

## 8. INDUSTRY OVERVIEW

PRIVATE &amp; CONFIDENTIAL



Date: 3 May 2012

**SapuraKencana Petroleum Berhad (formerly known as Sapura-Kencana Petroleum Berhad)**  
 Lot 6.08, 6th Floor  
 Plaza First Nationwide  
 161 Jalan Tun H.S. Lee  
 50000 Kuala Lumpur

Attention: Board of Directors

Dear Sirs,

**SAPURAKENCANA PETROLEUM BERHAD (FORMERLY KNOWN AS SAPURA-KENCANA PETROLEUM BERHAD) ("SKPB")**

**INDEPENDENT MARKET RESEARCH REPORT ASSESSING THE CORE MARKETS IN WHICH SKPB OPERATES AND THE PROSPECTS OF SKPB PURSUANT TO THE MERGER OF THE ENTIRE BUSINESSES AND UNDERTAKINGS, INCLUDING ALL ASSETS AND LIABILITIES OF SAPURACREST PETROLEUM BERHAD AND KENCANA PETROLEUM BERHAD UNDER SKPB ("MERGER")**

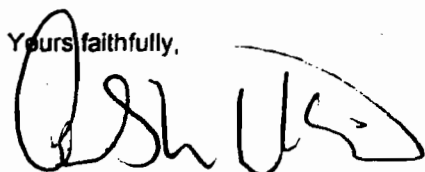
We, Infield Systems Limited ("ISL"), have prepared the Independent Market Research Report ("Report") on the assessment of the core markets in which SKPB operates and the prospects of the SKPB pursuant to the Merger for inclusion in SKPB's Prospectus dated 16 May 2012 in relation to the listing of SKPB on the Main Market of Bursa Malaysia Securities Berhad.

We acknowledge that this Report will be included in the Prospectus and we further confirm that we are aware of our responsibilities under Section 214 of the Capital Markets and Services Act, 2007.

We acknowledged that if we are aware of any significant changes to the accuracy of the information contained in this Report between the date of this Report and the issue date of this Prospectus, or after the issue of this Prospectus and before the issue of the securities, we have an on-going obligation to either cause this Report to be updated so as to correct any inaccuracies, and, where applicable, cause SKPB to issue a supplementary prospectus, or, should they fail to do so, withdraw our consent to the inclusion of this Report in the Prospectus.

ISL has prepared this Report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of this Report. We believe that his Report presents a true and fair view of the industry within the limitations of among others, secondary statistics and primary research. Our research has been conducted with an "overall industry perspective" and may not necessarily reflect the performance of individual companies in this industry. We are not responsible for the decisions and/or actions of the readers of this Report. This Report should also not be considered as recommendation to buy or not to buy the securities of any company or companies.

Yours faithfully,



**Quentin Whitfield**  
 Director – Business Strategy and Analysis

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1 EXECUTIVE OVERVIEW

1.1 Global Offshore Industry Trends & Prospects

The O&G industry is one of the most important mainstays for today's increasingly globalised economy. It provides the energy required for manufacturing and industry, the petrol required for transportation and trading, the packaging and plastics which enable products to come to market in good order whilst also providing the fuel for heating and cooling our homes and offices. Indeed, hydrocarbons are of pivotal importance in the modern world, and they pervade all levels of the global economy.

Today the offshore industry is an increasingly important part of global O&G production. Indeed, as onshore production has levelled-out, and in some cases declined, it has been new offshore developments that have sustained the level of production required to meet increasing global demand for O&G. However, like the onshore industry, the offshore industry is also maturing and ISL has observed a marked decline in the number of large shallow water discoveries in recent years. As this process of maturing continues, an increasing proportion of exploration and production ("E&P") activity will continue to take place in deeper waters, more remote locations and increasingly harsh climates. For many oil companies, these 'frontier' plays form the cornerstone of their offshore operations as the era of 'easy oil', where elephant field discoveries in shallow waters, come to a close. For the international large oil companies which typically cover the upstream and downstream O&G value chain, the importance of deepwater frontiers is compounded by their technical competitive advantage in these difficult operational environments, and the continued nationalisation of traditional onshore and shallow water reserves.

Today, as demand for O&G strengthens and onshore oil production growth struggles to keep pace, the macro environment for the continued development and evolution of the offshore industry remains positive. ISL forecasts total offshore Capex to increase from an estimated USD336 billion between 2006 and 2010 to nearly USD500 billion between 2011 and 2015. This rise in Capex is not only driven by the increasingly sophisticated nature of offshore projects but also by the growing number of field developments. Indeed, between 2011 and 2015, ISL forecasts that a total 1,310 offshore fields will be brought into production, representing an increase of 43% over the previous five-year period. For the Group's target markets consisting of Malaysia, Regional (Asia), Neighbouring (Australasia & the Middle East), Brazil and the North American markets following the completion of the merger of SapuraCrest and Kencana Petroleum, ISL forecasts a total offshore infrastructure Capex of USD298 billion over the next five years – representing a market growth of over 42% compared to the previous five year period.

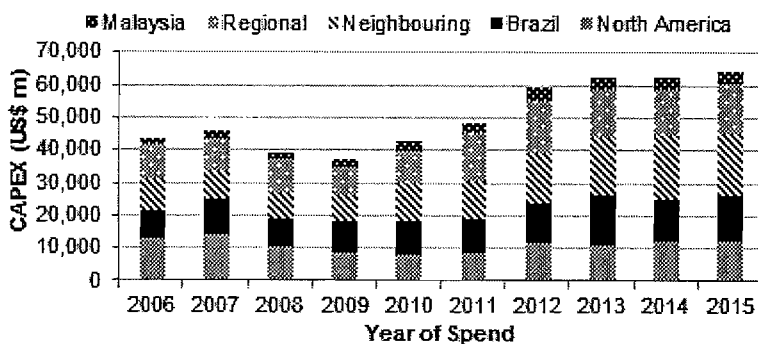


Figure 1.1: Total offshore Oil and Gas infrastructure Capex by region, 2006-2015 [Source: ISL]

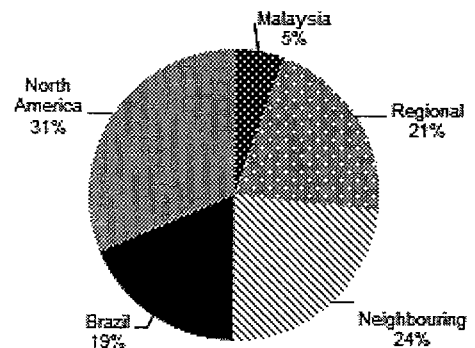


Figure 1.2: Offshore Oil & Gas Capex by region, 2011-2015 [Source: ISL]

## 8. INDUSTRY OVERVIEW (cont'd)

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**Local Market – Malaysia:** Much like the wider global market. ISL expects growth within the Integral Key Group's local geographical area. During the next five years, total offshore infrastructure Capex in Malaysia is forecast to increase from USD11.6 billion (2006-2010) to nearly USD20 billion (2011-2015). This growth in Capex is being driven by a significant increase in the number of fields being brought into production. Indeed, over the next five years ISL forecasts a total of 73 project developments, representing a 121% increase compared to the previous five year period. At the same time field developments are becoming increasingly complex as operators explore and develop deepwater reserves with projects such as Gumusut Kakap and Kikeh being key drivers of this trend. Within Malaysia, ISL continues to see the importance of the steady guiding hand of the Malaysian government and PETRONAS, who are looking to develop domestic O&G reserves with as much participation from local companies as possible. Initiatives such as the PETRONAS licenses for services such as fabrication, should mean that a handful of Malaysian based companies have maximum exposure to the Capex that ISL forecasts to be invested.

**Regional Market – Asia:** The level of offshore Capex in the Asia region (not including Malaysia) is expected to peak in the short-term at an estimated USD16 billion during 2012. Thereafter the level of spending is expected to remain relatively steady with an annual average Capex of USD14.6 billion between 2012 and 2015. If this level of spending is realised over the next five years the market would have increased by 52% compared to the previous five year period. One of the real growth opportunities in the Asia region lies within the development of the subsea production market. Indeed, though growing from a relatively limited base, subsea spending is forecast to increase dramatically in Asia with annual demand expected to peak during 2013.

**Neighbouring Market – Middle East & Caspian Sea and Australasia:** The Australasian offshore O&G industry primarily comprises projects and prospects based off the coast of Western Australia and the Northern Territory. Over the next five years, total offshore field development Capex is forecast to increase from an estimated USD3.6 billion in 2011 to USD9.7 billion by 2015. The majority of Australasian Capex is expected to be directed towards projects in water depths of less than 500 metres. However, in the longer term, Australia is expected to have significant deepwater potential, with activity expected to peak in 2015 at almost USD2.1 billion.

The second neighbouring market, the Middle East, is very much a traditional shallow water region that is characterised by large reserve discoveries in benign operating environments. ISL forecasts regional Capex to remain at a high but steady level within the Middle East over the next five years. Indeed, Capex is expected to increase from USD7.7 billion in 2011 to USD10 billion in 2012, where it is expected to remain at this level through to 2015. Given the traditional nature of field developments in the Persian Gulf and Caspian Sea, ISL will see a much higher Capex on fixed platforms and shallow water pipelines rather than the SURF and floating platform markets.

**Brazil:** Driven by the prolific deepwater frontiers and pre-salt plays, Brazil's offshore market has entered a significant and prolonged growth phase. Total infrastructure Capex is now expected to increase year-on-year from a base of USD10.3 billion in 2011 to USD13.7 billion by 2015. The Brazilian deepwater market is forecast to account for nearly 90% of national offshore Capex, with a high proportion of this investment directed towards floating production systems and all the ancillary equipment required for such projects.

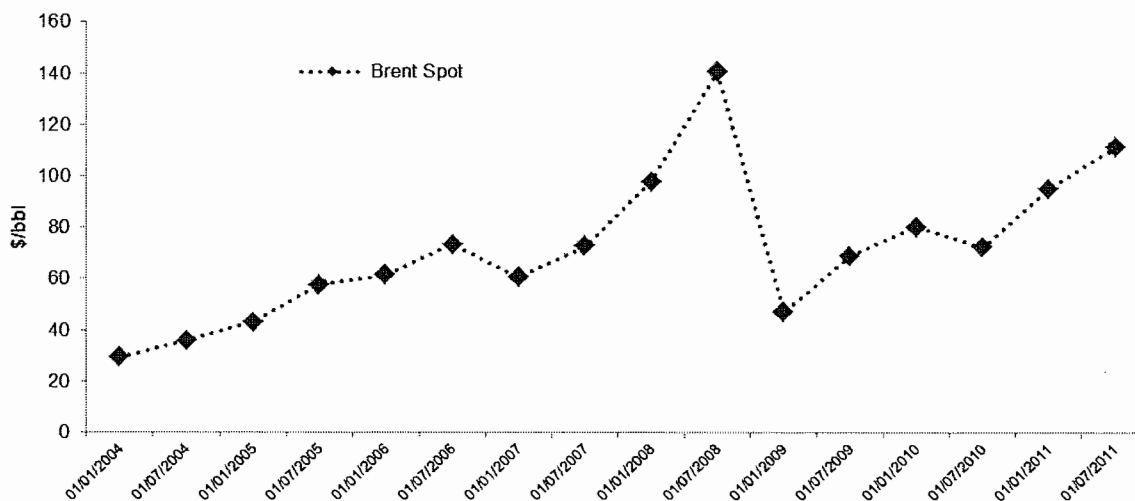
**North America:** Despite enduring a difficult three years due to the combined impacts of global economic recession, the Macondo disaster, and a period of depressed gas prices, the North American market, dominated by the Gulf of Mexico ("GoM"), still holds considerable potential for offshore E&P activity. However, this growth is forecast to become increasingly focused on deeper waters. Overall, North American offshore Capex is forecasted to increase from USD9 billion in 2011 to over USD12.5 billion by 2015. Deepwater (more than 500 metres) activity is expected to account for over 76% of total North American offshore infrastructure investment to 2015, with pipelines, subsea equipment, and floating platforms forecasted to assume 94% of this spending.

## 8. INDUSTRY OVERVIEW (cont'd)

## 2 GLOBAL ENERGY OUTLOOK

## 2.1 Recent global market performance

The last five years have seen a turbulent mix of sustained and often rapid economic growth, followed by a period of global economic recession and the financial crisis, which has more recently been followed by an uneasy time of market recovery. This uneasy time of market recovery seems all too fragile in the light of the questionable stability of the Eurozone, the saliency of America's debt repayment plans, and the unknown outcome of the Arab spring.



**Figure 2-1: Brent Spot price 2004 – Mid 2011 [Source: BP Statistical Review of World Energy July 2011, ISL]**

The price of oil is a good way of gauging economic development and demand for energy. Using the graph above, we can observe the price of oil – and implicitly demand for oil based products, back to 2004. The story is relatively straightforward until 2007; between 2004 and the end of 2007 the price of oil increased steadily and consistently. This reflected a steadily growing global economy, and created a positive environment for oil companies to invest in the development of hydrocarbon reserves. We subsequently saw more fields coming on-stream, and more production brought to market.

In early 2008 the price of oil started moving with more volatility. This started with a price run, where the price of oil started to accelerate rapidly, symptomatic of a global economy which was overheating, and arguably exaggerated by financial institutions 'gambling' within commodities classes. The price of oil reached a record peak of \$147 a barrel in July 2008, the next step from here was a price crash. Although the causes of this crash are multiple and varied, it is often simplified as a financial crisis, attributable to financial institutions having over stretched in terms of lending capacity, and having been too optimistic of those whom money was lent to.

The period then from 2008 through to early 2010 is one characterised by a number of factors which undermine investment and development within the oil and gas sector. These include; volatile oil prices and lack of forward visibility over oil consumption. Lack of capital available to those looking to invest in delivering new sources of hydrocarbons to market. Flight to quality of what available capital there is. Ultimately these factors led to a dynamic of project deferral and delay.

8. INDUSTRY OVERVIEW (cont'd)

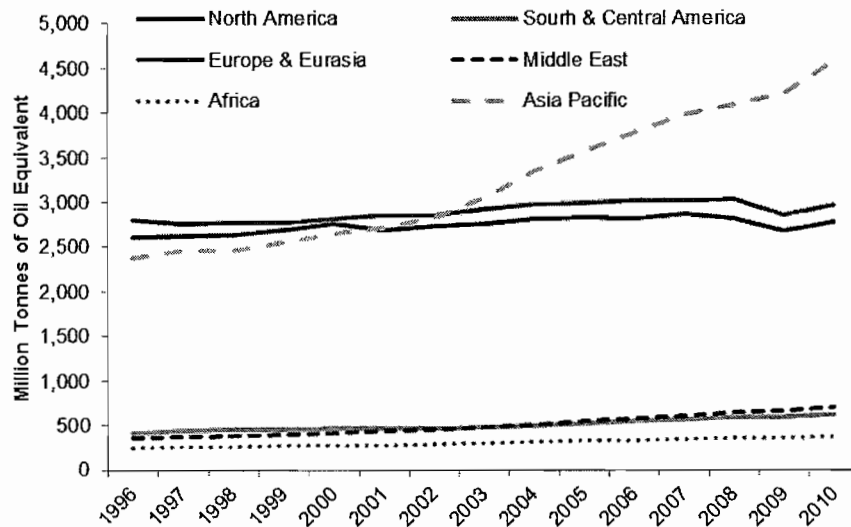


Figure 2-2: Global primary energy consumption by region 1996 – 2010 [Source: BP Statistical Review of World Energy July 2010]

The graph above helps illustrate how demand for energy fell at the end of 2008 and into 2009 in key markets of Europe and North America. However, the chart also highlights another key trend in world energy, the emergence of demand from Asia. This is a trend which is very much expected to continue.

energy consumption  
quadrillion Btu

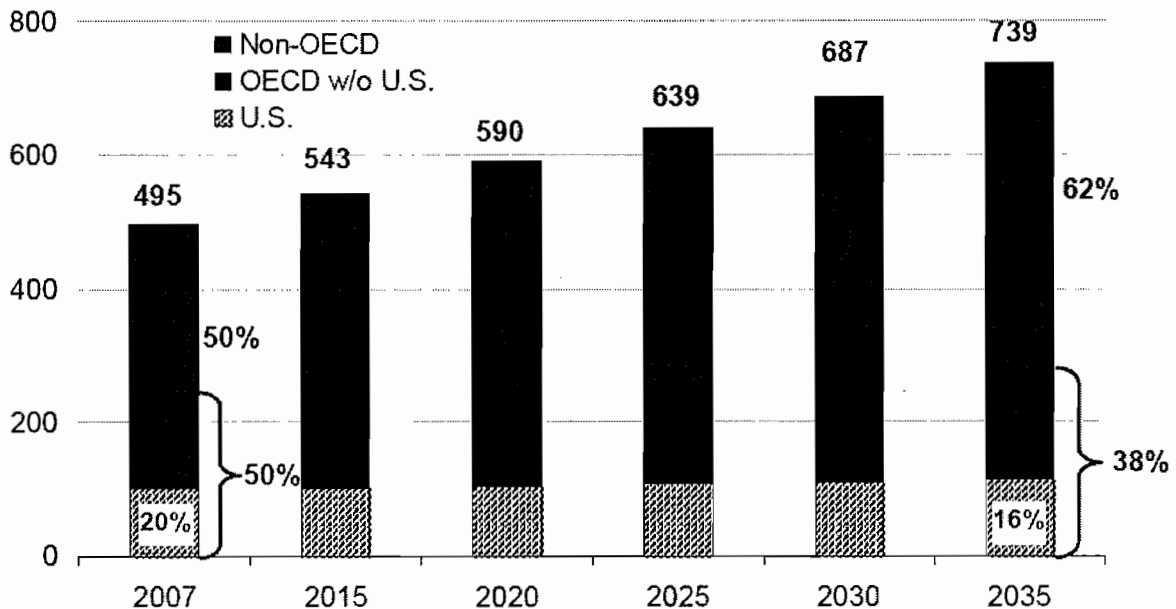


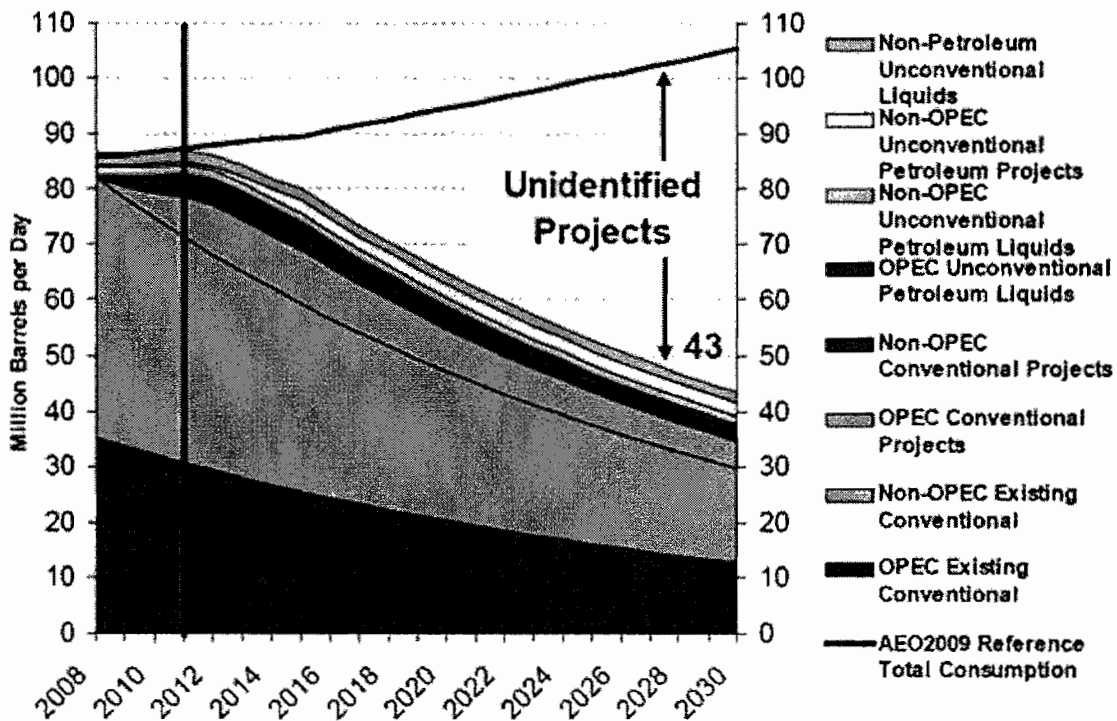
Figure 2-3: Global energy consumption forecast [Source: U.S. Energy Information Administration (EIA) Annual Energy Outlook 2010]

8. INDUSTRY OVERVIEW (cont'd)

The chart above shows the EIA's energy consumption forecast. Two key trends are apparent, the first, is that in the longer-term, global energy demand is expected to increase from 495 quadrillion Btu's in 2007, to 739 quadrillion Btu's in 2035. This is a significant trend in itself, and suggests that those companies involved with developing and delivering energy resource to market will have a sustainable future ahead of them. Second, is that the source of the majority of this growth is forecast to be from countries who are not members of the Organisation for Economic Co-operation and Development ("OECD") economies, with the economies of the U.S., and other OECD nations expected to produce static energy demand over the coming years.

A second core aspect is also becoming apparent. We require a more diversified energy production basis in the future.

Often cited as one of the contributing factors to the recent global economic recession are high commodity prices and the impact which inflationary pressures had on consumers spending decisions. In recognition of this, and also factors such as global warming and the impact of extensive carbon burning, we are much more likely to see a more diversified energy production portfolio in the future. This means we are likely to see more alternative energy and more nuclear energy. We are also however likely to see more diversification within hydrocarbon energy, as alternative category resources, such as Coal bed methane and Shale oil and gas become more popular. Even within the oil category, as the chart below helps illustrate, we will need to see new sources of oil identified. This is likely to drive the oil industry into looking at more complex projects, or reassessing the feasibility of marginal fields, or opening up new areas for exploration and production activities.



Source: EIA, AEO2009

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Figure 2-4: Projected world liquids supply [Source: U.S. Energy Information Administration (EIA) Annual Energy Outlook 2009]

## 8. INDUSTRY OVERVIEW (cont'd)

### 2.2 Recovery Prospects and Nature of Recovery

The report has so far illustrated the impact which global economic recession had on the development of energy demand over the last few years. More recently, data from the International Energy Agency (“IEA”), U.S. Energy Information Administration (“EIA”) and Organization of the Petroleum Exporting Countries (“OPEC”) shows that after weakness in 2008 and 2009, global oil consumption showed fairly strong growth in 2010. These agencies also forecast that this growth will continue in the next five years. The average estimate for oil demand growth is slightly less than 2 million barrels per day (“bpd”) in 2010, slowing to an average forecast of growth of just over 1.33 million bpd. Thus, there is a consensus among these agencies that oil demand throughout 2010 to 2011 will be restored to the broad range of incremental growth seen in the years prior to the global economic recession which started during the latter part of 2008.

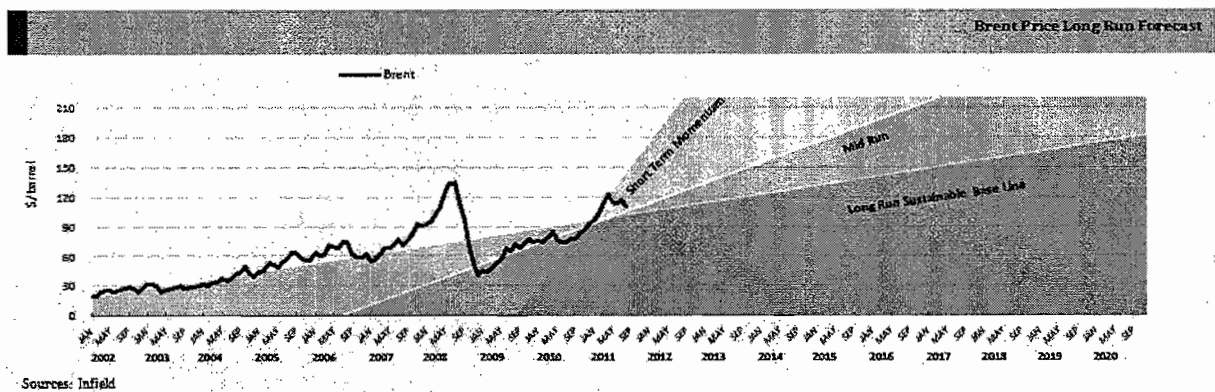


Figure 2-5: Historical Brent oil price and forward looking scenarios [Source: ISL]

Assuming that these leading energy agencies have got their forecasts correct, and putting to one side for now any doubts over the stability Eurozone, America’s debt repayment schedule, and the Arab spring, the question of the nature of any potential recovery is important.

The first aspect to consider is rate of recovery. The above chart shows three different recovery scenarios, and associated forecast oil prices. In the Short run momentum trend, the very recent oil price bounce back is extrapolated into the future. Whilst we generally associate high oil prices with high activity levels within the oil and gas industry, in this scenario, we see worrying parallels with the great oil price Bull Run of early 2008, and believe that those sanctioning oil and gas projects would be cautious if they were to see this type of pricing trend.

In the Mid Run trend, we see a more moderate price trend which reflects the increases seen in the period after the price lows experienced in 2008. In the Long Run trend, future oil price increases at a similar rate to that which we saw between 2002 and 2007. After a relatively long period of price volatility and market uncertainty, achieving consistent price increase (and implicitly incrementally increasing demand and supply pressure) would allow the oil and gas industry to develop and expand.

## 8. INDUSTRY OVERVIEW (cont'd)

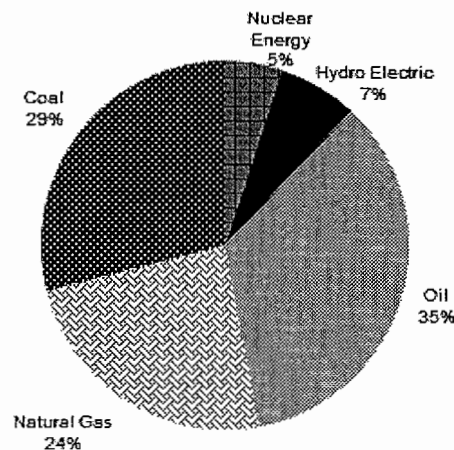
After considering rate of recovery, the next aspect to cover is where we are likely to see this recovery come from. The IEA estimates that global oil demand grew by 2.4 million bpd in 2010 (or by 2.8%), with one-third of this coming from China alone (or 800,000 bpd). Latin America and the Middle East are regions that are also expected to have shown strong oil consumption growth. The outlook is similar for natural gas demand, with non-OECD countries including China, India and the Middle Eastern countries, forecast to be the key regions from 2010 onwards. Following a similar trend to oil consumption, the IEA forecasts that natural gas demand prospects in the mature OECD economies to be generally much weaker.

Whilst the forecasts for future global O&G consumption are largely positive, it is possible to argue that pricing for these commodities has moved away from its true fundamentals, and that we are now seeing a premium added on top of these prices. This premium is arguably derived from those willing to pay more to achieve security of supply, and those who use commodity classes for speculation. These premiums can distort the true strength or significance of a recovery trend, or equally mask the true depths of a recession. However the premiums and any associated price volatility should not detract from the fact that as the global economy continues to grow, we require more O&G to feed this growth.

### 2.3 Role of Oil and Gas within global energy industry

The oil and gas industry is one of the most important energy sources for today's increasingly global economy. It provides the energy which is required for manufacturing and industry; it provides the petrol required for transportation and trading; it provides the packaging and plastics which enable products to come to market in good order; and it provides the fuel for heating or cooling our homes so that we can live comfortably in different climates.

The figure below helps illustrate the importance of oil and gas within our primary energy consumption. Only 41% of energy consumed is not oil and gas related, and of this, only 12% is non-carbon based nuclear or hydro electric energy.



**Figure 2-6: Global primary fuel consumption 2009 [Source: BP Statistical Review of World Energy July 2010]**

Hydrocarbon energy then is of pivotal importance in day to day life, and it pervades all levels of the global economy. Naturally, one consequence of this relationship is that when the global economy goes through a period of recession, demand for energy constricts. Conversely, when the global economy is growing rapidly, demand for oil, in particular, increases quickly. This gives the oil and gas industry a broadly cyclical investment dynamic.



## 8. INDUSTRY OVERVIEW (cont'd)

### 2.4 Structure of industry

The O&G industry is a global industry. Hydrocarbon products are required in every country which has a competitive economy, and hydrocarbon reserves are found in nearly every country worldwide. The supply chain which has evolved to cater for this complex global industry is broadly split into three areas:

- Upstream – covering exploration and production
- Midstream – covering transport and trading
- Downstream – covering refining and distribution

This report covers the offshore aspect of the upstream portion of the O&G industry. This aspect alone will include activities such as:

- Seismic survey activity
- Exploration drilling
- Appraisal drilling
- Engineering
- Procurement
- Project management
- Construction services
- Installation services
- Heavy transport services
- Maintenance and modifications
- Transportation
- Production platforms
- Drilling rigs
- Subsea trees
- Decommissioning and abandonment services

Within this area we see three key layers of market players; the Oil Company (or field operator) the primary contractor, and the sub-contractor. The oil company is at the head of the supply chain, and, as owner of the field, has responsibility for raising finance for its development. Oil companies include BP plc., PETRONAS, Royal Dutch Shell plc (“**Shell**”) and ExxonMobil Corporation (“**ExxonMobil**”). Oil companies typically fall within four different brackets; super majors, mid-cap International Oil Companies (“**IOCs**”), National Oil Companies (“**NOCs**”), and privately-held independent operators (“**Independent**”).

Companies within each of these brackets have different operational capabilities and different organisational aims. A super major for example is typically publicly held, and has a duty to derive the best return on investment for its investors. They usually have a business model which covers upstream to downstream, and as such, super majors tend to be very large companies in terms of revenue and number of employees. The super majors use their financial strength and highly-trained workforces to target projects which are typically larger, in terms of reserves and production, than other brackets of oil companies. Super majors have been pivotal in pushing forward deepwater production. Due to their publically held nature, we tend to see super majors awarding contracts to companies with established track records in the areas within which they are bidding, and those which fulfil strict health and safety criteria [Source: ISL].

## 8. INDUSTRY OVERVIEW (cont'd)

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The IOCs are typically nimble companies that have a cost effective structure but are still commercially driven. These companies have typically witnessed fast growth in terms of company size, regions of operation, values, production and proven reserves. Examples of operators within this category are Addax Petroleum, Tullow Oil plc, Anadarko Petroleum Corporation, Apache Corporation, Murphy Oil Corporation ("**Murphy Oil**") and Talisman Energy Inc.

NOCs have become increasingly important as the offshore O&G industry has matured away from the traditional production zones found in the USA and the UK, and moved towards developing countries. The NOCs primary role is to maximise the revenue generated for a country by its natural resources. A NOC may take into account 'non-commercial' considerations when acting, and is likely to prioritise indigenous companies, or companies with operations in the NOC's country, when developing its resources. This procurement practice can be viewed both as a threat and as an opportunity. Companies established in countries which have a strong NOC presence, such as Malaysia, Brazil, Nigeria, Angola and Saudi Arabia, would be well placed to capitalise on any future opportunities which materialise in those countries, and continue expanding within the country. Conversely, for those companies not within the country, we believe that the entry costs can be prohibitive and a deterring factor [Source: ISL].

Independents are typically smaller oil companies. They may or may not be publicly listed. They may have no producing reserves and purchase acreage to sell later, or they may have a number of fields already in production. Generally an independent oil company is well placed to save costs when needed, as it will typically have little in-house capacity to project manage or execute projects, and will often rely on external investment for exploration or production activity. Within this category there are an increasing amount of companies that are purely financially driven and play a crucial role in enhanced oil recovery ("**EOR**"), local content and marginal fields.

Beneath the oil companies are those businesses providing support services, known in this Report as "contractors". A primary contractor will typically take a project, or a key part of the project, and manage this for an operator. Typically, primary contractors are experts in their field, and have a better understanding of the supply chain and delivery requirements around the products they supply or services they provide. For example, a company such as SBM Offshore N.V. ("**SBM**") or Mitsui Ocean Development & Engineering Inc. ("**Modec**") could be awarded a contract by an oil company to deliver an FPSO. SBM or Modec may undertake certain portions of this project themselves, for example the specialised engineering, however they would also play a key role in overseeing all project management, ensuring the construction process is executed properly, and being responsible for the timely procurement of specific equipment. The final layer would then be the sub-contractor, whose role is to provide specific equipment, or particular services or products [Source: ISL].

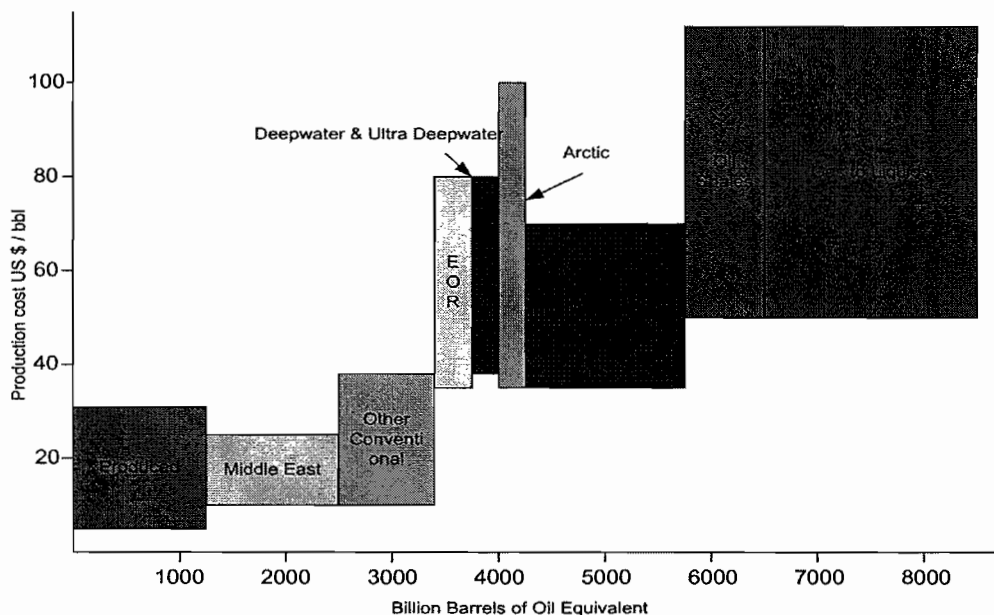
Two major trends are becoming apparent in the contracting sector of the offshore O&G industry. The first is a move towards 'local content'. Local content is the term used to describe the requirement for a certain proportion of the workload of a future project to be undertaken by entities or persons from the country in which the project is happening, rather than being provided from the global market. This relates directly back to the concept of NOCs becoming increasingly influential as the offshore industry expands into new frontier areas. We believe companies which are able to comply with local content criteria, or which have demonstrated an ability to work in countries with NOCs are at a competitive advantage in comparison to those who cannot, and have not. [Source: ISL].

## 8. INDUSTRY OVERVIEW (cont'd)

The second trend is a move by IOCs and Independents towards larger engineering, procurement, installation and construction (“EPIC”) or turnkey contracts. A turnkey contract is one where a product is ordered, such as an FPSO, and it is then delivered upon completion to the oil company who will operate it. Both forms of contract, and the myriad of different potential contracting options in between, lead to a similar result; oil companies would like their contractors to manage more of the project themselves, and to take on more risk for project delivery and execution.

### 2.5 Industry Capital and Labour Intensity

The oil and gas industry is particularly capital and labour intensive; this becomes even more the case when looking at the offshore oil and gas industry, where projects are typically larger and more complex in terms of engineering, design, installation and construction.



**Figure 2-7: Economic sanction price range for fields [Source: U.S. Energy Information Administration (EIA) Annual Energy Outlook 2008]**

In terms of capital which must be committed to developing oil and gas reserves, the above chart, produced by the EIA, shows the economic sanction price range for different types of oil and gas fields. For oil which has been produced historically, this would have only been profitable if the price was greater than \$10/bbl to \$30/bbl. For deepwater, or enhanced oil recovery based production, the capital costs of accessing these reservoirs are significantly higher, and so the price of oil would need to be consistently above \$40/bbl to make these fields economical. It is factors such as these which lead us to believe that the offshore oil and gas industry as being a >\$100bn per annum industry consistently over the next five years.

## 8. INDUSTRY OVERVIEW (cont'd)

The industry is also extremely labour intensive and requires significant human input at each stage of the supply chain. Starting with drilling, a drilling rig will require a crew to operate it; it will need to be positioned by anchor handling tugs which will also need to be crewed. Its moorings will need to be individually designed and engineered. The results of drilling will need to be analysed by a team of geologists and reservoir specialists. Conceptual stage engineering will then be undertaken to ascertain whether the field is economical, and which type of development solution should be used to bring production to market. After this, front-end engineering and design is undertaken to more accurately plan out how the project would be developed. Next stage is procurement and construction, involving labour and more engineering man-hours, as aspects of the project are taken from concepts through to detailed, designed items. Installation phases require significant volumes of vessels, specialist lifting equipment and man power to coordinate these. Finally, the operational platform requires a permanent crew, and will have to be regularly maintained and repaired.

### 2.6 Role of offshore oil and gas within oil and gas industry

It is estimated that currently around 30% of the world's oil production comes from offshore areas. However a number of factors suggest that this is likely to increase in the future.

The offshore industry is less mature relative to its onshore counterpart. The first offshore oil and gas platform was installed in 1947 in the Gulf of Mexico ("GoM"). Onshore production in the most crude of manners has been practised for decades before this. Offshore has more acreage which has yet to be explored, and has significant regions, such as the Arctic and deepwater frontiers, which are only starting to be drilled.

In addition, the offshore industry continues to develop rapidly in terms of production technology. Subsea production has in particular been a crucial enabling technology allowing the industry to move into deeper waters, and operate in more remote and operationally challenging areas. The advancement of subsea technology, coupled with improved manufacturing techniques, means that the cost associated with developing certain types of fields has decreased, and this has enabled a number of smaller, previously uneconomical fields to be tied-back into existing infrastructure.

Also driving the development of offshore relative to onshore, is the argument that oil and gas reserves are now increasingly the domain of NOCs, with today less than 25% of reserves either fully or partially open to participation from IOCs. Where the NOCs have been particularly successful is developing onshore and shallow water reserves, where production techniques and technology is fairly well established. This has incentivised IOCs to look to increasingly deeper waters to source hydrocarbon reserves which they can develop with more favourable production sharing agreements.

Finally, security of supply concern is increasingly important in driving the move towards offshore production. In the UK, for example, we have noted a trend by downstream energy providers – such as Centrica, to move into the upstream market segment. This is done primarily to gain independent control of gas reserves, and to decrease reliance on imports from foreign countries where the UK based company has little ability to control pricing or import volumes.

8. INDUSTRY OVERVIEW (cont'd)

2.7 Offshore Oil and Gas Industry Outlook

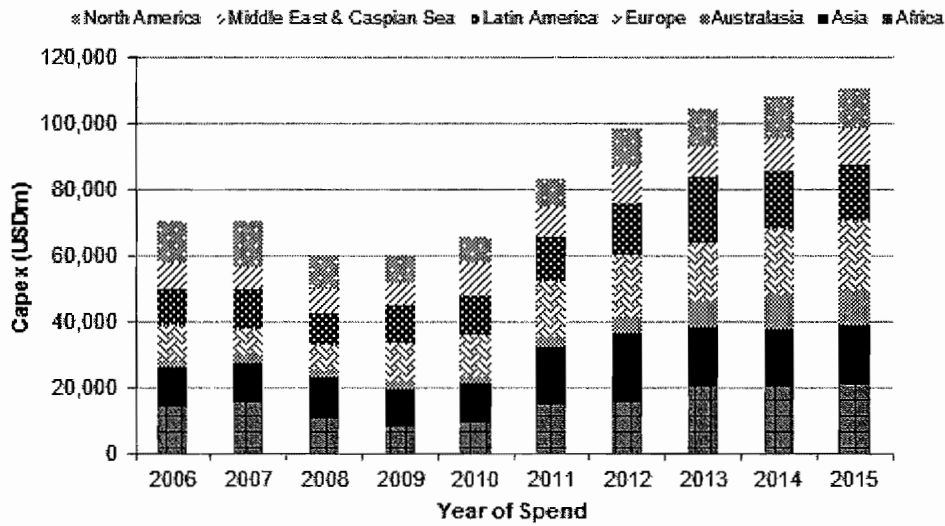


Figure 2-8: Global Capex by region [Source: ISL]

Overall, global capex within the offshore oil and gas industry is expected to peak at over \$110bn in 2015. This is a significant increase in activity levels from 2008 / 2009's recent low of \$60bn. Driving this increase is the forecasted development of the offshore industry within Asia, Africa and Australasia; three regions which have excellent development prospects. Latin America is also anticipated to see continual growth, driven in most part by the development of Petróleo Brasileiro S.A. ("PETROBRAS")' huge pre-salt oil reserves. Markets which are expected to remain more static include the North Sea, and the US GoM; the latter of which is still recovering from the impacts of the BP Macondo well oil spill and coming to terms with a new regulatory environment.

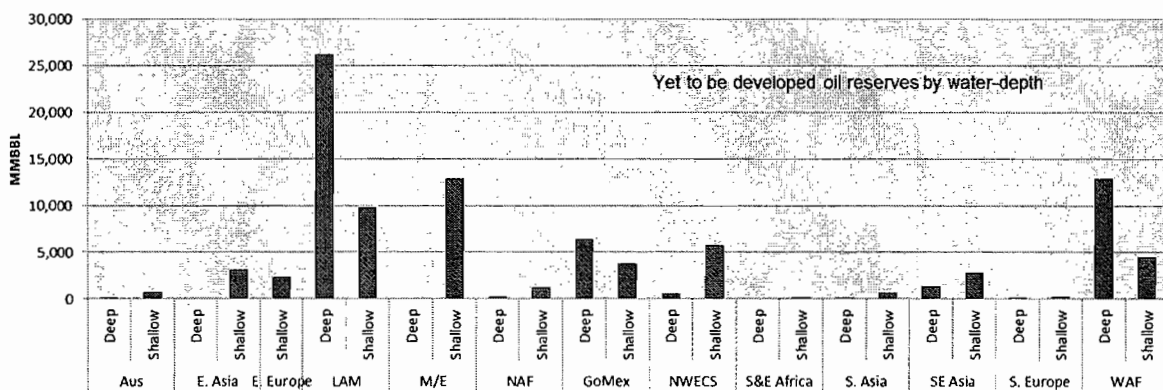


Figure 2-9: Yet to be developed oil reserves by water-depth [Source: ISL]

(NB: Aus – Australasia; E.Asia – East Asia; E. Europe – Eastern Europe; LAM – Latin America; M/E – Middle East; NAF – North Africa; GoMex – Gulf of Mexico; NWECS – North West Europe Continental Shelf; S&E Africa – South & East Africa; S.Asia – South Asia; SE Asia – South East Asia; S.Europe – South Europe; WAF – West Africa.)

Key in opening up increased capital investment in the offshore oil and gas industry is the development of deep water exploration and production. The above figure helps illustrate how we are now approaching a situation where regions such as Latin America, West Africa, and the GoM now have more deepwater reserves waiting to be brought on-stream than they do shallow.

## 8. INDUSTRY OVERVIEW (cont'd)

This sets an important note as to the future nature of the offshore oil and gas industry. Even in Asia, which is a predominantly shallow water region, we are starting to note a move towards deeper water developments. These deeper water developments tend to be quite complex, usually involve floating production systems, and typically have subsea wells associated with them. Very often, given the size, scale and complexity of these projects, the oil companies which are operating the fields will award EPIC contracts. Very often, given the size, scale and complexity of these projects, the oil companies which are operating the fields will award EPIC contracts, or similar. However companies looking to be awarded these contracts will need to have the right combination of track record, assets, and financial weighting to be successful at bid stage.

### 2.8 Role of South East Asia and Malaysia within offshore oil and gas industry

Non-OECD economies have been cited earlier in this Report as being a pivotal driver of the current global economy. While this generally leads to a consideration of the economies of Brazil, Russia, India and China, we also need to contemplate the rapidly developing economies of South East Asia. This latter region includes the member states of the Association of South East Asian Nations (i.e. Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam). These countries are industrialising quickly, and require more energy to support them through this process.

Currently imports, typically from the Middle East, provide most of South East Asia's oil demand. However significant investment is underway to increase South East Asia's oil production capacity to decrease its dependence on imports. The outlook for gas on the other hand, is slightly different. South East Asia is one of the major liquefied natural gas ("LNG") exporting regions in the world and is well positioned to supply the broader Asian region's two largest economies, China and India, with natural gas. This is in addition to supplying the developed but resource poor economies of Japan, South Korea and Taiwan. Much of the liquefied natural gas that is exported from South East Asia is sourced from offshore reserves.

With regard to Malaysia, it is not only the largest O&G producer in South East Asia, but is also the third largest global exporter of LNG, behind only Qatar and Indonesia. In 2010, Malaysia exported 23.1 million tonnes of LNG, representing a 10% global market share, compared to the 26% share for Qatar and 11% share for Indonesia. Currently, Japan is coming to terms with the aftermath of one the most powerful tsunamis ever recorded. The country is faced with a humanitarian disaster and coping with an increasingly dangerous atomic incident at Tokyo Electric's Fukushima Daiichi nuclear facility. The nuclear plant suffered catastrophic damage in the tsunami and it is highly likely that following containment, the facility will be decommissioned. Consequently, LNG demand from Japan, which accounts for 60% of Malaysia's total LNG exports, could potentially surge as the country seeks to reconstruct and substitute the nuclear power output that was lost. It is likely that the long term outlook for Japan's energy mix will move more towards gas, as the country looks to alternative forms of electricity generation. ISL believes that this would lead to a large increase in oil and gas imports in the immediate term, which would primarily benefit those Asian countries with established hydrocarbon trade relations with Japan.

## 8. INDUSTRY OVERVIEW (cont'd)

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Other major LNG markets include South Korea and Taiwan. Unlike neighbouring O&G producer Indonesia (which in 2008 became a net oil importer and led to its withdrawal from OPEC), Malaysia is a net exporter of crude oil in addition to also being a net exporter of LNG. However oil production in Malaysia has been gradually decreasing since its peak in 2004 and maintaining a production surplus to export creates a strong driver for the development of Malaysian oil reserves. In 2010, total oil production amounted to 716,000 barrels (“bbls”) of oil equivalent per day (“boepd”). Total domestic oil consumption in 2010 was 556,000 boepd, with the remaining 160,000 boepd to be exported. Natural gas production has been rising steadily over the last decade, reaching 66.5 billion cubic metres (“Bcm”) in 2009 whilst total consumption in the same year was 35.7 Bcm [Source: BP Statistical Review of World Energy July 2011].

In an attempt to maintain production levels, Malaysia has been forced to move into increasingly deeper waters exploration. At present, if current declining production rates continue, then conservative estimates suggest that Malaysia will shift from being a net exporter of oil, to being a net importer of oil during 2014, however if consumption rates increase further coupled with reductions in production this will likely occur during 2013. This has prompted the Malaysian government to offer a series of tax breaks which will encourage the further development of existing fields, and increase production from them utilising EOR techniques. This is likely to give the Malaysian market a dual focus of greenfielddeepwater investment, and brownfield shallow water life-extension investment, which is estimated at around USD4 billion per annum. We believe that this translates to an increase in opportunities for the Malaysian oilfield services market, in particular those companies involved in the Offshore Support Vessel (“OSV”) market, the Transportation and Installation (“T&I”) market and also engineering services [Source: ISL].

Given the reduction in production rates, the Malaysian government has started to take a longer-term look at the role which hydrocarbons will play in the future economy of Malaysia. The government recently created a steering group called the ‘Economic Transformation Programme’ (“ETP”) which has released a ‘Roadmap for Malaysia’ targeting key initiatives and projects among all aspects of the Malaysian economy and infrastructure, including its oil, gas and energy industries. One of the key facets of the report was to develop the country into a leading hub for oilfield services within the Asia Pacific region. In order to achieve this, the ETP suggested a consolidation of domestic fabrication yards as well as developing the EPIC capabilities and capacity within the country through strategic partnerships and joint ventures.

The release of the report was one of the catalysts behind the race amongst Malaysian contractors to build a full competitive suite of EPIC capabilities, which started when Malaysia Marine and Heavy Engineering Holdings Berhad took in Technip as a minority shareholder in October 2010. SapuraCrest also joined into this race for consolidation by acquiring a 50% stake in the Labuan Shipyard in Borneo in June 2011. SapuraCrest has further cemented its move into engineering and fabrication by merging with Kencana Petroleum, with Kencana Petroleum owning a 240 acres(including rented yard space of 20 acres) yard in Peninsular Malaysia that has been reported as under expansion.

Another country within South East Asia trying to add value to its offshore oil and gas industry is Indonesia. The government has realised that deep rooted production decline, coupled with a lack of recent hydrocarbon discoveries has led to an unsustainable situation. As a result, the government is attempting to make Indonesia a more attractive investment opportunity by incentivising operators to explore and produce it is acreage. However, operators are still concerned over regulations and structure of Indonesians current offshore industry and it is likely that concessions from the government over some of the cabotage and red tape issues is necessary to regain investment confidence in the country’s industry.

## 8. INDUSTRY OVERVIEW (cont'd)

ISL forecast seven deepwater fields should come on-stream offshore Malaysia over the next five years, representing a large increase compared to the period from 2006 to 2010, where a total of two deepwater fields came on-stream offshore Malaysia. Although there is no direct comparison over the same period, the deepwater growth in the U.S.' side of the GoM prior to 2000 demonstrated how quickly deep and ultra-deepwater discoveries can move into large scale production over a short period of time.

PETRONAS is the main offshore player in Malaysia's O&G industry and produced over 1.75 million boepd of crude oil and natural gas in 2010. In Malaysia, PETRONAS' O&G reserves stood at 27.12 billion bbls of oil equivalent ("boe") at the end of 2010. On the same date, PETRONAS' disclosed O&G reserves outside Malaysia stood at 6.56 billion boe. Firms which are able to build a long standing and successful relationship with PETRONAS within Malaysia are likely to be well placed to win contracts and future work with the NOC outside of Malaysia. Furthermore, PETRONAS operates in 32 countries, and if offshore O&G support services companies have an existing relationship with the NOC within Malaysia they may be able to benefit by gaining access to new regions [Source: ISL].

### 2.9 Developments within local markets

Overall, South East Asia's offshore oil and gas industry is expected to show robust growth over the next five years compared to that of years during 2006-2010. Capex within South East Asia is expected to represent over USD43bn during 2011 through to 2015 compared to the USD25.5bn witnessed for the five year period prior. Operators contributing towards this substantial growth in Capex are PETRONAS, Chevron Corporation ("Chevron"), Shell, PTT plc ('PTT'), Vietnam Oil and Gas Group("PetroVietnam") and Murphy Oil with the six operators representing 54% of regional Capex within South East Asia over the next five years. The increase is primarily driven by the pipeline sector and, to a lesser extent, the platform sector; indeed, conventional single tubular pipelines and traditional fixed platforms are expected to bolster overall Capex throughout the region over the next five years.

Similar to regional dynamics, Malaysia is expected to witness substantial investment amongst its pipeline and platform sectors within its offshore oil and gas industry. Indeed, within South East Asia, Malaysia is forecast to witness the largest amount of capex across the region over the next five years culminating in over USD14bn, representing a 33% regional share. Although PETRONAS is forecast to have the greatest amount of capex across South East Asia, within Malaysia, super major Shell is anticipated to invest the largest amount with just over USD4bn, compared to USD3.9bn from PETRONAS. Independent Murphy is another operator forecast to be one of the largest operators offshore Malaysia, in terms of Capex, from 2011 throughout to 2015.

### 2.10 Threats to forecasts

#### 2.10.1 Alternative energy

Alternative energy poses a threat to oil prices, both from rising oil prices (making oil less price competitive) and from changing legislation from governments (particularly in Europe and North America). Many governments already have tough emissions targets to meet though, and whilst the global recession slowed down industrial energy demand in Europe and the U.S., the pace of energy demand growth in China and other rapidly developing non-OECD countries has remained robust. However, with oil prices now supported by stronger fundamentals, coupled with increased production in politically unstable and volatile regions, the effect of oil supply shocks on price has the potential to be far greater. In the long term, countries which are net importers of oil may wish to minimise the impact from turbulent changes in the oil price by expanding their national renewable energy supplies.



## 8. INDUSTRY OVERVIEW *(cont'd)*

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However, as forecasts from BP's Statistical Review 2011 show, oil demand is set to remain robust over the next 30 years with liquids remaining in the top spot for energy consumption. While renewable energy is forecasted to make up almost 18% of production growth over the next 30 years, BP expects renewable energy to make up around 2.75% of total production by 2015 (from 1.78% in 2010).

### 2.10.2 *Licensing and regulatory environment*

The regulatory environment surrounding the GoM, once the major growth area for deep water production has changed dramatically since the Macondo blowout which occurred in April 2010. What was once the Minerals Management Service is now the Bureau of Ocean Energy Management, Regulation and Enforcement ("**BOEMRE**"), which has three different sections that cover ocean energy management, safety and environmental enforcement and natural resource revenue separately.

The BOEMRE also issued a suspension of deepwater drilling activity in the US Outer Continental Shelf in a series of decisions which were challenged in US courts, but which lasted until October 2010, significantly impacting the industry. The reasoning behind the "moratorium" of drilling was that "adequate safety measures to reduce the risks associated with deepwater drilling operations" were needed to prevent further blowouts and spills. The moratorium was lifted in October 2010 amid frustration from the offshore energy sector that the delay was unnecessary and placed an undue burden on the broader sector as a whole, resulting in retarded development and lower production growth in the future, as well as job losses and a leakage of floating drilling units to deepwater exploration areas elsewhere in the world.

In Asia and Malaysia, robust economic growth is forecasted to support long term liquids demand. For this reason alone, the principal aim of policy makers across the region is likely to be trying to maximise domestic oil and gas production, reducing imports and minimising the impact of price shocks on the regional economies. However, if a serious spill or accident occurred offshore Asia, this sentiment may well change as it did so quickly last year in the GoM. For now, it is expected that policy makers in Asia and Malaysia are unlikely to make moves to tighten drilling regulations.

### 2.10.3 *Barriers to entry*

The Malaysian oil and gas market contains several barriers to entry which means that business within this sector is only likely to be awarded to external contractors in the most specific of circumstances. The primary driver behind this situation is the Petroleum Development Act of 1974, which established PETRONAS as the owner and developer of all hydrocarbon resources in Malaysia. PETRONAS was given the remit of developing these reserves with as much of the value being retained within Malaysia as possible, and, due to its mineral ownership rights, all companies wishing to work within Malaysia must partner with PETRONAS in some form. This means that whilst companies such as Murphy and Shell are active within Malaysia, they are working in strict partnership with PETRONAS.

The same thinking applies when looking away from the reservoir and into how the hydrocarbons will be produced and delivered to market. Only companies with valid PETRONAS licenses can provide products and services to the upstream, downstream and maritime markets within Malaysia's oil and gas sector. This makes the licenses extremely valuable. Only 7 fabrication licenses, for example, are currently active in the market place – of which Kencana Petroleum holds one. This creates a significant barrier to entry for competitors, and creates a system whereby the NOC is able to prioritise awarding contracts to nationally based contractors.

**8. INDUSTRY OVERVIEW** *(cont'd)*

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Whilst the number of licenses is controlled, the conditions for winning licenses are also strictly monitored, and companies which are looking to apply must typically be Malaysian owned, or have Malaysian operations. Again, this restricts how easily competitors can enter the Malaysian market.

Further restrictions, which are not regulatory or legal, come from the capital requirements necessary for taking on the project work which is typical of the offshore oil and gas industry, the requirement to have assets which are appropriate for particular jobs, and the necessity of having an experienced team with the right operational track record.

## 8. INDUSTRY OVERVIEW (cont'd)

### 3 PROSPECTS FOR THE MERGED ENTITY

#### 3.1 Benefits of merger

The merger of SapuraCrest and Kencana Petroleum will create a company with capabilities across the value chain of the oil and gas sector. The merger will result in the creation of an integrated EPCIC player with a fully-fledged O&G value chain offering. Benefits that will be realised from such capabilities includes: integrated end-to-end value proposition; enhanced capabilities by leveraging on expertise to win more premium projects; strong asset base to compete internationally; and, operational and procurement synergies.

On the one hand SapuraCrest will provide experience in offshore installations, and on the other hand Kencana Petroleum will provide engineering and fabrication capability. Given that the current trend within the industry is for projects becoming increasingly complex, it is expected that turnkey EPIC contracts will become increasingly prevalent. This, in turn, means that companies who can provide such services are well placed to take advantage of growth opportunities.

Having these in-house capabilities will move the company into a space in the market which is currently only occupied by a select group of offshore service providers, who typically compete for offshore turnkey EPIC contracts on a global basis. The ability to perform the full range of activities involved in an offshore construction EPIC contract creates a number of significant benefits that lead to enhanced competitive advantage, centred on economies of scale and reduced exposure to risk.

The integration of the two entities will create competencies across the offshore supply chain. At present, both companies will typically be involved as a sub-contractor in turnkey supply contracts, or have to employ sub-contractors in order to complete such a contract. Generally, EPC and EPIC turnkey contracts result in almost all risk being transferred from the operator to the contractor. When dealing with sub-contractors, the companies have to ensure that these entities comply with the conditions stipulated and adhere to the delivery times and requirements. When the company does not have to deal with such an arrangement, the process of meeting deliverables is easier to control, and therefore carries less risk. Ultimately, this should contribute towards higher margins being generated on many contracts.

The merged entity will also be in a position to bid for larger contracts because of its enhanced capabilities. There has been a noticeable trend over the last decade towards operators favouring full service turnkey contracts for field development. This has seen the creation of a number of large-scale EPIC contractors with the ability to deal with nearly all aspects of such projects in-house. Such companies prove an attractive proposition for operators, and are often able to offer more competitive tenders due to economies of scale, while still being able to generate healthy margins.

Operating as a full-service EPIC contractor will provide the ideal platform to grow the business into new areas. The scale of the new company will provide a good platform for targeting new markets across the globe, particularly in neighbouring and emerging markets. The enhanced capabilities across the supply chain will also provide a solid base from which to target the acquisition of experience in unconventional offshore construction, such as deep-water and SURF EPIC contracts. The range of assets at the company's disposal also offers the potential to enter new markets as a leasing agent, further increasing utilisation and margins.

## 8. INDUSTRY OVERVIEW (cont'd)

### 3.2 Retrospective performance of SapuraCrest and Kencana Petroleum

#### 3.2.1 SapuraCrest

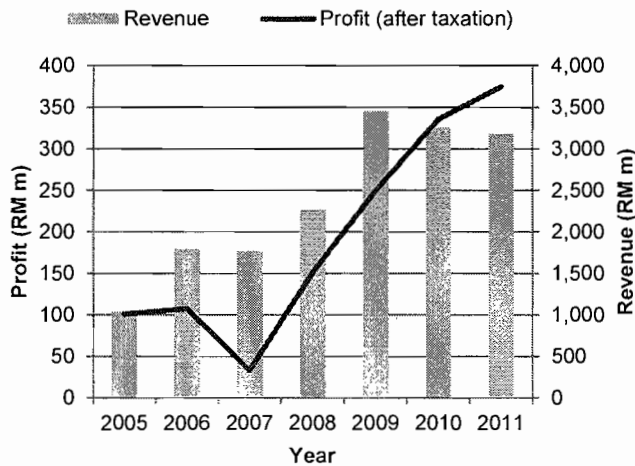


Figure 3-1: SapuraCrest revenue vs profit after tax (2005-2011) [Source: SapuraCrest]

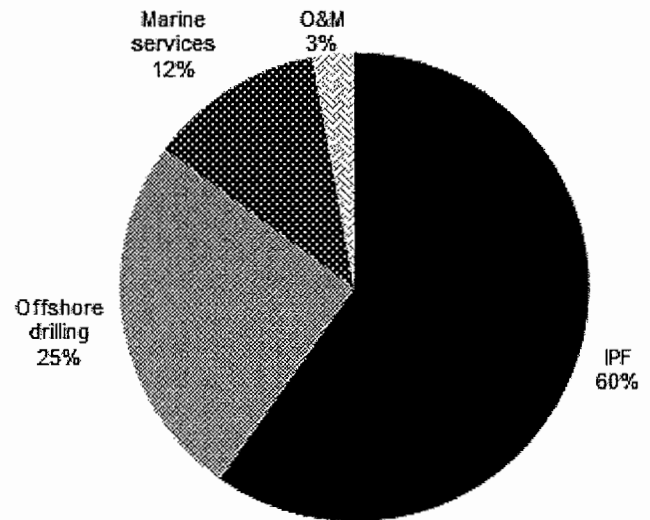


Figure 3-2: SapuraCrest revenue by business segment (2011) [Source: SapuraCrest]

SapuraCrest operates in four segments:

- **IPF**
  - Offshore platforms
  - Marine pipelines
- **Offshore oil and gas drilling**
  - Drilling
  - Chartering of rigs
- **Marine services**
  - Offshore geotechnical and geophysical services
  - Underwater diving services
  - Hook-up, commissioning and topsides maintenance services
  - Chartering of accommodation workbarges and workboats
  - ROVs
- **Operations and maintenance**
  - Repairs and refurbishment of industrial gas turbines
  - Supply, installation, commissioning and maintenance of point-of-sale systems for petrol stations
  - Asset management services for offshore installations, and corporate and others
- **Development and production of petroleum resources**
  - Facilities development and operations

SapuraCrest's performance in recent years has been strong. Revenues grew strongly in the period between 2005 and 2009, before reaching a plateau at robust levels in 2010 and 2011. Corresponding profit after tax has risen year-on-year from 2007 to 2011, with the company demonstrating the ability to grow profits through a difficult period for the oil and gas industry. The company's main source of revenue in 2011 was the installation of pipelines and facilities, which generated 60% of the company's total revenue.

8. INDUSTRY OVERVIEW (cont'd)

The purchase of Clough Limited's Marine Construction business by SapuraCrest, which was completed on 22<sup>nd</sup> December 2011, is expected to expand the company's ability in the subsea and deepwater segments, across a wide range of international markets. Amongst assets included in the sale are the derrick lay barge Java Constructor and associated marine construction equipment. Also included are Clough's interest in the Clough Helix joint venture, which operates the chartered vessel Normand Clough, and its interests in engineering consultants OFI and Peritus.

3.2.2 Kencana Petroleum

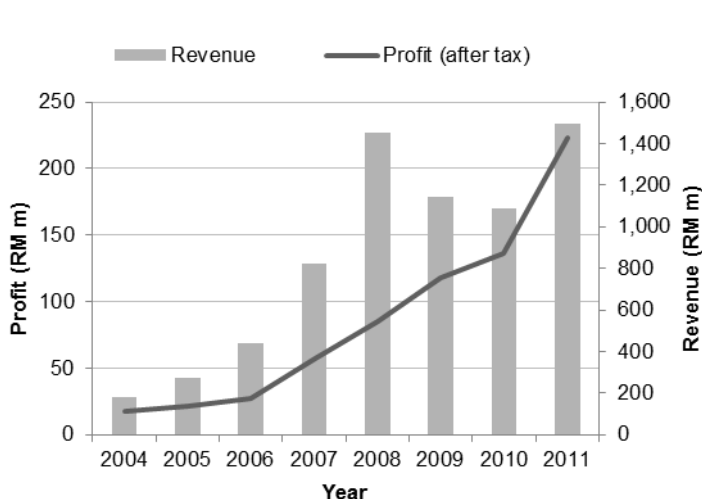


Figure 3-3: Kencana Petroleum revenue vs profit after tax (2004-2011) [Source: Kencana Petroleum]

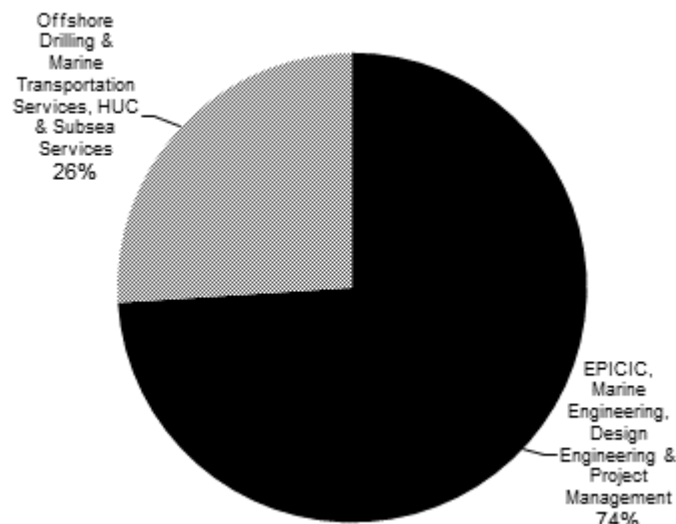


Figure 3-4: Kencana Petroleum revenue by business segment (2011) [Source: Kencana Petroleum]

KencanaPetroleum is a Malaysia-based company involved in the offshore industry. The company's primary activities are the following:

- **EPCIC**
  - Fully integrated design, engineering and fabrication services
  - Fabrication of complex and large modules and process skid systems
  - Fabrication of production facilities including engineering and procurement of raw materials and components
  - Integration, hook-up and commissioning
- **Marine engineering**
  - New build construction
  - Conversion
  - Refurbishment
  - Repair and maintenance
- **Services**
  - Drilling
  - Vessel operations and charter
  - Offshore diving and related services
- **Development and production of petroleum resources**
  - Facilities development and operations

**8. INDUSTRY OVERVIEW** *(cont'd)*

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Kencana Petroleum has produced strong performance in recent years, with profit after tax growing consistently year-on-year since 2004. This record has continued in 2008 and 2009, in what was a difficult year for the oil and gas industry in general. Corresponding revenues grew strongly to 2008, while 2009 and 2010 have seen a fall then plateau from a high peak in 2008, albeit at a levels which exceed revenues seen in 2007. The performance in 2011 has demonstrated a strong recovery, with revenues exceeding the high seen in 2008. In 2011, the majority of the company's revenues were generated in EPCIC, marine engineering, design engineering and project management with 74% of the total turnover attributed to this division.

## 8. INDUSTRY OVERVIEW *(cont'd)*

### 4 MARKET FORECASTS

The new entity, the Group, will be involved in a number of markets spread across the offshore oil and gas supply chain. In this section we have presented forecasts for each of these markets at a global level and a local, Malaysian market, level.

These markets include the following:

- **Development and production of petroleum resources**
- **Offshore drilling services**
- **EPCIC**
  - **EPC**
    - EPCC, design and engineering of offshore and onshore production facilities, modules and process systems
    - Construction, conversion, refurbishment of marine vessels, rigs and barges
  - **IPF**
    - Installation of offshore platforms, marine pipelines and facilities
    - HUC
    - Decommissioning and removal of production facilities
- **Marine services**
  - Offshore diving and underwater related services including ROVs
  - Provision of offshore accommodation and support vessels
  - Provision of topside maintenance services
  - Provision of specialised geotechnical and geophysical services
- **Operations and maintenance**
  - Maintenance and refurbishment of industrial gas turbines
  - Repair and refurbishment of SBM and valves

The market forecasts are structured according to the activities listed above.

#### 4.1 Development & production

In January this year it was announced that PETRONAS had awarded its first risk service contract for the development and production of the Berantai gas field offshore Peninsular Malaysia. The contract was awarded to PED, KESB (a subsidiary of Kencana Petroleum) and SEV (a subsidiary of SapuraCrest). This move is designed to kick start development of the country's marginal oil and gas fields.

The new arrangement facilitates direct participation of Malaysian companies in the country's upstream oil and gas activities, in line with PETRONAS' efforts to leverage on their existing capacity while fast-tracking their capability in development and production in a structured manner.. According to the PETRONAS President and CEO, Shamsul Azhar Abbas, the company reportedly have plans to develop 25% of these fields to shore up its oil reserves and generate new revenue streams. These efforts have been bolstered by measures announced by the Malaysian government in late 2010 to cut the tax rate from 38% to 25% for marginal field development, and also waived the export duty on oil produced and exported from marginal fields. Furthermore, each marginal development will have to provide at least 30% equity participation from Malaysian companies.

8. INDUSTRY OVERVIEW (cont'd)

Given the impetus participation in this growing segment of the market, we expect that there will be significant activity from players willing to exploit this opportunity. We believe that Malaysia has a large volume of oil reserves that would be classified as marginal, leading to a high number of opportunities for the right companies, especially given the expectation that the price of oil will remain high. The definition of marginal fields varies, with the key factor normally being the ability to make a profit from production after development costs have been considered. Further key indicators of the viability of a field are the daily production rate and size of reserves. Various estimates put the number of marginal fields in Malaysian waters in excess of 100.

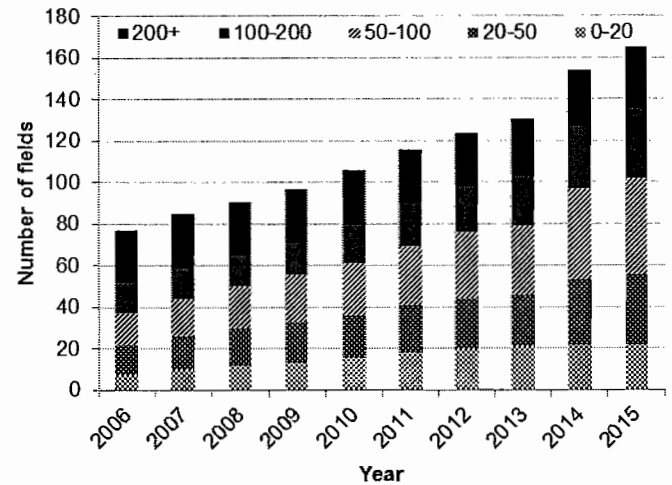
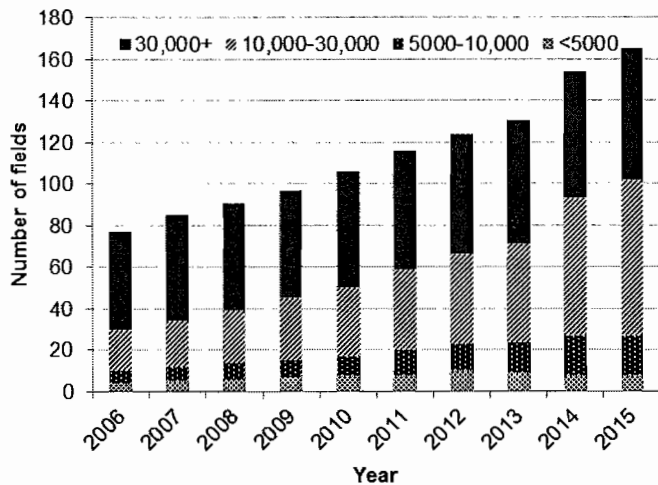


Figure 4-1: Malaysia offshore fields by daily production (boed) (2006-2015) [Source: ISL]

Figure 4-2: Malaysia offshore fields by size of reserves (mmble) (2006-2015) [Source: ISL]

In terms of currently producing fields that could be categorised as marginal, we estimate that there are currently eight fields offshore Malaysia with production rates of less than 5,000 barrels of oil equivalent per day, and a further 12 with a production rate of between 5,000 and 10,000 barrels of oil equivalent per day. We expect that by 2015 the number of operational fields in the latter category will remain constant, while the number of fields in the former category will rise to 19. Our analysis indicates that there are currently 18 producing fields with less than 20 million barrels of oil equivalent, which could rise to 22 by 2015. Similarly, we expect that the number of producing fields with production of between 20 and 50 million barrels of oil equivalent currently stands at 23, with the expectation that this will rise to 34 by 2015. Given the added incentives to develop marginal fields, it could be expected that these forecasts may be exceeded as further investments are made to take advantage of high oil prices.



8. INDUSTRY OVERVIEW (cont'd)

4.2 Offshore drilling

4.2.1 Global

The offshore drilling market is driven by the number of development and exploration and appraisal (“E&A”) wells that are to be drilled by mobile drilling units, which in turn is predominantly driven by oil prices and the availability of potential prospects. The number of development wells forecast is a good leading indicator of activity in the wider drilling market, including E&A well activity. The more development and E&A wells that are drilled, the more offshore drilling assets are required to meet demand. Development wells make up a significant proportion of offshore wells drilled annually. The drilling of development wells often indicates a significant level of E&A well activity. Since it is very difficult to accurately predict E&A well drilling, it is therefore more useful to use more accurate development well forecasts to anticipate wider demand.

We anticipate that the drilling market will grow robustly over the next five years, after several years of falling activity due to factors such as the fall in oil prices and the corresponding slump in offshore activity. Our expectation is that offshore development well activity will increase by almost 40% over the next five years in comparison to the previous five year period. We expect that development well drilling will rise incrementally to a peak in 2014 of over 2,100 wells. We anticipate that we will see a similar upswing in E&A drilling activity, largely driven by activity in areas such as Brazil, West Africa and the Gulf of Mexico. This level of growth in activity is a good indicator that the drilling market as a whole will rise, leading to increased demand for offshore drilling rigs worldwide.

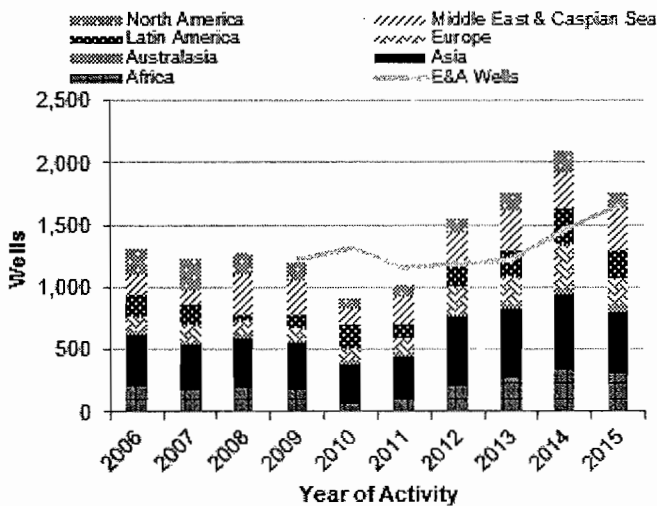


Figure 4-3: Global development wells by region (2006-2015) [Source: ISL]

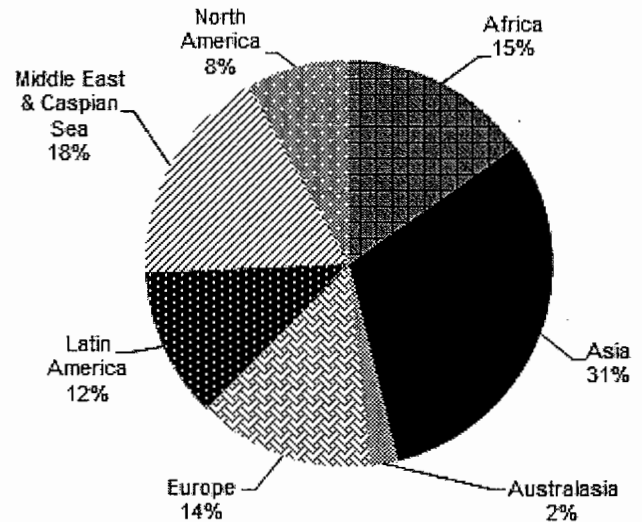


Figure 4-4: Global development wells by region (2010-2015) [Source: ISL]

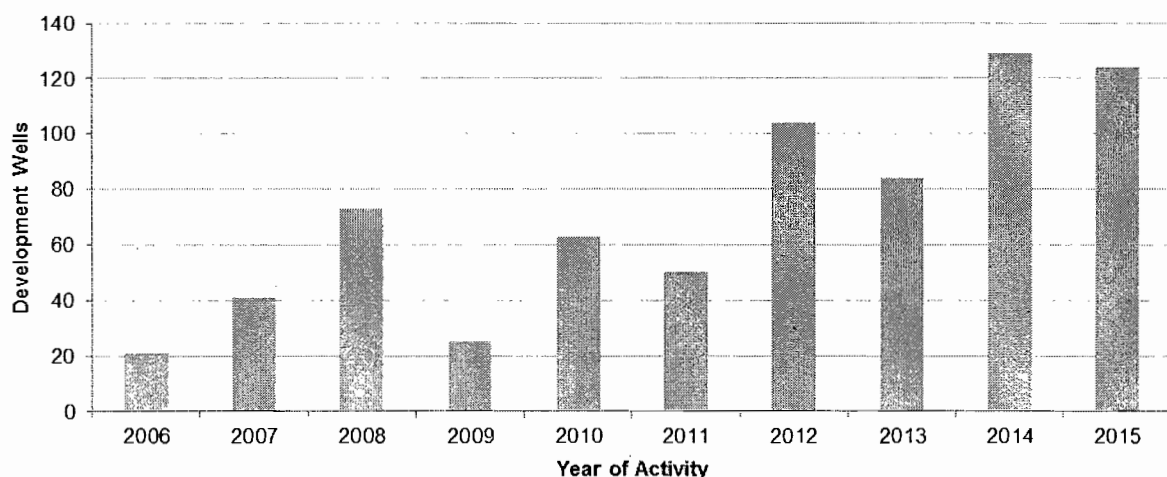
## 8. INDUSTRY OVERVIEW (cont'd)

High oil prices will boost IOCs with producing assets, significantly improving cash flows and encouraging growth in their exploration programmes and subsequent E&A activity. In addition, non-producing oil juniors will more easily attract institutional and private investment for wildcat exploration plans. Thus, as oil prices continue to rise, we expect E&P activity to increase concurrently, both in mature regions (e.g. North Sea) and in frontier areas (e.g. the Arctic, deepwater, etc.). Of course, any major 'black swan' events across the world, such as a double-dip recession, civil unrest etc, will have an adverse effect on oil prices and subsequently E&P activity. Asia is forecast to be the key driver of activity in the drilling market, with around 31% of the development well total between 2011 and 2015. This is followed by the Middle East & Caspian, where we anticipate that around 18% of wells will be drilled.

Latin America remains a key growth market for drilling activity – driven in large part by Brazil, and specifically PETROBRAS', development of the large pre-salt deepwater plays. We also forecast significant growth within the EAC market. Offshore West Africa is a world class deepwater development region where IOCs and NOCs alike have focused a great deal of attention. The North Sea remains a key region too – high oil prices will sustain E&P activity and encourage the development of smaller discoveries. The Australasian market, which has performed well over the last two years, even in spite of the remote operating environment, remains strong with significant development activity expected to continue.

### 4.2.2 Local

We expect that activity in the Malaysian offshore drilling market will see considerable growth over the period between 2011 and 2015. Historic activity over the last five years has been somewhat variable, having been affected particularly badly in 2009 where only 25 development wells were drilled. Looking forward, however, we anticipate that in excess of 104 development wells will be drilled in 2012 alone, followed by even higher totals of 129 and 124 in 2014 and 2015 respectively. This predicted level of activity would result in an increase of 120% between 2011 and 2015, in comparison to the previous five year period. This level of growth clearly indicates that the country will provide an ample and growing market for offshore drilling contractors.



**Figure 4-5: Malaysian development wells (2006 to 2015)[Source: ISL]**

## 8. INDUSTRY OVERVIEW *(cont'd)*

### 4.3 EPCIC

Forecasts for the EPCIC segment of the of the oil and gas value chain have been split into EPC and IPF, according to the structure of the new entity.

The **EPC forecasts** include Capex estimates related directly to the EPCC, design and engineering of offshore platforms and pipelines, modules and skid systems. The EPC forecasts included are leading indicators of the segment of the market relating to conversion, refurbishment of marine vessels, rigs and barges.

The **IPF forecasts** relate directly to vessel demand related directly to the installation of offshore platforms, marine pipelines and facilities, HUC and decommissioning and removal of production facilities. Please note that HUC is included within installation vessel demand.

#### 4.3.1 EPC Global

We expect that the global EPC market will see significantly higher levels of capital expenditure over the next five years than has been seen in the previous five year period. It is our expectation that we will see an increase in Capex of 54% between 2011 and 2015, with high levels of growth experienced in 2011, 2012 and 2014 in particular. This spending is principally driven by the recent return to high oil prices, as well as the sanctioning of numerous projects that had been put on hold during the downturn experienced post-2008. This will help drive spending to over USD160bn between 2011 and 2015.

The largest region in terms of capex is forecast to be Asia with 24% of the global total, which equates to around USD40bn to 2015. Engineering spending in the region is expected to be dominated by activity in Indonesia, driven by projects such as Abadi FLNG, East Natuna FPSO A and Eni's Aster/Tulip FPSO. Large engineering capex is also expected for the Dhirubhai D3-ACRP project offshore India.

The Asian market is characterised by the majority of activity being located in shallower waters, although the region is moving towards the development of more complex infrastructure. We expect that Asia will be the largest contributor globally to fixed platform demand, as SE Asia and India are expected to focus heavily upon piled platforms in their shallow waters. FPSO projects such as Gendalo, Aster/Tulip and Bumerah indicate the movement towards more complex deepwater developments.

Australasia, with 7% of the global EPC Capex total, is expected to see strong growth during the forecast period, with spending rising to over USD12bn which is an increase of over 360% over the previous five years. This robust growth is driven by the development in areas such as the Browse and Prelude basins, where capex intensive projects such as Gorgon and Wheatstone are driving spending. Fixed platform activity post 2012 will see uplift from planned development of LNG recovery in the Western gas fields, which will also drive floating platform spending. Engineering spending will likely be dominated by floating projects, with large developments in the pipeline such as Woodside's Sunrise FLNG FPSO, Ichtys FPS for Inpex and Poseidon FPS for ConocoPhillips.

8. INDUSTRY OVERVIEW (cont'd)

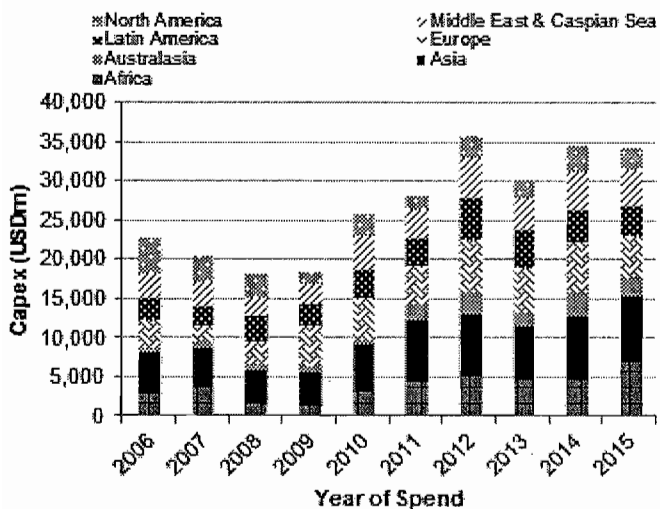


Figure 4-6: Global EPC market capital expenditure by region (2006-2015) [Source: ISL]

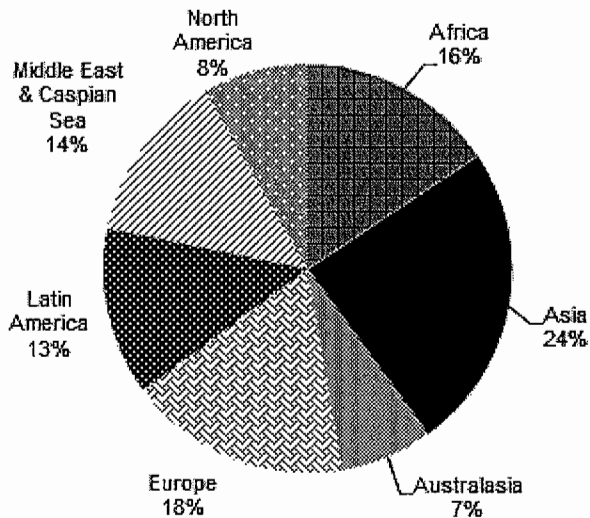


Figure 4-7: Global EPC market capital expenditure by region (2011-2015) [Source: ISL]

The Middle East is forecast to account for 14% of global EPC spending to 2015, with a corresponding expected growth in spending of around 50%. Capex is forecast to be over USD22bn between 2011 and 2015, up from around USD15bn over the previous five years. This will be driven by the conventional developments in countries such as Iran, Azerbaijan, Saudi Arabia and Abu Dhabi. Unconventional floating demand from this region will be concentrated in Kazakhstan and Israel. In Kazakhstan, we expect to see the Kashagan and Akote field developments drive spending. In Israel, the Leviathan development will form the majority of activity, being the country's first deepwater development.

Latin America is expected to be another source of considerable growth in EPC capital expenditure over the next five years, with an anticipated increase of over 40% to almost USD22bn, 13% of the global total. Latin American Capex is primarily driven by Brazilian demand for FPSOs, which suit the deepwater and relatively undeveloped infrastructure in this area. High levels of activity can be attributed to the development of fields such as Lula (ex-Tupi) and Peregrino. Significant, albeit lower, demand for fixed platforms is also expected from countries such as Venezuela and Mexico.

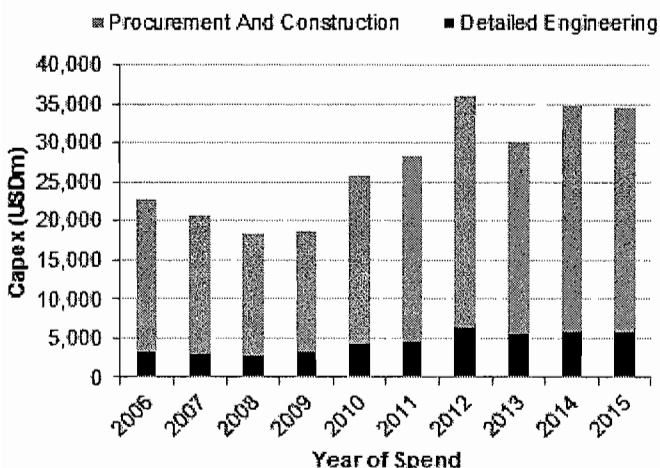


Figure 4-8: Global EPC market capital expenditure by activity (2006-2015) [Source: ISL]

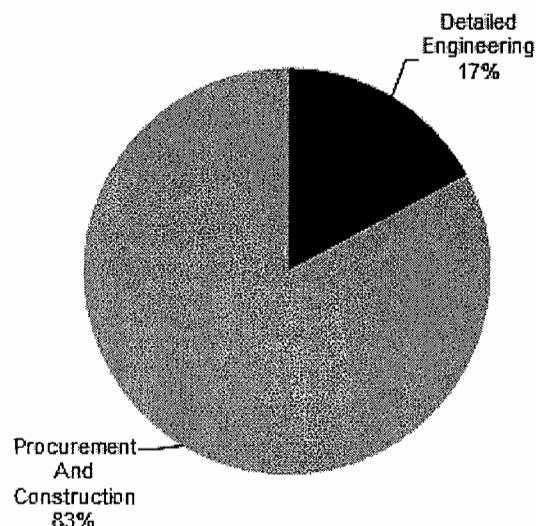


Figure 4-9: Global EPC market capital expenditure by activity (2011-2015) [Source: ISL]

8. INDUSTRY OVERVIEW (cont'd)

In terms of EPC activities, procurement and construction activities are responsible for the majority of Capex between 2011 and 2015, with an expectation that it will make up 83% of the global total during this period, leaving 17% attributed to detailed engineering. We believe that procurement and construction growth will be driven predominantly from floating installations in regions such as Brazil, Australasia and West Africa, as well as fixed platform activity in the Middle East and Asia. Engineering demand will mirror this activity, with the highest growth expected from offshore Australasia and Africa, with significant demand also seen in Asia.

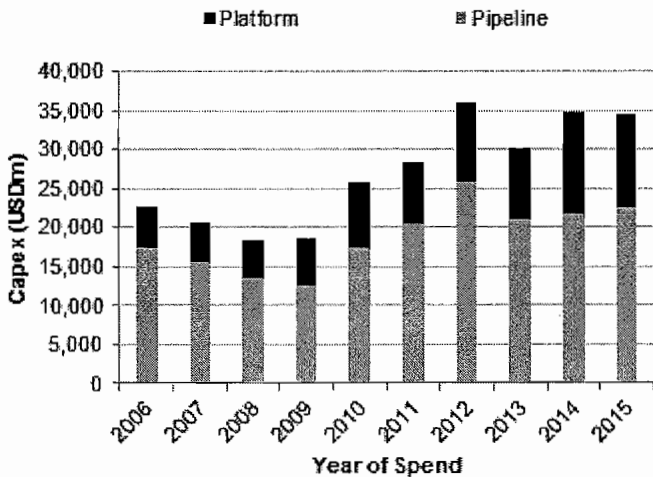


Figure 4-10: Global EPC market capital expenditure by facility type (2006-2015) [Source: ISL]

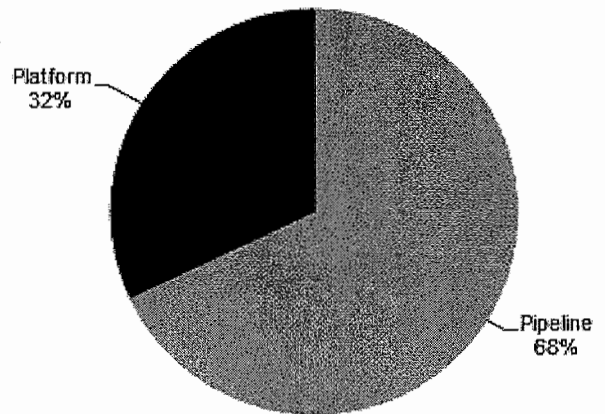


Figure 4-11: Global EPC market capital expenditure by facility type (2011-2015) [Source: ISL]

EPC spending will likely be dominated by pipelines with 68% of the global total, leaving 32% attributed to platforms. Pipeline spending is expected to be predominantly driven by activity in Europe and Asia. In Europe, activity will focus on export/trunk and SURF installations offshore UK and Norway. Asian activity will focus on conventional pipelines, with growth being seen in the export/trunk sector as well. The most capital intensive pipeline project globally in terms of engineering is expected to be located in Asia, namely the Natuna Island to West Java trunk/export line for Pertamina LLC offshore Indonesia.

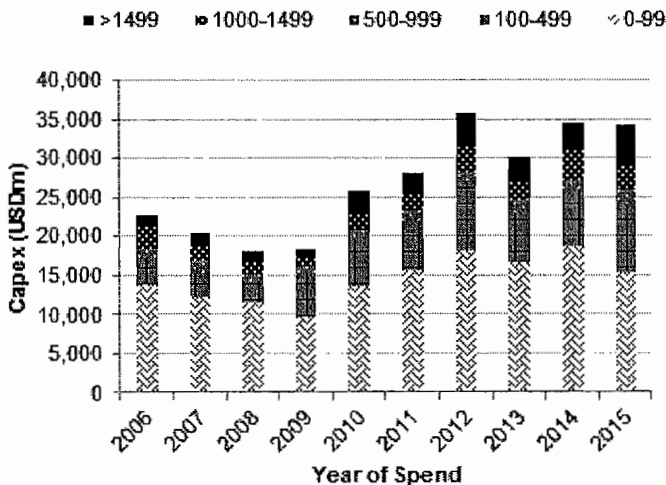


Figure 4-12: Global EPC market capital expenditure by water depth (2006-2015) [Source: ISL]

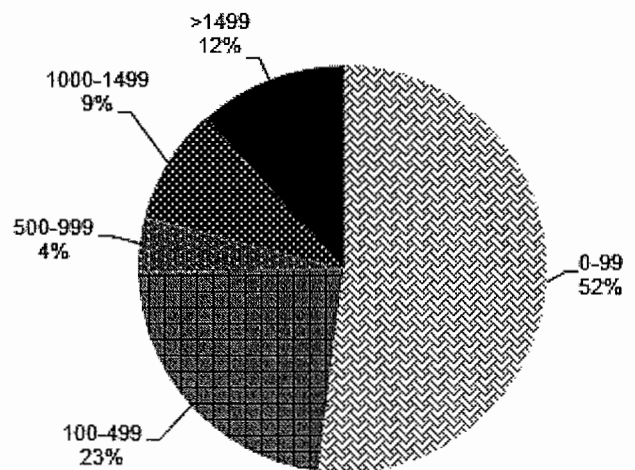


Figure 4-13: Global EPC market capital expenditure by water depth (2011-2015) [Source: ISL]

8. INDUSTRY OVERVIEW (cont'd)

Shallow water developments are expected to continue to account for the majority of EPC Capex between 2011 and 2015, with spending in developments in less than 100m of water making up 52% of the global total. This is driven by shallow water developments in the Middle East and Australia, where there are still significant sources of oil and gas which are located in areas with shallow water characteristics. It is interesting to note, however, that the highest anticipated growth in Capex spending relates to developments in water over 1,499 metres. Capex on such developments is expected to grow 120%, from under USD9bn between 2006 and 2010 to over USD19bn between 2011 and 2015. Spending in this ultra-deepwater segment will predominantly be driven by activity in areas such as Brazil, West Africa and the US GoM.

4.3.2 EPC Local

Malaysia will be one of the key areas of spending in Asia as we move forward to 2015. It is our expectation that there will be considerable growth in the Malaysian EPC market over the next five years to 2015. Capex during this period is expected to total around USD7bn, which would represent growth of 45% in comparison to the previous five year period. Peak years on our forecast include 2011, 2012 and 2015, driven by significant platform and pipeline activities in shallow water, with a definable trend of increasing Capex associated with deeper water developments.

This expected growth in the Malaysian EPC market is driven, in part, by the Malaysian government's recent efforts to counter future declines in production. The government recently created a steering group coined the 'Economic Transformation Programme' which has released a 'Roadmap for Malaysia' targeting key initiatives and projects among all aspects of the Malaysian economy and infrastructure, including its oil, gas and energy industries. This plan is expected to positively influence EPC Capex, as spending plans are raised in order to target increased production from existing and yet to be developed fields.

In line with the global trend, we expect that the majority of EPC spending in Malaysia will be attributable to pipelines, with approximately 61% of the total. Indeed, Malaysia is expected to be the largest single pipeline market in Asia during the 2011 to 2015 period. Significant pipeline developments driving spending include the Petronas Keabangan KBB-PDUQ to Kimanis Shore Terminal pipeline in 2011 and the Petronas Cakerawala RC to Lawit AR in 2012.

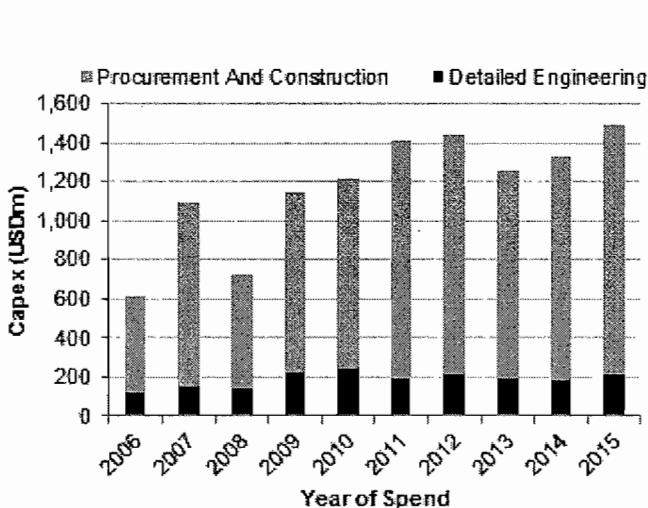


Figure 4-14: Malaysian EPC market capital expenditure by activity (2006-2015) [Source: ISL]

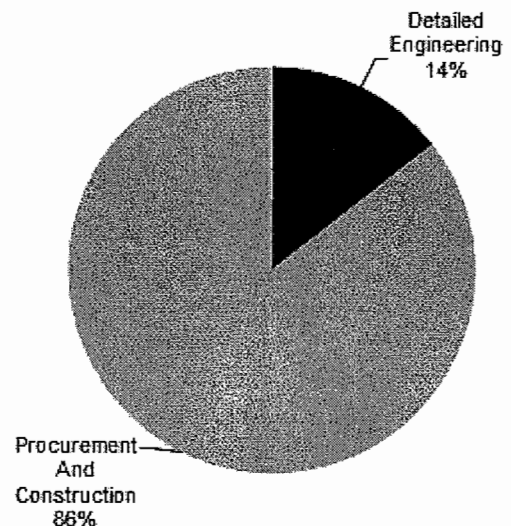


Figure 4-15: Malaysian EPC market capital expenditure by activity (2011-2015) [Source: ISL]

8. INDUSTRY OVERVIEW (cont'd)

The remaining 39% of EPC Capex will be associated with platform developments, largely driven by a large number of fixed platform projects over the forecast period. This will be in evidence with significant installation activity at Malaysia's Sarawak block in 2013, with nine piled platforms expected to be installed in that year alone. Growth will be bolstered in 2014 with the installation of Shell's Beryl (SK-310) platform, and further Capex is anticipated in 2015 in the Sarawak NC03 (SK-316) field for PETRONAS. Indeed, the Sarawak region is expected to be Malaysia's most significant offshore gas region in future, with further development expected throughout the forecast period and beyond.

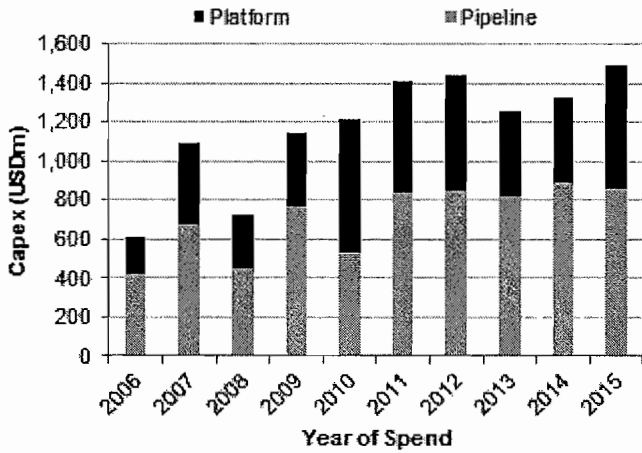


Figure 4-16: Malaysian EPC market capital expenditure by facility type (2006-2015) [Source: ISL]

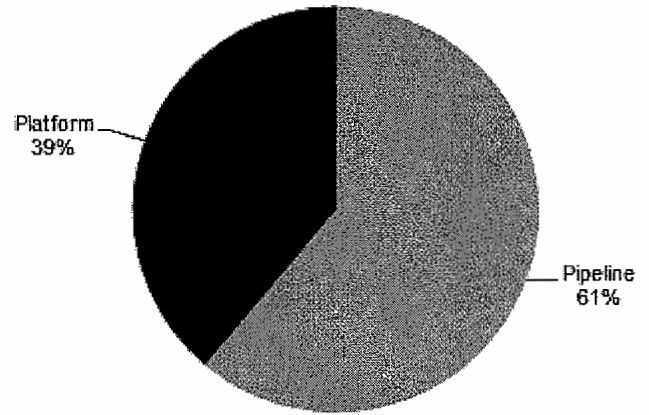


Figure 4-17: Malaysian EPC market capital expenditure by facility type (2011-2015) [Source: ISL]

The overwhelming majority of EPC Capex in Malaysia between 2011 and 2015 will be in developments in a water depth of less than 99m. This reflects Malaysia's position as a mature producing province, with many developments taking place in existing producing areas. Notably, around 6% of EPC Capex will be directed towards activity in deep waters between 1,000 metres and 1,499 metres. It is our expectation that this trend towards investment in deepwater developments will continue beyond the forecast period.

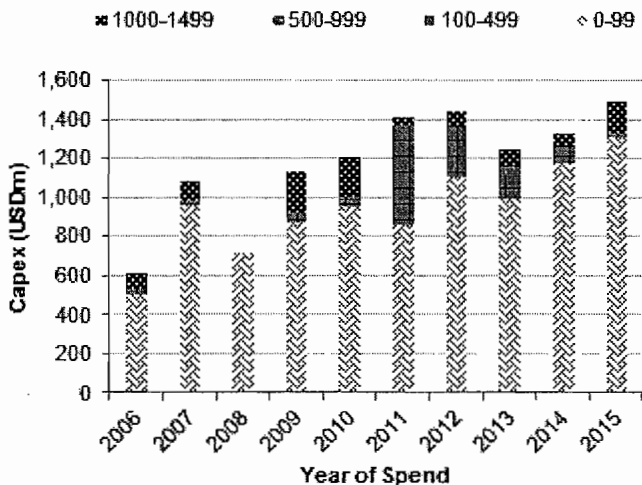


Figure 4-18: Malaysian EPC market capital expenditure by water depth (2006-2015) [Source: ISL]

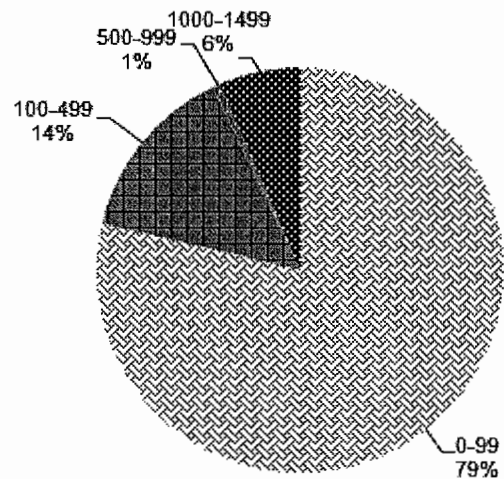


Figure 4-19: Malaysian EPC market capital expenditure by water depth (2011-2015) [Source: ISL]

8. INDUSTRY OVERVIEW (cont'd)

4.3.3 IPF Global

We expect the global IPF market to experience robust growth over the next five years, with year-on-year rises in vessel demand expected through to 2014, and continued high demand beyond this point. Our forecasts indicate that global IPF vessel demand between 2011 and 2015 could exceed 360,000 vessel days, which would represent an increase of almost 70% over the previous corresponding period. The single greatest source of IPF demand is expected to be Europe with 22% of demand, followed by Asia with 17% of the global total. The predominant drivers of growth during this period include Australasia, the Middle East & Caspian, Europe, Africa and Latin America.

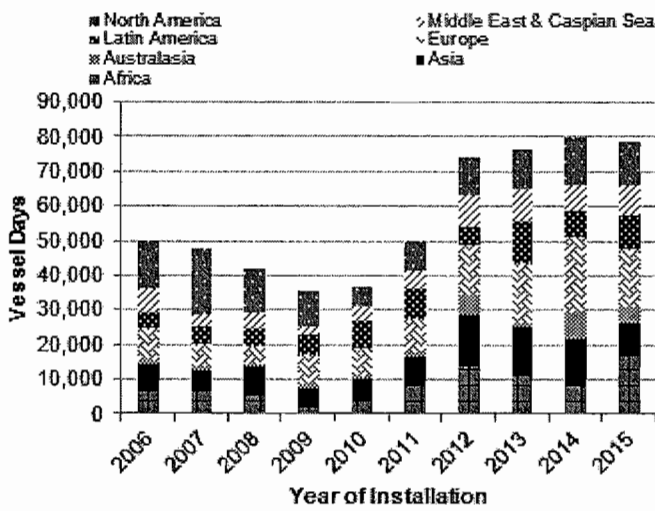


Figure 4-20: Global IPF market vessel demand (days) by region (2006-2015) [Source: ISL]

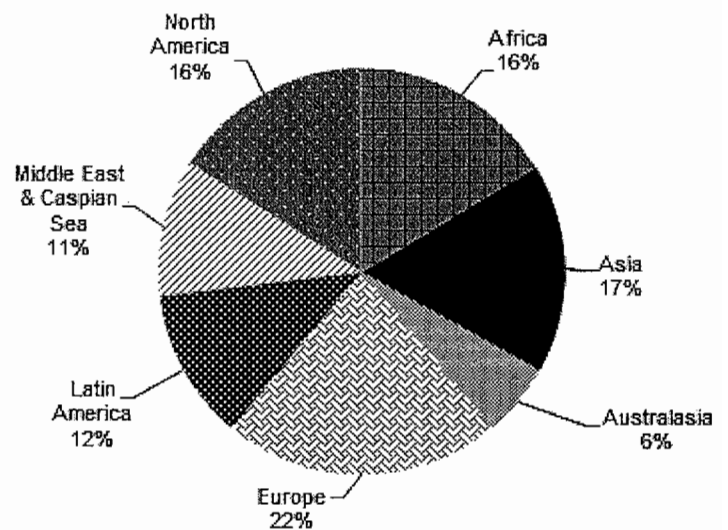


Figure 4-21: Global IPF market vessel demand (days) by region (2011-2015) [Source: ISL]

The European market, which we forecast to account for demand of almost 80,000 IPF vessel days between 2011 and 2015, will be the largest IPF market globally over this period. We believe that the market will see an upturn in 2011 and note the increased diversification in terms of platform types in Norway and the UK. Recent years have seen the installation of floating production systems across the region, and Statoil have recently announced its intention to use the Spar on the Luva gas and condensate discovery. This would represent the largest development in the region throughout the forecast period, with supplementary activity including the Clair Ridge platform, Schiehallion replacements and the Draupner South towards the end of the forecast period.

As previously mentioned, we expect that Asia will be the source of 17% of global IPF vessel demand between 2011 and 2015, which would represent demand of around 60,000 days over this period. Within this context, Asian platform demand is likely to be a key underlying trend in the IPF market going forward to 2015. The largest platform installation projects throughout the period of analysis include the Tapis CPP, Kim Long CPP and the Liwan developments in Malaysia, Vietnam and China, with much of the work consisting of large piled developments. The Asian activity is split between floating platforms, which require considerably higher levels of Capex, and the more conventional fixed installations. A range of operators are driving activity, the largest of which include China National Offshore Oil Corporation Limited ("CNOOC"), Chevron, PETRONAS, PTT and ONGC. IPF pipeline activity in Asia will also be driven by local NOCs, with each looking to increase international and domestic production portfolios in the near future. Significant drivers of demand include installations in the Liwan LW 03-1-1 field in China and the Galoc field in the Philippines.



## 8. INDUSTRY OVERVIEW *(cont'd)*

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The proposed Trans-ASEAN Gas Pipeline (“TAGP”) project is expected to be a source of considerable pipelay demand over the forecast period and beyond. This network envisages a trans-national pipeline network linking ASEAN’s gas production and utilisation centres. The project would make cross-border interconnections between Myanmar, Thailand, Indonesia and Singapore; Indonesia and Malaysia and the Malaysia-Thailand Joint Development Area; and to peninsular Malaysia. The project aims to greatly improve the security of gas supplies in a region with a number of unutilised gas reserves. The development of a trans-border gas pipeline network is thought to be a good way to encourage greater political stability and more competitive gas prices within the region. It should be noted, however, that there are a number of issues delaying the progression of the TAGP project. Most of these issues are associated with economic and political reasons. For example, the proposed gas pipelines could impact prospects for the LNG industry which is already operational in Indonesia.

We also expect that there will be considerable growth within the Australasian IPF market, with our forecast that vessel demand will grow over 300% to in excess of USD21bn between 2011 and 2015. The market has seen a number of high profile installations such as Gorgon and Wheatstone go ahead and we expect further growth to be driven by Ichthys, Petrel and Tern. There have been positive moves in regards the Ichthys FPS and FPSO. In the short to medium term we see activity being highlighted by North Rankin B, Montara Venture and Oliver developments. In the longer term, we expect that activity could centre on projects such as the Scarborough platform installation and the development of LNG work in a variety of other fields across the Browse and Itchys basins. Pipelay activity will be similarly focused around developments in these areas.

The Middle East & Caspian IPF market is forecast to account for around 11% of global demand. This activity is largely driven by mid-end platform installation activity in countries such as Iran and Abu Dhabi. Key projects going ahead within the forecast time frame include Umm Shaif IGD-HAP, Mubarraz MUB-PRD and the Upper Zakum in Abu Dhabi, as well as the Chirag West Satellite, Azeri (Balakhany) and Shah Deniz platforms to be installed in Azerbaijan. Pipelay activity, while less significant, will nevertheless present significant opportunities. Key projects will drive demand, such as South Pars and North Pars in Iran, as well as the export line that will link Iran with Qatar and Dubai.

The Latin American market is expected to be one of the key stories in the global installation market over the forecast period and beyond. This market is expected to account for around 12% of global demand between 2011 and 2015, with in the region of 44,000 vessel days required. This demand is driven by projects such as the Guara TLP, Azula, Wahoo and France FPSO’s, which will see significant installation vessel requirements in Brazil. In line with platform installations, the market for pipeline installations with Latin America continues to be weighted towards activity within Brazil. The development of the country’s pre-salt fields is expected to drive activity in this market, with fields such as on Cernambi, Guara, Iara and Lula anticipated to come on-stream before 2015.

European pipelay activity is expected to be characterised by strong growth characteristics, with activity in the first half of the forecast period being weighted towards the UK and Norwegian sectors of the North Sea. Post 2012 we expect to see developments in other areas account for high levels of activity. This includes a number of trunk line developments in the Russian Baltic and Black Seas, as well as other developments in Denmark and Italy.

8. INDUSTRY OVERVIEW (cont'd)

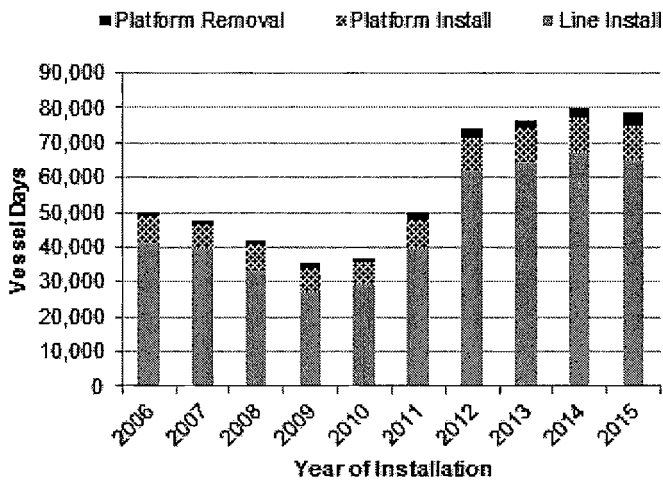


Figure 4-22: Global IPF market vessel demand (days) by market segment (2006-2015) [Source: ISL]

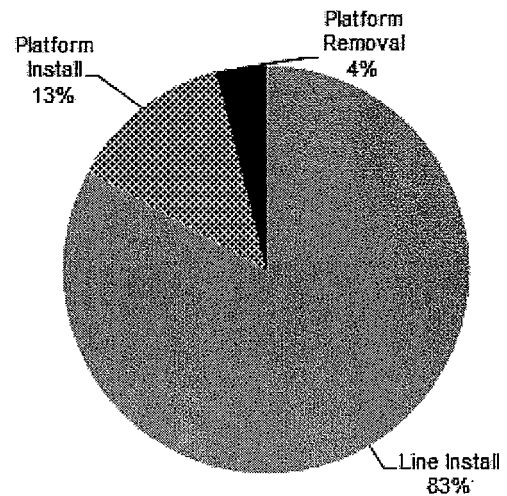


Figure 4-23: Global IPF market vessel demand (days) by market segment (2011-2015) [Source: ISL]

It is our expectation that line installation will account for the overwhelming majority of IPF vessel demand between 2011 and 2015, with our forecast indicating that it will be the source of approximately 83% of global demand. Platform installations are expected to account for 13% of demand, with platform removals 4%. We view platform removals sector as representing a long term opportunity across the supply chain. In the short to medium term, however, we believe that this market will be relatively slow, with only smaller platforms being removed. Larger developments benefit from second and third stage production being tied back into existing infrastructure as well as technology such as EOR. Platform removal demand is closely correlated to field age, and is therefore dominated by mature basins where many developments are approaching the end of their economic lives. The global market is driven by activity in the Gulf of Mexico, with North America being the source of in the region of 70% of such demand between 2011 and 2015.

Shallow water installations will continue to be the source of the majority of IPF vessel demand between 2011 and 2015, however we note that the highest proportion of growth will come from activity in deeper waters. Developments in water of over 1,499 metres depth are forecast to account for around 20% of demand over the next five years, characterised by growth in excess of 140% in comparison to the previous five year period. This demand is mostly driven by activity in the 'deepwater triangle' of Brazil, West African and the Gulf of Mexico. Such installations are typically more capital intensive than shallower counterparts, representing ripe opportunities within the IPF market segment. More mature regions such as Asia are also contributing towards deepwater demand, with activity expected in areas such as the South China Sea and offshore Borneo over the next five years.

8. INDUSTRY OVERVIEW (cont'd)

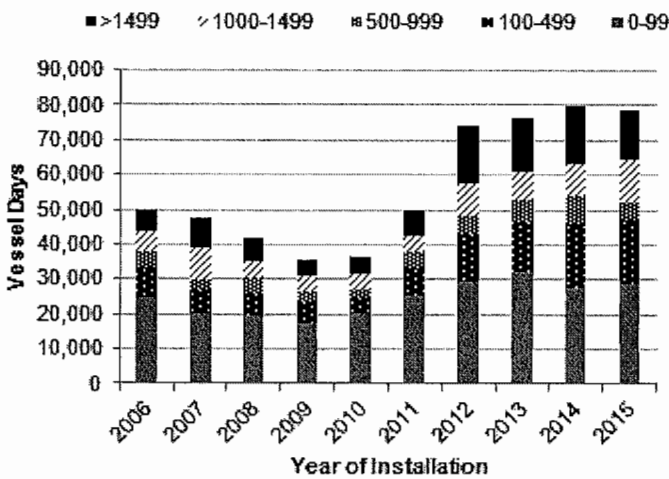


Figure 4-24: Global IPF market vessel demand (days) by water depth (2006-2015) [Source: ISL]

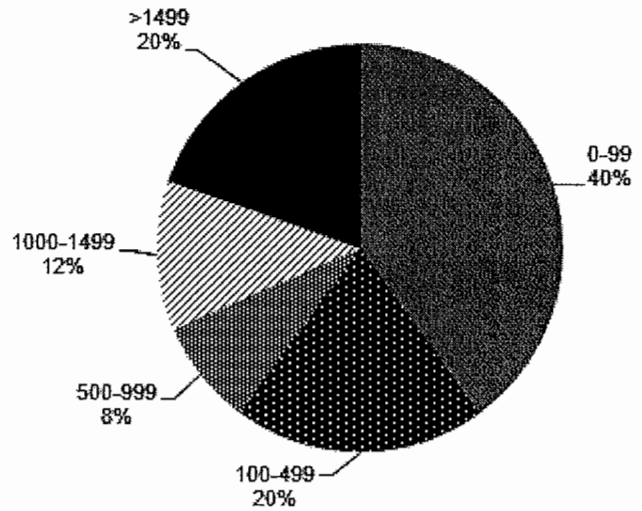


Figure 4-25: Global IPF market vessel demand (days) by water depth (2011-2015) [Source: ISL]

4.3.4 IPF Local

In terms of water depth, Malaysia's shallow waters are forecast to be the focus of IPF vessel activity between 2011 and 2015. We believe that around 82% of demand will come from developments in water of less than 500m, with developments in less than 100m along accounting for over 46% of the total. Shallow water demand is expected to come from projects such as PETRONAS' Cakerawala RC - Lawit AR (MTJDA) and Helang CPP - Miri conventional installations. Due to their nature, deeper water developments account for a higher proportion of Capex than shallow water developments. It is therefore perhaps significant that 17% of vessel demand is forecast to come from developments in water of between 1,000 metres and 1,499 metres. Aside from the SURF projects already mentioned previously, this activity will include installations associated with Shell's Malikai TLWP - Ubah Manifold offshore Sabah and installations associated with Murphy's Gumusut Kakap FPU - Kakap Manifold, also offshore Sabah.

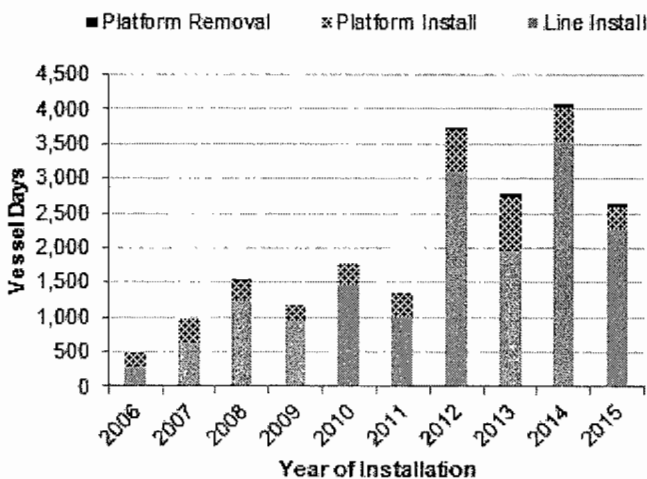


Figure 4-26: Malaysian IPF market vessel demand (days) by market segment (2006-2015) [Source: ISL]

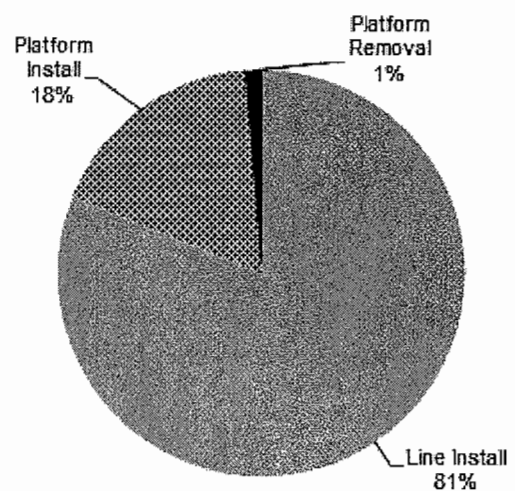


Figure 4-27: Malaysian IPF market vessel demand (days) by market segment (2011-2015) [Source: ISL]

## 8. INDUSTRY OVERVIEW (cont'd)

The Malaysian IPF market is forecast to grow strongly from 2012 onwards. We expect that there will be demand for nearly 15,000 IPF vessel days over the period 2011 to 2015, which would exceed a growth rate of 140% in comparison to the previous five year period. Peak years are expected to be 2012 and 2014, largely driven by pipeline installations. Indeed, pipeline installations are the principle driver behind the anticipated growth in this market, with our expectation being this segment of the market will account for over 81% of demand.

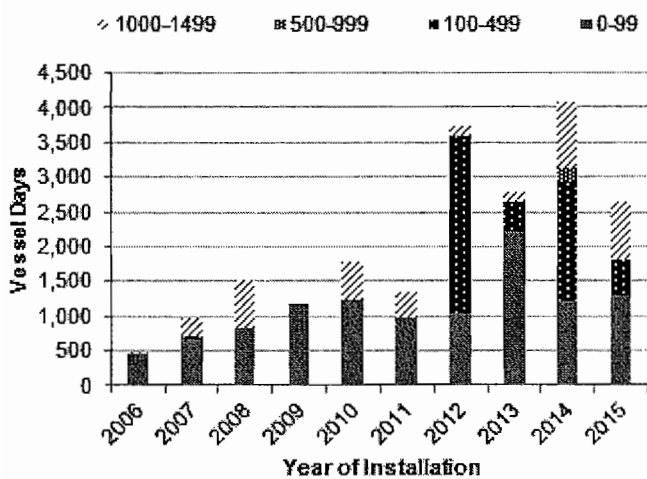


Figure 4-28: Malaysian IPF market vessel demand (days) by water depth (2006-2015) [Source: ISL]

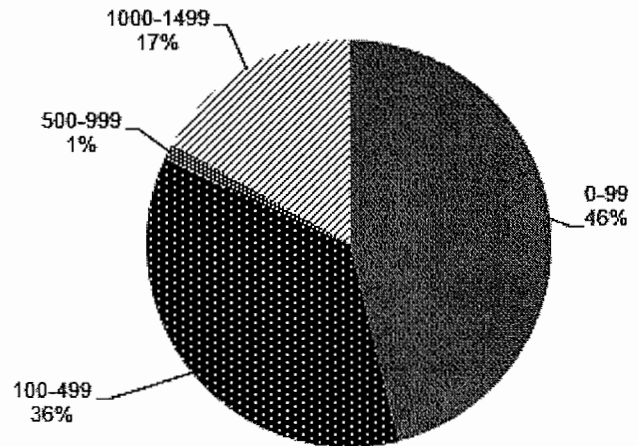


Figure 4-29: Malaysian IPF market vessel demand (days) by water depth (2011-2015) [Source: ISL]

We expect that the proposed TAGP project will drive demand for IPF pipelay vessels, barring any further delays, with the Sarawak to Peninsular Malaysia leg of the project expected to drive demand in 2012 and 2014 in particular. We believe that the Sabah to Palawan Island portion of the project is also likely to drive demand in 2015 and beyond. Other significant projects include the Petronas Keabangan KBB-PDUQ - Kimanis Shore Terminal conventional pipeline, the Petronas Rotan TLP - Erb West EWG-A conventional pipeline and the Petronas Helang CPP - Miri conventional pipeline.

Within the wider Asian region, Malaysia is expected to represent the largest single source of SURF capex spend in the Asia region through the 2011-2015 period. This trend mirrors a dynamic of a growing, though currently small, market for deeper water floating developments in the country's seas. Spending is expected to be driven by SURF projects such as the Murphy's Rotan TLP - Erb West EWG-A line, Newfield's Paus Manifold - Jintan JNDR-A installation, Shell's Malikai TLWP - Keabangan A installation and the Hess Belud South FPSO - Erb West EWG-A installation.

### 4.4 Marine services

Forecasts for the Marine Services segment of the of the oil and gas value chain have been split into the following, according to the new entity structure:

The **ROV forecasts** are a direct forecast of the demand for large inspection and work class ROVs in the offshore O&G industry. This is a leading indicator of demand for offshore diving and other underwater related services.

The **OSV forecasts** are a direct forecast of the demand for OSVs from the offshore oil and gas sector. This demand would typically be met by vessels associated with AHTss, which are used for towing rigs and platforms onto location, platform support vessels ("PSVs"), which are primarily used to supply existing platforms and assist with construction duties.

**8. INDUSTRY OVERVIEW (cont'd)**

The **Seismic forecasts** relate directly to the provision of specialised geotechnical and geophysical services to the offshore oil and gas industry.

**4.4.1 ROVs Global**

After suppressed demand through 2009 and 2010, our forecast predicts that there will be steady growth between 2011 and 2015, aside from a slight plateau in 2013. We believe that from 2012 onwards demand levels will even exceed the high levels seen throughout the pre-credit crunch boom until 2008. We forecast that the demand for ROVs between 2011 and 2015 will be in approximately 1.2m days, which would represent an increase of over 40% in comparison to the period 2006 to 2010. It is forecast that around 79% of this demand will be accounted for by work class ROVs, with inspection class units making up the smaller portion of the market.

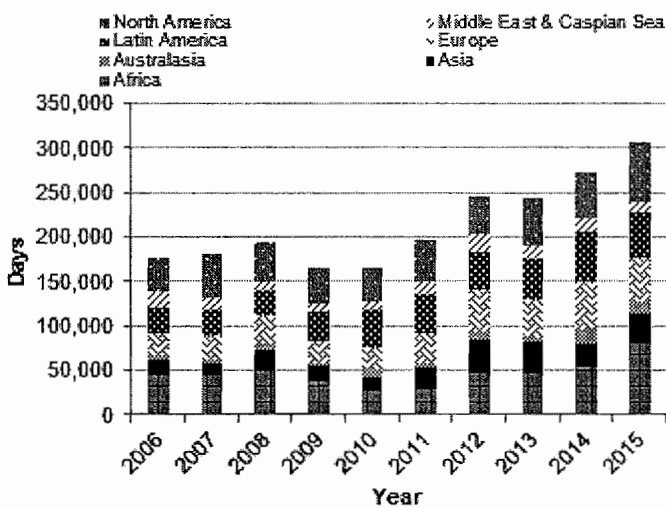


Figure 4-30: Global ROV market demand (days) by region (2006-2015) [Source: ISL]

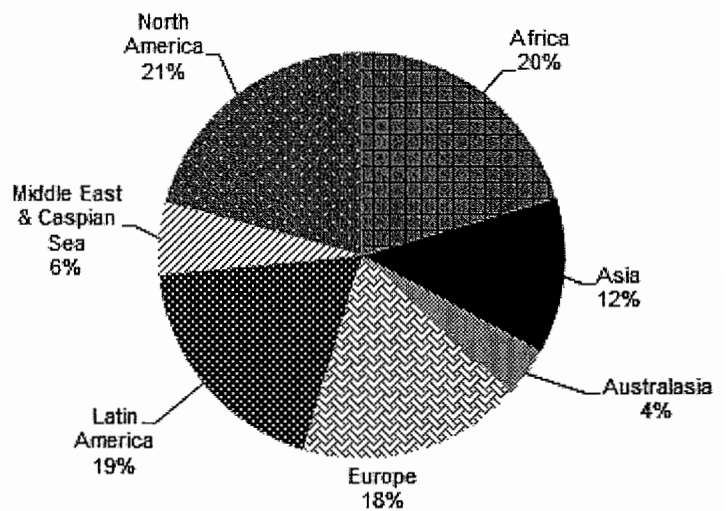


Figure 4-31: Global ROV market demand (days) by region (2011-2015) [Source: ISL]

We forecast that the largest rates of growth in ROV demand will be seen in the Asian and Australasian markets. Within Asia, we predict demand of over 157,000 ROV days, which represents a 79% increase on demand seen in the previous five years. This will be driven by drilling, installation and inspection, repair and maintenance ("IRM") activity in Malaysia, Indonesia, China and India. Latin American growth will be driven by high levels of drilling and development activity offshore Brazil.

**4.4.2 ROVs Malaysia**

Demand for all ROV types within the local market is expected to reach nearly 43,000 demand days over the next five years, driven by the significant spike in required services forecast to occur in 2012 offshore Malaysia, primarily from NOC PETRONAS supporting substantial drilling activities, as well as an increasing number of installation projects. Whilst PETRONAS is the largest operator within the region, international E&P companies are also anticipated to increase their share for ROV demand over the next five years. Overall, work class ROVs are forecast to be the most required type of ROV within the region with 79% of the market share.

8. INDUSTRY OVERVIEW (cont'd)

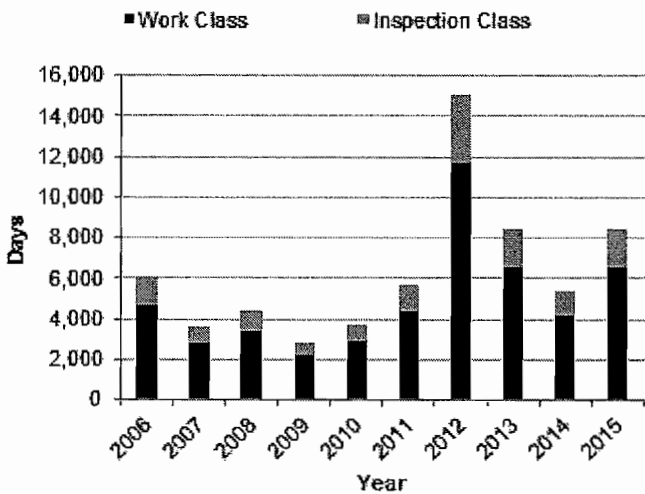


Figure 4-32: Global ROV market demand (days) by region (2006-2015) [Source: ISL]

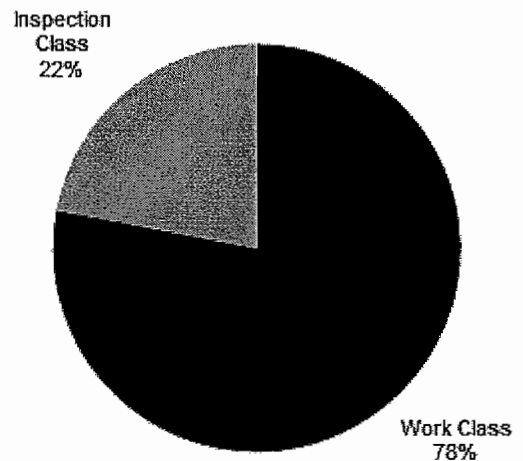


Figure 4-33: Global IPF market demand (days) by region(2011-2015) [Source: ISL]

4.4.3 OSVs Global

We believe that the global OSV market will witness growth over the next five years, as our forecast indicates a strong market performance, underlined by key market drivers. We anticipate that the market will be particularly strong in 2011, before a slight drop followed by incremental growth through to 2015. This market is driven by factors such as the number of new platform installations scheduled and the number of wells set to be drilled, which are all set to increase through to 2015.

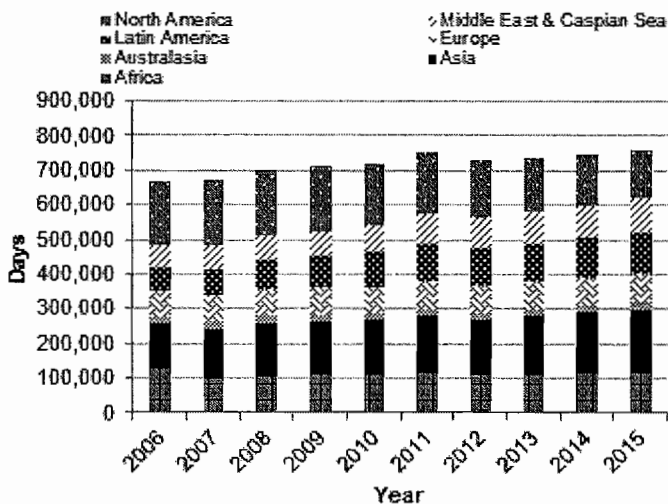


Figure 4-34: Global OSV market vessel demand (days)by region (2006-2015) [Source: ISL]

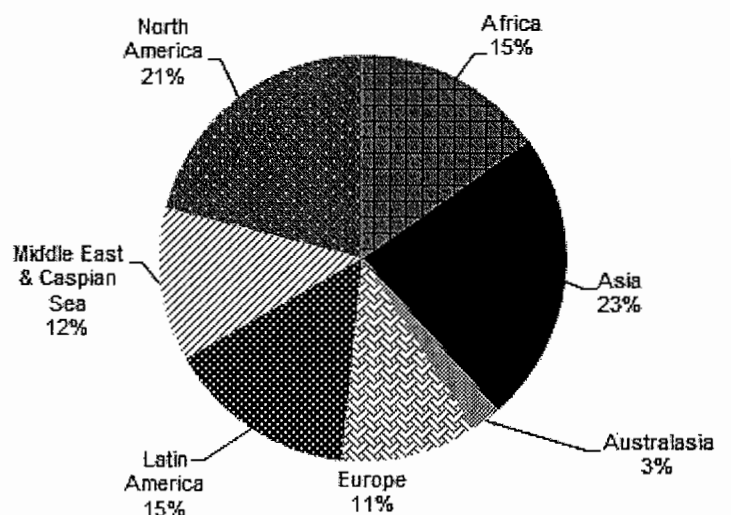


Figure 4-35: Global OSV market vessel demand (days)by region(2011-2015) [Source: ISL]

## 8. INDUSTRY OVERVIEW (cont'd)

Our forecasts indicate that OSV market demand between 2011 and 2015 will be in the region of 3.7m days, which would represent an increase of 8% over the previous corresponding period. It is our belief that Asia will be the largest single market for OSVs, with an expectation that this region will account for around 23% of the global total over the next five years. OSV activity in this region will be driven by a number of factors, including a high number of platform installations and associated drilling activity in Indonesia and China, as well as Malaysia. Deepwater development is beginning to move ahead in Asia, although it is still in its infancy in comparison to some other regions. Developments in deep water drive demand for OSVs by increasing the need for vessels to support drilling rigs and, later, construction vessels engaged in installation activities, before the subsequent need for OSVs to support the resulting operational platforms.

Outside Asia, the next largest source of OSV demand is expected to be North America with 21% of the global total. This is driven by the expected resumption in deepwater drilling activity in the Gulf of Mexico, as well as a high number of small wellhead platform installations in shallower waters in the same region. Elsewhere, there is likely to be significant demand in Latin America and Africa, with 15% of the global total respectively, and the Middle East and Caspian with 12%. We expect that the largest growth markets will be Latin American and the Middle East. In Latin America, we expect this will largely be driven by drilling and development activity in Brazil, while in the Middle East this will be largely the result of a rise in conventional fixed platform numbers increasing in countries such as Iran, Saudi Arabia and Abu Dhabi.

### 4.4.4 OSVs Malaysia

We expect that the Malaysian OSV market will experience strong growth between 2011 and 2015, with a possible increase of over 40% in comparison to the previous five year period. We expect that the growth trend will be characterised by incremental growth over the five years to 2015, culminating in a peak of over 40,000 vessel days.

Due to cabotage laws prioritising local OSV service providers and the presence of financially strong Majors and NOCs in Malaysia, the OSV market has witnessed a stable period over the last few years. Whilst charter rates became depressed in other global regions, the rates in the Malaysian market remained comparatively buoyant [Source: ISL].

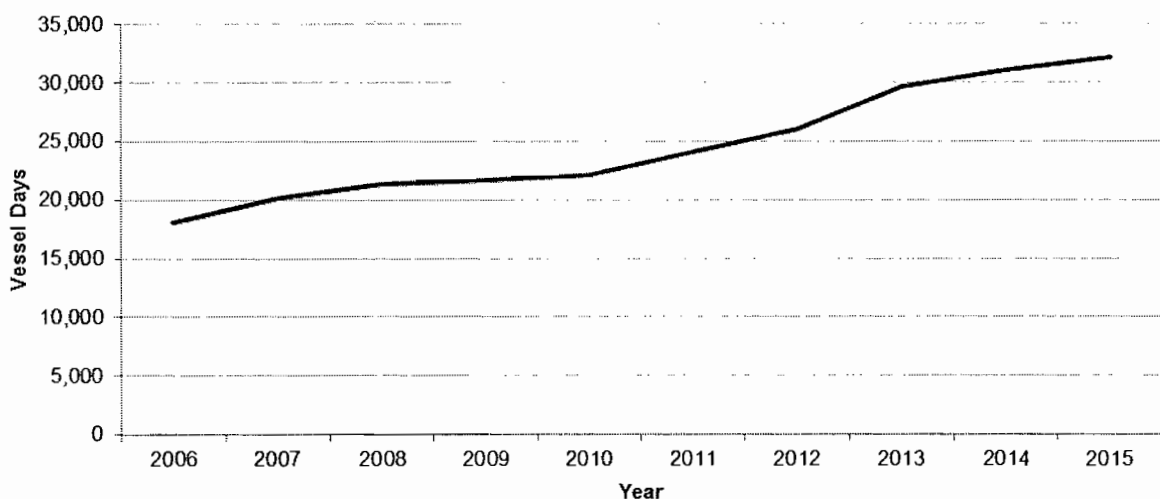


Figure 4-36: Figure 1 34: Malaysian OSV market vessel demand (days)(2006-2015) [Source: ISL]

8. INDUSTRY OVERVIEW (cont'd)

One of the key drivers for the Malaysian OSV market continues to be PETRONAS, and its plans to develop hydrocarbons offshore Malaysia. During 2010, 69% of PETRONAS' E&P spending was within the domestic market (Source: PETRONAS Annual Report 2010). This is expected to increase in 2011 as the operator moves away from its international focus and looks to address declining production from its shallow water fields. PETRONAS' expenditure plans at this stage are two pronged; the development of deep water reserves, which will require deep water capable PSVs, and also the re-development of fields which are experiencing declining production. This will require additional drilling, which will in turn require greater support from AHTs. We believe that the O&G industry in the country will continue to provide opportunities within the OSV market [Source: ISL].

4.4.5 Seismic Global

The seismic market has a strong outlook over the short and medium term, with strong year-on-year growth expected as we move forward to 2015. We estimate that seismic vessel demand will grow from approximately 43,000 days between 2006 and 2010 to upwards of 60,000 days between 2011 and 2015, a rise of 28%. Our expectation is that there will be a relatively even split between geotechnical and geophysical demand, with 53% and 47% respectively.

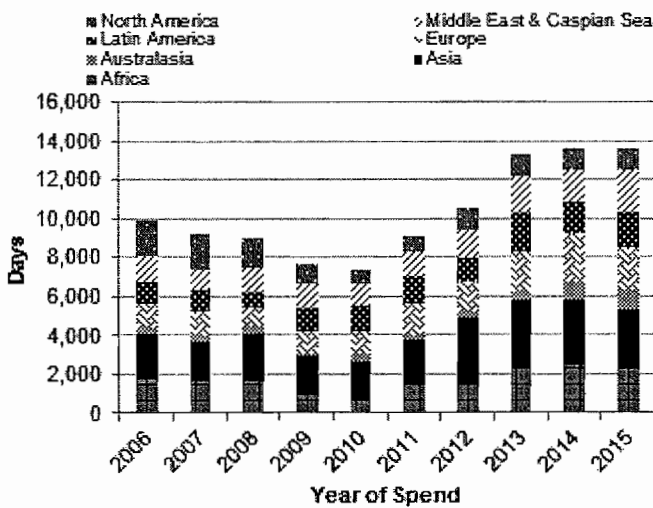


Figure 4-37: Global seismic market vessel demand (days) by region (2006-2015) [Source: ISL]

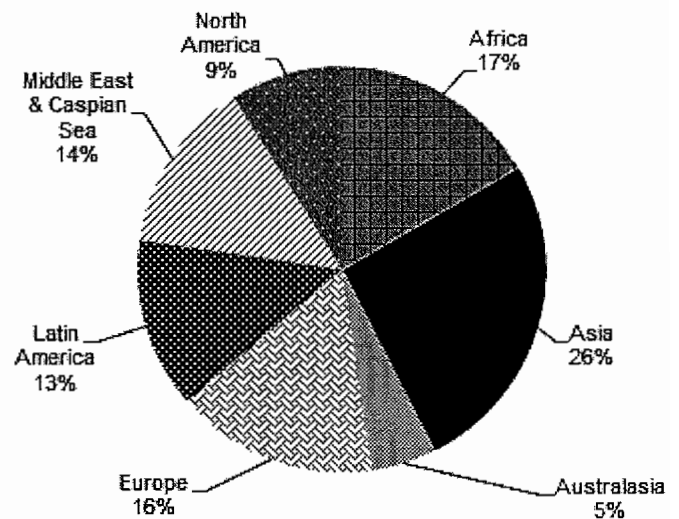


Figure 4-38: Global seismic market vessel demand (days) by region (2011-2015) [Source: ISL]

The geotechnical survey market is driven primarily by the drill market for fixed and floating platforms, although there is growth expected within the Seabed System CPT Sampling sector as more and more developments move towards deeper waters. The geophysical survey market is driven by E&A well activity and is a smaller market than the geotechnical one in terms of revenue spent, however with companies looking towards increasing exploration programme expenditure; this market retains a healthy outlook post 2015.



8. INDUSTRY OVERVIEW (cont'd)

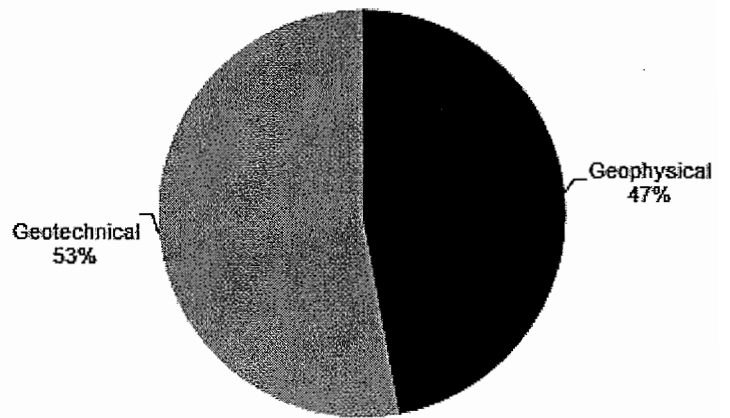
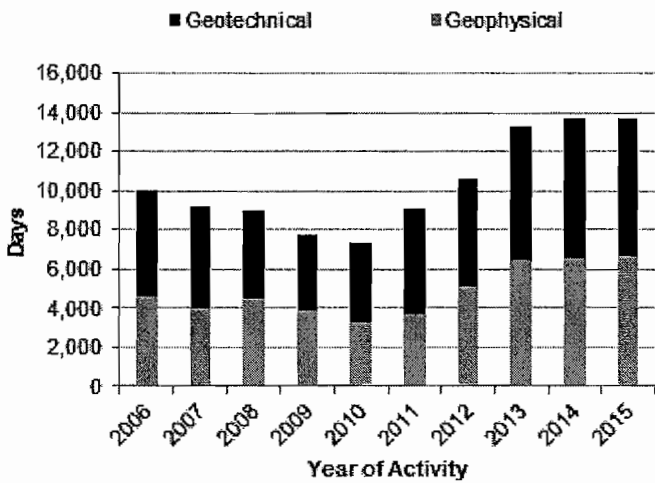


Figure 4-39: Global seismic market vessel demand (days) by market segment (2006-2015) [Source: ISL]

Figure 4-40: Global seismic market vessel demand (days) by market segment(2011-2015) [Source: ISL]

4.4.6 Seismic Malaysia

Within the local market of Malaysia, the outlook for the seismic market is very positive with both geophysical and geotechnical demand expected to increase substantially during 2012 and continue to do so through to 2015. Indeed, demand days should average 665 days for the period between 2012 to 2015, an increase from an average of 328 days for 2006 to 2011. Total revenue for seismic activity offshore Malaysia is forecast to reach nearly USD250m over the next five years, a significant increase from the USD145m witnessed during 2006-2010; one of the primary drivers behind this is spike in activity during 2013 that should bolster revenues within the local market. Overall, demand for geophysical demand is anticipated to be slightly greater than that for geotechnical with a market share of 52% and 48%, respectively.

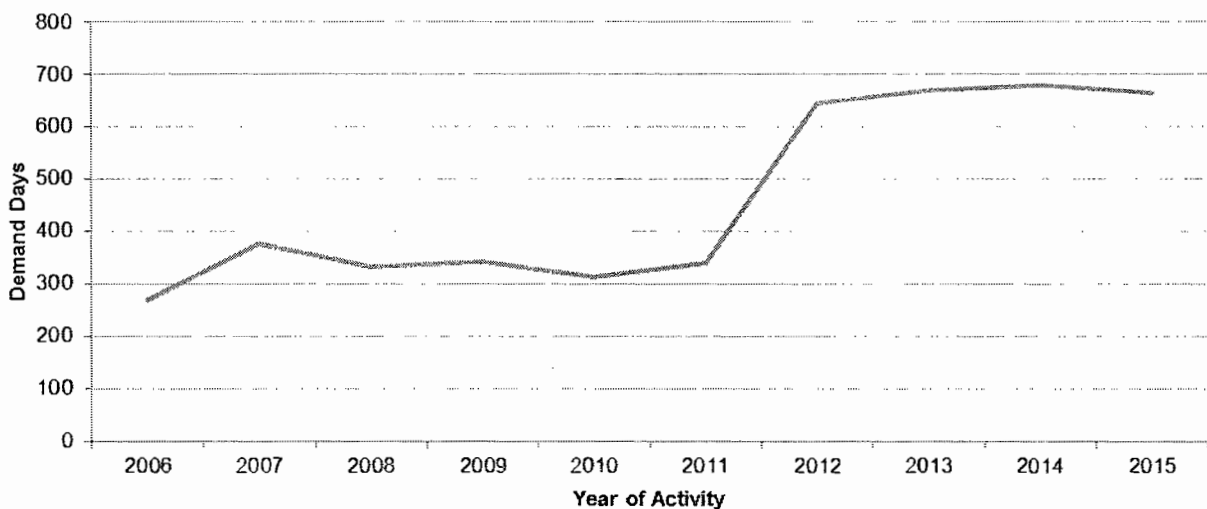


Figure 4-41: Malaysian seismic market vessel demand (days) by region (2006-2015) [Source: ISL]

8. INDUSTRY OVERVIEW (cont'd)

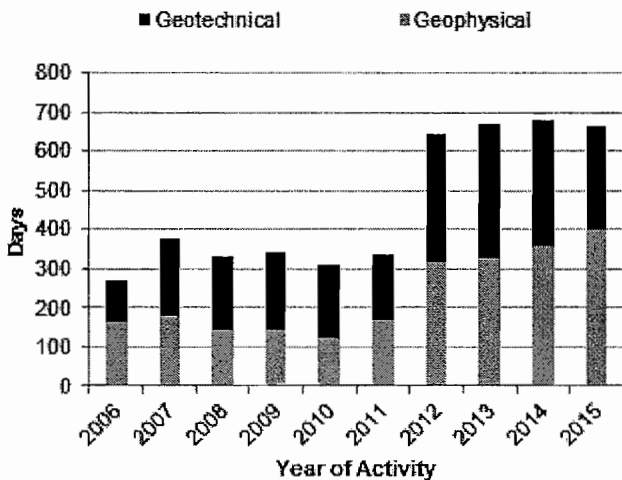


Figure 4-42: Malaysian seismic market vessel demand (days) by market segment (2006-2015) [Source: ISL]

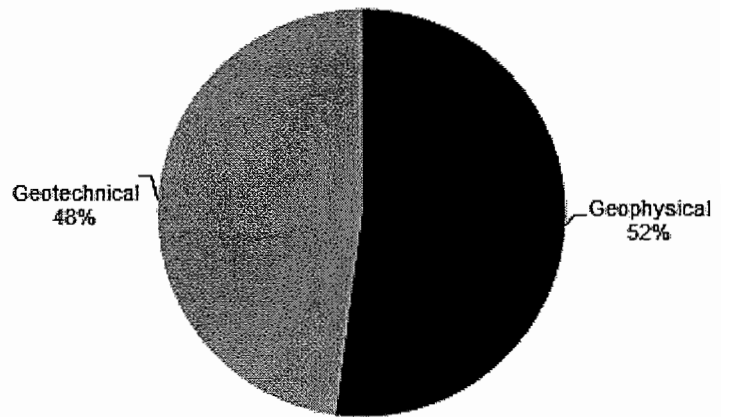


Figure 4-43: Malaysian seismic market vessel demand (days) by market segment (2011-2015) [Source: ISL]

4.5 Operations & maintenance

4.5.1 Global

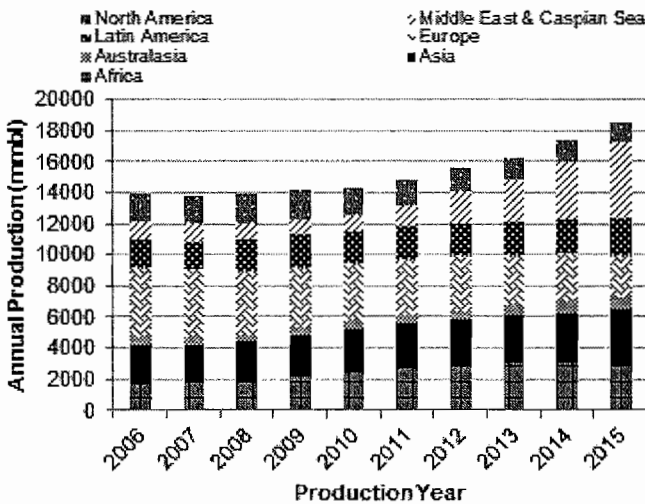


Figure 4-44: Global annual offshore oil and gas production (million barrels of oil equivalent) by region (2006-2015) [Source: ISL]

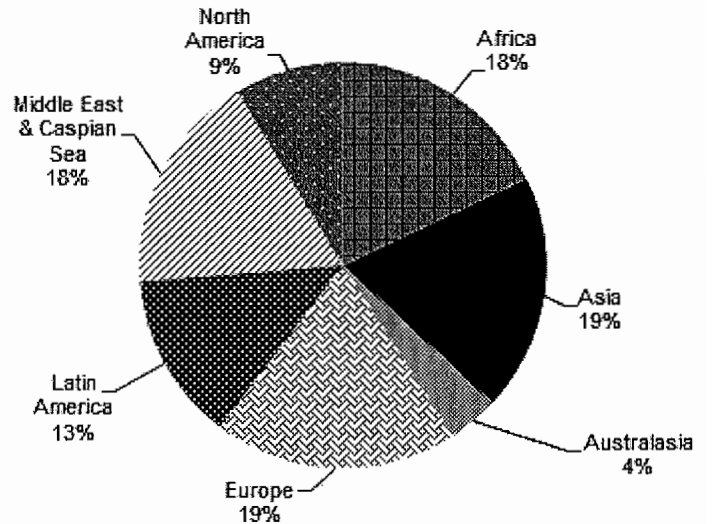
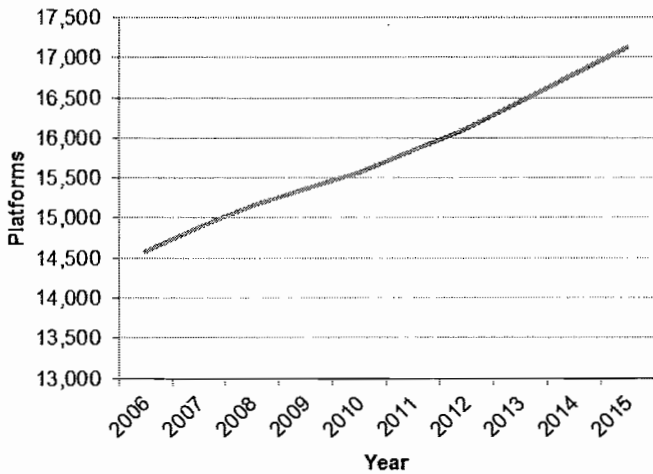


Figure 4-45: Global annual offshore oil and gas production (million barrels of oil equivalent) by region (2011-2015) [Source: ISL]

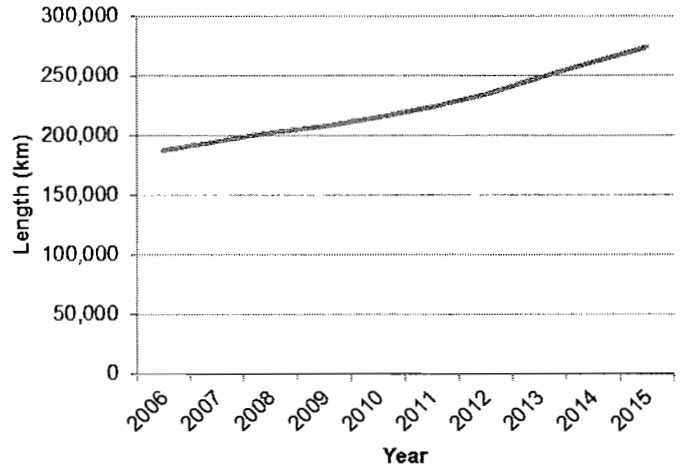
The operations and maintenance market is generally derived from the installed base of infrastructure and the requirement to service and maintain offshore equipment to maintain production. The market is weighted towards the presence of conventional structures such as fixed platforms in shallow waters and surface laid lines. Historically, the sector has been typified by operators taking a reactive rather than proactive approach, and projects have often been deferred in order to direct cash resources towards more profitable activities.

## 8. INDUSTRY OVERVIEW (cont'd)

Useful leading indicators of operations and maintenance market, therefore, include production rates globally and the extent of installed infrastructure supporting this production. Global offshore oil and gas production, shown in the figure above, indicates that there will be incremental growth in the operations and maintenance market over the forecast period, culminating in a production rate in excess of 18.5 billion barrels of oil equivalent annually.



**Figure 4-46: Global offshore installed platforms (cumulative total) (2006-2015) [Source: ISL]**



**Figure 4-47: Global offshore installed pipelines by length (cumulative total) (2006-2015) [Source: ISL]**

This growth profile is supported by the number of installed platforms, shown in the figure below, which shows that the number of installed offshore platforms is likely to grow by around 8% between 2011 and 2015. Similarly, growth in the installed length of offshore pipelines is expected to grow markedly, with our expectation that there will be an increase of over 22% between 2011 and 2015. With the combined expectation that both platform numbers and installed pipelines will grow over the next five years, this sets a clear expectation that the global operations and maintenance market could increase over the same timeframe, creating good opportunities for well-placed contractors.

The established hydrocarbon basins are likely to drive much of demand (Europe and North America) and we expect to see substantial growth in Asia, Africa and Latin America. In addition, it is likely that demand will be heavily weighted towards shallow water installations as a result of the bulk of installed equipment dating back a number of years. In the long term we expect to see a movement towards deeper demand, but for the foreseeable future we note that installations in water depths of less than 500 metres will require the largest proportion of operations and maintenance activity.

### 4.5.2 Malaysia

Leading indicators for the Malaysian operations and maintenance market are similarly positive with regards to anticipated growth. We estimate that Malaysian offshore oil and gas production, shown in the figure below, could increase by over 7% between 2011 and 2015, as the government efforts to increase production drive development. We anticipate a corresponding increase in the number of installed platforms, shown in the figure below, with our estimates indicating that this number will increase by over 20%. Finally, we expect that the installed offshore pipeline infrastructure, shown in the figure below, will also increase. Our estimates lead us to believe that this figure will increase by almost 25% over the next five years. The positive growth expectations set by these leading indicators are a good sign that this market will offer increased opportunities for Malaysian based contractors over the forecast period and beyond.

8. INDUSTRY OVERVIEW (cont'd)

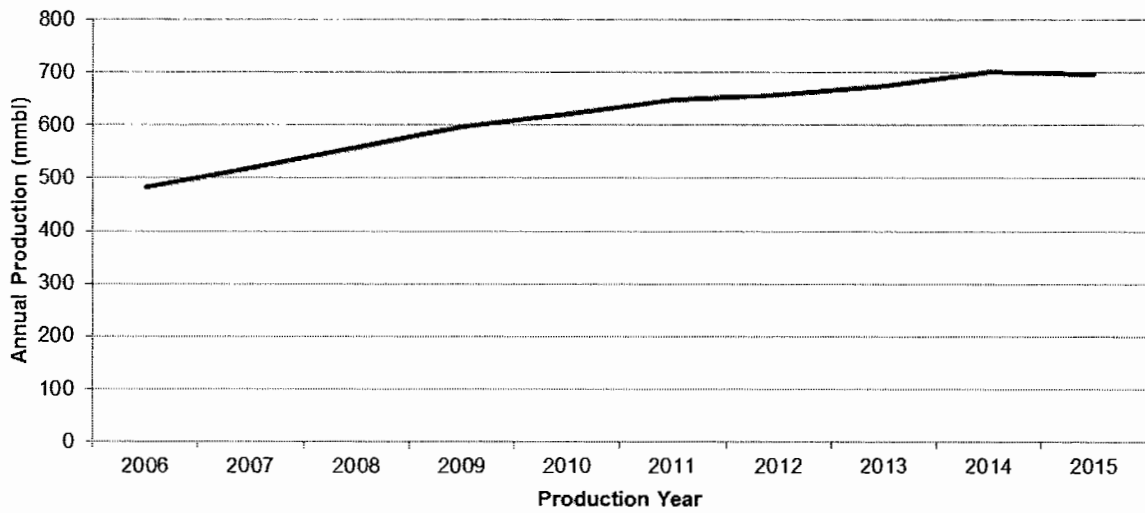


Figure 4-48: Malaysian annual oil and gas production (million barrels oil equivalent) by region (2006-2015) [Source: ISL]

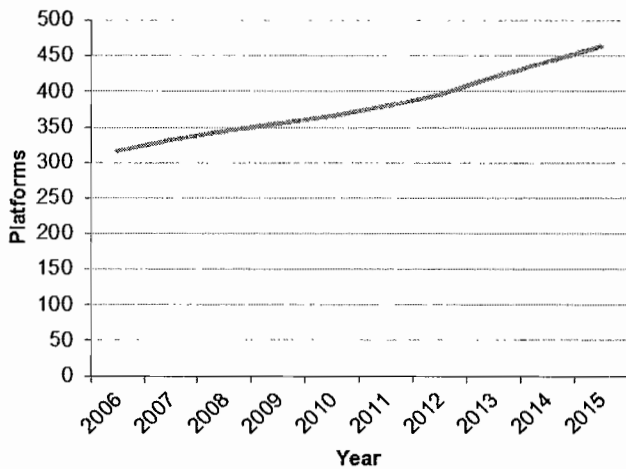


Figure 4-49: Malaysian installed offshore platforms (cumulative total) (2006-2015) [Source: ISL]

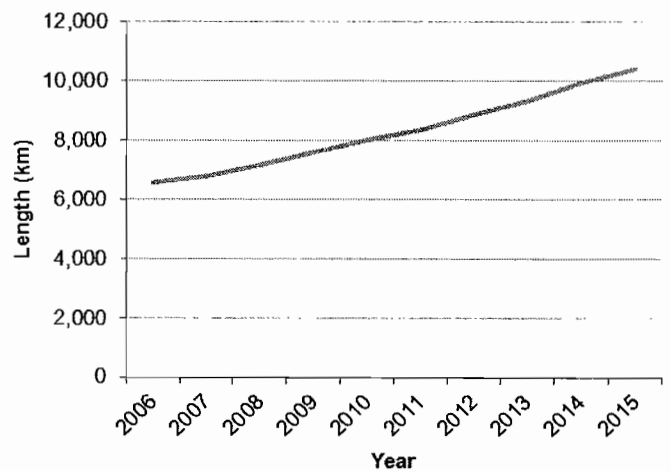


Figure 4-50: Malaysian installed offshore pipelines by length (cumulative total) (2006-2015) [Source: ISL]

4.6 Reliance on imports

The main areas that could be affected adversely by the reliance on imports would be for the supply of materials for fabrication, such as steel, and possibly specialist equipment used for the provision of services across the field service value chain. Such equipment might include specialist units or parts for equipment such as ROVs or installation vessels. We do not anticipate any major threats to the supply of such materials and equipment, however we acknowledge that provision of services may be affected in the extreme event of a restriction on imports.

## 8. INDUSTRY OVERVIEW *(cont'd)*

### 4.7 Risks to business, operational and financial

The company would be exposed to risks from a number of sources:

**Market barriers to entry:** some technologically advanced areas of the offshore construction market are highly sensitive to previous experience and track record, due to the risk profile and high expense that operators can be exposed to. This can lead to difficulty in gaining entry to certain areas of the market without having successfully demonstrated the ability to deliver particular infrastructure or facilities. Areas such as deepwater and floater EPIC contracts may be more susceptible to such risks than other more conventional market segments. The same risk can come from lack of track record in the delivery of large scale contracts at the top end of the market.

**Material construction risk:** lump-sum turnkey contracts, under which the merged entity would design, engineer, build and deliver ready to operate facilities for a fixed price. The actual expenses incurred in executing such a contract can vary substantially from those originally anticipated.

**Losses on individual contracts:** if the company fails to achieve expected margins or incurs losses on one of more of its key contracts, it may experience a decrease in income or incur a loss.

**Unforeseen additional costs:** the company's EPC projects could encounter difficulties that could lead to additional costs, lower revenues, litigation or disputes.

**National or international terrorist acts, uprisings, wars or revolution:** the company could be adversely affected by the consequences of such events, given the proximity of many offshore industry activities to relatively unstable areas.

**Maritime security risks:** piracy in areas such as the Gulf of Aden, Gulf of Guinea and, to a lesser extent, the Malacca Straits, has significantly increased in recent years. This represents a risk for all maritime fleets.

**New government regulations could potentially be unfavourable to the company:** operations of the company are governed by the international, regional, transnational and national laws and regulations of countries worldwide. A change in laws such as export control or health and safety could necessitate financial or technological investment, or withdrawal from the market affected.

**Financial risks:** the company operates in an international environment, and could therefore be exposed to a variety of financial risks. These include market risk (foreign currency exchange rates, interest rates and commodity/equity prices), credit risk and liquidity risk.

### 4.8 Discussion of any alternative products or services

There are no alternative products or services to those which are offered by the company. The main difference between similar service offerings would be that they might be alternatively offered by contractors who provide only smaller elements of the field services value chain, for example on a sub-contractor basis.

8. INDUSTRY OVERVIEW (cont'd)

5 COMPETITIVE MARKET SPACE

5.1.1 South East Asian fabrication market

The market that Kencana Petroleum are currently competing in is characterised by the presence of a large number of competitors. We estimate that there are in excess of 40 yards in South East Asia that cater for the offshore construction market, that is with the ability to fabricate fixed platforms, floating platforms or offshore drilling rigs.

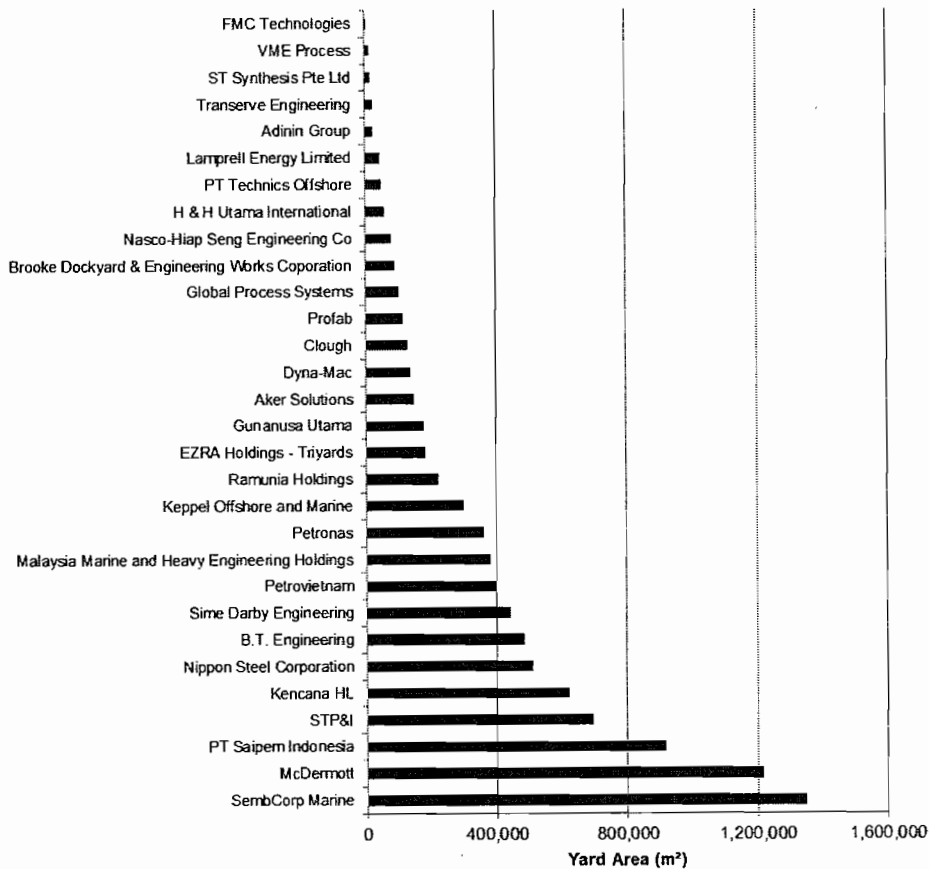
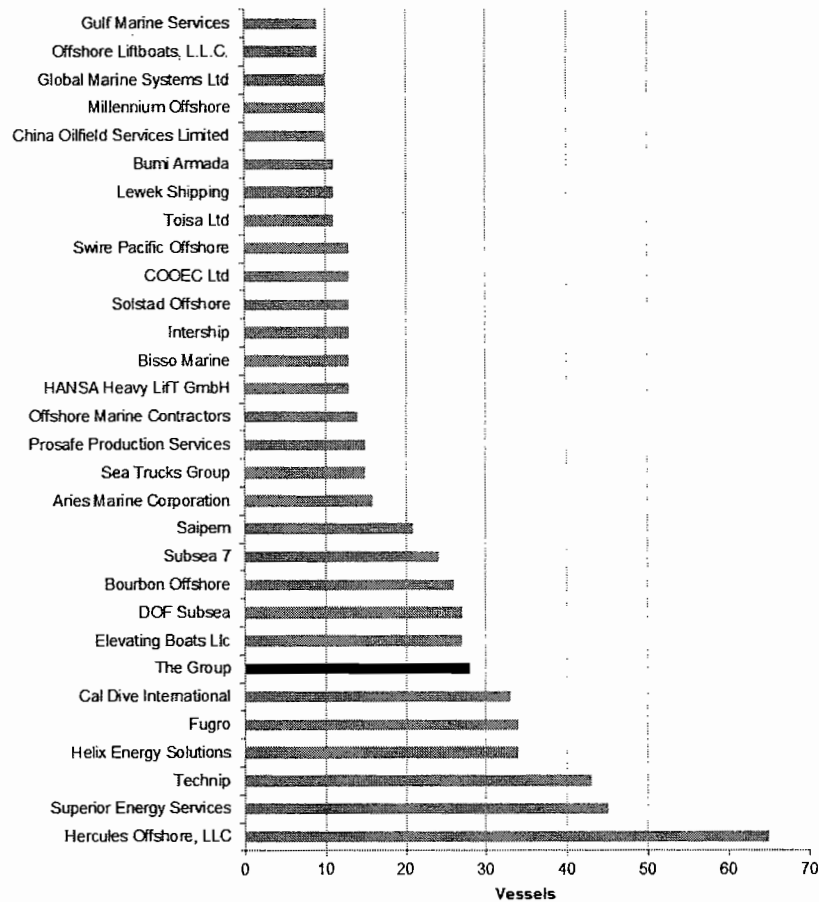


Figure 5-1: South East Asian offshore fabrication companies by yard area (m²) [Source: ISL]

Companies within this market can differentiate themselves by cost, quality and technology. In order to be able to differentiate by technology, many of these yards have developed particular expertise in areas such as deepwater floating platforms or FPSOs. Such differentiation can also be achieved by the fabrication of topsides containing complex processing equipment. Cost and quality differentiation can be achieved by factors such as efficient operation, experience and staff. Within Malaysia itself, the market is similarly crowded, with a number of companies offering offshore fabrication including Boustead, MMHE, Ramunia and Kencana Petroleum. The market has changed somewhat in recent months, with Ramunia completing the purchase of the troubled Oilfab fabrication yard. This places further emphasis on the ability to differentiate by factors such as cost, quality, timely delivery and/or technology.

## 8. INDUSTRY OVERVIEW (cont'd)

The offshore installation market is a similarly crowded market place in which there are numerous companies competing for business. The figure below shows the top 30 offshore vessel operators who provide offshore construction services globally, ranked by the number of vessels we believe that they have in operation in this geographical sphere. This chart includes accommodation vessels and barges, construction vessels, dive support vessels, lay vessels, multi-service vessels and survey vessels.



**Figure 5-2: Global top 30 offshore construction contractors ranked by number of vessels**  
**[Sources: ISL Offshore Vessel Database, Company Sources]**

Our analysis leads us to believe that there are in excess of 1,400 vessels operational within this market place worldwide. Players within this market are typically able to compete on a number of factors such as the technical ability of their vessels for specific tasks, cost, or through the use of joint ventures with companies involved in complimentary activities. Many companies are also able to take advantage of a strong presence in particular regions or countries, typically through historic market presence or through regulation that protects indigenous contractors from international competition.

8. INDUSTRY OVERVIEW (cont'd)

The merged entity will operate firmly within the offshore oilfield services sector. This is an arena which contains some of the largest companies in the world, such as Schlumberger and Halliburton. The sector provides the assets and/or staff across various points of the life cycle of oil and gas operations. Clients include the integrated oil companies, national oil companies and the independents. The figure below shows the top global offshore oilfield services companies according to estimated offshore revenue. Whilst much of the revenue generated by these companies falls out with the core activities in which the merged entity will be involved, the sheer scale of operations within the offshore oilfield contracting space is clear from the turnover generated in the last financial year.

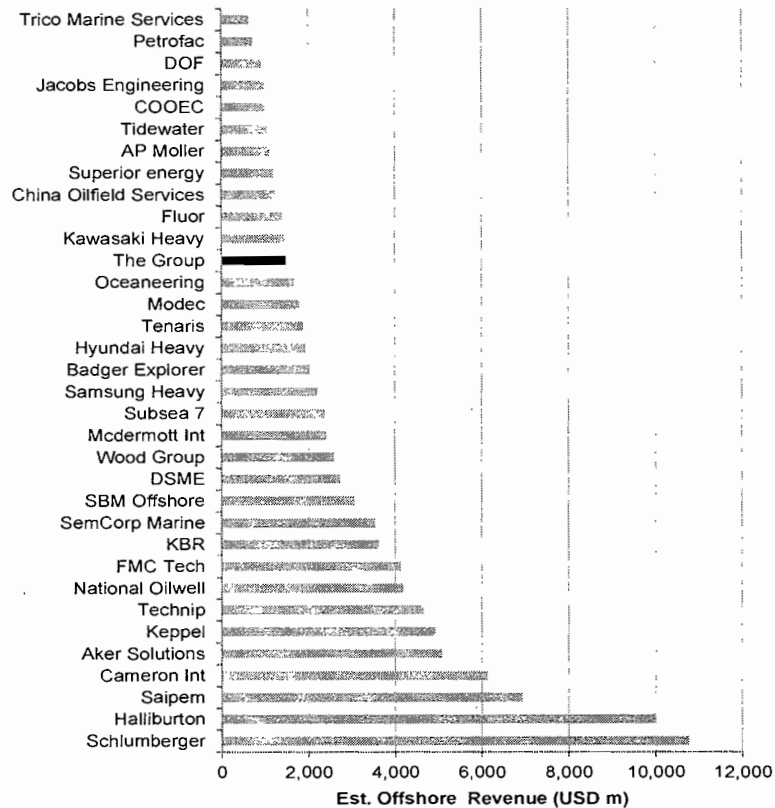


Figure 5-3: Top offshore oilfield services ranked by est. offshore revenue in 2010 [Source: ISL, Company Annual Reports]

O&G projects have become increasingly characterised by project complexity, greater variation in field sizes, and intensified international involvement. Operators have recently moved towards contracting for a full service provision in order to gain savings and to control project risk. This has led to a trend of increasing prevalence of the use of turnkey contracts, such as EPIC or similar variants such as EPCIC. Under an EPIC or EPCIC contract, the contractor will design the structure(s), procure the necessary materials, undertake construction and transportation, and set it up at the offshore site. The contractor does this either through own labour or by subcontracting part of the work. The contractor carries the project risk for schedule as well as budget in return for a fixed price, often called Lump sum. The market for EPIC contracts is most likely to materialise in the larger offshore developments, which favours companies who are able to offer the full range of services in-house, thus making savings across the supply chain.



## 8. INDUSTRY OVERVIEW (cont'd)

There are significant advantages to the operator which relate to the EPIC contract process. Firstly it covers the full installation process and allows for dialogue between two parties as opposed to many, a dynamic that increases efficiency. The process is rigorous and formal and guarantees a defined budget and completion time. Also, in EPIC contracts, the contractor rarely carries the project risk unconditionally. Rather, contractor and customer have detailed discussions on the division of the risk. Risk of delays and cost overruns due to lacking weather windows is an example of a typical risk that may be borne by the customer rather than the contractor.

Company	Offshore Revenue (USD m)	Conventional		Unconventional	
		EPC	Installation	EPC	Installation
Schlumberger	10,761				
Halliburton	9,997				
Saipem	6,939				
Cameron Int	6,135				
Aker Solutions	5,079				
Keppel	4,924		Ext		Ext
Technip	4,645				
National Oilwell	4,182				
FMC Tech	4,131				
KBR	3,613				
SemCorp Marine	3,527		Ext		Ext
SBM Offshore	3,056				
DSME	2,729		Ext		Ext
Wood Group	2,587				
Mcdermott Int	2,404				
Subsea 7	2,369				
Samsung Heavy	2,216		Ext		Ext
Badger Explorer	2,042				
Hyundai Heavy	1,939		Ext		Ext
Tenaris	1,889				
Modec	1,799				
Oceaneering	1,670				
The Group	1,491				
Kawasaki Heavy	1,457				
Fluor	1,417				
China Oilfield Services	1,245				
Superior energy	1,207				
AP Moller	1,127				
Tidewater	1,055				
COOEC	997				
Jacobs Engineering	994				
DOF	925				
Petrofac	722				
Trico Marine Services	642				
Global Industries	568				
EZRA	354				
Swiber	466				
Swire	391				

\*Ext denotes the reliance on external companies for activity

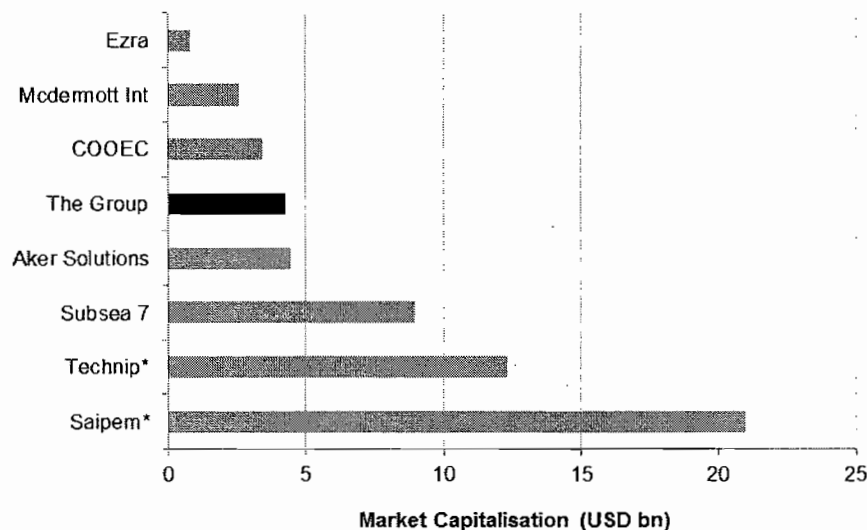
Figure 5-4: Top offshore oilfield service providers by EPIC capability [Sources: ISL, Company Annual Reports, Company Sources]

8. INDUSTRY OVERVIEW (cont'd)

The offshore oil services sector spans the entire oil and gas supply chain. Companies will often sub-contract to each other various parts of projects, whether it be engineering, procurement, installation and/or construction. The following figure shows the offshore EPC and installation capabilities of each of the top offshore oilfield service companies, by conventional and unconventional markets. Capability in the conventional market relates to the EPC and installation activities involving fixed platforms, conventional pipelines or export pipelines. Capability in the unconventional market relates to EPC and installation activities involving floating platforms or SURF pipelines. This table shows that of the companies involved in the offshore services sector, there are only a select few who have the capability to perform the full suite offshore construction EPCIC services. While many of the largest players in the sector do not have capabilities in this arena, many of those who are involved in offshore construction do not have the ability to provide services across the full value chain. Some companies fall into the category of being able to provide many of the services in-house, while relying on external sub-contractors to provide the remainder of services, for example having the capability for EPC services and not installation services, or vice versa.

**Comparative analysis**

We have identified seven companies which we deem primarily competitive with the Group. We believe that these companies are unique in their ability to deliver full in-house EPCIC services to the global offshore industry. The figure below shows these companies ranked by market capitalisation. From our analysis we have determined that the Group would be ranked fifth by market capitalisation out of this select group of EPCIC competitors, behind only Saipem, Technip, Subsea 7 and Aker Solutions. Out of this group, it should be noted that competitors such as Saipem and Technip also offer services beyond the scope of the Group's activities, and much of their market capitalisation could therefore be considered as not directly comparable with that of the Group. Such non-core activities could include, for example, significant revenue streams coming from onshore or refining activities. Competitors who we believe fall into this category are marked by asterisks in the figure below.



**Figure 5-5: Merged entity's competitors by market capitalisation(24/04/2012)(billion USD)**  
 [Source: ISL]

This exclusive group of companies are uniquely placed in their ability to deliver full in-house EPCIC services to the global offshore industry. This group contains companies with a mixture of abilities. There are a very small group of top tier offshore construction contractors who have a full in-house capability to deliver offshore unconventional and conventional EPCIC projects, and have a significant track record of doing so. There are also a number of companies who have the capability to deliver both conventional and unconventional projects, but have a more limited track record in areas such as deepwater.

8. INDUSTRY OVERVIEW (cont'd)

We would consider that the merged entity, the Group, would fall into the latter category. Furthermore, it would be expected that with the benefits that will be realised through the merger, the company will be able to begin the process of acquiring experience in areas that will allow them to compete at the very top end of this exclusive market. Given the expected unconventional activity in the company's core markets such as Asia, Australasia and Brazil, it would be reasonable to assume that the company might be able to find opportunity to make the move into this market in the short to medium term.

5.1.4 Offshore Drilling

The global offshore drilling arena is a fragmented marketplace with a large number of drilling managers controlling the global fleet. At the top end, companies such as Transocean, Noble drilling, Diamond Offshore and ENSCO International manage a large number of both leading-edge and lower-end assets and as such control a significant proportion of the market. The middle tier of rig managers often operate smaller but higher specification fleets. These companies, including Rowan, Seadrill and Frontier, manage rigs that are capable of operating in ultra-deepwater harsh conditions or are powerful and able to drill quickly and efficiently.

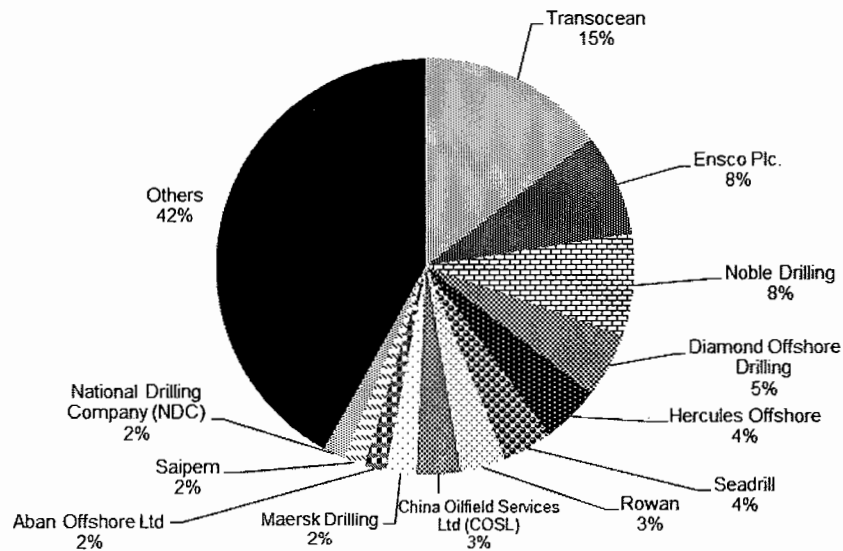


Figure 5-6: Global drilling fleet market share by number of assets [Source: ISL]

8. INDUSTRY OVERVIEW (cont'd)

5.1.5 Marine services

Offshore Seismic

The offshore seismic market contains a variety of contractors including largely diverse contractors through to marine specialists. The majority of the market consists of large contractors including PGS, WesternGeco and CGG Veritas. Other contractors include Fugro, Polarcus and Bergen Oilfield Services. Fugro is a smaller but established player, and Polarcus and Bergen Oilfield Services are considered market entrants. It is expected that the three largest players will continue to represent the largest market shares in the forecast period. At the lower end of the market, the smaller players and new market entrants are expected to face strong competition from established players.

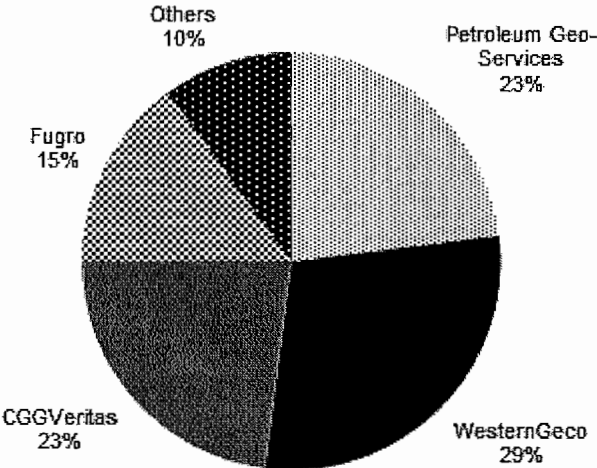


Figure 5-7: Offshore seismic estimated market share [Source: ISL]

## 8. INDUSTRY OVERVIEW (cont'd)

### ROVs

Global supply of ROVs, however, is dominated by a small group of operator companies, most of whom are active in all of the main geographical areas of activity for the oil and gas industry. In recent years operators such as Oceaneering, Fugro, Subsea 7, Acergy (now part of Subsea 7) and Saipem have supplied the vast majority of the market. These companies continue to do so, however there is a group of smaller operators such as Helix, DOF Subsea and Hallin Marine who have made significant investments in new ROV technology. This has seen these companies increase their share of the market, albeit to a level which is still much smaller than the major service providers.

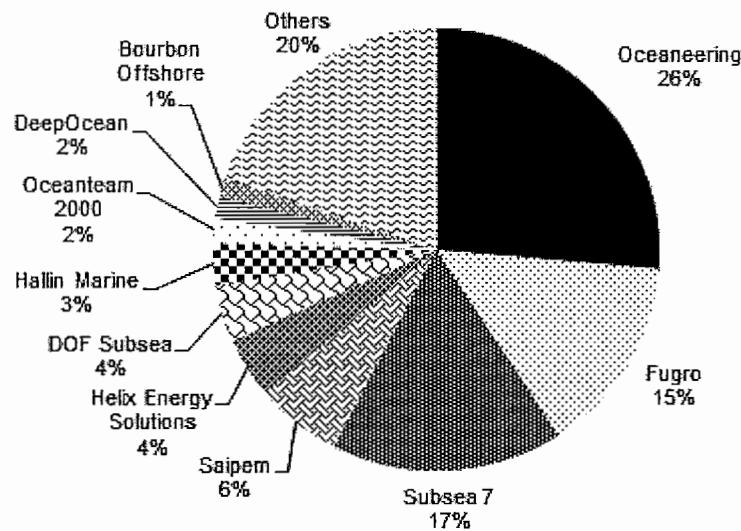


Figure 5-8: ROV fleet by top 10 operators 2010 [Source: ISL]

## 9. FINANCIAL INFORMATION

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Our Company was incorporated on 30 June 2011 as a special purpose company to facilitate the Merger. Prior to the Merger, we did not have any business operations. On Completion Date, the SapuraCrest Business and the Kencana Petroleum Business were merged under our Company to become the business of our enlarged Group.

In view that our Company does not have any financial records prior to the date of our incorporation, and that the financial information on the SapuraCrest Business and the Kencana Petroleum Business have not been consolidated with our Company's financial information prior to the Merger, the information pertaining to those before the Completion in this Section, have been presented on individual SapuraCrest Group and Kencana Petroleum Group basis ("Individual Financials") based on their respective historical financial information. The Individual Financials as set out in Sections 9.2 to 9.5 of this Prospectus, where applicable, should be read in conjunction with the published annual reports and interim financial reports prepared on quarterly basis by SapuraCrest and Kencana Petroleum which can be viewed or downloaded from Bursa Malaysia Berhad's website at [www.bursamalaysia.com](http://www.bursamalaysia.com).

For purposes of illustrating the financial performance of our Group, please refer to the Reporting Accountants' Letter on the unaudited proforma consolidated financial information of our Company as set out in Section 9.6 of this Prospectus.

The financial information included in this Prospectus is not indicative and does not purport to predict the results of operations, financial position and cash flows of our Group or any of our business in the future.

### 9.1 Financial information of SKPB Group

#### 9.1.1 Factors affecting our financial condition and results of operations

The factors which have affected or may affect our Group's financial condition and results of operations largely comprise those factors which have affected or may affect the financial condition and results of operation of SapuraCrest Group and Kencana Petroleum Group prior to the Completion and the factors set out in Section 5 of this Prospectus. Please refer to Sections 9.3.2 and 9.5.2 of this Prospectus for historical factors which have affected or may affect the financial condition and results of operation of SapuraCrest Group and Kencana Petroleum Group, respectively.

#### 9.1.2 Working capital

After taking into consideration our Group's existing level of cash and cash equivalents, credit sources, funding requirements for our Capex and expected funds to be generated from cash flow from operations, our Board is of the opinion that we will have adequate working capital for at least 12 months from the date of this Prospectus.

#### 9.1.3 Borrowings

As at the LPD, we are not in breach of any terms and conditions or covenants associated with the credit arrangements or borrowings which can materially affect the financial position of our Group, results or business operations, or the investment by holders of securities in our Group.

#### 9.1.4 Inflation

Our Group is of the view that the current inflation rate does not have a material impact on our business, financial condition or results of the operation of our Group. However, any increase in future inflation rate may adversely affect the operations and performance of our Group in the event if we are unable to pass on the higher cost to our customers for goods and services provided by our Group.

**9. FINANCIAL INFORMATION (cont'd)**

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**9.1.5 Government/economic/fiscal/monetary policies**

Risks relating to government, economic, fiscal or monetary policies or factors which may materially affect the operations of our Group, are set out in Section 5 of this Prospectus. Save for the risks disclosed in Section 5 of this Prospectus and to the best of our knowledge, there is no government, economic, fiscal, monetary policies or factors that have a material impact on our profitability and financial position.

**9.1.6 Prospects**

As at 31 January 2012, save for the effect of the Merger and those that have been disclosed in this Prospectus, to the best of our Board's knowledge and belief, our operations have not been and are not expected to be affected by any of the following:

- (i) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our financial performance, position, operations and liquidity and capital resources;
- (ii) known trends, demands, commitments, events or uncertainties that are reasonably likely to make the historical financial information of SapuraCrest Group and Kencana Petroleum Group not indicative of our Group's future financial performance and position;
- (iii) material commitments for Capex; and
- (iv) unusual, infrequent events or transactions or any significant economic changes that have materially affected our financial performance, position and operations.

Subject to the factors described in this section, our Directors expect the results of our Group's operations for the year ending 31 January 2013 to be satisfactory.

**9.1.7 Capitalisation and indebtedness**

The following information should be read in conjunction with the Reporting Accountants' letter on our unaudited proforma consolidated financial information of as set out in Section 9.6 of this Prospectus.

The table below sets out the unaudited pro forma consolidated cash and cash equivalents as well as capitalisation and indebtedness of our Company after making adjustments that were considered necessary based on the results of SapuraCrest Group and Kencana Petroleum Group. Therefore, the information below does not represent our Group actual capitalisation and indebtedness as at 31 January 2012 and is provided for information purposes only.

## 9. FINANCIAL INFORMATION (cont'd)

	Proforma As at 31 January 2012
	<u>(RM 000)</u>
Cash and bank balances	2,110,964
<b>Indebtedness</b>	
<b>Short-term borrowings</b>	
<b>Guaranteed:</b>	
- Secured	326,545
- Unsecured	163,508
<b>Unguaranteed:</b>	
- Secured	225,688
- Unsecured	350,162
Total short-term borrowings	<u>1,065,903</u>
<b>Long-term borrowings</b>	
<b>Guaranteed:</b>	
- Secured	2,913,763
- Unsecured	-
<b>Unguaranteed:</b>	
- Secured	56,833
- Unsecured	462,440
Total long-term borrowings	<u>3,433,036</u>
<b>Total borrowings</b>	<b>4,498,939</b>
Contingent liabilities	<u>681,839</u>
<b>Total indebtedness</b>	<b><u>5,180,778</u></b>
<b>Total shareholders' equity</b>	<b><u>5,121,126</u></b>
<b>Total capitalisation and indebtedness</b>	<b><u>10,301,904</u></b>



**9. FINANCIAL INFORMATION (cont'd)**

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**9.1.8 Dividend policy**

As our Company is a holding company, our income and therefore our ability to pay dividends, is dependent largely upon the dividends that we receive from our subsidiaries.

The payment of dividends by our subsidiaries will depend upon their operating results, financial condition, Capex plans and any other relevant factors. Currently, we do not have any fixed dividend policy. The actual dividend that our Board may recommend or declare in respect of any particular financial year or period will be subject to the factors outlined below as well as any other factors deemed relevant by our Board. In considering the level of dividend payments, if any, upon recommendation by our Board, our Company intends to take into account various factors including:

- (i) the level of our cash, gearing, debt profile and retained earnings;
- (ii) our expected financial performance;
- (iii) our projected levels of Capex and other investment plans; and
- (iv) any circumstances which may affect or restrict our ability to pay dividends.

Please refer to Section 5.3.5 of this Prospectus for factors which may affect or restrict our ability to pay dividends.

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## 9. FINANCIAL INFORMATION (cont'd)

### 9.2 Historical financial information of SapuraCrest Group

The selected historical audited consolidated financial information of SapuraCrest for the years ended 31 January 2009, 2010 and 2011, and historical unaudited consolidated financial information of SapuraCrest for the year ended 31 January 2012 are presented in the table below to provide you with the financial information of SapuraCrest Group on a standalone basis prior to the Merger.

The audited consolidated financial statements of SapuraCrest for the years ended 31 January 2009, 2010 and 2011 were not subject to any audit qualification.

	Audited			Unaudited
	Year ended 31 January			
	2009	2010	2011	2012
	(RM 000, except percentages and per share data)			
<b>Income statement data:</b>				
Revenue	3,451,702	3,257,043	3,179,961	2,556,402
Cost of sales	(2,921,114)	(2,696,988)	(2,619,212)	(1,760,036)
Gross profit	530,588	560,055	560,749	796,366
Other income	13,256	23,420	22,777	26,238
Other operating expenses	(38,080)	(60,351)	(51,043)	(38,936)
Administration expenses	(121,324)	(160,718)	(181,743)	(259,596)
Operating profit	384,440	362,406	350,740	524,072
Finance costs	(57,784)	(45,186)	(38,204)	(52,330)
Share of results from associates	623	342	(439)	9,006
Share of results from jointly-controlled entities	(45,719)	46,437	103,051	67,286
PBT	281,560	363,999	415,148	548,034
Income tax expense	(31,790)	(28,745)	(40,633)	(73,488)
PAT	249,770	335,254	374,515	474,546
PAT attributable to:				
- Ordinary equity holders of SapuraCrest	115,774	172,035	231,445	310,227
- Non-controlling interests	133,996	163,219	143,070	164,319
	249,770	335,254	374,515	474,546
<b>Other selected financial data:</b>				
EBITDA <sup>(1)</sup>	423,861	500,841	543,651	696,540
Gross profit margin (%) <sup>(2)</sup>	15.4	17.2	17.6	31.2
EBITDA margin (%) <sup>(3)</sup>	12.3	15.4	17.1	27.2
PBT margin (%) <sup>(4)</sup>	8.2	11.2	13.1	21.4
PAT margin (%) <sup>(5)</sup>	7.2	10.3	11.8	18.6
Weighted average number of SapuraCrest Shares in issue ('000)	1,177,721	1,265,730	1,276,722	1,276,722
Adjusted weighted average number of SapuraCrest Shares ('000)	1,268,568	1,265,730	1,276,722	1,276,722

## 9. FINANCIAL INFORMATION (cont'd)

	Audited			Unaudited
	Year ended 31 January			
	2009	2010	2011	2012
	(RM 000, except percentages and per share data)			
Gross EPS <sup>(6)</sup>				
- Basic (sen)	23.91	28.76	32.52	42.93
- Diluted (sen)	22.20	28.76	-	-
Net EPS <sup>(7)</sup>				
- Basic (sen)	9.83	13.59	18.13	24.30
- Diluted (sen)	9.13	13.59	-	-

**Notes:**

<sup>(1)</sup> EBITDA represents earnings before finance cost, taxation, depreciation and amortisation. The table below sets forth a reconciliation of SapuraCrest Group's PAT to EBITDA:

	Audited			Unaudited
	Year ended 31 January			
	2009	2010	2011	2012
	(RM 000)			
<b>EBITDA:</b>				
PAT	249,770	335,254	374,515	474,546
Income tax expense	31,790	28,745	40,633	73,488
PBT	281,560	363,999	415,148	548,034
Finance costs	57,784	45,186	38,204	52,330
Depreciation and amortisation	84,517	91,656	90,299	96,176
	423,861	500,841	543,651	696,540

EBITDA, as well as the related ratios presented in this Prospectus are supplemental measures of SapuraCrest Group's performance and liquidity that are not required by, or presented in accordance with FRS in Malaysia. Furthermore, EBITDA is not a measure of SapuraCrest Group's financial performance or liquidity under FRS in Malaysia and should not be considered as an alternative to net income, operating profit or any other performance measures derived in accordance with FRS in Malaysia or as an alternative to cash flow from operating activities or as a measure of liquidity. In addition, EBITDA is not a standardised term, hence a direct comparison between companies using such a term may not be possible.

<sup>(2)</sup> Computed based on the gross profit over revenue of SapuraCrest Group.

<sup>(3)</sup> Computed based on the EBITDA over revenue of SapuraCrest Group.

<sup>(4)</sup> Computed based on the PBT over revenue of SapuraCrest Group.

<sup>(5)</sup> Computed based on the PAT over revenue of SapuraCrest Group.

<sup>(6)</sup> Basic gross EPS is computed based on PBT over the weighted average number of SapuraCrest Shares in issue during the financial year. Diluted gross EPS is computed based on PBT over the number of weighted average number of SapuraCrest Shares in issue during the financial year which have been adjusted for the dilutive effects of all outstanding convertible securities into potential ordinary shares, i.e. warrants and share options granted to employees.

<sup>(7)</sup> Basic net EPS is computed based on PAT attributable to ordinary equity holders over the weighted average number of SapuraCrest Shares in issue during the financial year. Diluted net EPS is computed based on PAT attributable to ordinary equity holders over the number of weighted average number of SapuraCrest Shares in issue during the financial year which have been adjusted for the dilutive effects of all outstanding convertible securities into potential ordinary shares, i.e. warrants and share options granted to employees.

## 9. FINANCIAL INFORMATION *(cont'd)*

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### 9.3 Management's discussion and analysis of financial condition and results of operations of SapuraCrest Group

SapuraCrest's consolidated financial statements as at or for the years ended 31 January 2009, 2010, 2011 and 2012 have been prepared and presented on a consolidated basis and in accordance with FRS in Malaysia.

We set out below the discussion and analysis of the performance of SapuraCrest Group with respect to the years ended 31 January 2009, 2010, 2011 and 2012.

#### 9.3.1 Overview

Prior to the Completion, SapuraCrest Group was principally engaged in the following reportable operating segments:

##### (i) IPF

The IPF division was primarily involved in transportation and installation of pipelines and offshore structures and facilities. This division also covered the de-commissioning of offshore structures.

The major projects of SapuraCrest Group include a 3-year Pan Malaysia Integrated Transportation and Installation programme ("**Pan Malaysia Programme**") under an umbrella tender system with 11 production sharing contractors in Malaysia with 2 1-year extension options. These production sharing contractors include PCSB, SSB/SSPCL, EMEPMI, Murphy Sarawak, Newfield, Talisman Malaysia Limited, NOEML, Petrofac (Malaysia-PM304) Ltd ("**Petrofac**") and others. On the international front, this division had completed projects for Apache Energy Ltd in Australia, Oil & Natural Gas Corporation Limited in India and Nippon Steel Corporation Co. Ltd. in Japan. Following the completion of the Clough Business Acquisition, the other major project of SapuraCrest Group include Domgas contract with Chevron Australia Pty Ltd for the installation and construction of upstream facilities at the Gorgon Upstream Project Australia, in particular the Domgas pipeline. In addition, SapuraCrest Group was awarded a contract to charter and operate 3 units of pipe-lay support vessels from Petroleo Brasileiro S.A. ("**Petrobras**") in October 2011.

## 9. FINANCIAL INFORMATION (cont'd)

The key assets utilised by SapuraCrest Group are mainly derrick lay vessels which includes Sapura 3000, LTS 3000 and QP 2000. These assets are jointly owned with our partners Subsea 7, Larsen & Toubro and Quippo Prakash Pte Ltd respectively. The Sapura 3000, commissioned in 2008 is a self-propelled, DP heavy lift and pipe-lay vessel capable of deepwater operations. The vessel has a lifting capacity of up to 3000 st. LTS 3000, which was delivered in July 2010 is another heavy lift and pipelay vessel with a lifting capacity of 3,000 st and is used for shallow water operation. QP 2000, also another shallow water heavy lift and pipelay vessel was delivered in July 2010 with a 2,000 mt lifting capacity. Following the completion of the Clough Business Acquisition, SapuraCrest Group owned Java Constructor, a derrick pipelay barge with a lifting capacity of 1,000 st and used for shallow waters operations.

In relation to the Petrobras contract, 3 pipe-lay support vessels with a laying capability into 2,500 meters water depth are being constructed and it is expected to be delivered in 2014. In addition, 2 DP heavy lift and pipelay vessels are being constructed to further increase the capacity and capability of this division. One of these vessels is expected to be delivered in the fourth quarter of 2013 whilst the other vessel is expected to be delivered in 2014 and are primarily targeted for the international market. These new investments are to facilitate and support the future business of IPF.

### (ii) Offshore drilling services

The offshore drilling division provided SETRs for the offshore O&G development drilling. A joint venture with Seadrill, this division owned and operated 5 SETRs; namely T-3, T-6, T-9, T-10 and Teknik Berkat. SETRs are cost efficient and flexible floating drilling vessels designed for field development drilling programs from existing platforms using movable DES which can be installed by the SETRs themselves.

The division has made inroads locally and regionally. Most of the rigs are currently under long term contracts in Malaysia and Thailand, serving PCSB, CHOCSB, Chevron Thailand Exploration & Production ("**Chevron**") and PTT Exploration & Production Public Company Limited ("**PTT Exploration**").

With 5 SETRs under its wings, the division is a major player in the region's offshore drilling services business.

### (iii) Marine services

The marine services division offered services in the area of marine engineering, marine survey and underwater services. These include Topside major maintenance, HUC, diving and underwater services. In addition to this, the division offered accommodation work barges, workboats, DP diving support vessels, ROVs and AHTs for charters.

The division also specialised in areas of geotechnical and geophysical surveys and continues to grow its presence regionally and internationally, covering areas from Sakhalin to Madagascar serving clients such as Total E&P Indonesia, Total E&P Myanmar, Total E&P Borneo B.V., SSB/SSPCL, BP Exploration (Viet Nam) Ltd., PTT Exploration, PTTEP International Limited, PTTEP Siam Limited, PTTEP International Limited (Yangon Branch) and PetroVietnam Technical Services Corporation.

**9. FINANCIAL INFORMATION (cont'd)**

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The underwater services offer air diving and saturation diving capabilities up to a depth of 300 meters. Two of its existing 12-men SDS are classed systems built to Lloyd's Register of Shipping ("LRS") standards. In addition to the 2 SDS, the underwater services unit is in the midst of acquiring 4 classed air diving systems built to LRS standards.

A unit of the division also designs, fabricates and operates ROVs with a total of 19 ROVs under its wing, including 2 ROVs which are retiring and 1 which is under construction as at the LPD. A number of new work class ROVs were constructed in-house with enhanced and robust design and capabilities to meet the growing demand for deepwater activities and to cater for more challenging and complex scope of work. Prior to the Merger, most of the ROVs were under contract with oil companies operating in Australia including 2 long term contracts with Chevron Australia Pty Ltd and ConocoPhillips (Browse Basin) Pty Ltd, respectively.

For the Topside major maintenance and HUC services, the division executed a 4-year contract with SSB/SSPCL providing maintenance, refurbishment, upgrading and commissioning works for the client's offshore facilities.

The fleet of 13 marine vessels includes multipurpose offshore support vessels, workboats, accommodation work barges, survey and soil vessels and AHTs. While some of these were used to support internal project execution, some were also chartered out to third parties.

**(iv) Operations and maintenance**

The operations and maintenance division offered an array of services and solutions. This division offered integrated operations and maintenance resources and services during a facility's lifecycle in existing O&G fields or newly developed areas.

The division's turbine maintenance service had stamped its presence in the Malaysian market as a provider of gas turbine maintenance services. It had secured long term service agreements with Petronas Penapisan (Melaka) Sdn Bhd, Malaysia LNG Sdn Bhd, PGB and PCSB to provide maintenance services for gas turbines under license from PETRONAS through collaboration with Nuovo Pignone S.p.A., being a subsidiary of General Electric Company. This division also has a General Electric-certified repair and maintenance centre in Shah Alam to service Malaysian and regional market for some components of the gas turbine parts and repair works. In addition, this division is currently going through the qualification process to be certified as a General Electric-specialised repair and maintenance in the same centre in Shah Alam to cover the entire heavy duty gas turbine stationary parts. Besides PETRONAS, this division is also capable in refurbishment of heavy duty industrial gas turbines and its components for the power sector and has customers from Indonesia, Vietnam, China and India.

In addition, the division also offered design, installation, testing and commissioning of integrated offshore telecommunication systems for the O&G platform supported with a dedicated integration centre, equipped with the necessary tools and facilities for equipment assembly, factory acceptance test and system integration tests with other solutions.

**9. FINANCIAL INFORMATION (cont'd)**

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The division also provided specialty equipment which includes engineering, design, fabrication, installation, testing and commissioning of skid packages.

On the information technology system, the home grown state-of-the-art information technology solution, known as Total Management System, is being used at more than 940 Petronas Dagangan Berhad's service stations nationwide and PT Petronas Niaga Indonesia's service stations.

**(v) Development and production of petroleum resources**

On 31 January 2011, a consortium led by PED (50% interest), SapuraCrest's then wholly-owned subsidiary, SEV (25% interest) and KESB (25% interest) was awarded the first domestic RSC from PETRONAS to carry out the development and production of petroleum resources from Berantai, a marginal field off Terengganu, for a period of approximately 8 years.

The RSC award enabled SapuraCrest Group to move up the O&G value chain by participating in field development and operation. Meanwhile, SapuraCrest and Kencana Petroleum were expected to enjoy first-mover advantage domestically in benefiting from the transfer of technical know-how in the development and operation of marginal oilfields.

The first phase of the development of the field involves the supply of a well-head platform to support the drilling of 18 wells, with pipelines linking the adjacent platform in Angsi field. A second well-head platform is also expected to be installed in the 2<sup>nd</sup> phase, if necessary to maintain the field's production level. Both platforms will be connected to a FPSO vessel. Oil produced will be offloaded via shuttle tanker while gas will be exported by subsea pipeline via the Angsi field. PED, equipped with the technical know-how and experience of marginal oilfield development, will lead the project. Given its expertise in EPCC works, KESB through its affiliate will undertake the EPCC of the well-head platform while SEV through its affiliate, who is the domestic market leader in subsea pipelaying and structure installation, will undertake offshore transportation and installation works for the platform and pipelines.

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## 9. FINANCIAL INFORMATION *(cont'd)*

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### 9.3.2 Factors affecting SapuraCrest Group's financial condition and results of operations

Historically, the primary factors which have affected or may affect SapuraCrest Group's financial condition, results of operations and prospects are as follows:

#### (i) Level of activities in O&G industry and fluctuation of O&G prices

As SapuraCrest Group's customers operate mainly in the offshore O&G industry, SapuraCrest Group's operations were dependent on the level of activities in the offshore O&G industry. The level of activity in the O&G industry may be affected by changes in laws, regulations or policies of governments or other governmental activities in the countries which SapuraCrest Group operates in. For example, the implementation of the Economic Transformation Programme ("ETP") by the Malaysian government in which certain objectives relates to the O&G industry such as sustaining oil and gas production and making Malaysia as number 1 Asian hub for oil field services. Under the ETP, PETRONAS will ensure that enhanced oil recovery techniques are deployed in Malaysia to extract more oil from the nation's oil field and thereby may have a bearing on the level of activity in the O&G industry. Any such changes may affect SapuraCrest Group's results of operations and financial conditions.

In addition, historically, demand for offshore exploration, development and production services have been volatile and closely linked to O&G prices. O&G prices have a direct bearing on the level of activities in the O&G industry, thus affecting the level of offshore exploration, development and production activities.

During the periods of upward movement in O&G prices, O&G exploration, development and production activities are expected to increase as the potential return from the upstream activities increase. O&G companies are likely to be motivated to explore and develop potential fields that are commercially feasible and profitable for the operators in the industry. In such event, SapuraCrest Group may experience higher demand for SapuraCrest Group's products and services.

Conversely, O&G exploration, development and production services may tend to slow down when O&G prices fall to a level where such activities are not commercially viable for O&G operators. Hence, the prolonged period of lower O&G prices may discourage various explorations, development and production activities resulting in lower demand for SapuraCrest Group's products and services. This may result in a decrease in SapuraCrest Group's business activities, and consequently affect SapuraCrest Group's results of operations and financial conditions.

#### (ii) Performance of contractual obligations to its customers

SapuraCrest Group entered into various contracts to provide its services to its customers. The ability to meet the terms specified in such contracts would have an impact on the financial results of SapuraCrest Group. For example, the ability to deliver based on the timeframe specified, sourcing and securing quality materials and satisfactory performance of sub-contractors.



**9. FINANCIAL INFORMATION (cont'd)**

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**(iii) Replenishment of order book**

The replenishment of SapuraCrest Group's order book was uncertain given that competitive nature in the O&G industry locally and globally and that contracts were based on open tenders. In the event that SapuraCrest Group is unable to replenish its order book, SapuraCrest Group's financial results could be adversely affected. Conversely, if SapuraCrest Group is successful in replenishing its order book, it may be able to achieve its expected returns and contribute positively to its financial results.

**(iv) Level of borrowings and finance costs**

As at 31 January 2012, the total borrowings stood at RM1.41 billion, which translates to a gross gearing ratio of approximately 1.07 times based on the NA of SapuraCrest Group as at 31 January 2012. The ability of SapuraCrest Group to service its debt and other contractual obligations depended on its future performance and cash flow generation, which in turn was affected by various factors, some of which were beyond the control of SapuraCrest Group.

In the event that SapuraCrest Group was unable to service its debt and other contractual obligations, penalties may be imposed by the financiers which may in turn have an adverse effect on the financial results of SapuraCrest Group. In addition, this may also affect SapuraCrest Group's ability to obtain financing on favourable terms.

Please refer to Section 9.3.14 of this Prospectus on the financial risk management policies in respect of interest rate risk. Changes in economic conditions could result in higher interest rates, thereby increasing SapuraCrest Group's interest expenses and funds available to SapuraCrest Group for its operations or other purposes. Conversely, in the event of lower interest rates, it could result in lower interest expenses and may increase the availability of funds to SapuraCrest for other purposes.

**(v) Foreign exchange fluctuations**

SapuraCrest Group had operations in various countries and as such are exposed to the volatility of various currencies that SapuraCrest Group transacted in. Foreign currency denominated assets and liabilities together with expected cash flows from anticipated transactions denominated in foreign currencies gave rise to foreign exchange exposures. Any fluctuations in the foreign exchange rate may have a material effect on the financial results of SapuraCrest Group.





## 9. FINANCIAL INFORMATION (cont'd)

## 9.3.5 Components of operating costs

The following table sets forth the principal components of SapuraCrest Group's operating costs and such costs expressed as a percentage of total operating costs and total revenue, for the years indicated:

	Year ended 31 January					
	2009		2010		2011	
	RM 000	% of total operating costs	RM 000	% of total operating costs	RM 000	% of total operating costs
<b>Operating costs</b>						
Cost of sales	2,921,114	94.8	2,696,988	92.4	2,619,212	91.8
Other operating expenses	38,080	1.3	60,351	2.1	51,043	1.8
Administration expenses	121,324	3.9	160,718	5.5	181,743	6.4
	<u>3,080,518</u>	<u>100.0</u>	<u>2,918,057</u>	<u>100.0</u>	<u>2,851,998</u>	<u>100.0</u>
						<u>89.7</u>

	Year ended 31 January	
	2012	2011
	RM 000	% of total operating costs
<b>Operating costs</b>		
Cost of sales	1,760,036	85.5
Other operating expenses	38,936	1.9
Administration expenses	259,596	12.6
	<u>2,058,568</u>	<u>100.0</u>
		<u>80.5</u>

## 9. FINANCIAL INFORMATION *(cont'd)*

The principal components of SapuraCrest Group's operating costs are discussed below.

### (i) Cost of sales

Cost of sales comprise among others, charter of vessels from third parties, material costs, subcontractors fees, crew and project management team costs and repair and maintenance expenses of vessels.

### (ii) Other operating expenses

Other operating expenses comprise among others, depreciation and amortisation of property, plant and equipment, realised and unrealised foreign exchange differences and allowance of doubtful debts.

### (iii) Administration expenses

Administration expenses comprise among others, staff costs, audit fees, rental of premises and management fees.

#### 9.3.6 Results of operations

### (i) Year ended 31 January 2012 compared to year ended 31 January 2011

#### Revenue

Revenue decreased by 19.5% or RM0.62 billion from RM3.18 billion for the year ended 31 January 2011 to RM2.56 billion for the year ended 31 January 2012.

#### (a) IPF

Revenue from IPF decreased by 28.9% or RM0.55 billion from RM1.90 billion for the year ended 31 January 2011 to RM1.35 billion for the year ended 31 January 2012. The decrease was mainly due to lower scope of works from the Pan Malaysia Programme which was in line with clients' planned activities during the year ended 31 January 2012. The decrease in revenue was partially offset by revenue from contracts executed in relation to the provision of pipelines, structures and FPSO installation with Petrofac, provision of transportation and offshore installation of pipelines with Newfield and provision of transportation and installation of offshore facilities with PC Myanmar (Hong Kong) Limited.

#### (b) Offshore drilling services

Revenue from the offshore drilling services decreased by 11.6% or RM93.5 million from RM804.9 million for the year ended 31 January 2011 to RM711.4 million for the year ended 31 January 2012. This decrease was mainly due to dry-docking of Teknik Berkat and lower revenue from T-10 drilling rig which was chartered on a bareboat basis during the year ended 31 January 2012 as compared to being chartered on an operating basis during the year ended 31 January 2011.

## 9. FINANCIAL INFORMATION (cont'd)

### (c) Marine services

Revenue from marine services increased by 1.8% or RM7.0 million from RM383.6 million for the year ended 31 January 2011 to RM390.6 million for the year ended 31 January 2012. The increase was mainly due to higher revenue from utilisation of Teknik Wira for various geotechnical projects in international waters and supply of ROV services to various clients. In addition, the increase in revenue was also due to higher activities from the Topside major maintenance and HUC for SSB/SSPCL contract as compared to the year ended 31 January 2011. However, the increase in revenue was partially offset by completion of the Topside major maintenance and HUC contracts for EMEPMI in May 2010, SapuraAcergy Sdn Bhd in January 2011 and ConocoPhillips Indonesia Inc Ltd in October 2010, and lower activities from installation of communication equipments for Malaysia Marine and Heavy Engineering Sdn Bhd in the year ended 31 January 2012. In addition, the revenue from marine services also decreased due to Sarku Samudera coming off contract during 2010 which has yet to secure new charter hire contract.

### (d) Operations and maintenance

Revenue from operations and maintenance increased by 10.6% or RM9.6 million from RM90.7 million for the year ended 31 January 2011 to RM100.3 million for the year ended 31 January 2012. The increase was mainly due to increase in revenue for the supply of turbo machinery spare parts for gas turbines to SSB and maintenance services to GE Power Systems (M) Sdn Bhd. In addition, the increase in revenue was also due to supply of skid packages to various clients. The increase in revenue was partially offset by the completion of a project for the supply of security systems for year ended 31 January 2011 coupled with lower pricing structure in the year ended 31 January 2012.

### Cost of sales

Cost of sales decreased by 32.8% or RM0.86 billion from RM2.62 billion for the year ended 31 January 2011 to RM1.76 billion for the year ended 31 January 2012. The cost of sales decreased mainly due to lower utilisation and charter rate of vessels from third parties in accordance with clients' activities which correspondingly resulted in lower subcontractor and material costs. The reversal of the prior year provision for subcontractors cost no longer required had also resulted in lower cost of sales. The decrease in cost of sales was also due to lower Topside major maintenance and HUC activities upon completion of the contracts with EMEPMI in May 2010 and SapuraAcergy Sdn Bhd in January 2011 and ConocoPhillips Indonesia Inc Ltd in October 2010.

### Gross profit and gross profit margin

As a result of the foregoing factors, gross profit increased by 42.0% or RM235.7 million from RM560.7 million for the year ended 31 January 2011 to RM796.4 million for the year ended 31 January 2012. Gross profit margin increased from 17.6% for the year ended 31 January 2011 to 31.2% for the year ended 31 January 2012.

**9. FINANCIAL INFORMATION (cont'd)**

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**Other income**

Other income increased by 14.9% or RM3.4 million from RM22.8 million for the year ended 31 January 2011 to RM26.2 million for the year ended 31 January 2012. The improvement was mainly due to higher interest income earned as a result of improved treasury functions during the year ended 31 January 2012. In addition, the increase in other income was also due to sale of scrap, insurance claims, reversal of rig refurbishment costs no longer payable and rental of equipment during year ended 31 January 2012. However, this increase was partially off-set by lower net fair value gain on derivatives and forward currency contracts and lower gain on disposal of property, plant and equipment.

**Other operating expenses**

Other operating expenses decreased by 23.7% or RM12.1 million from RM51.0 million for the year ended 31 January 2011 (after a write-back of provision of RM20.5 million made in April 2010 for rig refurbishment and miscellaneous expenses incurred by Crest Hidayat (L) Ltd, a subsidiary of SapuraCrest) to RM38.9 million for the year ended 31 January 2012, which was mainly attributable to foreign exchange gain as a result of the strengthening of RM against the USD as compared to foreign exchange loss during the year ended 31 January 2011.

**Administration expenses**

Administration expenses increased by 42.9% or RM77.9 million from RM181.7 million for the year ended 31 January 2011 to RM259.6 million for the year ended 31 January 2012 mainly due to expenses incurred for corporate exercises including the Clough Business Acquisition and the Merger, and expenses related to the business development of SapuraCrest Group.

In addition, the administration expenses increased due to increase in employee benefit expenses as a result of reclassification from cost of sales to administration expenses upon completion of projects and increase in headcount to support the business requirements of SapuraCrest Group.

**Operating profit**

As a result of the foregoing factors, operating profit increased by 49.4% or RM173.4 million from RM350.7 million for the year ended 31 January 2011 to RM524.1 million for the year ended 31 January 2012.

**Finance costs**

Finance costs increased by 36.9% or RM14.1 million from RM38.2 million for the year ended 31 January 2011 to RM52.3 million for the year ended 31 January 2012 mainly due to drawdown of Ijarah facilities to finance the acquisition of vessels namely, Teknik Wira and Sarku 300 and construction of the SDS and ROVs and drawdown of borrowings for the Clough Business Acquisition.

**9. FINANCIAL INFORMATION (cont'd)**

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**Share of results from associates**

Share of results from associates was a profit of RM9.0 million for the year ended 31 January 2012 as compared to a loss of RM0.4 million for the year ended 31 January 2011 mainly due to share of profit from a newly acquired associate namely, LSE, during the year ended 31 January 2012.

**Share of results from jointly-controlled entities**

Share of profit from jointly-controlled entities decreased by 34.7% or RM35.8 million from RM103.1 million for the year ended 31 January 2011 as compared to RM67.3 million for the year ended 31 January 2012 mainly due to lower contribution from SapuraAcergy Companies and L&T Sapura Shipping Pvt Ltd. The contribution from SapuraAcergy Companies was lower since completion of the Iwaki platform decommissioning project and contract with PTTEP Australasia (Ashmore Cartier) Pty Ltd for offshore transportation and installation of platform during the year ended 31 January 2011. The contribution from L&T Sapura Shipping Pvt Ltd was lower mainly due to the non-working period including during the pipelay equipment commissioning and testing on the vessels in June and July 2011 resulting in loss of income and additional material costs incurred for the trial.

**PBT margin**

As a result of the foregoing factors, PBT margin increased from 13.1% for the year ended 31 January 2011 to 21.4% for the year ended 31 January 2012.

**Income tax expense**

Income tax expense increased by 81.0% or RM32.9 million from RM40.6 million for the year ended 31 January 2011 to RM73.5 million for the year ended 31 January 2012 mainly due to higher PBT for the year ended 31 January 2012 as compared to the year ended 31 January 2011.

**PAT margin**

As a result of the foregoing factors, PAT margin increased from 11.8% for the year ended 31 January 2011 to 18.6% for the year ended 31 January 2012.

**EBITDA margin**

As a result of the foregoing factors, EBITDA margin increased from 17.1% for the year ended 31 January 2011 to 27.2% for the year ended 31 January 2012.



**9. FINANCIAL INFORMATION (cont'd)****(ii) Year ended 31 January 2011 compared to year ended 31 January 2010****Revenue**

Revenue decreased by 2.5% or RM0.08 billion from RM3.26 billion for the year ended 31 January 2010 to RM3.18 billion for the year ended 31 January 2011.

**(a) IPF**

Revenue from the IPF increased by 11.1% or RM0.19 billion from RM1.71 billion for the year ended 31 January 2010 to RM1.90 billion for the year ended 31 January 2011. The increase in revenue was mainly due to the full year contribution from the Pan Malaysia Programme in accordance to clients' planned activities which commence in February 2010 and one-off vessel charter to SapuraAcergy Companies for the Gumusut-Kakap project from February to May 2010. In total, the increase in revenue from the above works was partially offset by lower revenue from the contract with PCSB for the supply of IPF services which was awarded in 2007 and nearing completion in 2009 as well as decrease in revenue from the Joint Development Area Field Development project for the installation of pipeline which was completed in January 2010.

**(b) Offshore drilling services**

Revenue from the offshore drilling services decreased by 4.7% or RM39.4 million from RM844.3 million for the year ended 31 January 2010 to RM804.9 million for the year ended 31 January 2011. The decrease in revenue was mainly due to completion of the contract with Murphy Sabah Oil Co Ltd for the charter of a rig in May 2009 and also due to mechanical downtime of a rig, namely T-10 in December 2010 which resulted in loss of revenue for the year ended 31 January 2011. The decrease in revenue was partially offset by the upward revision in day rates for the charter of a rig to SSB/SSPCL.

**(c) Marine services**

Revenue from marine services decreased by 40.6% or RM262.3 million from RM645.9 million for the year ended 31 January 2010 to RM383.6 million for the year ended 31 January 2011, which was mainly due to completion of the Topside major maintenance and HUC contracts for EMEPMI in May 2010 and ConocoPhillips Indonesia Inc Ltd in October 2010. In addition, vessels coming off contracts, including Sarku Samudera, Sarku Utama and Sarku Clementine during 2009 and 2010 have yet to secure new charter hire contracts. Sarku Utama was subsequently disposed of in December 2010. Further, the revenue decreased due to the delay in delivery of Teknik Wira and disposal of 2 vessels in soil and survey divisions. The decrease in revenue was partially offset by revenue from the supply and delivery of telecommunication system for Tangga Barat cluster development project and Gumusut-Kakap semi floating production storage works.

**9. FINANCIAL INFORMATION (cont'd)**

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**(d) Operations and maintenance**

Revenue from the operations and maintenance increased by 72.4% or RM38.1 million from RM52.6 million for the year ended 31 January 2010 to RM90.7 million for the year ended 31 January 2011. The increase in revenue was mainly due to supply of turbo machinery spare parts for gas turbines to Malaysia LNG Sdn Bhd and new contracts secured for the supply of security systems.

**Cost of sales**

Cost of sales decreased marginally by 3.0% or RM0.08 billion from RM2.70 billion for the year ended 31 January 2010 to RM2.62 billion for the year ended 31 January 2011. This is in line with the decrease in revenue. The cost of sales decreased mainly as a result of the decrease in subcontractor cost and material cost due to completion of Topside major maintenance and HUC projects for EMEPMI in May 2010 and ConocoPhillips Indonesia Inc Ltd in October 2010.

**Gross profit and gross profit margin**

As a result of the foregoing factors, gross profit increased by 0.1% or RM0.6 million from RM560.1 million for the year ended 31 January 2010 to RM560.7 million for the year ended 31 January 2011. Gross profit margin increased marginally to 17.6% for the year ended 31 January 2011 from 17.2% for the year ended 31 January 2010.

**Other income**

Other income decreased by 2.6% or RM0.6 million from RM23.4 million for the year ended 31 January 2010 to RM22.8 million for the year ended 31 January 2011. The decrease was mainly due to the one-time recognition of reserves arising from the acquisition of the remaining 30% shareholding in TL Geohydrographics Sdn Bhd and 60% shareholding in TL Oilserve Sdn Bhd during the year ended 31 January 2010.

The decrease in other income was partially off-set by net fair value gain on derivatives and forward currency contracts for the year ended 31 January 2011 as compared to the year ended 31 January 2010. The fair value changes were attributable to the change in foreign exchange spot and forward rate.

**Other operating expenses**

Other operating expenses decreased by 15.6% or RM9.4 million from RM60.4 million for the year ended 31 January 2010 to RM51.0 million for the year ended 31 January 2011. The decrease was a net effect of the write-back of provision made in April 2010 and January 2011 for rig refurbishment and miscellaneous expenses incurred by Crest Hidayat (L) Ltd, a subsidiary of SapuraCrest and higher foreign exchange losses and the loss on disposal of Teknik Kembara and Teknik Satria for the year ended 31 January 2011.

**9. FINANCIAL INFORMATION (cont'd)**

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**Administration expenses**

Administration expenses increased by 13.1% or RM21.0 million from RM160.7 million for the year ended 31 January 2010 to RM181.7 million for the year ended 31 January 2011. The increase was mainly due to increase in corporate office expenses and staff costs due to an increase of headcount in IPF segment to support increase in workload for the commencement of the Pan Malaysia Programme.

**Operating profit**

As a result of the foregoing factors, operating profit decreased by 3.2% or RM11.7 million from RM362.4 million for the year ended 31 January 2010 to RM350.7 million for the year ended 31 January 2011.

**Finance costs**

The decrease in finance cost of 15.5% or RM7.0 million from RM45.2 million for the year ended 31 January 2010 to RM38.2 million for the year ended 31 January 2011 was mainly due to partial repayment of term loans and revolving credit during the year ended 31 January 2011 which resulted in lower interest expenses.

**Share of results from associates**

Share of results in SapuraCrest's associate company, GSB, was a loss of RM0.44 million for the year ended 31 January 2011 as compared to a profit of RM0.34 million for the year ended 31 January 2010.

**Share of results from jointly-controlled entities**

Share of profits of jointly-controlled entities increased substantially by RM56.7 million from RM46.4 million for the year ended 31 January 2010 to RM103.1 million for the year ended 31 January 2011. This was mainly due to share of profits in respect of contracts for offshore deepwater at Gumusut-Kakap field and Iwaki platform decommissioning project secured by SapuraAcergy Companies in May 2009 and contribution from two other jointly-controlled entities upon completion of the construction of vessels namely, LTS 3000 and QP 2000.

**PBT margin**

As a result of the foregoing factors, PBT margin increased from 11.2% for the year ended 31 January 2010 to 13.1% for the year ended 31 January 2011.

**Income tax expense**

Income tax expense increased by 41.5% or RM11.9 million from RM28.7 million for the year ended 31 January 2010 to RM40.6 million for the year ended 31 January 2011. This was mainly due to the reversal in the year ended 31 January 2010 of tax provision made in prior years.

**9. FINANCIAL INFORMATION (cont'd)**

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**PAT margin**

As a result of the foregoing factors, PAT margin increased from 10.3% for the year ended 31 January 2010 to 11.8% for the year ended 31 January 2011.

**EBITDA margin**

As a result of the foregoing factors, the EBITDA margin increased from 15.4% for the year ended 31 January 2010 to 17.1% for the year ended 31 January 2011.

**(iii) Year ended 31 January 2010 compared to year ended 31 January 2009****Revenue**

Revenue decreased by 5.5% or RM0.19 billion from RM3.45 billion for the year ended 31 January 2009 to RM3.26 billion for the year ended 31 January 2010.

**(a) IPF**

Revenue from the IPF decreased by 9.5% or RM0.18 billion from RM1.89 billion for the year ended 31 January 2009 to RM1.71 billion for the year ended 31 January 2010. The decrease in revenue was mainly due to early completion of one-off projects for Northern Fields Development Project and East Belumut-A Topsides Project during the year ended 31 January 2009 and lower scope of work for Joint Development Area field development project for the supply of offshore installation of pipeline during the year ended 31 January 2010, partially offset by minimal increase in revenue from PCSB contract for the supply of IPF services.

**(b) Offshore drilling services**

Revenue from the offshore drilling services decreased by 6.8% or RM61.3 million from RM905.6 million for the year ended 31 January 2009 to RM844.3 million for the year ended 31 January 2010. This decrease was mainly due to the completion of drilling rigs contracts with Newfield in May 2008, NOEML in January 2009 and Murphy Sabah Oil Co. Ltd in May 2009.

**(c) Marine services**

Revenue from marine services increased by 4.9% or RM30.0 million from RM615.9 million for the year ended 31 January 2009 to RM645.9 million for the year ended 31 January 2010. This increase was primarily due to full year contribution from the Topside major maintenance and HUC contracts with SSB/SSPCL and ConocoPhillips Indonesia Inc Ltd which commenced in fourth quarter of year ended 31 January 2009. The increase in revenue was partially off-set by lower revenue from lower activities in geotechnical and geophysical surveys due to the completion of the contract with ExxonMobil Exploration and Productions Inc in Madagascar in May 2008, Allseas Marine Contractors Ltd in Africa, Egypt and India in June 2009 as well as completion of some of the contracts with Alamjaya Makmur Sejahtera in Indonesia in April and October 2008.

**9. FINANCIAL INFORMATION (cont'd)**

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**(d) Operations and maintenance**

Revenue from the operations and maintenance increased by 39.5% or RM14.9 million from RM37.7 million for the year ended 31 January 2009 to RM52.6 million for the year ended 31 January 2010. This was mainly due to contracts awarded for the supply of skid packages by Malaysia Marine and Heavy Engineering Holdings Berhad for Tangga Barat and Gumusut-Kakap projects which revenue were generated in the year ended 31 January 2010.

**Cost of sales**

The cost of sales marginally decreased by 7.5% or RM0.22 billion from RM2.92 billion for the year ended 31 January 2009 to RM2.70 billion for the year ended 31 January 2010. This is in tandem with the decrease in revenue.

The decrease in cost of sales was mainly due to the decrease in material costs, charter of vessels from third parties and repair and maintenance expenses for vessels.

The decrease in charter vessel cost was attributable to the early completion of one-off project for Northern Fields Development Project and East Belumut-A Topsides Project in the year ended 31 January 2009. As a result, material costs and repair and maintenance expenses for vessels decreased accordingly.

In addition, the decrease in repair and maintenance expenses was attributable to the decrease in the charter of rental of crane which was installed on Sarku Sumudera for the PCSB contract which commenced during 31 January 2009 and lower rental of diving equipments for the underwater services project secured from Emas Offshore Construction & Production Pte Ltd.

**Gross profit and gross profit margin**

As a result of the foregoing factors, gross profit increased by 5.6% or RM29.5 million from RM530.6 million for the year ended 31 January 2009 to RM560.1 million for the year ended 31 January 2010. Gross profit margin increased to 17.2% for the year ended 31 January 2010 from 15.4% for the year ended 31 January 2009.

**Other income**

Other income increased by 75.9% or RM10.1 million from RM13.3 million for the year ended 31 January 2009 to RM23.4 million for the year ended 31 January 2010. The increase was mainly due to the one-time recognition of reserves arising from the acquisition of the remaining 30% shareholding in TL Geohydrographics Sdn Bhd and 60% shareholding in TL Oilserve Sdn Bhd during the year ended 31 January 2010.

**9. FINANCIAL INFORMATION (cont'd)**

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**Other operating expenses**

Other operating expenses increased by 58.5% or RM22.3 million from RM38.1 million for the year ended 31 January 2009 to RM60.4 million for the year ended 31 January 2010. This was mainly due to increase in foreign exchange losses and unabsorbed overhead costs in relation to unutilised vessels which was partially offset by lower provision of doubtful debt in the Marine division.

**Administration expenses**

Administration expenses increased by 32.5% or RM39.4 million from RM121.3 million for the year ended 31 January 2009 to RM160.7 million for the year ended 31 January 2010. The increase was mainly due to increase in staff related costs, management fees and rental of office premises to support business development.

**Operating profit**

As a result of the foregoing factors, the operating profit of SapuraCrest Group decreased by 5.7% or RM22.0 million from RM384.4 million for the year ended 31 January 2009 to RM362.4 million for the year ended 31 January 2010.

**Finance costs**

The decrease in finance cost of 21.8% or RM12.6 million from RM57.8 million for the year ended 31 January 2009 to RM45.2 million for the year ended 31 January 2010 was mainly due to partial settlement of term loans and revolving credit, and full settlement of Bai' Bithaman Ajil Debt Securities ("BaIDS") issued by one of the subsidiaries. However, the decrease was partially off-set by an increase in interest on Murabahah Commercial Papers and interest incurred on the new bridging loan to finance the construction of Teknik Wira.

**Share of results from associates**

Share of profits from the associate company, GSB, decreased by 50.0% or RM0.3 million from RM0.6 million for the year ended 31 January 2009 to RM0.3 million for the year ended 31 January 2010.

**Share of results from jointly-controlled entities**

Share of results from jointly-controlled entities was a profit of RM46.4 million for the year ended 31 January 2010 as compared to share of loss of RM45.7 million for the year ended 31 January 2009. This was mainly due to favourable results recorded in jointly controlled entity namely, SapuraAcergy Companies due to contribution from the contracts for Mumbai High South re-development project and offshore deepwater project at Gumusut Kakap field.

**PBT margin**

As a result of the foregoing factors, PBT margin increased from 8.2% for the year ended 31 January 2009 to 11.2% for the year ended 31 January 2010.

## 9. FINANCIAL INFORMATION (cont'd)

### Income tax expense

Income tax expense decreased by 9.7% or RM3.1 million from RM31.8 million for the year ended 31 January 2009 to RM28.7 million for the year ended 31 January 2010. This was mainly attributable to overprovision of income tax expense in prior years which was subsequently reversed during the year ended 31 January 2010. However, the decrease was partially off-set by higher PBT for the year ended 31 January 2010 as compared to 31 January 2009.

### PAT margin

As a result of the foregoing factors, PAT margin increased from 7.2% for the year ended 31 January 2009 to 10.3% for the year ended 31 January 2010.

### EBITDA margin

As a result of the foregoing factors, EBITDA margin increased from 12.3% for the year ended 31 January 2009 to 15.4% for the year ended 31 January 2010.

#### 9.3.7 Order book

The following table sets forth, as at 31 March 2012, SapuraCrest Group's and its jointly-controlled entities' order book by reportable segments, the number of projects by each segment, order book value and related percentage data. When calculating the order book, contract values denominated in other currencies were translated into RM at the relevant exchange rates as at 30 March 2012.

	As at 31 March 2012		
	No. of projects	RM million*	%
IPF	10	2,753.8	28.5
Offshore drilling services	5	343.0	3.6
Marine services	39	473.1	4.9
Operations and maintenance	79	145.7	1.5
Jointly-controlled entities	11	5,946.2	61.5
<b>Total</b>	<b>144</b>	<b>9,661.8</b>	<b>100.0</b>

**Note:**

\* Represents full estimated value of the projects.

The order book of the IPF segment mainly includes the Pan Malaysia Programme with remaining order book of RM1,472.8 million. The other major contract includes Dorgas Contract with remaining order book of RM736.0 million. Other projects mainly include pipeline, structures, FPSO installation with Petrofac and deferred scope for PCSB on transportation and installation of offshore facilities with remaining order book of RM545.0 million.

The order book of the offshore drilling services segment include bareboat charter of T-3 and T-10 to Seadrill with remaining order book of RM59.0 million and contract awarded by CHOCSB and Carigali-PTTEPI with remaining order book of RM132.7 million for providing drilling rig services of T-6 and contract awarded by PCSB with remaining order book of RM6.3 million and RM145.0 million for providing SETRs namely, Teknik Berkat and T-9, respectively.

**9. FINANCIAL INFORMATION** *(cont'd)*

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The order book of marine services mainly include the contract awarded by SSB/SSPCL for Topside major maintenance and HUC services with remaining order book of RM249.6 million and various contracts for providing of ROVs services with remaining order book of RM120.4 million.

The order book of operations and maintenance mainly include the contract awarded by Malaysia LNG Sdn Bhd for maintenance and execution of supplied gas turbines, compressors and related equipments with remaining order book of RM30.5 million. The other major contracts include providing maintenance of Total Management System at Petronas Dagangan Berhad's petrol service stations with remaining order book of RM28.3 million, supply of turbo machinery spare parts for gas turbines to PCSB and SSB with remaining order book of RM24.3 million, supply of products for drilling and production systems to SapuraAcergy with remaining order book of RM13.1 million, supply of telecommunication system to EMEPMI with remaining order book of RM9.2 million and supply of service and maintenance of gas turbines, compressors and related equipments to GE Power Systems (M) Sdn Bhd with remaining order book of RM8.1 million.

The order book of SapuraCrest's jointly-controlled entities mainly includes the RM4.29 billion contract awarded by Petrobras for the charter and operation of 3 units of pipe-lay support vessels. The other major contract include contracts for the deepwater offshore transport and installation works at the Gumusut-Kakap field with remaining order book of RM98.9 million. Other projects mainly include chartering of vessels, transport and installation works, fabrication, repairs and drydocking with remaining order book of RM661.4 million.

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## 9. FINANCIAL INFORMATION (cont'd)

### 9.3.8 Liquidity and capital resources

The principal sources of liquidity of SapuraCrest Group were internally generated cash from operations and borrowings. For the year ended 31 January 2012, these funds were mainly utilised to fund working capital and acquisition of property, plant and equipment. As at 31 January 2012, SapuraCrest Group's material source of unutilised liquidity comprised cash and cash equivalents and available lines of credit of RM704.9 million and RM2.1 billion, respectively.

#### (i) Working capital

Working capital of SapuraCrest Group was funded through cash generated from operations and credit lines.

#### (ii) Cash flows

The following table sets forth the consolidated cash flow statements of SapuraCrest for the years indicated:

	Audited			Unaudited
	Year ended 31 January			
	2009	2010	2011	2012
	(RM 000)			
Net cash flows generated from operating activities	442,305	805,150	361,824	350,210
Net cash flows used in investing activities	(83,108)	(228,945)	(296,815)	(905,202)
Net cash flows (used in)/generated from financing activities	(127,535)	(276,436)	(135,250)	505,763
Net increase/(decrease) in cash and cash equivalents	231,662	299,769	(70,241)	(49,229)
Effect of exchange rate translation	4,513	(14,902)	(36,629)	(14,241)
Cash and cash equivalents at the beginning of the year	354,209	590,384	875,251	768,381
Cash and cash equivalents at the end of the year	590,384	875,251	768,381	704,911

Other than as required by the applicable law, licences, conditions, and contractual obligations, including restrictions in the financial contracts of SapuraCrest Group, there was no restriction on the subsidiaries of SapuraCrest to transfer funds to SapuraCrest in the form of cash dividends, loans or advances to meet the cash obligations of SapuraCrest.

**9. FINANCIAL INFORMATION (cont'd)**

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**Net cash flows generated from operating activities**

Net cash generated from operating activities for the year ended 31 January 2012 was RM350.2 million mainly due to PBT of RM548.0 million, adjustments for non-cash items of RM16.3 million, RM130.3 million increase in working capital, RM28.1 million interest paid and RM55.7 million taxes paid. The adjustments for non-cash items for the year ended 31 January 2012 mainly comprised depreciation and amortisation of RM96.2 million, share of results of associates and jointly-controlled entities of RM76.3 million and interest expenses of RM52.3 million. The increase in working capital for the year ended 31 January 2012 consisted primarily of a decrease in trade and other receivables of RM169.7 million and a decrease in trade and other payables of RM251.0 million. The decrease in trade and other receivables was in line with the lower revenue for the year ended 31 January 2012. The decrease in trade and other payables was mainly due to settlement of amounts owing to our trade and other creditors for the year ended 31 January 2012.

Net cash generated from operating activities for the year ended 31 January 2011 was RM361.8 million mainly due to PBT of RM415.1 million, adjustments for non-cash items of RM56.7 million, RM33.9 million increase in working capital, RM36.3 million interests paid and RM39.8 million taxes paid. The adjustments for non-cash items for the year ended 31 January 2011 mainly comprise share of profits from jointly-controlled entities of RM103.1 million, depreciation of property, plant and equipment of RM90.1 million and interest expense of RM38.2 million. The increase in working capital for the year ended 31 January 2011 consisted primarily of an increase in trade and other receivables of RM253.4 million and an increase in trade and other payables of RM182.8 million. The increase in trade and other receivables was mainly related to delay in collection from its trade customers due to changes in its billing structure. The increase in trade and other payables was mainly due to delay in settlement of amounts owing to our trade and other creditors.

Net cash generated from operating activities for the year ended 31 January 2010 was RM805.2 million mainly due to PBT of RM364.0 million, adjustments for non-cash items of RM79.3 million, RM454.0 million decreases in working capital, RM44.6 million interests paid and RM47.6 million taxes paid. The adjustments for non-cash items for the year ended 31 January 2010 mainly comprise depreciation of property, plant and equipment of RM91.5 million, share of profits of jointly-controlled entities of RM46.4 million and interest expense of RM45.2 million. The decrease in working capital for the year ended 31 January 2010 consisted primarily of a decrease in trade and other receivables of RM570.6 million and a decrease in trade and other payables of RM78.9 million. The decrease in trade and other receivables was mainly related to early collection from its customers. The decrease in trade and other payables was mainly due to settlement of amounts owing to our trade and other creditors.

**9. FINANCIAL INFORMATION (cont'd)**

Net cash generated from operating activities for the year ended 31 January 2009 was RM442.3 million mainly due to PBT of RM281.6 million, adjustments for non-cash items of RM200.0 million and RM57.7 million decreases in working capital, RM63.4 million interest paid and RM33.5 million taxes paid. The adjustments for non-cash items for the year ended 31 January 2009 mainly comprise depreciation of property, plant and equipment of RM84.3 million, interest expense of RM57.8 million and share of loss of jointly-controlled entities of RM45.7 million. The decrease in working capital for the year ended 31 January 2009 consisted primarily of an increase in trade and other receivables of RM272.8 million and an increase in trade and other payables of RM382.9 million. The increase in trade and other receivables was in tandem with the increase in revenue, particularly in IPF segment. The increase in trade and other payables was in tandem with the increase in cost of sales for the year ended 31 January 2009.

**Net cash flows used in investing activities**

The net cash flows used in investing activities was RM83.1 million for the year ended 31 January 2009, RM228.9 million in for the year ended 31 January 2010, RM296.8 million in for the year ended 31 January 2011 and RM905.2 million for the year ended 31 January 2012.

Purchases of property, plant and equipment were RM57.3 million for the year ended 31 January 2009, RM79.2 million for the year ended 31 January 2010, RM129.5 million for the year ended 31 January 2011 and RM185.8 million for the year ended 31 January 2012. In addition, purchase of intangible assets which includes System, Applications, and Products in Data Processing (SAP) system were RM4.9 million for year ended 31 January 2011 and RM4.8 million for year ended 31 January 2012.

For year ended 31 January 2012, RM178.8 million was used for expenditures on oil and gas properties, Clough Business Acquisition of RM400.9 million, and investment in an associate and jointly-controlled entities of RM25.4 million.

Dividends paid to non-controlling interest of a subsidiary were RM34.3 million for the year ended 31 January 2009, RM122.5 million for the year ended 31 January 2010, RM176.4 million for the year ended 31 January 2011 and RM157.8 million for the year ended 31 January 2012.

**Net cash flows used in financing activities**

The net cash flows generated from financing activities was RM505.8 million for year ended 31 January 2012 mainly comprising drawdown of borrowings for the Clough Business Acquisition, Berantai Field Development Project and refinancing of an accommodation work barge namely Sarku 300 and dividends paid of RM70.2 million.

The net cash flows used in financing activities was RM135.3 million for the year ended 31 January 2011 comprising dividends paid of RM89.4 million and repayment of hire purchase and lease creditors of RM1.2 million and repayment of term loans of RM41.0 million.

The net cash flows used in financing activities was RM276.4 million for the year ended 31 January 2010 mainly comprising dividends paid of RM100.1 million, repayment of term loans of RM111.0 million and repayment of short term borrowings of RM123.0 million.

## 9. FINANCIAL INFORMATION (cont'd)

The net cash flows used in financing activities for the year ended 31 January 2009 was RM127.5 million mainly comprising repayment of term loans of RM129.1 million, repayment of BaiDS of RM45.0 million, dividends paid of RM17.5 million and drawdown of short term borrowings of RM48.3 million.

## (iii) Borrowings

SapuraCrest Group's total outstanding borrowings, all of which are interest-bearing, as at 31 January 2012 are set out as follows:

Statement of total outstanding borrowings	Interest rate terms	Currency			<sup>(1)</sup> Total
		AUD 000	USD 000	RM 000	RM 000
<b>Short-term borrowings:</b>					
Term loans - secured	Variable floating rate from 1.44% to 8.95%	<sup>(2)</sup> 2,879	<sup>(3)</sup> 12,234	-	46,600
Ijarah Facilities - secured	Effective interest rate is 2.46% to 5.32%	-	<sup>(3)</sup> 2,532	17,862	25,573
Revolving credits - secured	Variable floating rate from 2.68% to 3.10%	-	35,500	-	<sup>(4)</sup> 101,966
Revolving credits/Bankers' acceptances - unsecured	Fixed rate and variable floating rate from 2.20% to 5.94%	-	123,564	60,373	<sup>(5)</sup> 435,273
Murabahah Commercial Paper/ Murabahah Medium Term Notes - secured	Coupon rates ranging from 3.70% to 3.90%	-	-	94,067	94,067
Hire purchase liabilities - secured	Fixed rate ranging from 2.20% to 9.90% per annum	<sup>(2)</sup> 85	-	259	535
Other loan – unsecured	Fixed rate ranging from 5.16% to 7.15%	<sup>(2)</sup> 265	-	-	859
<b>Long-term borrowings:</b>					
Term loans - secured	Variable floating rate from 2.27% to 8.95%	<sup>(2)</sup> 5,526	21,438	225,637	308,857
Ijarah Facilities -secured	Effective interest rate is 2.46% to 5.32% per annum	-	<sup>(3)</sup> 13,650	105,580	147,152
Istisna' Bonds - secured	Coupon rates ranging from 6.50% to 7.55%	-	-	248,475	248,475
Hire purchase liabilities - secured	Fixed rate ranging from 2.20% to 9.90% per annum	<sup>(2)</sup> 40	-	866	996
Other loan - secured	Fixed rate ranging from 5.16% to 7.15%	<sup>(2)</sup> 95	-	-	309
<b>Total borrowings</b>		<b>8,890</b>	<b>208,918</b>	<b>753,119</b>	<b>1,410,662</b>

## 9. FINANCIAL INFORMATION (cont'd)

**Notes:**

- (1) Rounding differences
- (2) Converted at RM3.245/AUD1, being the closing rate as at 31 January 2012 based on website of <http://www.x-rates.com>.
- (3) Converted at RM3.0455/USD1, being the closing rate as at 31 January 2012 based on Bank Negara Malaysia's website.
- (4) Computed based on exchange rate of RM3.0455/USD1 (being the closing rate as at 31 January 2012 based on Bank Negara Malaysia's website) and net of facilities fees of RM6.149 million.
- (5) Computed based on exchange rate of RM3.0455/USD1 (being the closing rate as at 31 January 2012 based on Bank Negara Malaysia's website) and net of facilities fees of RM1.413 million.

Subsequent to the year ended 31 January 2012 up to 31 March 2012, SapuraCrest Group incurred additional borrowings of which the information on the principal amount of drawdown are set out as follows:

Principal amount of drawdown	Interest rate terms	Currency			(1)Total
		AUD 000	USD 000	RM 000	RM 000
<b>Short-term:</b>					
Revolving credit - secured	Variable floating rate from 2.40% to 3.10%	-	(1)46,500	-	142,662
Revolving credit - unsecured	Variable floating rate from 2.00% to 3.10%	-	(1)25,000	45,000	121,700
<b>Long-term:</b>					
Term loans - secured	Variable floating rate from 4.69% to 4.70%	-	-	46,504	46,504
<b>Total</b>		<b>-</b>	<b>71,500</b>	<b>91,504</b>	<b>310,866</b>

**Note:**

- (1) Converted at RM3.068/USD1, being the closing rate as at 31 March 2012 based on Bank Negara Malaysia's website.

SapuraCrest Group obtains its borrowings from various Malaysian and international financial institutions, mainly to finance working capital and Capex.

SapuraCrest Group has not defaulted on payments of interest or principal sums on any of its borrowings up to the LPD.

## 9. FINANCIAL INFORMATION (cont'd)

The maturity profile of SapuraCrest Group's borrowings as at 31 January 2012 is as follows:

	Year ended 31 January 2012
	RM'000
Within 1 year	704,873
1 year to 5 years	705,789
<b>Total borrowings</b>	<b>1,410,662</b>

### 9.3.9 Capex

In line with its expansion plan, SapuraCrest Group invested a total of RM57.6 million, RM79.6 million, RM283.1 million and RM216.1 million in Capex for the years ended 31 January 2009, 2010, 2011 and 2012 respectively. SapuraCrest Group funded the Capex mainly through internally generated cash from operations and borrowings.

The following table sets forth the material Capex for the years indicated:

	Year ended 31 January			
	2009	2010	2011	2012
	RM 000			
IPF	3,850	1,107	5,182	82,778
Offshore drilling services	286	-	15,430	27,752
Marine services	52,484	76,813	256,625	96,342
Operations and maintenance	384	902	5,299	2,649
	57,004	78,822	282,536	209,521
Others	632	783	606	6,569
<b>Total capital expenditure</b>	<b>57,636</b>	<b>79,605</b>	<b>283,142</b>	<b>216,090</b>

Capex for the year ended 31 January 2012 was mainly incurred for construction of 2 pipelay cum heavy lift offshore construction vessels, drydocking of Teknik Berkat and Sarku Clementine, construction of Divex 12-men SDS which was completed during the fourth quarter of the year ended 31 January 2012 and purchase of 2 ROVs. The decrease in Capex for the year ended 31 January 2012 was mainly due to completion of construction of Teknik Wira and purchase of accommodation work barge namely Sarku 300 for the year ended 31 January 2011. Subsequent to the year ended 31 January 2012, SapuraCrest Group incurred approximately RM193.5 million for the construction of 3 pipe-lay support vessels which is expected to be commissioned and delivered in 2014.

Capex for the year ended 31 January 2011 was mainly incurred for the purchase of Sarku 300 and completion of construction of Teknik Wira. In the same year, SapuraCrest Group also incurred Capex for the construction of 2 Divex 12-men SDS up to the completion of 45% and 25% respectively, acquisition of hydraulic hammers, drydocking of a drilling rig, namely T-3 and construction of 3 ROVs. The increase in Capex during the year ended 31 January 2011 as compared to the year ended 31 January 2010 was mainly due to the purchase of Sarku 300 during the fourth quarter of the year ended 31 January 2011.

## 9. FINANCIAL INFORMATION (cont'd)

Capex for the year ended 31 January 2010 was mainly incurred for the construction of Teknik Wira which was 31% completed as at 31 January 2010. In the same year, SapuraCrest Group also incurred Capex for drydocking of Teknik Putra and Teknik Samudera, acquisition of hydraulic hammers, ROVs and Divex 12-men SDS which was 55% completed as at 31 January 2010, purchase of operational equipment for HUC and Topside major maintenance project.

Capex for the year ended 31 January 2009 was mainly incurred for the construction of a geotechnical survey vessel namely, Teknik Wira, which was 16% completed as at 31 January 2009. In the same year, SapuraCrest Group also incurred Capex for the drydocking of Teknik Kembara, acquisition of 1 hydraulic hammer and operational equipments and construction of ROVs.

### 9.3.10 Capital commitments and operating leases

The capital commitments and operating leases of SapuraCrest Group are as follows:

	Audited	Unaudited
	As at	As at
	31 January 2011	31 January 2012
	RM 000	
<b>(a) Capital commitments</b>		
Property, plant and equipment:		
- Approved and contracted for	47,086	<sup>(1)</sup> 930,813
- Approved but not contracted for	18,879	267,052
Share of capital commitments of jointly-controlled entities	30,453	<sup>(2)</sup> 740,156
	96,418	1,938,021
<b>(b) Operating leases</b>		
Non cancellable operating commitments as lessee		
- Within 1 year	7,176	8,307
- Later than 1 year but more than 5 years	8,027	3,372
	15,203	11,679

**Notes:**

<sup>(1)</sup> Includes Capex for construction of 2 DP heavy lift and pipelay vessels (RM879.4 million), dry docking and upgrading of vessels (RM14.3 million), dry docking of rig (RM14.4 million) and construction of 2 ROVs (RM22.7 million).

<sup>(2)</sup> Includes Capex for construction of 2 pipe-lay support vessels (RM739.4 million). Subsequent to the year ended 31 January 2012, SapuraCrest Group's share of capital commitments of jointly controlled entities included additional Capex of approximately RM401.7 million for the construction of a new pipe-lay support vessel.

SapuraCrest Group had expected to fund capital commitments and operating leases primarily through proceeds from the cash flows from operations and/or bank borrowings.

## 9. FINANCIAL INFORMATION (cont'd)

### 9.3.11 Contingent liabilities

As at 31 January 2012, save for the material litigation as disclosed in Section 14.4 and as disclosed below, the Board of SapuraCrest was not aware of any contingent liabilities incurred which upon becoming enforceable may have a material impact on SapuraCrest Group's results of operations and financial condition (which includes the SapuraAcergy Companies for the purpose of this section):

	<u>RM 000</u>
Corporate guarantees given to financial institutions for credit facilities granted to jointly-controlled entities	517,667
Performance guarantees given to third parties to ensure performance of contracts by certain subsidiaries	282,769
	<u><b>800,436</b></u>

### 9.3.12 Material divestitures

There have not been any material divestitures undertaken by SapuraCrest Group for the years ended 31 January 2009, 2010, 2011 and 2012.

### 9.3.13 Key financial ratios

The following table sets forth certain key financial ratios of SapuraCrest Group based on the audited consolidated financial statements of SapuraCrest for the years ended 2010 and 2011, and unaudited consolidated financial information of SapuraCrest for the year ended 31 January 2012:

	<u>Year ended 31 January</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Average trade receivables turnover days <sup>(1)</sup>	110	141	158
Average trade payables turnover days <sup>(2)</sup>	138	173	178
Current ratio (times) <sup>(3)</sup>	1.42	1.23	1.10
Gearing ratio (times) <sup>(4)</sup>	0.66	0.75	1.07

**Notes:**

<sup>(1)</sup> 
$$\frac{\text{Trade receivables}^*}{\text{Revenue}} \times \text{Number of days in the year}$$

\* Closing trade receivables less allowance for doubtful debts for the year.

<sup>(2)</sup> 
$$\frac{\text{Trade payables}^\wedge}{\text{Cost of sales}} \times \text{Number of days in the year}$$

^\wedge Closing trade payables for the year.

<sup>(3)</sup> Current assets over current liabilities.

<sup>(4)</sup> Total interest bearing borrowings over shareholders' equity.



## 9. FINANCIAL INFORMATION (cont'd)

### Average trade receivables turnover days

Average trade receivables turnover days increased from 110 days for the year ended 31 January 2010 to 141 days for the year ended 31 January 2011 mainly due to it being a first year of a three year contract with multiple customers with various documentation requirements and as such resulted in longer collection period.

Average trade receivables turnover days increased from 141 days for the year ended 31 January 2011 to 158 days for the year ended 31 January 2012 mainly due to longer processing time required by a customer.

### Average trade payables turnover days

Average trade payables turnover days increased from 138 days for the year ended 31 January 2010 to 173 days for the year ended 31 January 2011 mainly due to prolonged resolution on certain projects payables.

Average trade payables turnover days increased from 173 days for the year ended 31 January 2011 to 178 days for the year ended 31 January 2012.

### Current ratio

Current ratio decreased to 1.23 times as at 31 January 2011 from 1.42 times as at 31 January 2010 due to the increase in trade and other payables as a result of the, longer collection period from customers and delayed settlement of payables due to prolonged resolution on certain projects payables.

Current ratio decreased to 1.10 times as at 31 January 2012 from 1.23 times as at 31 January 2011 mainly due to increase in borrowings to finance the Clough Business Acquisition.

### Gearing ratio

Gearing ratio increased to 0.75 times as at 31 January 2011 from 0.66 times as at 31 January 2010 due to increase in borrowings to finance the acquisition of Sarku 300 and Teknik Wira.

Gearing ratio increased from 0.75 times as at 31 January 2011 to 1.07 times as at 31 January 2012 mainly due to increase in borrowings to finance the Clough Business Acquisition.

### Aging analysis

The aging analysis for trade receivables and payables as at 31 January 2012 are as follows:

	Current (Not due)	Past due					Over 121 days	Total
		1 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days			
RM 000								
Trade receivables <sup>(1)</sup>	963,675	49,084	48,726	13,958	17,450	14,321	1,107,214	
Trade payables	511,536	205,600	8,199	25,287	53,005	54,386	858,013	

**Note:**

<sup>(1)</sup> After allowances for doubtful debts of RM11.3 million as at 31 January 2012.

## 9. FINANCIAL INFORMATION (cont'd)

The credit period extended to the customers of SapuraCrest Group ranges between 30 and 120 days. As at 31 January 2012, 87.0% of the trade receivables were within the credit period. Of the balance, a portion of our trade receivables were collected subsequent to the year ended 31 January 2012. As at 31 March 2012, SapuraCrest Group has received RM115.9 million out of the RM143.5 million trade receivables overdue as at 31 January 2012.

The credit period extended by the suppliers of SapuraCrest Group ranges between 30 and 90 days. As at 31 January 2012, 59.6% of the trade payables were within the credit period. As at the 31 March 2012, SapuraCrest has paid RM66.4 million out of the RM346.5 million trade payables overdue as at 31 January 2012.

### 9.3.14 Financial risk management objectives and policies

SapuraCrest Group was exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include interest rate risk, foreign currency risk, liquidity risk and credit risk.

SapuraCrest Group's financial risk management policy sought to ensure that adequate financial resources are available for the development of SapuraCrest Group's businesses whilst managing its interest rate, foreign currencies, liquidity and credit risks. SapuraCrest Group operated within clearly defined guidelines approved by the Board of SapuraCrest Group and the policy of SapuraCrest Group was not to engage in speculative transactions.

It was, and had been throughout the financial years, the policy of SapuraCrest Group that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient.

The following sections provide details regarding the exposure of SapuraCrest Group to the abovementioned financial risks and the objectives, policies and processes for the management of these risks.

#### (i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of SapuraCrest Group will fluctuate because of changes in market interest rates.

SapuraCrest Group's earnings were affected by changes in interest rates due to the changes in interest bearing financial assets and liabilities, and operating lease arrangements. SapuraCrest Group's exposure to interest rate risks arised primarily from its loans and borrowings.

SapuraCrest Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings and actively reviewed its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allowed it to capitalise on cheaper funding in a low interest rate environment and achieved a certain level of protection against rate hikes. In order to hedge its exposure to interest rate risks arising from its term loan, SapuraCrest entered into cross currency interest rate swap.

As at 31 January 2012, after taking into account the effect of an interest rate swap, approximately 25% of SapuraCrest Group's borrowings were fixed rate borrowings.

**9. FINANCIAL INFORMATION (cont'd)****(ii) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of SapuraCrest Group's financial instruments will fluctuate because of changes in foreign exchange rates.

SapuraCrest Group had transactional currency exposures arising from revenue or costs that were denominated in a currency other than the respective functional currencies of SapuraCrest Group's entities, primarily RM, SGD, AUD and INR. The foreign currencies in which these transactions are denominated are mainly USD.

SapuraCrest Group maintains a natural hedge, whenever possible, by borrowing in the currency of the country in which the property or investment is located or by borrowing in currencies that match the future revenue stream to be generated from its investments.

As at 31 January 2012, approximately 13% and 26% of SapuraCrest Group's receivables and payables are denominated in foreign currencies respectively.

SapuraCrest Group and SapuraCrest also hold cash and cash equivalents denominated in foreign currencies for working capital purposes. As at 31 January 2012, such foreign currency balances (mainly in USD) amounted to RM121.5 million and RM11.5 million for SapuraCrest Group and SapuraCrest respectively.

In managing the foreign currency rate fluctuations, SapuraCrest Group's foreign exchange hedging policy is to hedge up to 12 months forward with specific maximum and minimum percentage of hedge coverage. This approach may mitigate some of SapuraCrest's exposure to transaction and translation foreign exchange gain and loss, but the policy is not designed to fully eliminate foreign exchange risk.

As at 31 January 2012, SapuraCrest Group hedged 16% of its foreign currency denominated payables, for which firm commitments existed.

**(iii) Liquidity risk**

Liquidity risk is the risk that SapuraCrest Group will encounter difficulty in meeting financial obligations due to shortage of funds. SapuraCrest Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

SapuraCrest Group actively managed its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs were met. As part of its overall prudent liquidity management, SapuraCrest Group maintained sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, SapuraCrest Group strived to maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, SapuraCrest Group raised committed funding from both capital markets and financial institutions and prudently balances its portfolio with some short-term funding so as to achieve overall cost effectiveness.

As at 31 January 2012, approximately 50% of SapuraCrest Group's loans and borrowings will mature in less than 1 year based on the carrying amount reflected in the financial statements.

## 9. FINANCIAL INFORMATION (cont'd)

### *Analysis of financial instruments by remaining contractual maturities*

The table below summarises the maturity profile of SapuraCrest Group's liabilities at the 31 January 2012 based on contractual undiscounted repayment obligations.

	As at 31 January 2012			
	On demand or within 1 year	1 to 5 years	Over 5 years	Total
	RM 000			
Trade and other payables	570,749	-	-	570,749
Loans and borrowings	754,257	770,595	-	1,524,852
Derivatives	571	1,508	-	2,079
Total undiscounted financial liabilities	<u>1,325,577</u>	<u>772,103</u>	<u>-</u>	<u>2,097,680</u>

As at 31 January 2012, the counterparty to the financial guarantees does not have a right to demand cash as the default has not occurred. Accordingly, financial guarantees under the scope of FRS 139 are not included in the above maturity profile analysis.

#### (iv) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. SapuraCrest Group's exposure to credit risk arises primarily from trade and other receivables.

Credit risks were minimised and monitored via strictly limiting SapuraCrest Group's associations to business partners with high creditworthiness. Credit approvals were performed in accordance to approved Limits of Authority. Trade receivables were monitored on an ongoing basis via SapuraCrest Group's management reporting procedures.

For other financial assets (including cash and bank balances), SapuraCrest Group minimised credit risk by dealing exclusively with high credit rating counterparties.

#### *Exposure to credit risk*

As at 31 January 2012, SapuraCrest Group's maximum exposure to credit risk was represented by:

- (i) the carrying amount of each class of financial assets recognised in the statements of financial position, including derivatives with positive fair values; and
- (ii) corporate guarantees provided by SapuraCrest Group of RM517.7 million.

## 9. FINANCIAL INFORMATION (cont'd)

### ***Credit risk concentration profile***

SapuraCrest Group determined concentrations of credit risk by operating segment profile of its trade receivables on an ongoing basis. The credit risk concentration profile of SapuraCrest Group's trade receivables as at 31 January 2012 are as follows:

<b>By operating segment</b>	<b>Year ended 31 January 2012</b>	
	<b>RM 000</b>	<b>% of total</b>
IPF	677,093	61%
Offshore drilling services	170,380	16%
Marine services	214,389	19%
Operations and maintenance	45,352	4%
	<b>1,107,214</b>	<b>100%</b>

SapuraCrest Group had significant exposure to a few large customers' mainly major oil companies and as such a concentration of credit risks which comprise most of the total trade receivables of SapuraCrest Group. However, the potential for default is expected to be minimal as the customers are of high creditworthiness and of international reputation.

### ***Financial assets that are neither past due nor impaired***

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with SapuraCrest Group. Most of SapuraCrest Group's trade receivables arised from customers with many years of experience with SapuraCrest Group and losses have occurred infrequently. None of SapuraCrest Group's trade receivables that were neither past due nor impaired had been renegotiated during the year ended 31 January 2012.

Deposits with banks and other financial institutions that were neither past due nor impaired were placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

### ***Financial assets that are either past due or impaired***

SapuraCrest Group had trade receivables amounting to RM143.5 million that are past due as at 31 January 2012 but not impaired. These balances relate mainly to customers who have never defaulted on payments but are slow paymasters hence, are periodically monitored. The receivables that were past due but not impaired are unsecured in nature.

Amount due from other receivables (excluding prepayment) were non-trade, unsecured, interest free and repayable on demand.

## 9. FINANCIAL INFORMATION (cont'd)

**Trade receivables that were impaired**

SapuraCrest Group's trade receivables that were impaired as at 31 January 2012 and the movement of the allowance accounts used to record the impairment are as follows:

	<b>Year ended 31 January 2012</b>
	<b>Total RM 000</b>
Trade receivables- nominal amounts	11,336
Less: Allowance for impairment	(11,336)
	<u>-</u>
Movement in allowance accounts	
As at 1 February 2011	10,278
Charge for the year	4,644
Write off	(2,179)
Reversal of impairment losses	(1,491)
Exchange differences	84
As at 31 January 2012	<u>11,336</u>

Trade receivables that were individually determined to be impaired as at 31 January 2012 relate to debtors that were in significant financial difficulties and had defaulted on payments. These receivables were not secured by any collateral or credit enhancements.

**Other receivables that are impaired**

For the year ended 31 January 2012, SapuraCrest Group have provided an allowance of RM421,000 for impairment of sundry debtors with a nominal amount of RM421,000. These sundry debtors were in financial difficulties and had defaulted on payments. These debtors were not secured by any collateral or credit enhancements.

The movement in the allowance account are as follows:

	<b>Year ended 31 January 2012</b>
	<b>RM'000</b>
As at 1 February 2011	563
Write off	(142)
As at 31 January 2012	<u>421</u>

## 9. FINANCIAL INFORMATION (cont'd)

### 9.4 Historical financial information of Kencana Petroleum Group

The selected historical audited consolidated financial information of Kencana Petroleum for the years ended 31 July 2009, 2010 and 2011, and historical unaudited consolidated financial information of Kencana Petroleum for the 6 months period ended 31 January 2011 and 2012 are presented in the table below to provide you with the financial information of Kencana Petroleum Group on a standalone basis prior to the Merger.

The audited consolidated financial statements of Kencana Petroleum for the years ended 31 July 2009, 2010 and 2011 were not subject to any audit qualification.

	Audited			Unaudited	
	Year ended 31 July			6 months period ended 31 January	
	2009	2010	2011	2011	2012
<b>(RM 000, except percentages and per share data)</b>					
<b>Income statement data:</b>					
Revenue	1,140,843	1,090,090	1,492,649	689,453	1,115,713
Cost of services rendered	(932,621)	(850,293)	(1,122,930)	(514,163)	(837,569)
Gross profit	208,222	239,797	369,719	175,290	278,144
Other income	8,384	11,732	27,224	12,224	20,155
Administrative expenses	(57,561)	(72,537)	(110,377)	(50,156)	(71,356)
Results from operating activities	159,045	178,992	286,566	137,358	226,943
Interest income	4,072	5,154	9,342	1,559	11,362
Finance costs	(10,442)	(11,476)	(23,081)	(8,713)	(21,535)
Operating profit	152,675	172,670	272,827	130,204	216,770
Share of results from associates	141	(845)	128	(119)	77
Share of results from jointly controlled entities	(10)	(5)	2	(2)	(2)
PBT	152,806	171,820	272,957	130,083	216,845
Taxation	(34,603)	(35,622)	(49,779)	(27,119)	(46,863)
PAT	118,203	136,198	223,178	102,964	169,982
PAT attributable to:					
- Owners of Kencana Petroleum	118,203	136,166	223,102	102,964	169,880
- Non-controlling interests	-	32	76	-	102
	118,203	136,198	223,178	102,964	169,982
<b>Other selected financial data:</b>					
EBITDA <sup>(1)</sup>	181,136	206,647	362,067	152,846	274,896
Gross profit margin (%) <sup>(2)</sup>	18.3	22.0	24.8	25.4	24.9
EBITDA margin (%) <sup>(3)</sup>	15.9	19.0	24.3	22.2	24.6
PBT margin (%) <sup>(4)</sup>	13.4	15.8	18.3	18.9	19.4
PAT margin (%) <sup>(5)</sup>	10.4	12.5	15.0	14.9	15.2
Weighted average number of Kencana Petroleum Shares in issue ('000)	1,172,800	1,270,524	1,755,378	1,660,418	1,990,623
Adjusted weighted average number of Kencana Petroleum Shares ('000)	1,177,851	1,277,963	1,758,161	1,831,110	1,990,623
Gross EPS <sup>(6)</sup>					
- Basic (sen)	13.03	13.52	15.55	7.83	10.89
- Diluted (sen)	12.97	13.44	15.52	7.10	<sup>(8)</sup> N/A
Net EPS <sup>(7)</sup>					
- Basic (sen)	10.08	10.72	12.71	6.20	8.53
- Diluted (sen)	10.04	10.66	12.69	5.62	<sup>(8)</sup> N/A

## 9. FINANCIAL INFORMATION (cont'd)

### Notes:

<sup>(1)</sup> EBITDA represents earnings before finance cost, taxation, depreciation and amortisation. The table below sets forth a reconciliation of Kencana Petroleum Group's PAT to EBITDA:

	Audited			Unaudited	
	Year ended 31 July			6 months period ended 31 January	
	2009	2010	2011	2011	2012
	(RM 000)				
<b>EBITDA:</b>					
PAT	118,203	136,198	223,178	102,964	169,982
Taxation	34,603	35,622	49,779	27,119	46,863
PBT	152,806	171,820	272,957	130,083	216,845
Finance costs	10,442	11,476	23,081	8,713	21,535
Depreciation and amortisation	17,888	23,351	66,029	14,050	36,516
	181,136	206,647	362,067	152,846	274,896

EBITDA, as well as the related ratios presented in this Prospectus are supplemental measures of Kencana Petroleum Group's performance and liquidity and are not required by, or presented in accordance with FRS in Malaysia. Furthermore, EBITDA is not a measure of Kencana Petroleum Group's financial performance or liquidity under FRS in Malaysia and should not be considered as an alternative to net income, operating profit or any other performance measures derived in accordance with FRS in Malaysia or as an alternative to cash flow from operating activities or as a measure of liquidity. In addition, EBITDA is not a standardised term, hence a direct comparison between companies using such a term may not be possible.

<sup>(2)</sup> Computed based on the gross profit over revenue of Kencana Petroleum Group.

<sup>(3)</sup> Computed based on the EBITDA over revenue of Kencana Petroleum Group.

<sup>(4)</sup> Computed based on the PBT over revenue of Kencana Petroleum Group.

<sup>(5)</sup> Computed based on the PAT over revenue of Kencana Petroleum Group.

<sup>(6)</sup> Basic gross EPS is computed based on PBT over the weighted average number of Kencana Petroleum Shares in issue during the financial year/period. Diluted gross EPS is computed based on PBT over the weighted average number of Kencana Petroleum Shares in issue during the financial year after taking into consideration the full conversion of all outstanding Kencana Petroleum employees' share options.

<sup>(7)</sup> Basic net EPS is computed based on PAT attributable to ordinary equity holders over the weighted average number of Kencana Petroleum Shares in issue during the financial year/period. Diluted net EPS is computed based on PAT attributable to ordinary equity holders over the weighted average number of Kencana Petroleum Shares in issue during the financial year after taking into consideration the full conversion of all outstanding Kencana Petroleum employees' share options.

<sup>(8)</sup> No diluted EPS due to the expiry of all outstanding Kencana Petroleum employees' share options on 15 November 2011.



## 9. FINANCIAL INFORMATION *(cont'd)*

### 9.5 Management's discussion and analysis of financial condition and results of operations of Kencana Petroleum Group

Kencana Petroleum's consolidated financial statements as at or for the years ended 31 July 2009, 2010 and 2011, and the 6 months period ended 31 January 2011 and 2012 have been prepared and presented on a consolidated basis and in accordance with FRS in Malaysia.

We set out below the discussion and analysis of the performance of Kencana Petroleum Group with respect to the years ended 31 July 2009, 2010 and 2011, and the 6 months period ended 31 January 2011 and 2012.

#### 9.5.1 Overview

Kencana Petroleum Group offered enlarged integrated service that encompasses its core business of engineering and fabrication services as well as its marine engineering and offshore services.

Under its offshore services segment, Kencana Petroleum Group was in a position to offer offshore drilling services, charter of vessels, HUC services and provision of subsea services.

Kencana Petroleum Group had 4 reportable segments, as described below, which represent Kencana Petroleum Group's strategic business units. The strategic business units offered different services and were managed separately because they required different technical expertise and marketing strategies:

##### (i) Investment holding

Prior to Completion, Kencana Petroleum's principal activity was to invest and hold by way of investment, the equity in other companies as subsidiary or associate company.

##### (ii) EPCIC, marine engineering, design engineering and project management

Kencana Petroleum Group was amongst the top fabricators of major offshore structures in Malaysia. Kencana Petroleum Group's Lumut Fabrication Yard is well equipped and is one of the largest in Malaysia, at 240 acres (including rented yard space of 20 acres) with a capacity of 90,000 mt per annum. In terms of facilities, Kencana Petroleum Group's fabrication yard has amongst the largest covered workshop areas at 85,600 square metres that allow 24-hours fabrication activities in all weather conditions.

With more than 27 years of experience in the O&G services industry, Kencana Petroleum Group boasted strong technical capabilities employing multi-discipline technologies, including amongst others, welding technology, mechanical and electrical engineering.

Kencana Petroleum Group had also been expanding its range of products over the years from the construction of jackets, topsides, process skid systems and modules for offshore production platforms to marine engineering (including ship repair, refurbishment, new build and conversion).

## 9. FINANCIAL INFORMATION (cont'd)

### (iii) Offshore drilling and provision of marine transportation and support services including HUC and subsea services

Kencana Petroleum Group also carried out drilling operation, HUC and brownfield services, owned and operated marine assets and provision of underwater related services.

#### **Drilling unit**

Kencana Petroleum Group had successfully completed the construction of SETR. KM-1, which is a SETR, was built at the Lumut Fabrication Yard. Another 2 SETRs are currently being built at Lumut Fabrication Yard.

Kencana Petroleum Group had secured a 5-year contract with PCSB which commenced in September 2010 for the deployment of KM-1 to PCSB for an initial period of 5 years. After the initial period, PCSB may extend the contract for another 2 periods of 3 years and 2 years, respectively. In this respect, Kencana Petroleum Group was set to enjoy steady charter revenues and profit margins over an initial period of 5 years.

#### **Offshore vessels**

Kencana Petroleum Group owned 2 AHTS vessels and an accommodation work boat ("AWB") with DP capabilities. Kencana Petroleum Group's AHTS were chartered to external parties while AWB was expected to primarily support Kencana Petroleum Group's HUC, brownfield services as well as drilling operations.

#### **HUC**

The HUC division of Kencana Petroleum Group was set up in 2009. Since then, the HUC and brownfield services division had completed approximately RM365 million worth of jobs as at 31 January 2012. Besides HUC services for greenfield projects, Kencana Petroleum Group also hoped to tap the growing local demand for brownfield services as well as decommissioning services amid ageing domestic offshore facilities

#### **Subsea services**

On 13 July 2011, Kencana Petroleum completed the acquisition of 100% equity interest in AME. AME's principal activities are provision of offshore diving and underwater related services for inspection, repair and maintenance of structures, pipelines and risers and for the construction of underwater facilities for the O&G industry.

AME has the capability to provide a wide range of sub-sea services for the O&G industry that includes, amongst others, the following:

- major inspection, repair and maintenance on platforms and pipelines;
- construction, installation of structures and pipelines;
- structural repairs for structures and pipelines;
- installations, repair and inspection of export/import facilities;
- FSO and FPSO subsea inspection and repairs;
- deepwater ROV services; and
- all other underwater services related to the offshore industry,

employing both ROV and saturation/air divers.

## 9. FINANCIAL INFORMATION (cont'd)

The services provided by AME require specialised equipment, training, qualification and certification for the company and its personnel.

For the past 3 years, apart from Malaysia, AME has also undertaken various projects for multinational O&G players in Indonesia, Vietnam, China and India.

Kencana Petroleum Group envisaged that the venture into the subsea segment of the O&G industry through the acquisition of AME will further strengthen Kencana Petroleum Group's direction to become a one-stop centre for offshore services.

### (iv) Development and production of petroleum resources<sup>(1)</sup>

On 31 January 2011, a consortium led by PED (50% interest), SEV (25% interest) and KESB (25% interest) was awarded the first domestic RSC to carry out the development and production of petroleum resources from Berantai, a marginal field off Terengganu. The contract which was made effective on 31 January 2011 will expire 7 years after the first gas date.

The RSC award enabled Kencana Petroleum Group to expand its role in the O&G value chain by participating in field development and operation.

Kencana Petroleum Group was able to derive several revenue streams from the RSC award. Given its expertise in EPCC works, Kencana Petroleum Group undertakes the EPCC of the well-head platform while SapuraCrest Group, who is the domestic market leader in subsea pipelaying and structure installation, undertakes offshore transportation and installation works for the platform and pipelines.

**Note:**

<sup>(1)</sup> *New segment for the year ended 31 July 2011.*

With contributions from Kencana Petroleum Group's marine support and drilling operations services since January 2010 and September 2010, Kencana Petroleum Group enjoyed recurring earnings stream.

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## 9. FINANCIAL INFORMATION *(cont'd)*

### 9.5.2 Factors affecting Kencana Petroleum Group's financial condition and results of operations

Historically, the primary factors which have affected or may affect Kencana Petroleum Group's financial condition, results of operations and prospects are as follows:

#### (i) Level of activities in O&G industry and fluctuation of O&G prices

As Kencana Petroleum Group's customers operate mainly in the offshore O&G industry, Kencana Petroleum Group's operations were dependent on the level of activities in the offshore O&G industry. The level of activity in the O&G industry may be affected by changes in laws, regulations or policies of governments or other governmental activities in the countries which Kencana Petroleum Group operates in. For example, the implementation of the Economic Transformation Programme ("ETP") by the Malaysian government in which certain objectives relates to the O&G industry such as sustaining oil and gas production and making Malaysia as number 1 Asian hub for oil field services. Under the ETP, PETRONAS will ensure that enhanced oil recovery techniques are deployed in Malaysia to extract more oils from the nation's oil field and thereby may have a bearing on the level of activity in the O&G industry. Any such changes may affect Kencana Petroleum Group's results of operations and financial conditions.

In addition, historically, demand for offshore exploration, development and production services have been volatile and closely linked to O&G prices. O&G prices have a direct bearing on the level of activities in the O&G industry, thus affecting the level of offshore exploration, development and production activities.

During the periods of upward movement in O&G prices, O&G exploration, development and production activities are expected to increase as the potential return from the upstream activities increase. O&G companies are likely to be motivated to explore and develop potential fields that are commercially feasible and profitable for the operators in the industry. In such event, Kencana Petroleum Group may experience higher demand for Kencana Petroleum Group's products and services.

Conversely, O&G exploration, development and production services may tend to slow down when O&G prices fall to a level where such activities are not commercially viable for O&G operators. Hence, the prolonged period of lower O&G prices may discourage various explorations, development and production activities resulting in lower demand for Kencana Petroleum Group's products and services. This may result in a decrease in Kencana Petroleum Group's business activities, and consequently affect Kencana Petroleum Group's results of operations and financial conditions.

#### (ii) Fluctuation in the prices of raw materials

The cost of materials represented a significant part of Kencana Petroleum Group's aggregate operating costs. Most of the contracts which Kencana Petroleum Group entered with its customers were fixed price contracts and its customers generally procure the materials required by Kencana Petroleum Group for its projects. In certain instances where Kencana Petroleum Group was required to procure the supply of materials as part of the lump sum contract and in the event there is an increase in material prices prior to Kencana Petroleum Group purchasing such material, Kencana Petroleum Group may not be able to pass on the increase in price to its customers. In such event, Kencana Petroleum Group's financial results could be affected.

**9. FINANCIAL INFORMATION (cont'd)**

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**(iii) Competition and performance of contractual obligations to its customers**

Kencana Petroleum Group may, face substantial competition from local and regional competitors. The suitability and availability of vessel equipment, price and quality of service are the primary competitive factors for the offshore vessel service industry whereas price competition and favourable contract terms are the primary competitive factors for offshore and onshore construction industry. In addition, the ability to demonstrate a strong safety record and attract and retain qualified and skilled personnel are also important competitive factors.

Kencana Petroleum Group entered into various contracts for the provision of its services to its customers. The ability to meet the terms specified in such contracts will have an impact on the financials results of Kencana Petroleum Group. For example, the ability to deliver based on the timeframe specified, sourcing and securing quality materials and satisfactory performance of sub-contractors.

**(iv) Kencana Petroleum Group's business operations may be affected by weather and natural hazards**

Kencana Petroleum Group's vessels and equipment may be affected by weather and natural hazards. Adverse changes in weather such as monsoon and/or hurricane seasons may affect Kencana Petroleum Group's ability to carry out offshore implementation either in whole or in part. In addition, any natural hazards such as the occurrence of any typhoon, tsunami and earthquake in the area where Kencana Petroleum Group operated may cause damage to Kencana Petroleum Group's equipment, offshore structures, civil engineering works or other products and services provided by Kencana Petroleum Group. Kencana Petroleum Group's operations may be disrupted if any of Kencana Petroleum Group's equipment or vessels suffers significant downtime. This could have an adverse impact on Kencana Petroleum Group's financial results.

**(v) Overseas operational risks**

Kencana Petroleum Group had expanded its O&G products and services into MTJDA, India, Australasia, and the Middle East. Changes in political and economic conditions in these countries could adversely affect the financial results of Kencana Petroleum Group. These political and economic uncertainties include, but are not limited to, the changes in political leadership, expropriation, nationalisation, changes in interest rates or tax, risks of war and global economic downturn.

**(vi) Replenishment of order book**

The replenishment of Kencana Petroleum Group's order book may be uncertain given that certain contracts were based on open tenders and were very competitive due to the numerous players in the O&G industry locally and globally. In the event that Kencana Petroleum Group is unable to replenish its order book, Kencana Petroleum Group's financial results could be adversely affected. Conversely, should Kencana Petroleum Group be successful in replenishing its order book, it may be able to achieve its expected returns and contribute positively to its financial results.

## 9. FINANCIAL INFORMATION (cont'd)

### 9.5.3 Segment information

The following table sets forth the revenue and PAT of Kencana Petroleum Group by principal segments for the years/periods indicated:

	Year ended 31 July			6 months period ended 31 January		
	2009	2010	2011	2011	2012	
						(RM 000, except percentages)
<b>Revenue</b>						
Investment holding	-	-	-	-	-	-
EPCIC, marine engineering, design engineering and project management	1,140,843	923,438	1,104,295	574,879	714,485	64.0%
Offshore drilling and provision of marine transportation and support services including HUC and subsea services <sup>(1)</sup>	-	166,652	388,354	114,574	401,228	36.0%
Development and production of petroleum resources <sup>(2)</sup>	-	-	-	-	-	-
	<u>1,140,843</u>	<u>1,090,090</u>	<u>1,492,649</u>	<u>689,453</u>	<u>1,115,713</u>	<u>100.0%</u>

**Notes:**

<sup>(1)</sup> Subsea services is a new business unit arising from the acquisition of AME Group during the year ended 31 July 2011.

<sup>(2)</sup> Development and production of petroleum resources is a new segment during the year ended 31 July 2011.

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## 9. FINANCIAL INFORMATION (cont'd)

## 9.5.5 Components of operating costs

The following table sets forth the principal components of Kencana Petroleum Group's operating costs and such costs expressed as percentage of total operating costs and total revenue for the years/periods indicated:

	Year ended 31 July						6 months period ended 31 January					
	2009		2010		2011		2011		2012		2012	
	RM 000	% of total operating costs revenue	RM 000	% of total operating costs revenue	RM 000	% of total operating costs revenue	RM 000	% of total operating costs revenue	RM 000	% of total operating costs revenue	RM 000	% of total operating costs revenue
<b>Operating costs</b>												
Construction cost	932,621	94.2	840,770	91.1	984,692	79.8	378,154	66.0	555,415	61.1	49.8	49.8
Cost of services	-	-	9,523	1.0	138,238	11.2	136,009	9.3	282,154	31.0	25.3	25.3
Cost of services rendered	932,621	94.2	850,293	92.1	1,122,930	91.0	514,163	75.3	837,569	92.1	75.1	75.1
Administrative expenses	57,561	5.8	72,537	7.9	110,377	9.0	50,156	7.4	71,356	7.9	6.4	6.4
	<u>990,182</u>	<u>100.0</u>	<u>922,830</u>	<u>100.0</u>	<u>1,233,307</u>	<u>100.0</u>	<u>564,319</u>	<u>82.7</u>	<u>908,925</u>	<u>100.0</u>	<u>81.5</u>	<u>81.5</u>

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## 9. FINANCIAL INFORMATION (cont'd)

The principal components of Kencana Petroleum Group's operating costs are discussed below:

**(i) Construction cost**

Construction cost mainly comprises subcontractor charges, project materials and equipment, direct labour, project management and hiring of plant, machinery and vehicles.

**(ii) Cost of services**

Cost of services mainly comprises crew payroll and expatriate tax, third party crew charges, repair and maintenance, catering and depreciation.

**(iii) Administrative expenses**

Administrative expenses mainly comprise staff payroll, depreciation and amortisation, utility, professional fees and insurance.

### 9.5.6 Results of operations

**(i) 6 months period ended 31 January 2012 compared to the 6 months period ended 31 January 2011**

**Revenue**

Revenue increased by 61.8% or RM426.2 million from RM689.5 million for the 6 months period ended 31 January 2011 to RM1,115.7 million for the 6 months period ended 31 January 2012. Overall, the O&G industry during the 6 months period ended 31 January 2012 experienced a better operating environment with higher oil prices as compared to the 6 months period ended 31 January 2011. In addition, the launch of ETP in the last quarter of 2010 coupled with the more robust activities in the upstream O&G sector has resulted in the increase of exploration activities and the rollout of a higher number of development plans. For example, the development of the marginal O&G fields under the new RSC arrangement was part of the initiatives under the ETP.

**(a) EPCIC, marine engineering, design engineering and project management**

Revenue from the EPCIC, marine engineering, design engineering and project management increased by 24.3% or RM139.6 million from RM574.9 million for the 6 months period ended 31 January 2011 to RM714.5 million for the 6 months period ended 31 January 2012.

**9. FINANCIAL INFORMATION (cont'd)**

In view of the improvement in O&G activities and the launch of ETP, Kencana Petroleum Group secured more new projects which has led to the increase in revenue for the 6 months period ended 31 January 2012, notably fabrication of substructures for KPOC, fabrication of wellhead platform for PED, fabrication of wellhead platform for Cendor Phase 2, fabrication of process skids and refurbishment of MOPU for Petrofac E&C, fabrication of gas compression module for BSP and fabrication of PAR module for Weatherford. Increase in revenue was also due to higher revenue generated from the fabrication of 2 gas compression module for SSB and fabrication of Gorgon LNG plant for Saipem. The increase was, however, offset by the decrease in revenue recognised from the fabrication of Topside for Newfield and completion of some major projects during the 6 months period ended 31 January 2011.

**(b) Offshore drilling and provision of marine transportation and support services including HUC and subsea services**

Revenue from the offshore services increased by 250.1% or RM286.6 million from RM114.6 million for the 6 months period ended 31 January 2011 to RM401.2 million for the 6 months period ended 31 January 2012.

Revenue from offshore drilling decreased marginally by 0.3% or RM0.2 million from RM69.6 million for the 6 months period ended 31 January 2011 to RM69.4 million for the 6 months period ended 31 January 2012. The revenue was generated by KM-1 SETR which was deployed to PCSB in September 2010 for PCSB's drilling programme for an initial period of 5 years.

Revenue from the provision of marine transportation and support services increased by 81.8% or RM12.6 million from RM15.4 million for the 6 months period ended 31 January 2011 to RM28.0 million for the 6 months period ended 31 January 2012. The increase was mainly due to higher utilisation rates for certain vessels such as KPV Redang and KPV Kapas. In comparison, there were 3 vessels for the 6 months period ended 31 January 2012 as opposed to 2 vessels for the 6 months period ended 31 January 2011.

Revenue from HUC projects increased by 218.9% or RM64.8 million from RM29.6 million for the 6 months period ended 31 January 2011 to RM94.4 million for the 6 months period ended 31 January 2012. The revenue was mainly generated from 3 different projects with PCSB, namely Sumandak Non Associated Gas (NAG) Development Project, Phase 1 of Samarang Redevelopment Project and Kanowit CPP project as well as revenue generated from the provision of construction services for brownfield on behalf of EMEPMI. The increase was mainly due to additional works orders secured for the Kanowit CPP Project and the engineering, procurement and construction of wellhead platform and the Angsi tie-in for PED.

Kencana Petroleum acquired AME in July 2011, hence there was no revenue for the 6 months period ended 31 January 2011. Revenue from subsea services of RM209.4 million was mainly generated from the underwater inspection and maintenance service for an O&G company and repair of severe metal loss in gas pipelines for PetroVietnam Gas Services Company.

**9. FINANCIAL INFORMATION (cont'd)**

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**Cost of services rendered**

Cost of services rendered increased by 62.9% or RM323.4 million from RM514.2 million for the 6 months period ended 31 January 2011 to RM837.6 million for the 6 months period ended 31 January 2012. The increase was in line with the increase in revenue. However, the quantum of increase in costs of services rendered of 62.9% was higher than the increase in revenue of 61.8% which was primarily due to the timing difference in recognition of costs for certain projects as well as lower margin contribution from subsea services as a result of higher depreciation charged on diving equipments and ROVs.

**Gross profit margin**

As a result of the foregoing factors, gross profit margin decreased to 24.9% for the 6 months period ended 31 January 2012 from 25.4% for the 6 months period ended 31 January 2011.

**Other income**

Other income increased by 65.6% or RM8.0 million from RM12.2 million for the 6 months period ended 31 January 2011 to RM20.2 million for the 6 months period ended 31 January 2012. The increase was mainly due to the increase in unrealised gain on foreign exchange of RM6.0 million for the USD term loan arising from the strengthening of the RM against the USD, increase in the realised gain on foreign exchange of RM2.1 million, increase in service income recharged to its client for food catering, bunker and materials of RM3.1 million as well as increase in sales of scrap of RM2.7 million. The quantum of increase was, however, reduced by the one off recognition of gain on bargain purchase of 75% equity interest in KMR Labuan of RM6.7 million (management figures which were subject to audit) during the 6 months period ended 31 January 2011.

**Administrative expenses**

Administrative expenses increased by 42.2% or RM21.2 million from RM50.2 million for the 6 months period ended 31 January 2011 to RM71.4 million for the 6 months period ended 31 January 2012 mainly due to the increase in the payroll of RM4.6 million, increase in Directors' remuneration of RM4.3 million, increase in depreciation and amortisation expenses of RM1.7 million, professional fees and other related expenses paid in connection with the Merger of RM1.2 million, increase in the allowance for doubtful debts due to dispute of RM1.9 million as well as the consolidation of AME Group's administrative expenses of RM8.7 million. The quantum of increase was, however, reduced by the decrease in realised loss on foreign exchange of RM4.0 million arising from the strengthening of the RM against the USD.

**Interest income**

Interest income increased by 612.5% or RM9.8 million from RM1.6 million for the 6 months period ended 31 January 2011 to RM11.4 million for the 6 months period ended 31 January 2012 mainly due to the placement of excess funds in fixed deposits and short-term money markets.

**9. FINANCIAL INFORMATION (cont'd)**

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**Finance costs**

Finance costs increased by 147.1% or RM12.8 million from RM8.7 million for the 6 months period ended 31 January 2011 to RM21.5 million for the 6 months period ended 31 January 2012 mainly due to additional borrowings secured to refinance the rig construction, to part-finance the acquisition of vessels, namely KPV Redang, Allied Achiever, Allied Conquests and Allied Jane and the expenditure on O&G properties as well as the consolidation of AME Group's finance cost.

**Operating profit**

As a result of the foregoing factors, operating profit increased by 66.5% or RM86.6 million from RM130.2 million for the 6 months period ended 31 January 2011 to RM216.8 million for the 6 months period ended 31 January 2012.

**Share of results from associates**

Share of results from associates was a loss of RM0.12 million for the 6 months period ended 31 January 2011 and a profit of RM0.08 million for the 6 months period ended 31 January 2012.

**Share of results from jointly controlled entities**

Share of results from jointly controlled entities was a loss of RM2,000 for the 6 months period ended 31 January 2011 and 6 months period ended 31 January 2012.

**PBT margin**

As a result of the foregoing factors, PBT margin increased from 18.9% for the 6 months period ended 31 January 2011 to 19.4% for the 6 months period ended 31 January 2012.

**Taxation**

The effective tax rate increased marginally from 20.8% for the 6 months period ended 31 January 2011 to 21.6% for the 6 months period ended 31 January 2012. The effective tax rate was lower than statutory tax rate as a result of utilisation of reinvestment allowance and lower tax expense for offshore leasing activities.

**PAT margin**

As a result of the foregoing factors, PAT margin increased from 14.9% for the 6 months period ended 31 January 2011 to 15.2% for the 6 months period ended 31 January 2012.

**EBITDA margin**

As a result of the foregoing factors, EBITDA margin increased from 22.2% for the 6 months period ended 31 January 2011 to 24.6% for the 6 months period ended 31 January 2012.

**9. FINANCIAL INFORMATION (cont'd)****(ii) Year ended 31 July 2011 compared to the year ended 31 July 2010****Revenue**

Revenue increased by 36.9% or RM402.5 million from RM1,090.1 million for the year ended 31 July 2010 to RM1,492.6 million for the year ended 31 July 2011. Overall, the O&G industry during the year ended 31 July 2011 experienced a better operating environment with higher oil prices as compared to the year ended 31 July 2010. There were more robust activities in the upstream O&G sector in line with the positive global economic environment which supported strong demand for hydrocarbon. The increase in the exploration activities and the rollout of a higher number of development plans have resulted in Kencana Petroleum Group securing more projects during the year ended 31 July 2011.

**(a) EPCIC, marine engineering, design engineering and project management**

Revenue from the EPCIC, marine engineering, design engineering and project management increased by 19.6% or RM180.9 million from RM923.4 million for the year ended 31 July 2010 to RM1,104.3 million for the year ended 31 July 2011.

In view of the improvement in O&G activities, Kencana Petroleum Group secured more new projects during the year ended 31 July 2011, notably fabrication of MOPU and wellhead support structure for Petrofac E&C Sdn Bhd, fabrication of 2 gas compression modules for SSB, fabrication of Gorgon LNG plant for Saipem and fabrication of jacket for the Afcons-Gunanusa Joint Venture, and fabrication of jackets for Larsen & Toubro, India as well as repair and HUC of platform for Carigali-PTTEPPI. Increase in revenue was also due to higher revenue generated from the fabrication of a central processing platform with living quarters for Newfield. The increase was, however, offset by lesser recognition of revenue from the fabrication of Topside, jacket and compression modules for PCSB, fabrication, construction of solar cell fabrication facility for Sunpower Malaysia Manufacturing Sdn Bhd, fabrication works on production Topside facilities for Murphy Sarawak and construction of Kencana Petroleum Group's first shipbuilding project, i.e. KM-1, fabrication of offshore facilities for 3 separate O&G fields for PCSB which were nearing completion.

**(b) Offshore drilling and provision of marine transportation and support services including HUC and subsea services**

Revenue from the offshore services increased by 133.0% or RM221.7 million from RM166.7 million for the year ended 31 July 2010 to RM388.4 million for the year ended 31 July 2011.

Offshore drilling revenue which contributed approximately RM135.0 million was generated by KM-1 SETR which was deployed to PCSB in September 2010 for PCSB's drilling programme for an initial period of 5 years.

## 9. FINANCIAL INFORMATION (cont'd)

Revenue from the provision of marine transportation and support services increased by 161.5% or RM28.9 million from RM17.9 million for the year ended 31 July 2010 to RM46.8 million for the year ended 31 July 2011. The increase was mainly due to full year recognition of revenue for the year ended 31 July 2011 from Kencana Petroleum Group's 2 existing vessels, KPV Kapas and Gemia, which only commenced operations in the first quarter of 2010 and second quarter of 2010 respectively, as well as commencement of the charter of Kencana Petroleum Group's newly acquired accommodation work barge, KPV Redang, in the second quarter of 2011.

Revenue from HUC projects increased by 16.3% or RM24.2 million from RM148.8 million for the year ended 31 July 2010 to RM173.0 million for the year ended 31 July 2011. The revenue was mainly generated from 3 different projects with PCSB, namely Sumandak Non Associated Gas (NAG) Development Project, Phase 1 of Samarang Redevelopment Project as well as Kanowit CPP Platform as well revenue generated from the provision of construction services for brownfield on behalf of EMEPMI.

Revenue from subsea services of RM33.5 million represented one-month revenue of AME, a subsidiary acquired by Kencana Petroleum in July 2011. The revenue was mainly derived from the provision of offshore diving and underwater related services for inspection, repair and maintenance of structures, pipelines and risers and for the construction of underwater facilities for the O&G industry.

### Cost of services rendered

Cost of services rendered increased by 32.1% or RM272.6 million from RM850.3 million for the year ended 31 July 2010 to RM1,122.9 million for the year ended 31 July 2011 is in line with the increase in revenue. However, the quantum of increase in costs of services rendered of 32.1% is lower than the increase in revenue of 36.9% which was primarily due to improved cost efficiencies arising from increased automation in the fabrication process as well as consolidation and centralisation of tender, procurement and engineering system. Through the centralisation and streamlining of all vendors and suppliers, Kencana Petroleum Group has been able to enhance its cost competitiveness and achieved significant cost reduction.

### Gross profit margin

As a result of the foregoing factors, gross profit margin increased from 22.0% for the year ended 31 July 2010 to 24.8% for the year ended 31 July 2011.

### Other income

Other income increased by 132.5% or RM15.5 million from RM11.7 million for the year ended 31 July 2010 to RM27.2 million for the year ended 31 July 2011.

On 5 August 2010, Kencana Petroleum Group acquired the remaining 75% equity interest in KMR1, which resulted in Kencana Petroleum Group owning 100% in KMR1. The gain arising from the deemed disposal of the 25% equity interest in KMR1 and the gain on bargain purchase of 100% equity interest in KMR1 were RM0.5 million and RM12.9 million respectively.

**9. FINANCIAL INFORMATION (cont'd)**

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In addition, other income for the year ended 31 July 2011 was mainly contributed by the unrealised gain on foreign exchange of RM3.5 million for a USD term loan as a result of the strengthening of the RM against the USD, increase in service income recharged to its client for foods catering, bunker and materials of RM4.9 million as well as increase in insurance claim of RM0.8 million. The quantum of increase was, however, reduced by the decrease in gain on disposals of property, plant and equipment of RM2.2 million, decrease in realised gain on foreign exchange of RM1.2 million, decrease in gain recorded from reversal of impairment loss on trade receivables of RM1.7 million and the non-recurrence of gain on disposal of redeemable preference shares of RM2.3 million during the year ended 31 July 2010.

**Administrative expenses**

Administrative expenses increased by 52.3% or RM37.9 million from RM72.5 million for the year ended 31 July 2010 to RM110.4 million for the year ended 31 July 2011 mainly due to professional fees incurred on the acquisition of companies and various corporate exercises, increase in the payroll as well as the consolidation of AME Group's administrative expenses.

**Interest income**

Interest income increased by 78.8% or RM4.1 million from RM5.2 million for the year ended 31 July 2010 to RM9.3 million for the year ended 31 July 2011 mainly due to the placement of excess funds arising from the private placement of the Kencana Petroleum Shares in the fixed deposits and/or short term money markets. The private placement was completed in February 2011.

**Finance costs**

Finance costs increased by 100.9% or RM11.6 million from RM11.5 million for the year ended 31 July 2010 to RM23.1 million for the year ended 31 July 2011 mainly due to additional borrowings secured to refinance the rig construction and to part-finance the acquisition of vessels as well as the consolidation of AME Group's finance cost.

**Operating profit**

As a result of the foregoing factors, operating profit increased by 58.0% or RM100.1 million from RM172.7 million for the year ended 31 July 2010 to RM272.8 million for the year ended 31 July 2011.

**Share of results from associates**

Share of results from associates was a loss of RM0.8 million for the year ended 31 July 2010 and a profit of RM0.1 million for the year ended 31 July 2011.

**Share of results from jointly controlled entities**

Share of results from jointly controlled entities was a loss of RM5,000 for the year ended 31 July 2010 and a profit of RM2,000 for the year ended 31 July 2011.

**9. FINANCIAL INFORMATION (cont'd)**

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**PBT margin**

As a result of the foregoing factors, PBT margin increased from 15.8% for the year ended 31 July 2010 to 18.3% for the year ended 31 July 2011.

**Taxation**

The decrease in the effective tax rate was mainly attributable to the increase in utilisation of reinvestment allowance, lower tax expense for offshore leasing activities and non-taxable gain on bargain purchase of a subsidiary.

**PAT margin**

As a result of the foregoing factors, PAT margin increased from 12.5% for the year ended 31 July 2010 to 15.0% for the year ended 31 July 2011.

**EBITDA margin**

As a result of the foregoing factors, EBITDA margin increased from 19.0% for the year ended 31 July 2010 to 24.3% for the year ended 31 July 2011.

**(iii) Year ended 31 July 2010 compared to the year ended 31 July 2009****Revenue**

Revenue decreased by 4.4% or RM50.7 million from RM1,140.8 million for the year ended 31 July 2009 to RM1,090.1 million for the year ended 31 July 2010.

Revenue from the EPCIC, marine engineering, design engineering and project management decreased by 19.1% or RM217.4 million from RM1,140.8 million for the year ended 31 July 2009 to RM923.4 million for the year ended 31 July 2010. This was mainly due to the drastic drop in global demand for oil and plunging global equities which had resulted in the decline of O&G prices and slowdown in global O&G activities. Although oil price returned to USD70 per barrel and was relatively stable during year ended 31 July 2010, there were many uncertainties plaguing the O&G industry which resulted in many O&G industry players embracing a cautious stance and were seen to defer its capital expenditure. Consequent thereto, not many development plans were rolled-out.



## 9. FINANCIAL INFORMATION (cont'd)

### (a) EPCIC, marine engineering, design engineering and project management

Apart from less development plans being rolled-out in the O&G industry during year 2010, decrease in revenue during the current financial year was mainly due to the lower revenue recorded for the construction of Kencana Petroleum Group's first shipbuilding project, i.e. KM-1, fabrication works on production Topside facilities for Murphy Sarawak and completion of some major projects during the year ended 31 July 2009. The decrease was, however, offset by the increase in revenue from the projects secured during the year ended 31 July 2010, namely fabrication of a central processing platform with living quarters for Newfield, works on Topsides for 2 separate offshore platforms for SSB, procurement and construction activities for PCPP, design, fabrication and construction of solar cell fabrication facility for Sunpower Malaysia Manufacturing Sdn Bhd and works on stinger handling system for Global Offshore International Ltd.

### (b) Offshore drilling and provision of marine transportation and support services including HUC and subsea services

HUC and marine transportation and support divisions were newly set up during the year ended 31 July 2010.

Revenue from marine transportation and support services was mainly generated from contribution of the Kencana Petroleum Group's newly acquired AHTS vessels, namely KPV Kapas with a capacity of 5,220 BHP and Gemia, with a capacity of 8,080 BHP. KPV Kapas and Gemia commenced operations in the first and second quarters of 2010 respectively.

Revenue from HUC amounted to RM148.8 million was mainly attributable to the progressive recognition of revenue from the following customers:

Customer	Year ended 31 July 2010
	RM million
PCSB	45.4
Carigali-PTTEPI	72.8
EMEPMI	20.5
Others	10.1
<b>Total</b>	<b>148.8</b>

Carigali-PTTEPI contract mainly involves procurement, onshore fabrication, and offshore installation and HUC activities in the MTJDA.

**9. FINANCIAL INFORMATION (cont'd)**

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There were 3 different projects with PCSB, namely Sumandak Non Associated Gas (NAG) Development Project, Phase 1 of Samarang Redevelopment Project as well as Kanowit CPP Platform.

EMEPMI contract is in relation to construction service contract for a brownfield project.

**Cost of services rendered**

Cost of services rendered decreased by 8.8% or RM82.3 million from RM932.6 million for the year ended 31 July 2009 to RM850.3 million for the year ended 31 July 2010 in line with the decrease in revenue of 4.4%. However, the quantum of decrease in costs of services rendered is higher than the decrease in revenue mainly due to improved cost efficiencies arising from increased automation in the fabrication process.

**Gross profit margin**

As a result of the foregoing factors, gross profit margin increased to 22.0% for the year ended 31 July 2010 from 18.3% for the year ended 31 July 2009.

**Other income**

Other income increased by 39.3% or RM3.3 million from RM8.4 million for the year ended 31 July 2009 to RM11.7 million for the year ended 31 July 2010. The increase was mainly due to higher gain on disposal of property, plant and equipment of RM2.6 million arising from the relocation of office to the headquarter, gain on disposal of redeemable preference shares in an associate of RM2.3 million and increase in the reversal of prior year's allowance for doubtful debts of RM1.2 million. The increase in other income was however offset by the decrease in sales of scrap, non-recurrence of easement fee and management fee charged to a business partner as well as non-recurrence of other miscellaneous income, e.g. storage charges, technical charges, cutting charges, broker's fees, penalty, compensation, etc.

**Administrative expenses**

Administrative expenses increased by 25.9% or RM14.9 million from RM57.6 million for the year ended 31 July 2009 to RM72.5 million for the year ended 31 July 2010. The increase was mainly due to the set-up and commencement of operations of both the marine transportation and support division and HUC division, professional fees incurred on various corporate exercises and increase in payroll.

**Interest income**

Interest income increased by 26.8% or RM1.1 million from RM4.1 million for the year ended 31 July 2009 to RM5.2 million for the year ended 31 July 2010 mainly attributable to placement of excess funds from the renounceable rights issue of Kencana Petroleum Shares in the short term money markets. The rights issue was completed in February 2010.

**9. FINANCIAL INFORMATION (cont'd)**

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**Finance costs**

Finance costs increased by 10.6% or RM1.1 million from RM10.4 million for the year ended 31 July 2009 to RM11.5 million for the year ended 31 July 2010 mainly due to borrowings secured to part-finance the acquisition of 2 AHTS vessels, namely KPV Kapas and Gemia.

**Operating profit**

As a result of the foregoing factors, operating profits increased by 13.1% or RM20.0 million from RM152.7 million for the year ended 31 July 2009 to RM172.7 million for the year ended 31 July 2010.

**Share of results from associates**

Share of results from associates was a profit of RM0.1 million for the year ended 31 July 2009 and a loss of RM0.8 million for the year ended 31 July 2010.

**Share of results from jointly controlled entities**

Share of results from jointly controlled entities was a loss of RM10,000 for the year ended 31 July 2009 and a loss of RM5,000 for the year ended 31 July 2010.

**PBT margin**

As a result of the foregoing factors, PBT margin increased from 13.4% for the year ended 31 July 2009 to 15.8% for the year ended 31 July 2010.

**Taxation**

Lower effective tax rate was due to higher utilisation of reinvestment allowance, non-taxable income and lower corporate tax for a subsidiary incorporated in the Federal Territory of Labuan. The decrease in effective tax rate has been offset by lower tax incentive for income derived from the exploration and exploitation of petroleum in MTJDA due to the completion of the project in MTJDA.

**PAT margin**

As a result of the foregoing factors, PAT margin increased from 10.4% for the year ended 31 July 2009 to 12.5% for the year ended 31 July 2010.

**EBITDA margin**

As a result of the foregoing factors, EBITDA margin increased from 15.9% for the year ended 31 July 2009 to 19.0% for the year ended 31 July 2010.

## 9. FINANCIAL INFORMATION (cont'd)

### 9.5.7 Order book

Kencana Petroleum Group's EPCIC segment generally undertook large, short to medium-term projects that remain on the order book for several months to 2 years. Kencana Petroleum Group's results of operations may vary in any particular period depending on the relative phases of these projects. Consequently, the EPCIC segment needs to constantly bid for new projects to replenish the order book.

Kencana Petroleum Group's offshore services segment undertook drilling services, HUC services, underwater related services and marine transportation and support services.

Kencana Petroleum Group had 1 SETR, KM-1, which was deployed to PCSB in September 2010 for PCSB's drilling programme for an initial period of 5 years, with the option to be extended for another period of up to 5 years at the discretion of PCSB.

The marine transportation and support services undertook spot to medium-term charters that remain on the order book for several months to 3 years. In addition, HUC projects could last for several months to 3 years. Therefore, the marine transportation and support services and HUC services need to constantly bid for new projects to replenish the order book.

The subsea services sector carried out the underwater related projects that remain on the order book for several months to 3 years. Kencana Petroleum Group's had underwater inspection and maintenance project with an O&G company that has commenced in mid-2009 for an initial period of 3 years with an option to extend the project for another period of 2 years at the discretion of the client.

The following table sets forth, as at 31 March 2012, Kencana Petroleum Group's order book by reportable segments, the number of projects by each segment, order book value and related percentage data. When calculating the order book, contract values denominated in other currencies were translated into RM at the relevant exchange rates as at 31 March 2012.

	Year ended 31 March 2012		
	No. of projects	RM million	%
EPCIC, marine engineering, design engineering and project management <sup>(1)</sup>	22	1,913	55.8
Offshore drilling and provision of marine transportation and support services including HUC and subsea services <sup>(2),(3)</sup>	15	1,518	44.2
Development and production of petroleum resources	-	-	-
<b>Total</b>	<b>37</b>	<b>3,431</b>	<b>100.0</b>

**Notes:**

<sup>(1)</sup> This consists of engineering and fabrication of Topside, compression modules, platform, production system, substructure, production manifold, jetty and marine structures, etc.

<sup>(2)</sup> The drilling contract with PCSB is for an initial period of 5 years and may be extended for an additional period of up to 5 years at the discretion of PCSB.

## 9. FINANCIAL INFORMATION (cont'd)

<sup>(3)</sup> The charter contract with an O&G company for subsea services is for an initial period of 3 years and may be extended for an additional period of up to 2 years at the discretion of the client.

### 9.5.8 Liquidity and capital resources

The principal sources of liquidity of Kencana Petroleum Group were internally generated cash from operations and external source of funds which mainly comprises shareholders' equity and bank borrowings. Kencana Petroleum Group had, from time to time, raised financing via the issuance of equity and debt offerings. As at 31 July 2011, Kencana Petroleum Group's material sources of unutilised liquidity includes cash and cash equivalents of RM827.8 million and available lines of credit of RM1,288.7 million.

#### (i) Working capital

The working capital was funded through cash generated from operations and external source of funds.

#### (ii) Cash flows

The following table sets forth consolidated cash flow statements of Kencana Petroleum Group for the years/periods indicated:

	Audited			Unaudited	
	Year ended 31 July			6 months period ended 31 January	
	2009	2010	2011	2011	2012
	(RM 000)				
Net cash flow generated from operating activities	13,128	64,072	266,183	349,276	(248,681)
Net cash flow used in investing activities	(68,815)	(290,077)	(383,221)	(449,576)	(226,242)
Net cash flow generated from financing activities	58,568	191,228	627,189	197,179	381,274
Net increase/(decrease) in cash and cash equivalents	2,881	(34,777)	510,151	96,879	(93,649)
Cash and cash equivalents at the beginning of the year/period	226,640	229,521	194,744	194,744	704,895
Cash and cash equivalents at the end of the year/period	229,521	194,744	704,895	291,623	611,246

There were no restrictions on the subsidiaries of Kencana Petroleum to transfer funds to Kencana Petroleum in the form of cash dividends, loans or advances to meet the cash obligations of Kencana Petroleum.

**9. FINANCIAL INFORMATION (cont'd)****Net cash flow generated from operating activities**

During the 6 months period ended 31 January 2012, Kencana Petroleum Group generated net cash flow used in operating activities of RM248.7 million which was mainly due to PBT of RM216.8 million, adjustments for non-cash items of RM46.3 million, changes in working capital of RM476.2 million and interest paid and taxes paid of RM8.7 million and RM26.9 million respectively. The adjustments for non-cash items for the 6 months period ended 31 January 2012 mainly comprised depreciation of property, plant and equipment of RM36.5 million, finance costs of RM21.5 million and interest income of RM11.4 million. The changes in working capital for the 6 months period ended 31 January 2012 consisted primarily of increase in trade and other receivables of RM308.5 million mainly due to the longer verification process required by certain customers for work done which has caused delay in collection.

During the year ended 31 July 2011, Kencana Petroleum Group generated net cash flow from operating activities of RM266.2 million which was mainly due to PBT of RM273.0 million, adjustments for non-cash items of RM70.5 million, changes in working capital of RM14.6 million and interest paid and taxes paid of RM23.1 million and RM39.6 million respectively. The adjustments for non-cash items for the year ended 31 July 2011 mainly comprised depreciation of property, plant and equipment of RM66.0 million, finance costs of RM23.1 million, gain on bargain purchase of 75%-equity interest in KMR Labuan of RM12.9 million, net unrealised loss on foreign exchange of RM1.6 million, share based payments of RM2.7 million and interest income of RM9.3 million. The changes in working capital for the year ended 31 July 2011 consisted primarily of decrease in trade and other payables of RM154.6 million which has been offset by the decrease in trade and other receivables of RM136.2 million. The decrease in collection in trade and other receivables balance was mainly due to the long verification process by certain customers for work done. The slow collection had led to the delayed payment to the suppliers, hence the increase in trade and other payables balance.

Net cash generated from operating activities for the year ended 31 July 2010 was RM64.1 million mainly due to PBT of RM171.8 million, adjustments for non-cash items of RM29.7 million, changes in working capital of RM89.9 million and interest paid and taxes paid of RM11.5 million and RM36.1 million respectively. The adjustments for non-cash items for the year ended 31 July 2010 mainly comprised depreciation of property, plant and equipment of RM23.4 million, finance costs of RM11.5 million, gain on disposal of property, plant and equipment of RM2.6 million, gain on disposal of redeemable preference shares of RM2.3 million, share based payments of RM2.4 million and interest income of RM5.2 million. The changes in working capital for the year ended 31 July 2010 consisted primarily of an increase in trade and other receivables of RM175.7 million and offset by the increase in trade and other payables of RM84.8 million. The increase in trade and other receivables was mainly due to increase in retention sum from contract customers and amount due from contract customers and an associate, KMR Labuan (now a wholly-owned subsidiary as a result of the acquisition of the remaining 75%-equity interest in KMR Labuan) for the construction of an SETR. Increase in trade and other payables was mainly due to increase in amount due to contract customers.

**9. FINANCIAL INFORMATION (cont'd)**

Net cash generated from operating activities for the year ended 31 July 2009 was RM13.1 million mainly due to PBT of RM152.8 million, adjustments for non-cash items of RM26.8 million, changes in working capital of RM122.6 million and interest paid and taxes paid RM10.4 million and RM33.5 million respectively. The adjustments for non-cash items for the year ended 31 July 2009 mainly comprised of depreciation of property, plant and equipment of RM17.9 million, finance costs of RM 10.4 million, share based payments of RM2.6 million and interest income of RM4.1 million. The changes in working capital for the year ended 31 July 2009 consisted primarily of an increase in inventories of RM27.5 million, decrease in trade and other receivables of RM11.9 million and a decrease in trade and other payables of RM107.0 million. The increase in inventories is mainly due to the purchase of raw materials for rig construction. The decrease in trade and other receivables was mainly due to decrease in trade receivables balance which is in line with the decrease in revenue during the financial year ended 31 July 2009. Decrease in trade and other payables balance was in line with the decrease in costs of services rendered.

**Net cash flow used in investing activities**

During the 6 months period ended 31 January 2012, the net cash flow used in investing activities of RM226.2 million were mainly for the acquisition of property, plant and equipment of RM105.3 million and expenditure on O&G properties of RM132.2 million. The outflow of cash used in investing activities, however, has been partially offset by interest income of RM11.4 million. The expenditure represented Kencana Petroleum Group's 25% share of the costs incurred for the development of Berantai field. The field development typically involved the construction of a wellhead platform to support the drilling of 18 wells, with pipelines linking the adjacent platform in Angsi field.

During the year ended 31 July 2011, the net cash flow used in investing activities of RM383.2 million were mainly for the acquisition of property, plant and equipment of RM279.6 million, acquisition of subsidiaries of RM20.9 million, and expenditure on O&G properties of RM98.9 million. The outflow of cash used for investing activities, however, has been partially offset by the interest income of RM9.3 million, proceeds from disposal of property, plant and equipment of RM2.9 million and proceeds from disposal of assets classified as held for sale of RM4.0 million.

During the year ended 31 July 2010, the net cash used in investing activities of RM290.1 million were mainly for the acquisition of property, plant and equipment of RM203.6 million, deposits of RM101.2 million paid to Mermaid Drilling (Singapore) Pte Ltd for the acquisition of the remaining equity interests in KMR1, KMR Labuan and KMD and investment in preference shares of RM2.3 million. The outflow of cash used for investing activities, however, has been partially offset by the interest income of RM5.2 million, proceeds from disposal of property, plant and equipment of RM6.4 million, proceeds from disposal of preference shares of RM3.6 million and proceeds from the issuance of preference shares of Kencana Petroleum's subsidiary to minority interest of RM1.9 million.

**9. FINANCIAL INFORMATION (cont'd)**

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During the year ended 31 July 2009, the net cash used in investing activities of RM68.8 million were mainly for the acquisition of share in an associate, KMR1, of RM27.7 million, of which had become an indirect wholly-owned subsidiary of Kencana Petroleum during the year ended 31 July 2010 and purchase of property, plant and equipment of RM46.0 million. The outflow of cash used for investing activities, however, has been partially offset by the interest income of RM4.1 million and proceeds from disposal of property, plant and equipment of RM0.9 million.

**Net cash flow generated from financing activities**

During the 6 months period ended 31 January 2012, the net cash flow from financing activities of RM381.3 million were mainly generated from net proceeds from borrowings of RM395.5 million and proceeds from exercise of share options of RM7.8 million. The inflow of cash generated from financing activities, however, has been partially offset by increase in pledged deposits placed with licensed banks of RM22.0 million.

During the year ended 31 July 2011, the net cash generated from financing activities of RM627.2 million were mainly generated from net proceeds from borrowings of RM230.7 million, proceeds from the exercise of share options of RM12.3 million and proceeds from private placement of RM396.7 million. The inflow of cash generated from financing activities, however, has been partially offset by dividends paid to shareholders of RM8.3 million, increase in pledged deposits placed with licensed banks of RM0.2 million and share issue expenses of RM4.0 million.

During the year ended 31 July 2010, the net cash generated from financing activities of RM191.2 million were mainly generated from proceeds from the issuance of renounceable rights shares of RM182.1 million, proceeds from exercise of share options of RM11.2 million and net proceeds from borrowings of RM6.6 million. The inflow of cash generated from financing activities, however, has been offset by the increase in cash used for pledge deposits placed with licensed banks of RM1.4 million, share issue expenses of RM2.8 million and dividend paid to shareholders of RM4.5 million.

During the year ended 31 July 2009, the net cash generated from financing activities of RM58.6 million were mainly generated from net proceeds of borrowings amounted to RM53.4 million, proceeds from exercise of share options of RM1.3 million and the decrease in pledged deposits placed with licensed banks of RM8.4 million. The inflow of cash generated from financing activities, however, had been offset by dividend paid to shareholders of RM4.5 million.



## 9. FINANCIAL INFORMATION (cont'd)

## (iii) Borrowings

Kencana Petroleum Group's total outstanding borrowings, all of which are interest-bearing, as at 31 January 2012 are as follows:

Borrowings	Interest rate terms	Currency		Total
		USD 000	RM 000	<sup>(1)</sup> RM 000
<b>Short-term:</b>				
Terms loans – secured	Floating rate ranging from 5.00% to 7.60%	-	30,303	30,303
Terms loans – secured	Floating rate ranging from 2.50% to 4.00%	18,328	-	55,818
Hire purchase creditors – secured	Fixed rate ranging from 1.98% to 6.50% per annum	-	11,578	11,578
Bankers' acceptance/bank overdraft/revolving credits – unsecured	Floating rate ranging from 2.80% to 8.00%	1,500	30,619	35,187
Bank overdraft/revolving credits – secured	Floating rate ranging from 2.80% to 7.60%	-	54,297	54,297
<b>Long-term:</b>				
Terms loans – secured	Floating rate ranging from 5.00% to 7.6%	-	236,977	236,977
Terms loans – secured	Floating rate ranging from 2.50% to 4.00%	112,615	-	342,978
Hire purchase creditors-secured	Fixed rate ranging from 1.98% to 6.50%	-	10,412	10,412
Islamic bond- unsecured	Fixed rate of 5.50%	-	465,220	465,220
<b>Total</b>		<b>132,443</b>	<b>839,406</b>	<b>1,242,770</b>

**Note:**

<sup>(1)</sup> Converted at USD1:RM3.0455, being the closing rate as at 31 January 2012.

## 9. FINANCIAL INFORMATION (cont'd)

Subsequent to the 6 months period ended 31 January 2012 up to 31 March 2012, Kencana Petroleum Group incurred additional borrowings as follows:

Principal amount of drawdown	Interest rate terms	Currency		Total
		USD 000	RM 000	(1) RM 000
<b>Short-term:</b>				
Terms loans – secured	Floating rate of 2.80%	30,334	-	93,066
Revolving credits/bank overdraft – secured	Floating rate ranging from 4.40% to 7.60%	-	34,072	34,072
Revolving credits - unsecured	Floating rate ranging from 4.78% to 5.95%	-	1,800	1,800
Revolving credits – unsecured	Floating rate of 3.25%	2,000	-	6,136
<b>Total</b>		<b>32,334</b>	<b>35,872</b>	<b>135,074</b>

**Note:**

(1) Converted at USD1:RM3.068, being the closing rate as at 31 March 2012.

The borrowings were obtained by Kencana Petroleum Group from various Malaysian financial institutions mainly to finance the acquisition of vessels, construction of the rig, working capital as well as capital expenditure for land and buildings.

Apart from the hire purchase liabilities, the borrowings of the Kencana Petroleum Group are subject to variable floating rates above the lenders' cost of funds or based lending rates.

Kencana Petroleum Group has never defaulted on the payments of interest and principal sums on any of its borrowings up to the LPD.

The maturity profile of Kencana Petroleum Group's borrowings as at 31 January 2012 is as follows:

	As at 31 January 2012
	RM 000
Within 1 year	187,183
1 year to 5 years	927,158
More than 5 years	128,429
<b>Total borrowings</b>	<b>1,242,770</b>

## 9. FINANCIAL INFORMATION (cont'd)

### 9.5.9 Capex

In line with the expansion plans, Kencana Petroleum Group invested RM54.7 million, RM208.2 million and RM311.2 million in Capex for the years ended 31 July 2009, 2010 and 2011 respectively, and RM655.4 million and RM49.4 million for the 6 months period ended 31 January 2011 and 2012, respectively. The Capex was funded through a combination of internal funds and borrowings.

The following table sets forth the Capex for the years ended 31 July 2009, 2010 and 2011, and the 6 months period ended 31 January 2011 and 2012:

	Year ended 31 July			6 months period ended 31 January	
	2009	2010	2011	2011	2012
	(RM 000)				
Investment holding	759	2,000	13,462	10,774	1,925
EPCIC, marine engineering, design engineering and project management	53,887	59,303	121,757	57,005	28,750
Offshore drilling and provision of marine transportation and support services including HUC and subsea services	89	146,902	176,061	587,577	17,854
Development and production of petroleum resources	-	-	-	-	915
<b>Total Capex</b>	<b>54,735</b>	<b>208,205</b>	<b>311,280</b>	<b>655,356</b>	<b>49,444</b>

The Capex for the year ended 31 July 2009 was mainly incurred for the acquisition of plant and machinery and leasehold buildings and structure mainly for the purpose of upgrading the yard, extension of workshop, generators, ringer crane and gantry crane, rotator, cutting machine, welding machine, etc.

The Capex for the year ended 31 July 2010 was mainly incurred for the acquisition of 2 vessels, namely KPV Kapas and Gemia. Apart from that, Kencana Petroleum Group expanded its Lumut Fabrication Yard by acquiring few plots of lands, upgrade the existing yard facilities, e.g. extension of the workshops area and construction of the fencing wall, upgrade the jetty and quayside as well as acquired plant and machineries such as gantry crane, rotator, cutting machine, welding machine, etc.

The Capex for the year ended 31 July 2011 was mainly incurred for the acquisition of a vessel i.e. KPV Redang, additional construction costs incurred for KM-1 subsequent to the acquisition of 100% equity interest in KMR1, interior fit-out works for the head quarter of Kencana Petroleum Group as well as acquisition of plant and machinery such as crawler crane, gantry crane, welding machines, air compressor, cutting machine, transporter, rotator, etc. and upgrade of yard facilities.

The Capex for the 6 months period ended 31 January 2011 was mainly incurred for the additional construction costs incurred for KM-1 subsequent to the acquisition of 100% equity interest in KMR1, interior fit-out works for the head quarter of Kencana Petroleum Group, upgrade of yard facilities and extension of workshop, gantry crane, etc.

## 9. FINANCIAL INFORMATION (cont'd)

The Capex for the 6 months period ended 31 January 2012 was mainly incurred for the acquisition of ancillary items for a newly acquired vessel, Allied Jane, purchase of motor vehicles and diving equipment as well as acquisition of plant and machinery such as crane, welding machines, rotator, air compressor, rectifier, etc and upgrade of yard facilities.

### 9.5.10 Capital commitment

The future Capex of Kencana Petroleum Group with respect to property, plant and equipment relates mainly to the construction of 2 SETR, upgrading of yard, construction and renovation of new office buildings as well as for the purchase of plant and machinery.

The capital commitments of Kencana Petroleum Group are as follows:

	<b>Audited</b>	<b>Unaudited</b>
	<b>As at 31 July 2011</b>	<b>As at 31 January 2012</b>
<b>Capital commitments</b>	<b>RM million</b>	
Property, plant and equipment		
- Authorised and contracted but not provided for in the financial statements	(1)874.8	(2)443.5
- Authorised but not contracted and not provided for in the financial statements	-	(3)395.9
<b>Total capital commitments</b>	<b>874.8</b>	<b>839.4</b>

**Notes:**

(1) Inclusive of 2 units of SETR amounting to USD290 million (equivalent to RM858.0 million based on the exchange rate of USD1:RM2.9584 as at 31 July 2011). The remaining RM16.8 million is for yard upgrade and purchase of plant and machinery.

(2) Inclusive of 1 unit of SETR amounting to USD130.8 million, representing 84% of the remaining construction cost of the SETR (equivalent to RM398.4 million based on the exchange rate of USD1:RM3.0455 as at 31 January 2012). The remaining RM45.1 million is for yard upgrade and purchase of plant, machinery and diving equipment.

(3) This represents the construction cost of 1 unit of SETR of USD130.0 million at the exchange rate of USD1:RM3.0455 as at 31 January 2012.

The contracted capital commitments for property, plant and equipment which are expected to be incurred are stated as follows:

	<b>RM million</b>
Payable within 1 year	170.9
Payable later than 1 year and not later than 5 years	272.6
Payable later than 5 years	-
	<b>443.5</b>

Kencana Petroleum Group had expected to fund capital commitments primarily through borrowings and internally generated funds.

## 9. FINANCIAL INFORMATION (cont'd)

### 9.5.11 Contingent liabilities

As at the LPD, the Board of Kencana Petroleum is not aware of any contingent liabilities which upon becoming enforceable may have a material impact on Kencana Petroleum Group's results of operations and financial condition.

### 9.5.12 Material divestitures

There have not been any material divestitures undertaken by Kencana Petroleum Group for the years ended 31 July 2009, 2010 and 2011 and the 6 months period ended 31 January 2012.

### 9.5.13 Key financial ratios

The following table sets forth certain key financial ratios of Kencana Petroleum Group based on the audited consolidated financial information of Kencana Petroleum for the years indicated:

	Year ended 31 July		
	2009	2010	2011
Average trade receivables turnover days <sup>(1)</sup>	38	41	63
Average trade payables turnover days <sup>(2)</sup>	52	51	64
Average inventories turnover days <sup>(3)</sup>	6	12	8
Current ratio (times) <sup>(4)</sup>	1.61	1.45	1.44
Gearing ratio (times) <sup>(5)</sup>	0.50	0.30	0.51

**Notes:**

$$^{(1)} \frac{\text{Average trade receivables} - \text{Allowance for doubtful debts}^*}{\text{Revenue}} \times \text{Number of days in the year}$$

\* Average opening and closing trade receivables less allowance for doubtful debts for the year.

$$^{(2)} \frac{\text{Average trade payables}^{\wedge}}{\text{Cost of services rendered}} \times \text{Number of days in the year}$$

^ Average opening and closing trade and other payables for the year.

$$^{(3)} \frac{\text{Average inventories}^{\#}}{\text{Cost of services rendered}} \times \text{Number of days in the year}$$

# Average opening and closing inventories for the year.

<sup>(4)</sup> Current assets over current liabilities.

<sup>(5)</sup> Total interest bearing borrowings over shareholders' equity.

**9. FINANCIAL INFORMATION (cont'd)**

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**Average trade receivables turnover days**

Average trade receivables turnover days increased marginally from 38 days for the year ended 31 July 2009 to 41 days for the year ended 31 July 2010 which falls within the normal credit terms of 30 to 60 days.

Average trade receivables turnover days increased from 41 days for the year ended 31 July 2010 to 63 days for the year ended 31 July 2011 mainly due to the long verification process by certain customers for the work done which has caused delay in collection.

**Average payable turnover days**

Average trade payables turnover days decreased marginally from 52 days for the year ended 31 July 2009 to 51 days for the year ended 31 July 2010 which falls within the normal credit term of 30 to 60 days.

Average trade payables turnover days increased marginally from 51 days for the year ended 31 July 2010 to 64 days for the year ended 31 July 2011. The long verification process by certain customers for the work done has resulted delay in the collection and consequently delay in payment to the creditors.

**Average inventories turnover days**

Average inventories turnover days increased from 6 days for the year ended 31 July 2009 to 12 days for the year ended 31 July 2010. For the year ended 31 July 2011, this has decreased to 8 days which indicated relatively healthy and short inventory holding period.

**Current ratio**

Current ratio decreased to 1.45 times as at 31 July 2010 from 1.61 times as at 31 July 2009 and decreased marginally to 1.44 times for the year ended 31 July 2011 which relatively indicated healthy liquidity position with a ratio of more than 1.0 time.

**Gearing ratio**

Gearing ratio decreased from 0.50 times as at 31 July 2009 to 0.30 times as at 31 July 2010 due to the increase in the shareholders' equity as a result of the issuance of renounceable rights shares of Kencana Petroleum amounting to RM182.1 million.

Gearing ratio increased from 0.30 times as at 31 July 2010 to 0.51 times as at 31 July 2011 mainly due to the borrowings secured to re-finance the rig construction and to part-finance the acquisition of the vessels. The effect of the high borrowings on the gearing ratio was mitigated by the issuance of Kencana Petroleum Shares amounting to RM396.7 million through a private placement and the issuance of Kencana Petroleum Shares to satisfy the purchase consideration of RM400.0 million for the acquisition of 100% equity interest in AME.

## 9. FINANCIAL INFORMATION (cont'd)

### Ageing analysis

The ageing analysis for trade receivables and payables as at 31 July 2011 are as follows:

	Current (Not due)	Past due					Total
		1 - 30 days	31 - 60 days	61 - 90 days	91 - 360 days	Over 360 days	
(RM 000)							
Trade receivables <sup>(1)</sup>	308,062	16,707	14,099	6,018	3,779	15,063	363,728

**Note:**

<sup>(1)</sup> After allowances for doubtful debts of RM3.4 million as at 31 July 2011.

The credit period extend to the customers of Kencana Petroleum Group ranges from 30 to 60 days. As at 31 July 2011, 84.7 % of the trade receivables were within the credit period. As at 31 January 2012, Kencana Petroleum Group has substantially collected the outstanding balance as at 31 July 2011 of RM316.5 million.

	Current (Not due)	Past due					Total
		1 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days	Over 120 days	
(RM 000)							
Trade payables	152,550	54,028	33,228	15,710	9,925	15,035	280,497

The credit period extended by suppliers of Kencana Petroleum Group ranges from 30 to 60 days. As at 31 July 2011, 64.4% of the trade payables were within the credit period. As at 31 January 2012, Kencana Petroleum has paid RM222.8 million to its suppliers.

#### 9.5.14 Financial risk management objectives and policies

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of Kencana Petroleum Group's businesses. The Board of Kencana Petroleum reviewed and agreed policies for managing each of these risks and they are summarised below:

**(i) Credit risk**

Credit risk is the risk of a financial loss to Kencana Petroleum Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Kencana Petroleum Group's exposure to credit risk arises principally from its receivables from customers.

**9. FINANCIAL INFORMATION (cont'd)**

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**Receivables***Risk management objectives, policies and processes for managing the risk*

The management of Kencana Petroleum Group had a credit policy in place and the exposure to credit risk was monitored on an ongoing basis. Credit evaluations were performed on customers requiring credit over a certain amount.

*Exposure to credit risk, credit quality and collateral*

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables was represented by the carrying amounts in the statement of financial position.

The management of Kencana Petroleum Group had taken reasonable steps to ensure that receivables that were neither past due nor impaired were measured at their realisable values. A significant portion of these receivables were regular customers that had been transacting with Kencana Petroleum Group. Kencana Petroleum Group used ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 120 days, which were deemed to have higher credit risk, were monitored individually.

**(ii) Liquidity risk**

Kencana Petroleum Group actively managed its debt profile, operating cash flows and availability of funding so as to ensure that all financing, repayment and funding needs were met. As part of their overall liquidity management, Kencana Petroleum Group maintained sufficient levels of cash or cash convertible investments to meet its working capital requirements.

Liquidity risk is the risk that Kencana Petroleum Group will not be able to meet its financial obligations as they fall due.

Kencana Petroleum Group's exposure to liquidity risk arised principally from its various payables, loans and borrowings.

Kencana Petroleum Group maintained a level of cash and cash equivalents and bank facilities deemed adequate by the management of Kencana Petroleum Group to ensure, as far as possible, that it had sufficient liquidity to meet its liabilities when they fall due.



## 9. FINANCIAL INFORMATION (cont'd)

### Maturity analysis

The table below summarises the maturity profile of Kencana Petroleum Group's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

Year ended 31 July 2011							
	Carrying amount RM 000	Contractual interest rate/ coupon	Contractual cash flows RM 000	Under 1 year RM 000	1-2 years RM 000	2-5 years RM 000	More than 5 years RM 000
<b>Non-derivatives financial liabilities</b>							
Secured term loans	709,279	5.00% to 7.60%	964,265	202,782	117,248	462,933	181,302
Hire purchase liabilities	32,348	1.98% to 6.50%	36,457	19,114	12,433	4,694	216
Bank overdraft	97,047	8.00%	97,047	97,047	-	-	-
Revolving credit	43,379	2.80% to 6.00%	43,379	43,379	-	-	-
Banker's acceptance	4,021	3.85% to 4.65%	4,021	4,021	-	-	-
Foreign currency trade loan	2,701	2.11%	2,701	2,701	-	-	-
Trade and other payables	348,633		348,633	348,633	-	-	-
	<u>1,237,408</u>		<u>1,496,503</u>	<u>717,677</u>	<u>129,681</u>	<u>467,627</u>	<u>181,518</u>

### (iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices that will affect Kencana Petroleum Group's financial position or cash flows.

### (iv) Currency risk

Kencana Petroleum Group was exposed to foreign currency risk on sales and purchases that were denominated in a currency other than the respective functional currencies of Kencana Petroleum Group's entities. The currencies giving rise to this risk were primarily USD, Great Britain Pound (GBP), Euro Dollar (EUR) and SGD.

#### *Risk management objectives, policies and processes for managing the risk*

Prior to the year ended 31 July 2011, Kencana Petroleum Group did not use any forward contracts to hedge against its exposure to foreign currency risk as the foreign exchange exposures in transactional currencies other than functional currency of Kencana Petroleum Group were kept to an acceptable level. Subsequently, Kencana Petroleum Group used forward contracts to hedge against its exposure to foreign currency risk.

## 9. FINANCIAL INFORMATION (cont'd)

### Exposure to foreign currency risk

Kencana Petroleum Group's exposure to foreign currency (a currency which is other than the currency of Kencana Petroleum Group's entities) risk, based on carrying amounts as at 31 July 2011 was:

	Year ended 31 July 2011				
	Denominated in				
	USD	GBP	EUR	SGD	Total
	RM 000	RM 000	RM 000	RM 000	RM 000
Trade and other receivables	89,236	56	51	1,071	90,414
Trade and other payables	(37,437)	(927)	(3,395)	(774)	(42,533)
Secured term loans	(413,544)	-	-	-	(413,544)
Foreign currency trade loan	(2,701)	-	-	-	(2,701)
Cash and cash equivalents	169,546	3,079	43	30	172,698
	<u>(194,900)</u>	<u>2,208</u>	<u>(3,301)</u>	<u>327</u>	<u>(195,666)</u>

### (v) Interest rate risk

Kencana Petroleum Group's primary interest rate risks related to borrowings and deposits with licensed banks. Deposits with licensed banks with fixed rate were exposed to a risk of change in their fair value due to changes in interest rates. Kencana Petroleum Group's variable rate borrowings were exposed to a risk of change in cash flows due to changes in interest rates.

Short term receivables and payables were not significantly exposed to interest rate risk.

## 9. FINANCIAL INFORMATION (cont'd)

### *Exposure to interest rate risk*

The interest rate profile of Kencana Petroleum Group's significant interest-bearing financial instruments, based on carrying amounts as at 31 July 2011 were:

	Year ended 31 July		
	2009	2010	2011
	RM 000	RM 000	RM 000
<b>Fixed rate instruments</b>			
<u>Financial assets</u>			
Deposits placed with licensed banks	172,742	72,786	687,568
<u>Financial liabilities</u>			
Hire purchase creditors	36,183	25,302	32,348
<b>Floating rate instruments</b>			
<u>Financial liabilities</u>			
Secured term loans	145,552	138,561	709,279
Bank overdrafts	179	2,013	97,047
Revolving credit	30,000	60,000	43,479
Banker's acceptance	854	-	4,021
Foreign currency trade loan	-	-	2,701

### ***Fair value of financial instruments***

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings approximate fair values due to the relatively short term nature of these financial instruments.

## 9. FINANCIAL INFORMATION (cont'd)

The fair values of other financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, were as follows:

	Year ended 31 July					
	2009		2010		2011	
	Carrying amount RM 000	Fair value RM 000	Carrying amount RM 000	Fair value RM 000	Carrying amount RM 000	Fair value RM 000
<b>Financial assets</b>						
Quoted shares - long term	20	20	1	1	-	-
Unquoted shares - long term	48	*	-	-	-	-
Other receivables - long term	-	-	300	300	-	-
<b>Financial liabilities</b>						
Secured term loans	145,552	127,255	138,561	138,561	709,279	709,279
Hire purchase liabilities	36,183	^	25,302	24,655	32,348	30,655

**Notes:**

\* It was not practicable to estimate the fair value of non-current unquoted shares because of the lack of quoted market prices and the inability to estimate the fair value without incurring excessive costs.

^ There was no fair value for hire purchase liabilities disclosed for the financial year ended 31 July 2009.

**Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

**Interest rates used to determine fair value**

The interest rates used to discount estimated cash flows, when applicable, are as follows:

	Year ended 31 July		
	2009	2010	2011
Hire purchase creditors	N/A	2.62% to 4.20%	2.48% to 6.50%

9. FINANCIAL INFORMATION (cont'd)

9.6 Reporting Accountants' letter on our unaudited proforma consolidated financial information



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**Reporting Accountants' Letter on  
Unaudited Pro Forma Consolidated Financial Information  
(Prepared for inclusion in the Prospectus of SapuraKencana Petroleum Berhad  
(formerly known as Sapura-Kencana Petroleum Berhad))**

30 April 2012

The Board of Directors  
SapuraKencana Petroleum Berhad  
(formerly known as Sapura-Kencana Petroleum Berhad)  
Lot 6.05, Level 6, KPMG Tower  
8 First Avenue, Bandar Utama  
47800 Petaling Jaya  
Selangor Darul Ehsan

Dear Sirs,

**SAPURAKENCANA PETROLEUM BERHAD (FORMERLY KNOWN AS SAPURA-KENCANA PETROLEUM BERHAD) ("SKPB" OR "THE COMPANY")**

**UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION  
ACQUISITIONS OF THE ENTIRE BUSINESSES AND UNDERTAKINGS, INCLUDING ALL  
ASSETS AND LIABILITIES OF SAPURACREST PETROLEUM BERHAD  
("SAPURACREST") AND KENCANA PETROLEUM BERHAD ("KENCANA") BY SKPB  
("ACQUISITIONS") AND THE LISTING OF SKPB ON THE MAIN MARKET OF BURSA  
MALAYSIA SECURITIES BERHAD ("BURSA SECURITIES") ("LISTING")**

**(THE ACQUISITIONS AND LISTING ARE COLLECTIVELY REFERRED TO AS  
"PROPOSALS")**

We report on the accompanying unaudited pro forma consolidated financial information of SKPB and its proposed subsidiaries ("Group") as set out in Section 9 of the prospectus of SKPB in relation to the Listing ("Prospectus"), which has been prepared on the basis described in the accompanying notes for illustrative purposes only and for inclusion in the Prospectus.

## 9. FINANCIAL INFORMATION (cont'd)



The Proposals entail the following transactions:

- (i) acquisition of the entire businesses and undertakings, including all assets and liabilities, of SapuraCrest for a total consideration of RM5,872,923,260 ("SapuraCrest Consideration"), which is to be satisfied via the issuance of 2,498,928,847 new ordinary shares of RM1.00 each in SKPB ("SKPB Shares") at an issue price of RM2.00 per new SKPB Share amounting to RM4,997,857,694 and cash payment of RM875,065,566 ("Acquisition of SapuraCrest Business");
- (ii) acquisition of the entire businesses and undertakings, including all assets and liabilities, of Kencana for a total consideration of RM5,979,564,078 ("Kencana Consideration"), which is to be satisfied via the issuance of 2,505,437,349 new SKPB Shares at an issue price of RM2.00 per new SKPB Share amounting to RM5,010,874,698 and cash payment of RM968,689,380 ("Acquisition of Kencana Petroleum Business"); and
- (iii) the listing of SKPB on the Main Market of Bursa Securities.

The report is required by and is given for the purpose complying with the Prospectus Guidelines - Equity and Debt issued by the Securities Commission ("Guidelines") and for no other purpose.

### Responsibilities

It is solely the responsibility of the Board of Directors of SKPB to prepare the unaudited pro forma consolidated financial information in accordance with the Guidelines.

Our responsibility is to form an opinion on the proper compilation of the unaudited pro forma consolidated financial information and to report our opinion to you.

In providing this opinion, we are not responsible for updating or refreshing any reports or opinions previously issued by us on any financial information used in the compilation of the pro forma consolidated financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

### Basis of opinion

We conducted our work in accordance with Malaysian Approved Standards on Assurance Engagements, ISAE 3000: Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. The work that we performed for the purpose of this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information to the source documents, considering the evidence supporting the adjustments, check of arithmetical accuracy and discussing the unaudited pro forma consolidated financial information with the directors of SKPB.

**9. FINANCIAL INFORMATION (cont'd)**

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the unaudited pro forma consolidated financial information have been properly prepared on the basis stated using financial statements prepared in accordance with Financial Reporting Standards ("FRS") in Malaysia, and in a manner consistent with both the format of the financial statements and the accounting policies of SapuraCrest and Kencana, which policies are those to be adopted by SKPB. Our work also involves assessing whether the adjustments made to the information used in the preparation of the unaudited pro forma consolidated financial information are appropriate for the purposes of preparing the unaudited pro forma consolidated financial information.

The unaudited pro forma consolidated financial information is prepared for illustrative purposes only, based on the judgements and assumptions of the directors of SKPB, and, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group had the transactions or events occurred on that date or any future date.

**Opinion**

In our opinion:

- (a) the unaudited pro forma consolidated financial information which have been prepared by the directors of SKPB have been properly prepared on the basis stated using the financial statements prepared in accordance with FRS in Malaysia;
- (b) the unaudited pro forma consolidated financial information have been properly prepared on the basis stated and in a manner consistent with, both the format of the financial statements and the accounting policies to be adopted by SKPB; and
- (c) each material adjustment made to the information used in the preparation of the unaudited pro forma consolidated financial information are appropriate for the purposes of preparing the unaudited pro forma consolidated financial information.

Yours faithfully

A handwritten signature in black ink, appearing to be 'T. S. J.', written over a horizontal line.

Ernst & Young  
AF: 0039  
Chartered Accountants  
Kuala Lumpur, Malaysia

A handwritten signature in black ink, appearing to be 'Teoh Soo Hock', written in a cursive style.

Teoh Soo Hock  
No. 2477/10/13(J)  
Chartered Accountant

## 9. FINANCIAL INFORMATION (cont'd)


SAPURAKENCANA PETROLEUM BERHAD (FORMERLY KNOWN AS SAPURA-KENCANA PETROLEUM BERHAD)  
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
 AS AT 31 JANUARY 2012

Appendix A

	As at 31 January 2012 RM'000	Adjustment for the drawdown of borrowing RM'000	Pro forma 1 RM'000	Adjustment for Acquisition of SapuraCrest Business RM'000	Pro forma 2 RM'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	-	-	-	1,293,048	1,293,048
Intangible assets	-	-	-	247,756	247,756
Investments in associates	-	-	-	6,080	6,080
Investments in jointly-controlled entities	-	-	-	217,298	217,298
Other receivables	-	-	-	41,115	41,115
Deferred tax assets	-	-	-	9,093	9,093
	<u>-</u>		<u>-</u>		<u>1,814,390</u>
<b>Current assets</b>					
Inventories	-	-	-	63,592	63,592
Trade and other receivables	123	-	123	1,444,446	1,444,569
Derivatives	-	-	-	985	985
Tax recoverable	-	-	-	22,201	22,201
Cash and bank balances	*	2,050,000	2,050,000	(122,616)	1,927,384
	<u>123</u>		<u>2,050,123</u>		<u>3,458,731</u>
<b>Total assets</b>	<u>123</u>		<u>2,050,123</u>		<u>5,273,121</u>
<b>Equity and liabilities</b>					
<b>Equity attributable to equity holders of the Company</b>					
Share capital	*	-	*	2,498,928	2,498,928
Merger deficit	-	-	-	(2,613,313)	(2,613,313)
Other reserves	-	-	-	(37,858)	(37,858)
(Accumulated losses)/retained profits	(28,500)	-	(28,500)	357,369	328,869
Shareholders' (deficit)/fund	<u>(28,500)</u>		<u>(28,500)</u>		<u>176,626</u>
Non-controlling interests	-	-	-	327,639	327,639
<b>Total equity</b>	<u>(28,500)</u>		<u>(28,500)</u>		<u>504,265</u>
<b>Non-current liabilities</b>					
Borrowings	-	2,050,000	2,050,000	402,252	2,452,252
Derivatives	-	-	-	2,322	2,322
Deferred tax liabilities	-	-	-	6,758	6,758
	<u>-</u>		<u>2,050,000</u>		<u>2,461,332</u>
<b>Current liabilities</b>					
Borrowings	-	-	-	731,347	731,347
Trade and other payables	28,623	-	28,623	1,540,957	1,569,580
Derivatives	-	-	-	1,235	1,235
Income tax payable	-	-	-	5,362	5,362
	<u>28,623</u>		<u>28,623</u>		<u>2,307,524</u>
<b>Total liabilities</b>	<u>28,623</u>		<u>2,078,623</u>		<u>4,768,856</u>
<b>Total equity and liabilities</b>	<u>123</u>		<u>2,050,123</u>		<u>5,273,121</u>
Net assets attributable to equity holders of the Company ("NA") (RM'000)	*	-	*		176,626
Number of ordinary shares ('000)	#	-	#		2,498,928
NA per ordinary shares (RM)	#	-	#		0.07

\* Represents a balance of RM2.00

# Negligible

 ERNST & YOUNG (AF: 0039)

 Chartered Accountants, Kuala Lumpur  
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## 9. FINANCIAL INFORMATION (cont'd)

SAPURAKENCANA PETROLEUM BERHAD (FORMERLY KNOWN AS SAPURA-KENCANA  
 PETROLEUM BERHAD)  
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
 AS AT 31 JANUARY 2012

Appendix A

	Pro forma 2 RM'000	Adjustment for Acquisition of Kencana Petroleum Business RM'000	Pro forma 3 RM'000	Adjustment for Listing, Upfront Funding Costs and Transaction Expenses RM'000	Pro forma 4 RM'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	1,293,048	1,504,004	2,797,052		2,797,052
Intangible assets	247,756	4,664,004	4,911,760		4,911,760
Investments in associates	6,080	2,137	8,217		8,217
Investments in jointly-controlled entities	217,298	6	217,304		217,304
Other receivables	41,115		41,115		41,115
Deferred tax assets	9,093	2,113	11,206		11,206
	<u>1,814,390</u>		<u>7,986,654</u>		<u>7,986,654</u>
<b>Current assets</b>					
Inventories	63,592	24,690	88,282		88,282
Trade and other receivables	1,444,569	482,553	1,927,122		1,927,122
Derivatives	985		985		985
Tax recoverable	22,201	11,308	33,509		33,509
Cash and bank balances	1,927,384	314,330	2,241,714	(130,750)	2,110,964
Assets classified as held for sale	-	13,472	13,472		13,472
	<u>3,458,731</u>		<u>4,305,084</u>		<u>4,174,334</u>
<b>Total assets</b>	<u>5,273,121</u>		<u>12,291,738</u>		<u>12,160,988</u>
<b>Equity and liabilities</b>					
<b>Equity attributable to equity holders of the Company</b>					
Share capital	2,498,928	2,505,438	5,004,366		5,004,366
Merger deficit	(2,613,313)	2,505,437	(107,876)		(107,876)
Other reserves	(37,858)		(37,858)		(37,858)
Retained profits	328,869		328,869	(66,375)	262,494
Shareholders' fund	176,626		5,187,501		5,121,126
Non-controlling interests	327,639	587	328,226		328,226
<b>Total equity</b>	<u>504,265</u>		<u>5,515,727</u>		<u>5,449,352</u>
<b>Non-current liabilities</b>					
Borrowings	2,452,252	1,016,659	3,468,911	(35,875)	3,433,036
Derivatives	2,322		2,322		2,322
Deferred tax liabilities	6,758	44,950	51,708		51,708
	<u>2,461,332</u>		<u>3,522,941</u>		<u>3,487,066</u>
<b>Current liabilities</b>					
Borrowings	731,347	334,556	1,065,903		1,065,903
Trade and other payables	1,569,580	599,140	2,168,720	(28,500)	2,140,220
Derivatives	1,235		1,235		1,235
Income tax payable	5,362	7,502	12,864		12,864
Liabilities held for sale	-	4,348	4,348		4,348
	<u>2,307,524</u>		<u>3,253,070</u>		<u>3,224,570</u>
<b>Total liabilities</b>	<u>4,768,856</u>		<u>6,776,011</u>		<u>6,711,636</u>
<b>Total equity and liabilities</b>	<u>5,273,121</u>		<u>12,291,738</u>		<u>12,160,988</u>
Net assets attributable to equity holders of the Company ("NA") (RM'000)					
	176,626		5,187,501		5,121,126
Number of ordinary shares ('000)	2,498,928		5,004,366		5,004,366
NA per ordinary shares (RM)	0.07		1.04		1.02

# Negligible


**ERNST & YOUNG** (AF: 0039)

 Chartered Accountants, Kuala Lumpur  
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## 9. FINANCIAL INFORMATION (cont'd)

SAPURAKENCANA PETROLEUM BERHAD (FORMERLY KNOWN AS SAPURA-KENCANA  
 PETROLEUM BERHAD)  
 UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENTS

Appendix A

	FYE 31 January 2010 RM'000	FYE 31 January 2011 RM'000	FYE 31 January 2012 RM'000
Revenue	4,592,545	4,347,133	4,672,610
Cost of sales	<u>(3,853,735)</u>	<u>(3,547,281)</u>	<u>(3,742,142)</u>
Gross profit	738,810	799,852	930,468
Other income	25,712	40,306	59,343
Operating and administrative expenses	<u>(216,965)</u>	<u>(293,606)</u>	<u>(343,163)</u>
Operating profit	547,557	546,552	646,648
Finance costs	(68,226)	(56,662)	(61,285)
Share of profit/(loss) from associates	764	(503)	(311)
Share of (loss)/profit from jointly-controlled entities	<u>(45,729)</u>	<u>46,432</u>	<u>103,053</u>
Profit before taxation	434,366	535,819	688,105
Income tax expense	<u>(66,393)</u>	<u>(64,367)</u>	<u>(90,412)</u>
Profit net of taxation	<u>367,973</u>	<u>471,452</u>	<u>597,693</u>
Profit attributable to:			
Owners of the parent	233,977	308,201	454,547
Non-controlling interests	<u>133,996</u>	<u>163,251</u>	<u>143,146</u>
	<u>367,973</u>	<u>471,452</u>	<u>597,693</u>

 **ERNST & YOUNG** (AF: 0039)

 Chartered Accountants, Kuala Lumpur  
 For identification purposes only

## 9. FINANCIAL INFORMATION (cont'd)

SAPURAKENCANA PETROLEUM BERHAD (FORMERLY KNOWN AS SAPURA-KENCANA  
 PETROLEUM BERHAD)  
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS

Appendix A

	FYE 31 January 2012 RM'000
Net cash flow generated from operating activities	628,007
Net cash flow used in investing activities	(690,367)
Net cash flow generated from financing activities	491,939
Net increase in cash and cash equivalents	<u>429,579</u>
Effect of exchange rate changes	(36,629)
Cash and cash equivalents at the beginning of the period	1,595,099
Cash and cash equivalents at the end of the period	<u>1,988,049</u>
Cash and cash equivalents comprise of the followings:	
- Cash on hand and at banks	977,472
- Deposits with licensed banks	* <u>1,107,624</u>
	2,085,096
Less: Bank overdrafts	<u>(97,047)</u>
	<u>1,988,049</u>

\*The deposits with licensed banks is after adjusting for deposits pledged of RM25,868,000.

## 9. FINANCIAL INFORMATION (cont'd)

## APPENDIX A

**SAPURAKENCANA PETROLEUM BERHAD  
(FORMERLY KNOWN AS SAPURA-KENCANA PETROLEUM BERHAD)  
NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

## 1. Abbreviations

Unless the context otherwise requires, the following words and abbreviations shall apply throughout this report:

Acquisition of Kencana Petroleum Business	Acquisition of the entire business and undertakings, including all assets and liabilities of Kencana Petroleum by SKPB
Acquisition of SapuraCrest Business	Acquisition of the entire business and undertakings, including all assets and liabilities of SapuraCrest by SKPB
Acquisitions	Collectively, the Acquisition of SapuraCrest Business and the Acquisition of Kencana Petroleum Business
Bursa Securities	Bursa Malaysia Securities Berhad
Clough	Clough Limited
Clough Business Acquisition	Acquisition by Sapura Australia Pty Ltd (as nominated by SPAPL) from Clough and certain of its subsidiaries, all of Clough's marine construction business
Completion Accounts	Balance sheet of Clough's marine construction business as at 22 December 2011, being the completion date of the Clough Business Acquisition in accordance with the requirements set out in the Master Sale and Purchase Agreement dated 8 August 2011 entered into between SapuraCrest and its wholly-owned subsidiary, SPAPL, and Clough and certain of its subsidiaries
ESOS	Employee Share Option Scheme
FRS	Financial Reporting Standards in Malaysia
FYE	Financial year ended
Kencana Petroleum	Kencana Petroleum Berhad
Kencana Petroleum Disposal, Capital Reduction and Repayment	Disposal of the entire business and undertakings, including all assets and liabilities of Kencana Petroleum to SKPB and the distribution of the disposal consideration to the shareholders of Kencana Petroleum which comprise of new SKPB Shares and cash payment, via a capital reduction and repayment exercise
Kencana Petroleum Group	Collectively, Kencana Petroleum and its subsidiaries
Listing	Listing of SKPB on the Main Market of Bursa Securities
Proposals	Collectively, Acquisitions and Listing

## 9. FINANCIAL INFORMATION (cont'd)

## APPENDIX A

**SAPURAKENCANA PETROLEUM BERHAD**  
**(FORMERLY KNOWN AS SAPURA-KENCANA PETROLEUM BERHAD)**  
**NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

## 1. Abbreviations (Cont'd)

Prospectus	Prospectus of SKPB for the Listing
SapuraCrest	SapuraCrest Petroleum Berhad
SapuraCrest Disposal, Capital Reduction and Repayment	Disposal of the entire business and undertakings, including all assets and liabilities of SapuraCrest to SKPB and the distribution of the disposal consideration to the shareholders of SapuraCrest, which comprise of new SKPB Shares and cash payment, via a capital reduction and repayment exercise
SapuraCrest Group	Collectively, SapuraCrest and its subsidiaries
SC	Securities Commission Malaysia
SKPB	SapuraKencana Petroleum Berhad ( <i>formerly known as Sapura-Kencana Petroleum Berhad</i> )
SKPB Group	Collectively, SKPB and its proposed subsidiaries
SKPB Shares	Ordinary shares of RM1.00 each in SKPB
SPAPL	Sapura Petroleum (Australia) Pty Ltd
Transaction Expenses	The estimated transaction expenses of SKPB in relation to the Proposals
Upfront Funding Costs	The estimated upfront funding costs consisting of upfront fees and stamp duty in relation to the borrowing for the Acquisitions

## 2. Introduction

The unaudited pro forma consolidated financial information, comprising the unaudited pro forma consolidated income statements for the latest three financial years (as further elaborated in Note 3 below), the unaudited pro forma consolidated statement of financial position as at 31 January 2012, and the unaudited pro forma consolidated statement of cash flows for FYE 31 January 2012 have been prepared for inclusion in the Prospectus in connection with the Proposals.

The Acquisition of SapuraCrest Business will be satisfied by a total consideration of RM5,872,923,260 which is equivalent to RM4.60 per ordinary share of RM0.20 each multiplied by 1,276,722,448 SapuraCrest shares in issue as at 8 July 2011.

The Acquisition of Kencana Petroleum Business will be satisfied by a total consideration of RM5,979,564,078 which is equivalent to RM3.00 per ordinary share of RM0.10 each multiplied by 1,993,188,026 enlarged Kencana Petroleum shares, assuming exercise of all outstanding ESOS.

## 9. FINANCIAL INFORMATION (cont'd)

## APPENDIX A

**SAPURAKENCANA PETROLEUM BERHAD  
(FORMERLY KNOWN AS SAPURA-KENCANA PETROLEUM BERHAD)  
NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

## 3. Basis of preparation

- 3.1 SKPB is a special purpose private limited company incorporated on 30 June 2011 to undertake the Proposals. The financial year end of SKPB is 31 January and the unaudited pro forma consolidated financial information is prepared based on the financial year end of SKPB.
- 3.2 The unaudited pro forma consolidated financial information has been prepared to illustrate:
- (a) The unaudited pro forma consolidated financial information comprising the unaudited pro forma consolidated income statements as set out below, the unaudited pro forma consolidated statement of financial position as at 31 January 2012 and the unaudited pro forma consolidated statement of cash flows for the FYE 31 January 2012 for inclusion in the Prospectus.

SapuraCrest and Kencana Petroleum have statutory financial year ends of 31 January and 31 July respectively. The unaudited pro forma consolidated income statements for the FYE 31 January 2010, 2011 and 2012 have been prepared based on:

<b>Pro forma FYE 31 January 2010</b>	SapuraCrest Group's results for FYE 31 January 2009 and Kencana Petroleum Group's results for FYE 31 July 2009
<b>Pro forma FYE 31 January 2011</b>	SapuraCrest Group's results for FYE 31 January 2010 and Kencana Petroleum Group's results for FYE 31 July 2010
<b>Pro forma FYE 31 January 2012</b>	SapuraCrest Group's results for FYE 31 January 2011 and Kencana Petroleum Group's results for FYE 31 July 2011

The unaudited pro forma consolidated income statements for FYE 31 January 2010, 2011 and 2012, which have been prepared for illustrative purposes to show the aggregate results of SKPB Group, were prepared on the assumption that SKPB Group have been in existence throughout the financial years under review.

The unaudited pro forma consolidated statement of financial position of SKPB Group as at 31 January 2012 have been prepared for illustrative purposes only to show the effects of the drawdown of borrowing, Upfront Funding Costs and Transaction Expenses, Acquisitions (including exercise of Kencana Petroleum's outstanding ESOS, issuance of Sukuk Mudharabah and Clough Business Acquisition) and Listing with the assumption that these transactions were completed on 31 January 2012. The unaudited pro forma consolidated statement of financial position as at 31 January 2012 have been prepared based on SKPB's statement of financial position as at 31 January 2012, SapuraCrest Group's statement of financial position as at 31 January 2011 and Kencana Petroleum Group's statement of financial position as at 31 July 2011.

## 9. FINANCIAL INFORMATION (cont'd)

### APPENDIX A

**SAPURAKENCANA PETROLEUM BERHAD  
(FORMERLY KNOWN AS SAPURA-KENCANA PETROLEUM BERHAD)  
NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

#### 3. Basis of preparation (Cont'd)

- (b) The unaudited pro forma consolidated statement of cash flows of SKPB Group for the FYE 31 January 2012 have been prepared for illustrative purposes only with the assumption that SKPB Group had been in existence throughout the FYE 31 January 2012. The unaudited pro forma consolidated statement of cash flows for the FYE 31 January 2012 have been prepared based on SKPB's statement of cash flows for FYE 31 January 2012, SapuraCrest Group's statement of cash flows for FYE 31 January 2011 and Kencana Petroleum Group's statement of cash flows for FYE 31 July 2011.

**3.3** The unaudited consolidated pro forma financial information have been prepared for illustrative purposes, based on:

- (a) the audited financial statements of SKPB for the FYE 31 January 2012;
- (b) the audited financial statements of SapuraCrest Group for the FYE 31 January 2009, 2010 and 2011; and
- (c) the audited financial statements of Kencana Petroleum Group for the FYE 31 July 2009, 2010 and 2011,

using the bases and accounting principles consistent with those currently adopted by SapuraCrest Group and Kencana Petroleum Group, which policies are those to be adopted by SKPB Group, after giving effect to the pro forma adjustments which are considered appropriate.

The audited financial statements of SKPB for the FYE 31 January 2012, SapuraCrest Group for the FYE 31 January 2009, 2010 and 2011 and Kencana Petroleum Group for the FYE 31 July 2009, 2010 and 2011 have been prepared in accordance with FRS.

#### 4. Pro forma 1 – Drawdown of borrowing

Pro forma 1 incorporates the audited statement of financial position of SKPB as at 31 January 2012 and the effects of the drawdown of borrowing by SKPB. The total cash drawdown of RM2,050,000,000 is to be used for among others, part settlement of the considerations for the Acquisitions, Upfront Funding Costs, fixed deposits of 3 months interest of the said borrowing and the Transaction Expenses.

The borrowing is repayable over a 5-year period from the date of drawdown.

## 9. FINANCIAL INFORMATION (cont'd)

## APPENDIX A

SAPURAKENCANA PETROLEUM BERHAD  
 (FORMERLY KNOWN AS SAPURA-KENCANA PETROLEUM BERHAD)  
 NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

## 5. Pro forma 2 – Acquisition of SapuraCrest Business

Pro forma 2 incorporates the effects of pro forma 1 and Acquisition of SapuraCrest Business net of estimated transaction expenses of RM5,600,000 in relation to the SapuraCrest Disposal, Capital Reduction and Repayment for a total consideration of RM5,872,923,260. The consideration shall be satisfied by:

- (a) The issuance of 2,498,928,847 SKPB Shares at an issue price of RM2.00 per SKPB Share amounting to RM4,997,857,694. This will give rise to a merger relief reserve of RM2,498,928,847 pursuant to Section 60(4) of the Companies Act, 1965; and
- (b) Cash payment of RM875,065,566.

For illustrative purpose, the fair value of the new SKPB Shares is assumed to be at RM2.00 based on the offer letters dated 11 July 2011 from SKPB to SapuraCrest and Kencana Petroleum, respectively.


In accordance with FRS 3 *Business Combinations*, the entity that obtains control of the acquiree will be identified as the acquirer. However, as SKPB is a new entity which was formed to undertake the Proposals, one of the entities that existed before the completion of Proposals, i.e. SapuraCrest or Kencana Petroleum shall be identified as the acquirer.

Taking into consideration the guidance in FRS 3, SapuraCrest is the deemed acquirer based on the following factors:

- (a) The acquirer is usually the entity that holds the largest minority voting interest in SKPB upon completion of the Proposals. In this case, the major shareholder of SapuraCrest, namely Sapura Technology Berhad, would have the largest minority voting interest in SKPB upon completion of the Proposals; and
- (b) The acquirer is usually the entity whose relative size is significantly greater than that of the other entity. In determining relative size, the total assets, revenue, net profit of SapuraCrest and Kencana Petroleum based on SapuraCrest's audited consolidated financial statements for the financial year ended 31 January 2011 and Kencana Petroleum's audited consolidated financial statements for the financial year ended 31 July 2011 were used in ascertaining the relative size. Based on the foregoing, SapuraCrest's relative size is greater than Kencana Petroleum.

The combination of SKPB and SapuraCrest is accounted for under the pooling of interest method resulting in a merger deficit calculated as follows:

	RM'000
Purchase consideration	5,872,923
Less: Share capital of SapuraCrest	(255,344)
Share premium of SapuraCrest	(505,337)
Merger deficit	5,112,242
Less: Merger relief	(2,498,929)
Merger deficit in pro forma 2	2,613,313

 <b>ERNST &amp; YOUNG</b> (AF: 0039) Chartered Accountants, Kuala Lumpur For identification purposes only	5,112,242 (2,498,929) 2,613,313
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## 9. FINANCIAL INFORMATION (cont'd)

## APPENDIX A

**SAPURAKENCANA PETROLEUM BERHAD**  
**(FORMERLY KNOWN AS SAPURA-KENCANA PETROLEUM BERHAD)**  
**NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

## 5. Pro forma 2 – Acquisition of SapuraCrest Business (Cont'd)

On 8 August 2011, SapuraCrest together with its wholly owned subsidiary, SPAPL have entered into a conditional Master Sale and Purchase agreement with Clough on Clough Business Acquisition for a total purchase consideration of AUD79,107,280 and USD50,000,000 (equivalent to RM412 million) ("Purchase Consideration")

Subsequently, on 22 December 2011, SapuraCrest, SPAPL and Clough have entered into an amended and restated Master Sale and Purchase Agreement and completed the Clough Business Acquisition on the same day. The Purchase Consideration was financed partially by internally generated funds of RM95 million and external borrowings of RM317 million.

On 22 February 2012, the Purchase Consideration has been adjusted to AUD125,871,172 (equivalent to RM403 million) as agreed with Clough.

The Clough Business Acquisition is accounted for using acquisition method resulting in a goodwill calculated as follows:

	RM'000
Purchase consideration	403,178
Less: Fair value of net tangible assets acquired*	<u>(310,110)</u>
Goodwill	<u>93,068</u>

\* For illustrative purpose only, the fair value of net assets acquired is assumed to be equivalent to the net tangible assets acquired based on the Completion Accounts. The fair value of net assets acquired may change upon the completion of the purchase price allocation exercise (to be completed within one year from the acquisition date) on the assets and liabilities acquired.

Pro forma 2 has also incorporated the effects of the above mentioned Clough Business Acquisition and the transaction expenses in relation to Clough Business Acquisition of RM10,000,000.

## 6. Pro forma 3 – Acquisition of Kencana Petroleum Business

Pro forma 3 incorporates the effects of pro forma 2 and the Acquisition of Kencana Petroleum Business net of estimated transaction expenses of RM15,000,000 in relation to the Kencana Petroleum Disposal, Capital Reduction and Repayment for a total consideration of RM5,979,564,078. The consideration shall be satisfied by:

- (a) The issuance of 2,505,437,349 SKPB Shares at an issue price of RM2.00 per SKPB Share amounting to RM5,010,874,698. This will give rise to a merger relief reserve of RM2,505,437,349 pursuant to Section 60(4) of the Companies Act, 1965; and
- (b) Cash payment of RM968,689,380.

## 9. FINANCIAL INFORMATION (cont'd)

## APPENDIX A

SAPURAKENCANA PETROLEUM BERHAD  
 (FORMERLY KNOWN AS SAPURA-KENCANA PETROLEUM BERHAD)  
 NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

## 6. Pro forma 3 – Acquisition of Kencana Petroleum Business (Cont'd.)

For illustrative purpose, the fair value of the new SKPB Shares is assumed to be at RM2.00 based on the offer letters dated 11 July 2011 from SKPB to SapuraCrest and Kencana Petroleum, respectively. The Acquisition of Kencana Petroleum Business is accounted for using acquisition method resulting in a goodwill calculated as follows:

	RM'000
Purchase consideration	5,979,564
Less: Fair value of net tangible assets acquired*	<u>(1,315,560)</u>
Goodwill	<u>4,664,004</u>

\* For illustrative purpose only, the fair value of net assets acquired is assumed to be equivalent to the book value of net tangible assets acquired after adjusting for the estimated transaction expenses and the exercise of the outstanding ESOS. The fair value of net assets acquired may change upon the completion of the purchase price allocation exercise (to be completed within one year from the acquisition date) on the assets and liabilities acquired.

The merger deficit in pro forma 2 is further reduced from RM2,613,313,031 to RM107,875,682 in pro forma 3 by utilising the above mentioned merger relief reserve.

As at 31 July 2011, Kencana Petroleum has 5,408,521 outstanding ESOS which are exercisable at exercise prices ranging from RM0.84 to RM2.41. The ESOS has expired on 14 November 2011. From 1 August 2011 to 14 November 2011, 5,406,194 outstanding ESOS were exercised totalling to RM7,768,733. Pro forma 3 has incorporated the effect of the above mentioned exercised ESOS.

In August 2011, Kencana Petroleum has issued RM500,000,000 in nominal value of Sukuk Mudharabah out of the full programme size of RM700,000,000. The Sukuk Mudharabah is issued at a discount with coupon rate of 3.9% per annum. The issuance costs of the Sukuk Mudharabah of RM3,000,000 are set off against the Sukuk Mudharabah. The net amount received from the above program was RM462,440,000. Pro forma 3 has incorporated the effect of the issuance of the Sukuk Mudharabah.

## 7. Pro forma 4 – Listing, Upfront Funding Costs and Transaction Expenses

Pro forma 4 incorporates the effect of pro forma 3, the Listing and Transaction Expenses. The Transaction Expenses is estimated to be RM94,875,000 and is to be financed via borrowing mentioned in pro forma 1.

It is estimated that RM35,875,000 will be incurred as Upfront Funding Costs. The borrowing are recognized initially at fair value, net of Upfront Funding Cost incurred.