

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 JULY 2020

THE FIGURES HAVE NOT BEEN AUDITED

I. CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Individual Quarter		Cumulative Quarter	
	Current year quarter 31/07/2020 RM'000	Preceding year corresponding quarter 31/07/2019 RM'000	Six months to 31/07/2020 RM'000	Six months to 31/07/2019 RM'000
Revenue	1,219,237	1,927,400	2,575,899	3,559,860
Other operating income	2,549	1,837	6,607	94,970
Operating expenses	(902,675)	(1,812,660)	(2,094,054)	(3,398,327)
Operating profit	319,111	116,577	488,452	256,503
Depreciation and amortisation	(133,674)	(129,222)	(268,565)	(253,516)
Finance income	6,330	3,197	30,627	8,208
Finance costs	(119,711)	(152,443)	(258,464)	(366,822)
Gain on disposal of property, plant and equipment	-	2,133	-	13,249
Net foreign exchange gain/(loss)	778	(5,844)	34,688	19,104
Share of (loss)/profit from associates and joint ventures	(19,457)	72,376	62,830	151,694
Profit/(loss) before taxation	53,377	(93,226)	89,568	(171,580)
Taxation	(29,726)	(23,331)	(52,009)	(54,304)
Profit/(loss) after taxation	23,651	(116,557)	37,559	(225,884)
Attributable to:				
Owners of the Parent:	23,744	(116,312)	37,951	(225,407)
Non-controlling interests	(93)	(245)	(392)	(477)
	23,651	(116,557)	37,559	(225,884)
Earning/(loss) per share (sen)				
- Basic	0.15	(0.73)	0.24	(1.41)
- Diluted	0.15	(0.73)	0.24	(1.41)

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

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 JULY 2020

THE FIGURES HAVE NOT BEEN AUDITED

II. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative Quarter	
	Current year quarter 31/07/2020 RM'000	Preceding year corresponding quarter 31/07/2019 RM'000	Six months to 31/07/2020 RM'000	Six months to 31/07/2019 RM'000
Profit/(loss) after taxation	23,651	(116,557)	37,559	(225,884)
Other comprehensive (loss)/income:				
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>				
Foreign currency translation differences	(51,727)	(14,984)	105,067	(396)
Net changes in cash flow hedge	(37,140)	4,813	7,022	439
Share of other comprehensive (loss)/income of associates and joint ventures:				
- Foreign currency translation differences	(98,679)	(1,030)	123,285	34,826
- Net changes in cash flow hedge	(449)	(23,726)	(23,527)	(32,949)
<i>Items that has been reclassified to profit or loss in current period:</i>				
Amortisation of cumulative changes in relation to previous hedge instruments	4,108	-	8,216	-
Total comprehensive (loss)/income	<u>(160,236)</u>	<u>(151,484)</u>	<u>257,622</u>	<u>(223,964)</u>
Attributable to:				
Owners of the Parent	(159,840)	(150,205)	258,175	(222,176)
Non-controlling interests	(396)	(1,279)	(553)	(1,788)
Total comprehensive (loss)/income	<u>(160,236)</u>	<u>(151,484)</u>	<u>257,622</u>	<u>(223,964)</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 SECOND QUARTER ENDED 31 JULY 2020

THE FIGURES HAVE NOT BEEN AUDITED

III. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	UNAUDITED As at end of current financial period 31/07/2020 RM'000	AUDITED As at end of preceding financial year 31/01/2020 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	9,800,951	9,638,931
Intangible assets	5,025,511	4,947,773
Investment in associates	2,172,809	2,147,935
Investment in joint ventures	1,980,117	1,833,407
Deferred tax assets	111,571	96,295
Derivative assets	-	18,778
Trade and other receivables	84,751	82,560
	<u>19,175,710</u>	<u>18,765,679</u>
Current assets		
Inventories	438,464	383,888
Trade and other receivables	1,437,706	1,457,227
Contract assets	1,215,873	1,200,397
Tax recoverable	166,909	168,778
Cash and cash equivalents	731,912	772,374
	<u>3,990,864</u>	<u>3,982,664</u>
TOTAL ASSETS	<u>23,166,574</u>	<u>22,748,343</u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	10,872,078	10,872,078
Islamic redeemable convertible preference shares ("RCPS-i")	982,713	982,713
Shares held under trust	(11,587)	(11,587)
Warrants reserve	109,110	109,110
Other reserves	1,923,652	1,703,428
Accumulated losses	(4,435,270)	(4,473,221)
	<u>9,440,696</u>	<u>9,182,521</u>
Non-controlling interests	<u>(8,406)</u>	<u>(7,853)</u>
Total equity	<u>9,432,290</u>	<u>9,174,668</u>

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 JULY 2020

THE FIGURES HAVE NOT BEEN AUDITED

III. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D.)

	UNAUDITED	AUDITED
	As at end of current financial period 31/07/2020 RM'000	As at end of preceding financial year 31/01/2020 RM'000
Non-current liabilities		
Borrowings	7,204,415	7,110,429
Derivative liabilities	78,107	-
Trade and other payables	288,257	10,000
Contract liabilities	58,167	72,532
Lease liabilities	8,526	9,148
Deferred tax liabilities	77,618	42,722
	<u>7,715,090</u>	<u>7,244,831</u>
Current liabilities		
Borrowings	3,345,400	3,145,665
Trade and other payables	2,127,295	2,503,550
Contract liabilities	212,669	199,436
Lease liabilities	11,042	13,771
Provision	183,539	348,254
Provision for tax	139,249	118,168
	<u>6,019,194</u>	<u>6,328,844</u>
TOTAL LIABILITIES	<u>13,734,284</u>	<u>13,573,675</u>
TOTAL EQUITY AND LIABILITIES	<u>23,166,574</u>	<u>22,748,343</u>
Net assets per share (RM)	<u>0.59</u>	<u>0.57</u>

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 SECOND QUARTER ENDED 31 JULY 2020

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	
	Non-distributable			Distributable					
	Share capital	RCPS-i	Shares held under trust	Warrants reserve	Other reserves	Accumulated losses			Total
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
Six months to 31 July 2020									
(Unaudited)									
At 1 February 2020	10,872,078	982,713	(11,587)	109,110	1,703,428	(4,473,221)	9,182,521	(7,853)	9,174,668
Total comprehensive income	-	-	-	-	220,224	37,951	258,175	(553)	257,622
At 31 July 2020	10,872,078	982,713	(11,587)	109,110	1,923,652	(4,435,270)	9,440,696	(8,406)	9,432,290

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 JULY 2020

THE FIGURES HAVE NOT BEEN AUDITED

IV. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D.)

	Attributable to owners of the Parent						Non-controlling interests	Total equity	
	<----- Non-distributable ----->					Distributable			Total
	Share capital	RCPS-i	Shares held under trust	Warrants reserve	Other reserves	Retained profits/ (Accumulated losses)			
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Six months to 31 July 2019 (Unaudited)									
At 1 February 2019	10,872,078	982,713	(66,812)	109,110	1,764,292	213,684	13,875,065	(3,824)	13,871,241
Total comprehensive income/(loss)	-	-	-	-	3,231	(225,407)	(222,176)	(1,788)	(223,964)
Transactions with owners:									
Fair value of share options granted under Executive Share Option Scheme ("ESOS")	-	-	-	-	70,073	-	70,073	-	70,073
Dividend on ordinary shares	-	-	-	-	-	(79,895)	(79,895)	-	(79,895)
Total transactions with owners	-	-	-	-	70,073	(79,895)	(9,822)	-	(9,822)
At 31 July 2019	10,872,078	982,713	(66,812)	109,110	1,837,596	(91,618)	13,643,067	(5,612)	13,637,455

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 SECOND QUARTER ENDED 31 JULY 2020

THE FIGURES HAVE NOT BEEN AUDITED

V. CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	UNAUDITED Six months to 31/07/2020 RM'000	UNAUDITED Six months to 31/07/2019 RM'000
Cash flows from operating activities		
Profit/(loss) before taxation	89,568	(171,580)
Adjustments	398,282	454,839
Operating profit before working capital changes	487,850	283,259
Changes in working capital	(313,862)	(234,877)
Cash generated from operations	173,988	48,382
Taxation paid	(7,968)	(55,190)
Net cash generated from/(used in) operating activities	166,020	(6,808)
Cash flows from investing activities		
Purchase of property, plant and equipment	(88,109)	(119,283)
Proceeds from disposal of property, plant and equipment	889	24,523
Dividend received from a joint venture	2,183	15,861
Repayment of advances from a joint venture	23,510	-
Other items	10,835	5,153
Net cash used in investing activities	(50,692)	(73,746)
Cash flows from financing activities		
Finance costs paid	(221,953)	(303,178)
Net drawdown/(repayment) of revolving credit, trade financing, term loans and islamic facility	50,910	(7,020,950)
Net repayment of lease liabilities	(9,688)	(4,438)
Dividend paid on ordinary shares	-	(79,895)
Net cash used in financing activities	(180,731)	(7,408,461)
Net decrease in cash and cash equivalents	(65,403)	(7,489,015)
Effect of exchange rate translation	24,941	1,114
Cash and cash equivalents at beginning of year	772,374	8,098,397
Cash and cash equivalents at end of period	731,912	610,496

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 2020 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 Accounting 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 2020 should be read in conjunction with the audited financial statements for the financial year ended 31 January 2020.

The accounting policies and methods of computation adopted by Sapura Energy Berhad ("the Company") 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 2020 except for the following:

On 1 February 2020, the Group has 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 2020:

Amendments to MFRS 3: Business Combinations

Amendments to MFRS 101: Presentation of Financial Statements

Amendments to MFRS 108: Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to MFRS 7: Financial Instruments Disclosures

Amendments to MFRS 9: Financial Instruments

Revised Conceptual Framework for Financial Reporting

The adoption of the above standards and interpretations did not have a significant impact on the financial statements in the period of application.

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 in the various regions that the Group operates.

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 statement of profit or loss.

5. Debt and equity securities

There were no other 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 2020.

6. Subsequent events

There was no material event subsequent to 31 July 2020 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 and performance bonds granted to joint ventures and associates amounting to RM865.4 million (31 January 2020: RM833.5 million).
- (b) On 31 January 2019, SapuraOMV Upstream Sdn. Bhd. ("SapuraOMV") (an associate company of the Group) entered into a USD350.0 million financing facility agreement with OMV Exploration & Production GmbH ("OMV E&P"). As security for this, Sapura Upstream Assets Sdn. Bhd. (a subsidiary of the Group) has pledged shares of SapuraOMV with a value of USD175.0 million in favour of OMV E&P.
- (c) Tax positions for the Group are subject to income tax audits and disputes in various tax jurisdictions. One of its subsidiaries, Sapura Drilling Berani Limited ("SDBL"), is currently engaged in an on-going discussion with tax authorities regarding the resolution of tax matters for financial years 2012 and 2013. SDBL has submitted various documents and evidences to prove that all taxes have been settled correctly in the disputed years.

In December 2019, tax court has finalised the verdict for financial year 2012 with a large proportion of the claims in favour of SDBL. SDBL has submitted an appeal to the Supreme Court in March 2020 for the remaining balances. For financial year 2013, the tax hearings are still on-going.

SDBL, with advise of an appointed tax advisor, is of the opinion that there are strong defences over the disputed claims for both financial years 2012 and 2013.

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

9. Capital commitments

Capital expenditure for property, plant and equipment approved and not provided for in these condensed consolidated interim financial statements as at 31 July 2020 is as follows:

Approved and contracted for:	31/07/2020
	RM'000
Group	<u>388,914</u>

10. Taxation

Taxation comprises of the following:

	Individual Quarter		Cumulative Quarter	
	Three months to 31/07/2020	Three months to 31/07/2019	Six months to 31/07/2020	Six months to 31/07/2019
	RM'000	RM'000	RM'000	RM'000
Current taxation:				
Malaysian taxation	12,893	8,214	19,579	26,215
Foreign taxation	(10,061)	15,806	9,564	46,895
Deferred taxation	26,894	(689)	22,866	(18,806)
	<u>29,726</u>	<u>23,331</u>	<u>52,009</u>	<u>54,304</u>

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

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

11. Status of corporate proposals announced

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

12. Borrowings

	Short term borrowings		Long term borrowings		Total borrowings	
	USD denomination RM'000	RM denomination RM'000	USD denomination RM'000	RM denomination RM'000	USD denomination RM'000	RM denomination RM'000
As at 31 July 2020						
Unsecured						
Revolving credits	754,646	951,420	-	-	754,646	951,420
Trade financing	-	172,343	-	-	-	172,343
Term loans	90,587	-	2,769,479	-	2,860,066	-
Islamic Facility	679,767	521,059	-	-	679,767	521,059
Sukuk Programme	-	175,578	1,166,399	3,268,537	1,166,399	3,444,115
	<u>1,525,000</u>	<u>1,820,400</u>	<u>3,935,878</u>	<u>3,268,537</u>	<u>5,460,878</u>	<u>5,088,937</u>
Total		<u>3,345,400</u>		<u>7,204,415</u>		<u>10,549,815</u>

12. Borrowings (cont'd.)

	Short term borrowings		Long term borrowings		Total borrowings	
	USD	RM	USD	RM	USD	RM
	denomination RM'000	denomination RM'000	denomination RM'000	denomination RM'000	denomination RM'000	denomination RM'000
As at						
31 January 2020						
Unsecured						
Revolving credits	728,867	951,800	-	-	728,867	951,800
Trade financing	-	120,465	-	-	-	120,465
Term loans	-	-	2,735,711	-	2,735,711	-
Islamic Facility	650,426	518,919	-	-	650,426	518,919
Sukuk Programme	-	175,188	1,120,747	3,253,971	1,120,747	3,429,159
	<u>1,379,293</u>	<u>1,766,372</u>	<u>3,856,458</u>	<u>3,253,971</u>	<u>5,235,751</u>	<u>5,020,343</u>
Total		<u>3,145,665</u>		<u>7,110,429</u>		<u>10,256,094</u>

The Group is in the midst of a refinancing exercise which is expected to be completed by the fourth quarter of this financial year.

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 2020		As at 31 January 2020	
	Notional Value RM'000	Liabilities Fair Value RM'000	Notional Value RM'000	Assets Fair Value RM'000
5 years Islamic Cross-Currency Swap	<u>2,704,606</u>	<u>(78,107)</u>	<u>2,704,606</u>	<u>18,778</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.

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.

Examination in chief took place in January 2014 whereby revised list of documents were exchanged and recorded.

The cross examination of ONGC's witness were on 22 to 24 December 2014 and 5 to 6 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.

ONGC counsel commenced their arguments in defence on 6 February 2018 and continued on the 2 to 4 May 2018. They concluded their arguments in the said sittings and 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 heard ONGC's counsel present its submissions on 12 and 13 February 2019. Final written submission has been submitted to arbitrators on 15 April 2019. ONGC presented its submissions on 30 April 2019. SESSB was awarded the sum of USD3,009,788.54 by the arbitral tribunal, comprised of work done of USD1,983,521.29 (subject to 4.368% withholding tax to be deducted by ONGC) and interest of USD1,026,267.25 (subject to income tax of 43.68%).

SESSB has instructed its solicitors to file an appeal against the award dated 30 November 2019.

SESSB has been advised by its solicitors, that SESSB has reasonably strong grounds to appeal against the arbitral tribunal's decision. The following are reasons provided by its solicitors as grounds of appeal against the arbitral tribunal's award.

- (i) The arbitral tribunal had failed to consider the record and detailed written and oral submissions on behalf of SESSB in arriving at its findings while rejecting most of SESSB's claims and that they had made an error in rejecting the claims; and
- (ii) There were instances of procedural irregularities in the arbitration in favour of ONGC which may lead to a successful challenge of the award in the courts.

ONGC has since filed an application to the tribunal disputing the computation of the award and seeking a correction of the amounts awarded in respect of the interest portion of the award. Decision on ONGC's application is currently pending.

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) 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 USD9,558,003.00 and RM16,785,227.00 vide its Re-amended Point of Claims 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 RM13,521,495.41.

The arbitrators have been appointed and parties had 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. Subsequently, PML submitted their Points of Reply and Defence to Counterclaim on 4 February 2019. PML has requested to amend their Point of Claim and the same was filed on 8 March 2019. SFSB's rejoinder is due on 18 March 2019 and the same was filed on the said date. The deadline for parties to exchange bundle of documents was on 5 April 2019 and any request for discovery/disclosure has been filed on 9 May 2019. The documents ordered to be produced by SFSB was produced on 12 September 2019. On the other hand, the documents ordered to be produced by PML were partially tendered on 23 September 2019. Witness Statements have been filed on 15 November 2019 and the rebuttal witness statements are to be filed by 15 December 2019. The matter was fixed for hearing on 27 and 28 February 2020 and the continued hearing was scheduled on 1 June 2020. The tribunal has vacated 1 June 2020 hearing date due to circumstances relating to the COVID-19 pandemic and fixed a further 10 new hearing days in 2021 as listed down below:

- (i) 26, 27, 28 & 30 April 2021; and
- (ii) 3, 4, 5, 6, 7 & 10 May 2021.

SFSB has been advised by its solicitors that SFSB has good grounds to challenge and defend against PML's claim.

SFSB has submitted their expert's Quantum Report in August 2020 and PML has now requested from the Tribunal for an extension of time until 1 September 2020 to submit their rebuttal witness statement to SFSB's expert's Quantum Report. PML's request was granted by the Tribunal. Hearing will continue on the following dates:

- (i) 26,27 & 28 October 2020;
- (ii) 30 November, 1, 2, 3 & 4 December 2020;
- (iii) 7, 8, 9, 10 & 11 December 2020;
- (iv) 26, 27, 28 & 30 April 2021; and
- (v) 3, 4, 5, 6, 7 & 10 May 2021.

14. Material litigation (cont'd.)

(c) Sapura Energy do Brasil Ltda.

On 5 January 2020, Sapura Energy Berhad's subsidiary, Sapura Energy do Brasil Ltda. ("SE Brasil"), commenced arbitration proceedings against Centrais Elétricas de Sergipe S.A. ("CELSE") of Brazil. The arbitration is to resolve disputes arising out of an Engineering, Procurement, Construction and Installation Contract ("Contract") dated 20 November 2017.

SE Brasil had completed the works under the Contract in November 2019.

Due to unresolved disputes such as non-payment of milestone payments and non-payment of variation orders, SE Brasil commenced the arbitration proceedings against CELSE, which is conducted at the International Court of Arbitration in Sao Paulo, Brazil, under the International Chamber of Commerce (ICC) Arbitration Rules. The arbitration tribunal comprises of 3 arbitrators. Chairman for the arbitration proceeding has been appointed.

SE Brasil is prepared to defend CELSE's counterclaims. Initial review has been completed and witness interviews will commence in the second half of June 2020. SE Brasil is also currently finalising its Statement of Claim.

SE Brasil is scheduled to file its Statement of Claim by 20 November 2020.

15. Review of Group Performance

15.1 Current quarter vs. corresponding quarter of the preceding year

	Individual Quarter		Changes %
	31/07/2020 RM'000	31/07/2019 RM'000	
Revenue	1,219,237	1,927,400	(36.7)
Operating profit	319,111	116,577	>100.0
Profit/(loss) before taxation	53,377	(93,226)	>100.0
Profit/(loss) after taxation	23,651	(116,557)	>100.0
Profit/(loss) attributable to owners of the Parent	23,744	(116,312)	>100.0

The Group revenue of RM1,219.2 million was 36.7% lower than RM1,927.4 million in the corresponding quarter of the preceding year ("Q2 FY2020"), mainly attributable to the lower revenue from Engineering and Construction ("E&C") business segment due to lower activities in line with the progress of projects being executed.

In the current quarter, the Group recorded a profit before taxation of RM53.4 million which was higher by RM146.6 million compared to a loss before taxation of RM93.2 million in Q2 FY2020 primarily due to improved operating profit from E&C business segment, lower net finance cost and mitigated by the lower share of profit from associates and joint ventures.

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

15.2 Current period vs. corresponding period of the preceding year

	Cumulative Quarter		Changes %
	31/07/2020 RM'000	Six months to 31/07/2019 RM'000	
Revenue	2,575,899	3,559,860	(27.6)
Operating profit	488,452	256,503	90.4
Profit/(loss) before taxation	89,568	(171,580)	>100.0
Profit/(loss) after taxation	37,559	(225,884)	>100.0
Profit/(loss) attributable to owners of the Parent	37,951	(225,407)	>100.0

The Group revenue of RM2,575.9 million was 27.6% lower than the corresponding period of the preceding year ("corresponding period") of RM3,559.9 million, primarily due to the lower revenue from E&C and Drilling business segments.

In the current period, the Group recorded a profit before taxation of RM89.6 million which was higher by RM261.1 million compared to a loss before taxation of RM171.6 million in the corresponding period primarily due to improved operating profit from E&C business segment, lower net finance cost and mitigated by the lower share of profit from associates and joint ventures.

15.3 Current quarter vs. immediate preceding quarter

	Individual Quarter		Changes %
	31/07/2020 RM'000	Three months to 30/04/2020 RM'000	
Revenue	1,219,237	1,356,662	(10.1)
Operating profit	319,111	169,341	88.4
Profit before taxation	53,377	36,191	47.5
Profit after taxation	23,651	13,908	70.1
Profit attributable to owners of the Parent	23,744	14,207	67.1

The Group revenue of RM1,219.2 million was 10.1% lower than the immediate preceding quarter ("Q1 FY2021") of RM1,356.7 million, primarily due to the lower revenue from E&C and Drilling business segments.

In the current quarter, the Group recorded a profit before taxation of RM53.4 million which was 47.5% higher than the profit before taxation of RM36.2 million in Q1 FY2021 primarily due to improved operating profit from E&C business segment and mitigated by the lower share of profit from associates and joint ventures.

16. Segment information

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

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

	Three months to 31/07/2020	
	Revenue RM'000	Operating profit/(loss) RM'000
E&C	1,032,148	218,103
Drilling	187,403	(32,442)
E&P	-	(53,625)
	<u>1,219,551</u>	<u>132,036</u>
Corporate expenses and eliminations	(314)	(78,659)
Group revenue / profit before taxation	<u>1,219,237</u>	<u>53,377</u>

16.1 Current quarter vs. corresponding quarter of the preceding year

	Revenue			Operating profit/(loss)		
	Three months to		Changes %	Three months to		Changes %
	31/07/2020	31/07/2019		31/07/2020	31/07/2019	
	RM'000	RM'000		RM'000	RM'000	
Business Segments:						
E&C	1,032,148	1,656,526	(37.7)	218,103	27,180	>100.0
Drilling	187,403	271,954	(31.1)	(32,442)	(35,726)	9.2
E&P	-	-	-	(53,625)	(5,794)	(>100.0)
	<u>1,219,551</u>	<u>1,928,480</u>		<u>132,036</u>	<u>(14,340)</u>	
Corporate expenses and eliminations	(314)	(1,080)	70.9	(78,659)	(78,886)	0.3
Group revenue/ profit/(loss) before taxation	<u>1,219,237</u>	<u>1,927,400</u>	(36.7)	<u>53,377</u>	<u>(93,226)</u>	>100.0

Business Segments:

Engineering and Construction

The segment recorded revenue of RM1,032.1 million, which was 37.7% lower than the revenue of RM1,656.5 million in Q2 FY2020 due to lower activities in line with the progress of projects being executed.

The segment recorded a profit before taxation of RM218.1 million which was higher by RM190.9 million compared to a profit before taxation of RM27.2 million in Q2 FY2020 due to an improvement in project margins and mitigated by the lower share of profit from associates and joint ventures.

16. Segment information (cont'd.)

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

Business Segments (cont'd.):

Drilling

The segment revenue for the current quarter of RM187.4 million was lower by 31.1% compared to the revenue of RM272.0 million in Q2 FY2020 mainly due to the lower number operating days for working rigs in the current quarter.

The segment recorded a loss before taxation of RM32.4 million, which was marginally lower by RM3.3 million compared to a loss before taxation of RM35.7 million in Q2 FY2020.

Exploration and Production

The segment recorded a loss before taxation of RM53.6 million which was RM47.8 million higher compared to a loss before taxation of RM5.8 million in Q2 FY2020 mainly due to higher share of loss, net of tax, from SapuraOMV arising from lower average realised oil price achieved in the current quarter as well as higher deferred taxation recognised in the current quarter.

16.2 Current period vs. corresponding period of the preceding year

	Revenue			Operating profit/(loss)		
	Six months to		Changes %	Six months to		Changes %
	31/07/2020 RM'000	31/07/2019 RM'000		31/07/2020 RM'000	31/07/2019 RM'000	
Business Segments:						
E&C	2,148,590	3,059,338	(29.8)	342,005	75,225	>100.0
Drilling	428,275	502,378	(14.8)	(47,374)	(86,599)	45.3
E&P	-	-	-	(59,706)	(13,293)	(>100.0)
	<u>2,576,865</u>	<u>3,561,716</u>		<u>234,925</u>	<u>(24,667)</u>	
Corporate expenses and eliminations	<u>(966)</u>	<u>(1,856)</u>	48.0	<u>(145,357)</u>	<u>(146,913)</u>	1.1
Group revenue/ profit/(loss) before taxation	<u>2,575,899</u>	<u>3,559,860</u>	(27.6)	<u>89,568</u>	<u>(171,580)</u>	>100.0

Business Segments:

Engineering and Construction

The segment recorded revenue of RM2,148.6 million, which was 29.8% lower compared to the corresponding period due to lower activities in line with the progress of projects being executed.

The segment recorded a profit before taxation of RM342.0 million which was higher by RM266.8 million compared to a profit before taxation of RM75.2 million in the corresponding period due to an improvement in project margins and mitigated by the lower share of profit from associates and joint ventures.

16. Segment information (cont'd.)

16.2 Current period vs. corresponding period of the preceding year (cont'd.)

Business Segments (cont'd.):

Drilling

The segment revenue for the current period of RM428.3 million was lower by 14.8% compared to the revenue of RM502.4 million in the corresponding period mainly due to lower utilisation of rigs in the current period.

The segment recorded a loss before taxation of RM47.4 million, which was lower by RM39.2 million compared to a loss before taxation of RM86.6 million in the corresponding period mainly due to improved margins from operating rigs and lower interest expense.

Exploration and Production

The segment recorded a loss before taxation of RM59.7 million which was RM46.4 million higher compared to a loss before taxation of RM13.3 million in the corresponding period mainly due to higher share of loss, net of tax, from SapuraOMV arising from lower average realised oil price achieved in the current period as well as higher deferred taxation recognised in the current period.

17. Additional disclosure information

17.1 Foreign exchange exposure and 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 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.

17. Additional disclosure information (cont'd.)

17.2 Trade and other receivables and contract assets

	As at 31/07/2020	As at 31/01/2020
	RM'000	RM'000
Non-current		
Trade receivables	<u>37,497</u>	<u>39,154</u>
Other receivables	<u>47,254</u>	<u>43,406</u>
Total non-current trade and other receivables	<u>84,751</u>	<u>82,560</u>
Current		
Trade receivables	768,750	878,328
Less: Provision for impairment	<u>(39,880)</u>	<u>(39,880)</u>
	<u>728,870</u>	<u>838,448</u>
Other receivables	<u>708,836</u>	<u>618,779</u>
Total current trade and other receivables	<u>1,437,706</u>	<u>1,457,227</u>
Contract assets	<u>1,215,873</u>	<u>1,200,397</u>
Total trade and other receivables and contract assets	<u>2,738,330</u>	<u>2,740,184</u>

Trade receivables are non-interest bearing. The Group's normal trade credit term ranges from 30 to 90 days (as at 31 January 2020: 30 to 90 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.

18. (a) Commentary on prospects

Oil price volatility, coupled with ongoing movement restrictions due to the COVID-19 pandemic, continue to pressure the oil and gas industry. With uncertainties in the speed of recovery, oil and gas companies have remained conservative in their capex investment decisions.

An agile growth strategy, which entails targeting addressable markets while optimizing cost and improving operational efficiencies, has enabled the Group to sustain its profitability and maintain its growth momentum from the previous quarter.

The Group has identified optimisation initiatives valued at about RM1.1 billion being executed over the next 12 months. Approximately RM450 million worth of initiatives have been fully implemented to date, including operations productivity improvement and capex optimisation, a group-wide salary reduction and an extensive review of commercial opportunities within existing contracts.

The Group's orderbook stood at RM13.3 billion with cumulative announced contract wins of RM1.6 billion to-date in FY2021. The Group remains focused on pursuing new opportunities in various regions including the Middle East, Africa and Americas. This is evident from the recent notable awards in Mexico for Amoca Project – Offshore Block Area 1 by ENI Mexico, provision of a semi tender-assist drilling rig by Foxtrot International LDC in Ivory Coast and extension of contract for the charter and operations of pipe laying support vessel (Sapura Esmeralda) by Petrobras Brasileiro S.A. in Brazil. Despite the challenging market conditions, the Group is confident in its ability to continue securing new contracts.

Within E&P, the Group has made positive discovery at the Toutouwai-1 Exploration Well in the Taranaki Basin, New Zealand which will further enhance the growth of our E&P portfolio. In addition, Phase 1 of the SK408 development is now entirely on stream following the delivery of stable production of gas from Bakong field in June 2020, Gorek field in May 2020 and Larak field in December 2019. This milestone demonstrates the Group's continuous commitment to deliver value to its stakeholders.

As part of the Group's capital management plan to strengthen its financial position, the Group is currently undergoing a refinancing exercise of its existing debt. The exercise is expected to be completed by Q4 FY2021.

The Board anticipates the challenging environment to remain in the short to medium term. However, the Board is confident that the Group is capable of withstanding the current uncertainties and expects the Group to remain profitable.

18. (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.

19. Dividend

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

20. Earning/(loss) per share

Basic/Diluted	Individual Quarter		Cumulative Quarter	
	Three months to 31/07/2020	31/07/2019	Six months to 31/07/2020	31/07/2019
Profit/(loss) attributable to owners of the Parent (RM'000)	23,744	(116,312)	37,951	(225,407)
Weighted average number of ordinary shares in issue excluding shares held under trust ('000):				
- Basic	15,971,804	15,937,124	15,971,804	15,937,124
Effects of dilution:				
- Options under ESOS	51,576	199,759	51,576	199,759
- Diluted	16,023,380	16,136,883	16,023,380	16,136,883
Earning/(loss) per shares (sen)				
- Basic	0.15	(0.73)	0.24	(1.41)
- Diluted	0.15	(0.73)	0.24	(1.41)

Rights issue of RCPS-i and warrants of 2,396,862,035 units and 998,692,020 units respectively, and 586,388,264 options under the ESOS granted on 12 April 2019 have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

By Order of the Board

Azni Ariffin (LS 0008791)
Company Secretary

Seri Kembangan, Selangor Darul Ehsan
18 September 2020