

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 31 OCTOBER 2018

THE FIGURES HAVE NOT BEEN AUDITED

I. CONDENSED CONSOLIDATED INCOME STATEMENT

	Individual Quarter		Cumulative Quarter	
	Current year quarter <b>31/10/2018</b> RM'000	Preceding year corresponding quarter <b>31/10/2017</b> RM'000	Nine months to <b>31/10/2018</b> RM'000	Nine months to <b>31/10/2017</b> RM'000
<b>1. Revenue</b>	<b>1,502,229</b>	<b>1,279,973</b>	<b>3,816,877</b>	<b>4,705,752</b>
Other operating income	6,905	13,072	13,541	51,531
Operating expenses	(1,104,220)	(1,018,067)	(2,958,740)	(3,649,479)
<b>Profit from operations</b>	<b>404,914</b>	<b>274,978</b>	<b>871,678</b>	<b>1,107,804</b>
Depreciation and amortisation	(242,364)	(270,735)	(685,436)	(818,113)
Finance income	9,341	8,019	23,071	16,009
Finance costs	(265,337)	(227,464)	(740,365)	(648,343)
Net foreign exchange gain/(loss)	56,159	(22,212)	103,910	45,914
Gain on disposal of property, plant and equipment	-	-	-	5,583
Share of profit from associates and joint ventures	77,542	27,698	279,550	219,574
<b>Profit/(loss) before taxation</b>	<b>40,255</b>	<b>(209,716)</b>	<b>(147,592)</b>	<b>(71,572)</b>
Taxation	(71,908)	(65,505)	(146,557)	(146,850)
<b>Loss after taxation</b>	<b>(31,653)</b>	<b>(275,221)</b>	<b>(294,149)</b>	<b>(218,422)</b>
Attributable to:				
Owners of the Parent	(31,090)	(274,406)	(292,879)	(217,945)
Non-controlling interests	(563)	(815)	(1,270)	(477)
	<b>(31,653)</b>	<b>(275,221)</b>	<b>(294,149)</b>	<b>(218,422)</b>
<b>2. Earnings per share (sen)</b>				
Basic/Diluted	<b>(0.52)</b>	<b>(4.62)</b>	<b>(4.92)</b>	<b>(3.66)</b>

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

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THE FIGURES HAVE NOT BEEN AUDITED

II. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative Quarter	
	Current year quarter <b>31/10/2018</b> RM'000	Preceding year corresponding quarter <b>31/10/2017</b> RM'000	Nine months to <b>31/10/2018</b> RM'000	Nine months to <b>31/10/2017</b> RM'000
Loss after taxation	<b>(31,653)</b>	<b>(275,221)</b>	<b>(294,149)</b>	<b>(218,422)</b>
<b>Other comprehensive income:</b>				
<b>Items that may be reclassified to income statements in subsequent periods:</b>				
Foreign currency translation differences	105,560	(87,113)	236,461	(354,885)
Cash flow hedge:				
- Changes in fair value of derivatives	(85,043)	35,429	(149,023)	77,300
- Foreign exchange gain/(loss) on hedged items	74,579	(29,516)	186,577	(129,928)
Share of other comprehensive income/(loss) of associates and joint ventures:				
- Foreign currency translation differences	56,218	(25,558)	75,561	(66,333)
- Changes in fair value of derivatives	6,874	13,350	32,278	(252)
<b>Item that has been reclassified to income statements in current year:</b>				
Transfer of exchange differences arising upon dissolution of joint ventures	-	-	-	(52,757)
Total comprehensive income/(loss)	<u>126,535</u>	<u>(368,629)</u>	<u>87,705</u>	<u>(745,277)</u>
Attributable to:				
Owners of the Parent	127,022	(367,690)	88,959	(743,747)
Non-controlling interests	(487)	(939)	(1,254)	(1,530)
Total comprehensive income/(loss)	<u>126,535</u>	<u>(368,629)</u>	<u>87,705</u>	<u>(745,277)</u>

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

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

III. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	UNAUDITED As at end of current financial period <b>31/10/2018</b> RM'000	AUDITED As at end of preceding financial year <b>31/01/2018</b> RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	11,753,512	11,454,733
Expenditure on oil and gas properties	4,287,516	3,938,046
Goodwill on consolidation	8,181,735	7,899,113
Other intangible assets	13,927	19,767
Investment in associates and joint ventures	1,943,256	1,557,506
Deferred tax assets	133,127	103,690
Derivative assets	113,540	262,563
Trade receivables	32,469	30,537
	<u>26,459,082</u>	<u>25,265,955</u>
<b>Current assets</b>		
Inventories	480,811	376,555
Trade and other receivables	3,290,222	2,530,111
Tax recoverable	76,570	103,913
Cash and cash equivalents	689,544	1,716,235
	<u>4,537,147</u>	<u>4,726,814</u>
<b>TOTAL ASSETS</b>	<b><u>30,996,229</u></b>	<b><u>29,992,769</u></b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to equity holders of the Company</b>		
Share capital	8,066,410	8,066,410
Shares held under trust	(114,942)	(114,942)
Other reserves	1,825,457	1,443,619
(Accumulated losses)/Retained profits	(238,000)	54,879
	<u>9,538,925</u>	<u>9,449,966</u>
<b>Non-controlling interests</b>	<u>(855)</u>	<u>399</u>
<b>Total equity</b>	<u>9,538,070</u>	<u>9,450,365</u>
<b>Non-current liabilities</b>		
Borrowings	11,267,611	14,692,954
Other payables	105,426	1,620
Provision for assets retirement obligation	216,903	196,118
Deferred tax liabilities	1,112,241	1,023,726
	<u>12,702,181</u>	<u>15,914,418</u>
<b>Current liabilities</b>		
Borrowings	5,939,300	1,722,201
Trade and other payables	2,669,909	2,797,114
Provision for assets retirement obligation	19,805	25,086
Income tax payable	126,964	83,585
	<u>8,755,978</u>	<u>4,627,986</u>
<b>TOTAL LIABILITIES</b>	<u>21,458,159</u>	<u>20,542,404</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b><u>30,996,229</u></b>	<b><u>29,992,769</u></b>
<b>Net assets per share (RM)</b>	<b><u>1.60</u></b>	<b><u>1.59</u></b>

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

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 31 OCTOBER 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)		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Nine months to 31 October 2018 (Unaudited)</b>						
At 1 February 2018	8,066,410	(114,942)	1,443,619	54,879	399	9,450,365
<b>Total comprehensive income/(loss)</b>	-	-	381,838	(292,879)	(1,254)	87,705
At 31 October 2018	<u>8,066,410</u>	<u>(114,942)</u>	<u>1,825,457</u>	<u>(238,000)</u>	<u>(855)</u>	<u>9,538,070</u>
<b>Nine months to 31 October 2017 (Unaudited)</b>						
At 1 February 2017	8,066,410	(93,304)	2,485,032	2,617,980	4,190	13,080,308
<b>Total comprehensive loss</b>	-	-	(525,802)	(217,945)	(1,530)	(745,277)
<b>Transactions with owners:</b>						
Purchase of shares held under trust	-	(46,000)	-	-	-	(46,000)
Dividend on ordinary shares	-	-	-	(59,628)	-	(59,628)
<b>Total transactions with owners</b>	<u>-</u>	<u>(46,000)</u>	<u>-</u>	<u>(59,628)</u>	<u>-</u>	<u>(105,628)</u>
At 31 October 2017	<u>8,066,410</u>	<u>(139,304)</u>	<u>1,959,230</u>	<u>2,340,407</u>	<u>2,660</u>	<u>12,229,403</u>

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

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 31 OCTOBER 2018

THE FIGURES HAVE NOT BEEN AUDITED

V. CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	UNAUDITED Nine months to <b>31/10/2018</b> RM'000	UNAUDITED Nine months to <b>31/10/2017</b> RM'000
<b>Loss before taxation</b>	<b>(147,592)</b>	<b>(71,572)</b>
Adjustments	1,009,373	1,194,114
Operating profit before working capital changes	861,781	1,122,542
Changes in working capital ^	(481,125)	(284,030)
<b>Cash generated from operations</b>	<b>380,656</b>	<b>838,512</b>
Taxation paid	(78,615)	(58,523)
<b>Net cash generated from operating activities</b>	<b>302,041</b>	<b>779,989</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(201,652)	(909,432)
Purchase of expenditure on oil and gas properties	(226,310)	(191,553)
Payment of deferred consideration ^	(300,854)	(194,477)
Advances to joint venture	-	42,400
Dividend received from a joint venture company	1,561	423,695
Other items	21,545	20,536
<b>Net cash used in investing activities</b>	<b>(705,710)</b>	<b>(808,831)</b>
<b>Cash flows from financing activities</b>		
Finance costs paid	(639,194)	(561,527)
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	-	(880,541)
Net repayment of hire purchase and finance lease creditors	(4,974)	(7,027)
<b>Net cash used in financing activities</b>	<b>(644,168)</b>	<b>(1,554,723)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,047,837)</b>	<b>(1,583,565)</b>
Effect of exchange rate translation	21,146	(43,211)
Cash and cash equivalents at beginning of year	1,716,235	3,519,509
<b>Cash and cash equivalents at end of period</b>	<b>689,544</b>	<b>1,892,733</b>

^ 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 October 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. 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 October 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 October 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 cyclicity 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 October 2018.

## 6. Subsequent events

On 12 September 2018, the Group has entered into a Heads of Agreement with Austria's OMV Aktiengesellschaft ("OMV AG") to continue negotiations on an exclusive basis to form a strategic partnership through the proposed acquisition by OMV AG of a 50% equity stake in the Company's wholly-owned subsidiary, Sapura Upstream Sdn. Bhd. ("SUSB") (formerly known as Sapura Exploration and Production Sdn. Bhd.) ("Proposed OMV Transaction"). The Proposed OMV Transaction is based on an enterprise value of USD 1.6 billion.

On 9 November 2018, in relation to the Proposed OMV Transaction, the following definitive agreements have been entered into:

- (a) subscription agreement between SEB, Sapura Upstream Assets Sdn. Bhd. ("SUA"), a wholly-owned subsidiary of SEB, OMV Exploration & Production GmbH ("OMV E&P") and SEB Upstream Sdn. Bhd. ("SUP") for the purposes of the proposed subscription by OMV E&P of such number of new ordinary shares in SUP representing 50% of the enlarged issued share capital of SUP; and
- (b) shareholders' agreement between SEB, OMV E&P, SUA, SUP and SUSB for purposes of regulating the joint management of SUP.

On 4 December 2018, the Group has entered into a warranty and indemnity deed in relation to certain warranties, covenants and indemnities in connection with the Proposed OMV Transaction.

There was no other material event subsequent to 31 October 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 RM758.8 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 October 2018 is as follows:

<b>Approved and contracted for:</b>	<b>31/10/2018</b>
	RM'000
Group	<u>559,317</u>



## 10. Taxation

Taxation comprises the following:

	Individual Quarter		Cumulative Quarter	
	Current year quarter <b>31/10/2018</b> RM'000	Preceding year corresponding quarter <b>31/10/2017</b> RM'000	Nine months to <b>31/10/2018</b> RM'000	Nine months to <b>31/10/2017</b> RM'000
Current taxation:				
Malaysian taxation	83,772	22,163	93,390	45,476
Foreign taxation	20,184	31,300	58,678	64,046
Deferred taxation	(32,048)	12,042	(5,511)	37,328
	<u>71,908</u>	<u>65,505</u>	<u>146,557</u>	<u>146,850</u>

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

On 24 August 2018, the Company announced that it proposes to undertake the following:

- (i) Proposed renounceable rights issue of up to 9,986,925,145 new ordinary shares in the Company ("Shares") ("Rights Shares") at an issue price of RM0.30 per Rights Share together with up to 998,692,515 free detachable warrants in the Company ("Warrants") on the basis of five Rights Shares for every three Shares held at an entitlement date to be determined later and one free Warrant for every ten Rights Shares subscribed ("Proposed Rights Issue of Shares with Warrants");
- (ii) Proposed renounceable rights issue of up to 2,396,862,035 new Islamic redeemable convertible preference shares in the Company ("RCPS-i") at an issue price of RM0.41 per RCPS-i on the basis of two RCPS-i for every five Shares held at an entitlement date to be determined later ("Proposed Rights Issue of RCPS-i"); and
- (iii) Proposed amendments to the constitution of the Company ("Proposed Amendments").

Proposed Rights Issue of Shares with Warrants and Proposed Rights Issue of RCPS-i are collectively referred to as the "Proposed Rights Issue".

On 25 September 2018, the Company announced that it proposes to establish an executive share option scheme of up to 10% of the total number of issued Shares (excluding treasury shares, if any) at any point in time ("Proposed ESOS") to the senior management and Executive Director(s) of the Company and its subsidiary companies (excluding dormant subsidiaries). It was also announced that in conjunction with the Proposed Rights Issue, an exemption from the Securities Commission Malaysia ("SC") will be sought by Permodalan Nasional Berhad ("PNB"), Amanah Saham Bumiputera ("ASB") and persons connected with PNB and ASB under the Rules on Take-overs, Mergers and Compulsory Acquisitions from the obligation to undertake the mandatory take-over offer as a result of the Proposed Rights Issue ("Proposed Exemption").

On 16 October 2018, the Company announced that Bank Negara Malaysia has approved the issuance of the RCPS-i to the non-resident shareholders of the Company pursuant to the Proposed Rights Issue of RCPS-i based on the key terms of the RCPS-i.

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

On 5 November 2018, the Company announced that the Shariah Advisory Council of the SC had informed that it has no objection to the Proposed Rights Issue of RCPS-i.

On 5 November 2018, the Company announced that Bursa Malaysia Securities Berhad ("Bursa Securities") had approved the following:

- (i) admission of up to 998,692,515 Warrants and 2,396,862,035 RCPS-i to the Official List of Bursa Securities;
- (ii) listing of the following on the Main Market of Bursa Securities:
  - (a) up to 9,986,925,145 Rights Shares;
  - (b) up to 998,692,515 Warrants;
  - (c) up to 998,692,515 new Shares to be issued upon exercise of the Warrants;
  - (d) up to 2,396,862,035 RCPS-i;
  - (e) up to 2,396,862,035 new Shares to be issued upon conversion of the RCPS-i; and
  - (f) such number of new Shares to be issued pursuant to the Proposed ESOS, representing up to ten percent (10%) of the total issued Shares (excluding treasury shares, if any) at any point in time,

On 29 November 2018, the Company held an Extraordinary General Meeting and all resolutions related to the Proposed Rights Issue, Proposed Exemption, Proposed ESOS and Proposed Amendments were duly passed by the shareholders of the Company.

On 6 December 2018, the Company announced that the SC had approved the Proposed Exemption.

Subsequent to 31 October 2018, the Company has entered into definitive agreements with OMV AG to form a strategic partnership as described in Note 6.

## 12. Borrowings

	<u>Short term borrowings</u>		<u>Long term borrowings</u>		<u>Total borrowings</u>	
	Foreign denomination RM'000	RM denomination RM'000	Foreign denomination RM'000	RM denomination RM'000	Foreign denomination RM'000	RM denomination RM'000
<b>As at</b>						
<b>31 October 2018</b>						
<b>Secured</b>						
Hire purchase	-	1,102	-	178	-	1,280
<b>Unsecured</b>						
Revolving credits	823,058	952,100	-	-	823,058	952,100
Term loans	4,163,040	-	3,186,406	-	7,349,446	-
Islamic Facility	-	-	1,648,891	1,872,481	1,648,891	1,872,481
Sukuk Programme	-	-	1,145,359	3,414,296	1,145,359	3,414,296
	<u>4,986,098</u>	<u>953,202</u>	<u>5,980,656</u>	<u>5,286,955</u>	<u>10,966,754</u>	<u>6,240,157</u>
<b>Total</b>		<u>5,939,300</u>		<u>11,267,611</u>		<u>17,206,911</u>

## 12. Borrowings (cont'd.)

	Short term borrowings		Long term borrowings		Total borrowings	
	Foreign denomination	RM denomination	Foreign denomination	RM denomination	Foreign denomination	RM denomination
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>As at 31 January 2018</b>						
<b>Secured</b>						
Hire purchase	1,055	5,079	110	177	1,165	5,256
<b>Unsecured</b>						
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
	<u>765,022</u>	<u>957,179</u>	<u>9,421,454</u>	<u>5,271,500</u>	<u>10,186,476</u>	<u>6,228,679</u>
<b>Total</b>		<u>1,722,201</u>		<u>14,692,954</u>		<u>16,415,155</u>

## 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 October 2018		As at 31 January 2018	
	Notional Value	Assets Fair Value	Notional Value	Assets Fair Value
	RM'000	RM'000	RM'000	RM'000
5 years Islamic Cross-Currency Swap	<u>2,704,606</u>	<u>113,540</u>	<u>2,704,606</u>	<u>262,563</u>

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).

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

##### **(a) Sarku Engineering Services Sdn. Bhd. (cont'd.)**

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.

Proceedings continued on the 21, 22 and 23 November 2018 with submissions from SESSB's counsel. The tribunal has fixed further hearing dates on the 12, 13 and 14 of February 2019 to allow ONGC's counsel to present their submissions.

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

##### **(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) 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 from PML to formally initiate a claim by way of arbitration proceedings at the Asian International Arbitration Centre for damages amounting to a sum of USD14,743,541 and RM831,188 in relation to disputes arising from the Contract. PML has alleged breach of riser height requirements and preservation obligations by SFSB. The claim by PML was made separately in two currencies as the claim is based on the rates and currencies prescribed in the Contract.

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 have attended the first arbitration meeting on 21 July 2018. PML has filed their Points of Claim on 21 September 2018 and SFSB has filed its Defence and Counterclaim on 3 December 2018. The tentative hearing date have been fixed 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		Changes
	3 months to		
	31/10/2018	31/10/2017	
	RM'000	RM'000	%
Revenue	1,502,229	1,279,973	17.4
Profit from operations	404,914	274,978	47.3
Profit/(loss) before taxation	40,255	(209,716)	>100.0
Loss after taxation	(31,653)	(275,221)	88.5
Loss attributable to owners of the Parent	(31,090)	(274,406)	88.7

The Group revenue of RM1,502.2 million was 17.4% higher than RM1,280.0 million in the corresponding quarter of the preceding year ("Q3 FY2018"), mainly attributable to the higher revenue from Engineering and Construction and Exploration and Production business segments.

In the current quarter, the Group recorded a profit before taxation of RM40.3 million. The Group financial performance was higher by RM250.0 million compared to the loss before taxation of RM209.7 million in Q3 FY2018, in line with the higher revenue.

### 15.2 Current period vs. corresponding period of the preceding year

	Cumulative Quarter		Changes
	9 months to		
	31/10/2018	31/10/2017	
	RM'000	RM'000	%
Revenue	3,816,877	4,705,752	(18.9)
Profit from operations	871,678	1,107,804	(21.3)
Loss before taxation	(147,592)	(71,572)	(>100.0)
Loss after taxation	(294,149)	(218,422)	(34.7)
Loss attributable to owners of the Parent	(292,879)	(217,945)	(34.4)

The Group revenue of RM3,816.9 million was 18.9% lower than the corresponding period of the preceding year ("corresponding period") of RM4,705.8 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 RM147.6 million. The Group financial performance was lower by RM76.0 million compared to the loss before taxation of RM71.6 million in the corresponding period, in line with the lower revenue.

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

### 15.3 Current quarter vs. immediate preceding quarter

	Individual Quarter		Changes %
	31/10/2018	31/07/2018	
	RM'000	RM'000	
Revenue	1,502,229	1,259,703	19.3
Profit from operations	404,914	249,967	62.0
Profit/(loss) before taxation	40,255	(79,668)	>100.0
Loss after taxation	(31,653)	(125,952)	74.9
Loss attributable to owners of the Parent	(31,090)	(126,055)	75.3

The Group revenue of RM1,502.2 million was 19.3% higher than the immediate preceding quarter ("Q2 FY2019") of RM1,259.7 million, primarily due to the higher revenue from Engineering and Construction and Exploration and Production business segments.

In the current quarter, the Group recorded a profit before taxation of RM40.3 million. The Group financial performance was higher by RM119.9 million compared to the loss before taxation of RM79.7 million in Q2 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

	<u>3 months to 31/10/2018</u>	
	Revenue RM'000	Operating profit/(loss) RM'000
E&C	959,831	39,582
Drilling	246,520	(11,664)
E&P	296,150	37,093
	<u>1,502,501</u>	<u>65,011</u>
Corporate expenses and eliminations	(272)	(24,756)
<b>Group revenue / profit before taxation</b>	<b><u>1,502,229</u></b>	<b><u>40,255</u></b>

## 17. Review of Segment Performance

### 17.1 Current quarter vs. corresponding quarter of the preceding year

	Revenue 3 months to			Operating profit/(loss) 3 months to		
	31/10/2018 RM'000	31/10/2017 RM'000	Changes %	31/10/2018 RM'000	31/10/2017 RM'000	Changes %
<b>Business Segments:</b>						
E&C	959,831	822,291	16.7	39,582	(29,324)	>100.0
Drilling	246,520	251,205	(1.9)	(11,664)	(93,144)	87.5
E&P	296,150	207,695	42.6	37,093	8,663	>100.0
	<u>1,502,501</u>	<u>1,281,191</u>		<u>65,011</u>	<u>(113,805)</u>	
Corporate expenses and eliminations	<u>(272)</u>	<u>(1,218)</u>	77.7	<u>(24,756)</u>	<u>(95,911)</u>	74.2
<b>Group revenue/profit/ (loss) before taxation</b>	<b><u>1,502,229</u></b>	<b><u>1,279,973</u></b>	17.4	<b><u>40,255</u></b>	<b><u>(209,716)</u></b>	>100.0

#### Business Segments:

##### Engineering and Construction

The segment recorded revenue of RM959.8 million, which was 16.7% higher than the revenue of RM822.3 million in Q3 FY2018, in line with the higher activities during the current quarter.

The segment recorded a profit before taxation for the current quarter of RM39.6 million which was higher by RM68.9 million compared to loss before taxation of RM29.3 million in Q3 FY2018, in line with the higher revenue and higher contribution from share of profit from associates and joint ventures in the current quarter. Included in Q3 FY2018 was the share of loss on disposal of vessel from SapuraAcergy amounting to RM46.1 million.

##### Drilling

The segment revenue for the current quarter of RM246.5 million was 1.9% lower than the revenue of RM251.2 million in Q3 FY2018.

The segment recorded a loss before taxation of RM11.7 million, which was lower by RM81.5 million compared to the loss before taxation of RM93.1 million in Q3 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 RM296.2 million, which was 42.6% higher than the revenue of RM207.7 million in Q3 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 Q3 FY2018.

The segment recorded a profit before taxation of RM37.1 million which was RM28.4 million higher compared to Q3 FY2018, in line with the higher revenue.

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

### 17.2 Current period vs. corresponding preceding period

	Revenue			Operating profit/(loss)		
	9 months to			9 months to		
	31/10/2018	31/10/2017	Changes	31/10/2018	31/10/2017	Changes
	RM'000	RM'000	%	RM'000	RM'000	%
<b>Business Segments:</b>						
E&C	2,404,969	3,285,561	(26.8)	55,549	278,754	(80.1)
Drilling	683,440	915,170	(25.3)	(138,641)	(157,353)	11.9
E&P	733,509	563,950	30.1	73,871	55,625	32.8
	<u>3,821,918</u>	<u>4,764,681</u>		<u>(9,221)</u>	<u>177,026</u>	
Corporate expenses and eliminations	<u>(5,041)</u>	<u>(58,929)</u>	91.4	<u>(138,371)</u>	<u>(248,598)</u>	44.3
<b>Group revenue/ loss before taxation</b>	<b><u>3,816,877</u></b>	<b><u>4,705,752</u></b>	<b>(18.9)</b>	<b><u>(147,592)</u></b>	<b><u>(71,572)</u></b>	<b>(&gt;100.0)</b>

#### Business Segments:

##### Engineering and Construction

The segment revenue for the current period of RM2,405.0 million was 26.8% 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 RM55.5 million which was lower by RM223.2 million compared to profit before taxation of RM278.8 million in the corresponding period, in line with the lower revenue in the current period. Included in corresponding period was the share of loss on disposal of vessel from SapuraAcergy amounting to RM46.1 million.

##### Drilling

The segment revenue for the current period of RM683.4 million was lower by 25.3% compared to the corresponding period, mainly due to the unfavourable effect of US Dollar weakening against Ringgit Malaysia.

The segment recorded a loss before taxation for the current period of RM138.6 million which was lower by 11.9% compared to loss before taxation of RM157.4 million in the corresponding period, due to favourable impact from the lower depreciation cost in the current period as a result of asset impairment exercise in Q4 FY2018.

##### Exploration and Production

The segment recorded revenue of RM733.5 million, which was 30.1% higher than the revenue of RM564.0 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 RM73.9 million which was higher by 32.8% compared to profit before taxation of RM55.6 million in the corresponding period, in line with the higher revenue.



## 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.

### 18.2 Trade and other receivables

	As at 31/10/2018	As at 31/01/2018
	RM'000	RM'000
<b>Non-current</b>		
Trade receivables, representing total non-current trade receivables	32,469	30,537
<b>Current</b>		
Trade receivables	2,111,378	1,576,527
Less: Provision for impairment	(34,446)	(34,446)
	<u>2,076,932</u>	<u>1,542,081</u>
Other receivables	<u>1,213,290</u>	<u>988,030</u>
Total current trade and other receivables	<u>3,290,222</u>	<u>2,530,111</u>
Total trade and other receivables	<u>3,322,691</u>	<u>2,560,648</u>

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

The industry has seen an increase in capital spend and resurgence in activities. The encouraging industry outlook has continued to fuel the Group's growth and is expected to contribute positively in the foreseeable future.

The Group has been successful in expanding its global footprint and has secured significant contract wins since the start of 2018. The cumulative value of contract wins to-date for the Group is RM8.5 billion across its E&C and Drilling businesses resulting in the Group's orderbook increasing to RM18.6 billion. The Group has seen a significant increase in bidding activities for an enlarged customer base and for larger contracts in multiple geographies. The Group's recent entry into Saudi Aramco's long-term agreement ("LTA") programme will open up new engineering, procurement, construction and installation ("EPCI") opportunities with Saudi Aramco and deepen our presence in the Middle East.

Given the Group has global operating centres in key countries/regions such as Australia, Southeast Asia, India, the Middle East, Africa, the United Kingdom, Brazil, Mexico and the USA, the Group is poised to leverage on growth opportunities as the market recovers. The growing orderbook provides the platform for increasing revenue and higher utilisation of the Group's assets in the future.

The E&P business has successfully acquired prospective exploration acreage in highly prolific regions in the Sureste basin in Mexico, the Taranaki basin in New Zealand, and the Carnarvon basin and Vulcan sub-basin in Western Australia in 2018. It has also commenced the construction of the facilities for the development of the Gorek, Larak and Bakong fields within block SK408 which is expected to begin production in late 2019.

On 24 August 2018, the Group announced a rights issue exercise and it was approved by shareholders at the extraordinary general meeting held on 29 November 2018. The rights issue would raise gross proceeds of approximately RM4.0 billion to reduce the borrowings of the Group and strengthen the Group's balance sheet. A stronger balance sheet will provide the Group with greater financial flexibility in pursuing and executing projects in conjunction with the improving prospects of the industry. The exercise is expected to be completed in January 2019.

On 9 November 2018, the Group announced that it had entered into the subscription agreement and the shareholders' agreement pursuant to the strategic partnership with OMV AG for the Group's E&P business. The transaction is expected to result in the Group receiving up to USD975 million to be utilised for repayment of borrowings and for working capital purposes. 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 completion of the two corporate exercises above will significantly strengthen the financial position of the Group.

The Group's third quarter results is a further improvement from the previous two quarters and the Board views this to be a reflection of the Group being in positive transition. With the increasing activities, stronger balance sheet and encouraging potential growth prospects, 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

Basic/Diluted	Individual Quarter		Cumulative Quarter	
	3 months to		9 months to	
	31/10/2018	31/10/2017	31/10/2018	31/10/2017
Loss attributable to owners of the Parent (RM'000)	(31,090)	(274,406)	(292,879)	(217,945)
Weighted average number of ordinary shares in issue excluding shares held under trust ('000)	5,952,277	5,936,249	5,952,277	5,947,136
Basic/diluted earnings per share (sen)	(0.52)	(4.62)	(4.92)	(3.66)

### By Order of the Board

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

Seri Kembangan, Selangor Darul Ehsan  
6 December 2018