed regularly by the management. Trade receivables are recognised at original invoice amounts which represent their fair values on initial recognition.

19. (a) Commentary on prospects

Amidst the sustained and buoyant oil prices which is driving increase in activities in the industry globally, the Group is well-positioned to capitalise on the recovery in the industry.

The Group has seen an upward trend in bidding and prospective opportunities globally which has translated to increased contract wins during the year. For the financial year to-date, the Group has won RM5.3 billion of new contracts across its Engineering and Construction and Drilling businesses which has resulted in the Group’s orderbook increasing to RM16.9 billion. The growing orderbook provides the platform for increasing revenue and higher utilisation of the Group’s assets in the future.

The ongoing and future bids are for an increasing number of customers and for larger contracts in different geographical areas. In order to win and execute the increased volume of work, the Group has taken steps to strengthen its balance sheet. The first step involves the Company undertaking a proposed rights issue to fuel future growth.

In addition, the Group announced that it had entered into Heads of Agreement with Austria's OMV Aktiengesellschaft ("OMV AG") to form a strategic partnership in the E&P business involving the proposed sale of 50% equity stake in the business. The partnership will enhance the sharing of technology and knowledge, concurrently enabling development of local talent in-country. The combined capabilities and shared financial commitment of the Group and OMV AG will also provide risk mitigation in exploration and development activities. Furthermore, this gives certainty of valuation in unlocking the value of the E&P business. Upon completion of the sale, the Group expects a positive impact to the earnings and net assets of the Group.

The proceeds of the proposed rights issue and the sale of 50% equity stake in the E&P business would be primarily used to pare down borrowings, thus reducing gearing and finance costs, improving profitability, as well as providing additional working capital for growth going forward.

19. (a) **Commentary on prospects (cont'd.)**

This quarter's results is an improvement from the previous quarter and the Board views this to be a reflection of the Group being in positive transition. The recently awarded projects are in early execution phases of engineering and procurement; and this quarter saw lower utilisation of the main vessels as they have completed projects and are in pre-mobilisation stage for the recently secured work.

With the increasing activities and the efforts to strengthen the balance sheet, the Board is optimistic that the Group will continue to improve its performance.

(b) **Revenue or profit estimate, forecast, projection or internal targets**

The Company has not provided any revenue or profit estimate, forecast, projection or internal targets in any previous announcement or public document.

20. Dividend

The Board of Directors does not recommend any payment of dividend for the current quarter under review.

21. Earnings per share

	Individual Quarter		Cumulative Quarter	
	3 months to		6 months to	
Basic/Diluted	**31/07/2018**	**31/07/2017**	**31/07/2018**	**31/07/2017**
(Loss)/profit attributable to owners of the Parent (RM'000)	(126,055)	28,927	(261,789)	56,461
Weighted average number of ordinary shares in issue excluding shares held under trust('000)	5,952,277	5,942,408	5,952,277	5,952,580
Basic/diluted earnings per share (sen)	(2.12)	0.49	(4.40)	0.95

By Order of the Board

Lew Sue Li (MIA 42700)
Wong Lay See (MAICSA 7018684)
Company Secretaries

Seri Kembangan, Selangor Darul Ehsan
28 September 2018