

# VELESTO ENERGY BERHAD

(COMPANY NO : 878786-H)

(INCORPORATED IN MALAYSIA)

## Condensed Consolidated Statement Of Comprehensive Income

For The Third Quarter Ended 30th September 2019

( The Figures Have Not Been Audited )

	Current Quarter Ended 30/09/2019 RM'000	Comparative Quarter Ended 30/09/2018 RM'000	9 Months Cumulative To Date 30/09/2019 RM'000	Comparative 9 Months Cumulative To Date 30/09/2018 RM'000
<b><u>Continuing Operations</u></b>				
Revenue	208,573	150,324	492,654	383,929
Operating Expenses	(156,135)	(144,616)	(410,349)	(387,879)
Other Operating Income	1,954	36	2,626	24,536
<b>Profit From Operations</b>	<b>54,392</b>	<b>5,744</b>	<b>84,931</b>	<b>20,586</b>
Finance Costs	(20,684)	(21,172)	(63,280)	(62,691)
Share Of Profits Of Associated Company	61	63	178	196
Investment Income	2,056	2,000	6,070	8,825
<b>Profit / (Loss) Before Tax From Continuing Operations</b>	<b>35,825</b>	<b>(13,365)</b>	<b>27,899</b>	<b>(33,084)</b>
Taxation	(2,496)	(245)	(5,032)	(432)
<b>Profit / (Loss) From Continuing Operations, Net Of Tax</b>	<b>33,329</b>	<b>(13,610)</b>	<b>22,867</b>	<b>(33,516)</b>
<b><u>Other Comprehensive Income:</u></b>				
Translation Of Foreign Operations	27,059	58,854	21,000	52,624
Other Comprehensive Income, Net Of Tax	27,059	58,854	21,000	52,624
<b>Total Comprehensive Income For The Period</b>	<b>60,388</b>	<b>45,244</b>	<b>43,867</b>	<b>19,108</b>
<b><u>Profit / (Loss) For The Period Attributable To:</u></b>				
Equity Holders Of The Company	33,321	(13,569)	23,015	(32,634)
Non-controlling Interests	8	(41)	(148)	(882)
	<b>33,329</b>	<b>(13,610)</b>	<b>22,867</b>	<b>(33,516)</b>
<b><u>Total Comprehensive Income / (Loss) Attributable To:</u></b>				
Equity Holders Of The Company	60,518	45,285	44,117	20,036
Non-controlling Interests	(130)	(41)	(250)	(928)
	<b>60,388</b>	<b>45,244</b>	<b>43,867</b>	<b>19,108</b>
<b>Earnings / (Loss) Per Share Attributable To Equity Holders Of The Company:</b>				
Basic (Sen)	0.41	(0.17)	0.28	(0.40)

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying explanatory notes attached to the Interim Financial Statements)

**VELESTO ENERGY BERHAD**  
**Condensed Consolidated Statement Of Financial Position**

	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>As At</b>	<b>As At</b>
	<b>30/09/2019</b>	<b>31/12/2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>ASSETS</b>		
<b>Non-Current Assets</b>		
Property, Plant and Equipment	3,503,018	3,530,440
Land Use Rights	1,341	1,427
Right of Use Assets	8,127	-
Investment In Associate	1,928	2,245
Deferred Tax Assets	881	666
	<u>3,515,295</u>	<u>3,534,778</u>
<b>Current Assets</b>		
Inventories	185,776	179,504
Other Investments	118,932	165,606
Trade Receivables	250,532	234,244
Other Receivables	22,192	14,281
Deposits, Cash & Bank Balances	249,856	235,029
	<u>827,288</u>	<u>828,664</u>
<b>TOTAL ASSETS</b>	<u><b>4,342,583</b></u>	<u><b>4,363,442</b></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity Attributable To The Equity Holders Of The Company</b>		
Share Capital	4,054,817	4,054,817
Capital Contribution - ESOS	3,187	3,187
Warrant Reserve	211,876	211,876
Other Reserves	727,850	706,748
Accumulated Losses	(2,156,641)	(2,179,656)
	<u>2,841,089</u>	<u>2,796,972</u>
Non-controlling Interests	1,280	1,530
<b>TOTAL EQUITY</b>	<u><b>2,842,369</b></u>	<u><b>2,798,502</b></u>
<b>Non-Current Liabilities</b>		
Long Term Borrowings	1,026,926	1,348,379
Lease Liabilities	7,520	-
	<u>1,034,446</u>	<u>1,348,379</u>
<b>Current Liabilities</b>		
Taxation	3,546	336
Short Term Borrowings	315,196	88,828
Lease Liabilities	757	-
Trade Payables	107,623	89,336
Other Payables	38,646	38,061
	<u>465,768</u>	<u>216,561</u>
<b>TOTAL LIABILITIES</b>	<u><b>1,500,214</b></u>	<u><b>1,564,940</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u><b>4,342,583</b></u>	<u><b>4,363,442</b></u>
<b>Net Assets Per Share (RM)</b>	<b>0.3458</b>	<b>0.3404</b>

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying explanatory notes attached to the Interim Financial Statements)

## VELESTO ENERGY BERHAD

### Condensed Consolidated Statement Of Changes In Equity For The Period Ended 30th September 2019

	← Non - Distributable						Distributable →				
	Share Capital RM'000	Share Options Reserve RM'000	RCPS-i RM'000	Warrant Reserve RM'000	Capital Reserve RM'000	Foreign Currency Translation Reserve RM'000	Gain On Derecognition of Intercompany Financial Liabilities RM'000	Accumulated Losses RM'000	Total RM'000	Non - Controlling Interests RM'000	Total Equity RM'000
<b>9 MONTHS ENDED 30TH SEPTEMBER 2019</b>											
At 1st January 2019	4,054,817	3,187	-	211,876	698	627,905	78,145	(2,179,656)	2,796,972	1,530	2,798,502
Transactions With Owners											
Total Comprehensive Income / (Loss)	-	-	-	-	-	21,102	-	23,015	44,117	(250)	43,867
At 30th September 2019	4,054,817	3,187	-	211,876	698	649,007	78,145	(2,156,641)	2,841,089	1,280	2,842,369

### Condensed Consolidated Statement Of Changes In Equity For The Period Ended 30th September 2018

	← Non - Distributable						Distributable →				
	Share Capital RM'000	Share Options Reserve RM'000	RCPS-i RM'000	Warrant Reserve RM'000	Capital Reserve RM'000	Foreign Currency Translation Reserve RM'000	Gain On Derecognition of Intercompany Financial Liabilities RM'000	Accumulated Losses RM'000	Total RM'000	Non - Controlling Interests RM'000	Total Equity RM'000
<b>9 MONTHS ENDED 30TH SEPTEMBER 2018</b>											
At 1st January 2018	3,732,346	3,243	322,471	211,876	698	574,712	78,145	(2,160,128)	2,763,363	830	2,764,193
Transactions With Owners											
Conversion Of RCPS-i To Share Capital	322,471	-	(322,471)	-	-	-	-	-	-	-	-
Disposal Of A Subsidiary	-	(56)	-	-	-	-	-	-	(56)	1,539	1,483
Total Comprehensive Income / (Loss)	-	-	-	-	-	52,670	-	(32,634)	20,036	(928)	19,108
At 30th September 2018	4,054,817	3,187	-	211,876	698	627,382	78,145	(2,192,762)	2,783,343	1,441	2,784,784

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying explanatory notes attached to the Interim Financial Statements)

## VELESTO ENERGY BERHAD

### Condensed Consolidated Statement Of Cash Flows For The Period Ended 30th September 2019

	<b>(Unaudited) 9 Months Ended 30/09/2019 RM'000</b>	<b>(Unaudited) 9 Months Ended 30/09/2018 RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit / (Loss) Before Tax	27,899	(33,084)
Adjustments For:		
Depreciation & Amortisation	146,406	136,192
Interest Expense	63,280	62,691
Share Of Results Of Associate	(178)	(196)
Investment Income	(6,070)	(8,825)
Net (Gain) / Loss On Disposal Of Property, Plant & Equipment	592	1,006
Net Unrealised Foreign Exchange (Gain) / Loss	2,356	5,118
Net Fair Value Gain On Money Market Fund	(359)	(15)
Property, Plant & Equipment Written Off	-	3,806
Operating Profit Before Working Capital Changes	<u>233,926</u>	<u>166,693</u>
(Increase) / Decrease In Receivables	(25,085)	40,608
(Increase) / Decrease In Inventories	(4,617)	532
Increase / (Decrease) In Payables	<u>21,868</u>	<u>(40,079)</u>
Cash Generated From Operating Activities	<u>226,092</u>	<u>167,754</u>
Interest Paid	(64,312)	(65,592)
Taxes Paid	<u>(6,913)</u>	<u>(262)</u>
Net Cash Generated From Operating Activities	<u>154,867</u>	<u>101,900</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase Of Property, Plant & Equipment	(81,665)	(24,277)
Proceeds From Disposal Of Property, Plant & Equipment	162	1,242
Net Proceeds From Disposal Of Subsidiary	-	67
Interest Received	6,070	19,316
Dividend Received From Associate	343	307
Investment In Money Market Fund	-	(189,127)
Proceeds From Disposal Of Money Market Fund	<u>50,175</u>	<u>25,084</u>
Net Cash Used In Investing Activities	<u>(24,915)</u>	<u>(167,388)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Movement In Short Term Borrowings	208,941	(389,289)
Repayment Of Long Term Borrowings	(325,610)	(29,700)
Placement Of Restricted Cash Deposits In Licensed Bank	<u>(23,837)</u>	<u>(30,918)</u>
Net Cash Used In Financing Activities	<u>(140,506)</u>	<u>(449,907)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(10,554)	(515,395)
<b>CASH AND CASH EQUIVALENTS AS AT 1ST JANUARY</b>	187,437	669,853
<b>EFFECTS OF EXCHANGE RATE CHANGES</b>	1,544	1,309
<b>CASH AND CASH EQUIVALENTS AS AT 30TH SEPTEMBER</b>	<u>178,427</u>	<u>155,767</u>
<b>Cash and Cash Equivalents comprise:</b>		
Deposits, Cash & Bank Balances	249,856	197,579
Less: Restricted cash	<u>(71,429)</u>	<u>(41,812)</u>
	<u>178,427</u>	<u>155,767</u>

(The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying explanatory notes attached to the Interim Financial Statements)

## Explanatory Notes

### NOTE 1 – Significant accounting policies

#### Basis of preparation

The interim financial statements have been prepared in accordance with the requirements of International Accounting Standards (“IAS”) 34, Interim Financial Reporting and Malaysian Financial Reporting Standards (“MFRS”) 134, Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The significant accounting policies and methods of computation in the interim financial statements are consistent with those in the annual audited financial statements for the year ended 31st December 2018, except for the adoption of the following MFRS/ Amendments/Interpretations effective 1 January 2019:

- a) MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)
- b) MFRS 119 Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119)
- c) MFRS 16 Leases
- d) MFRS 128 Long-term interests in Associates and Joint Ventures (Amendments to MFRS128)
- e) IC Interpretation 23 Uncertainty over Income Tax Treatments
- f) Annual Improvements to MFRS Standards 2015–2017 Cycle

The Group has adopted the new and revised MFRSs and IC Interpretations that are relevant and effective for accounting periods beginning on or after 1st January 2019. The adoption of these new and revised MFRSs and IC Interpretations have not resulted in any material impact on the financial statements of the Group as mentioned below:

#### MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Leases-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under MFRS 16 is substantially unchanged from today’s accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

As allowed by the transitional provision of MFRS 16, the Group has elected the modified retrospective approach with no restatement of comparative. Right of use assets are measured at an amount equal to the lease liability amount on the date of transition.

## MFRS 16 Leases (Cont'd):

The adoption of MFRS 16 have the following impact on the unaudited consolidated financial statements for the period ended 30th September 2019:

	Unaudited 30/09/2019	Impact of MFRS 16 adoption	Unaudited 30/09/2019 with adoption of MFRS 16
	RM'000	RM'000	RM'000
<b>Consolidated Statement Of Financial Position</b>			
Right of Use Assets	-	8,127	8,127
Lease Liabilities	-	8,277	8,277
<b>Consolidated Statement Of Comprehensive Income</b>			
Depreciation	145,144	1,262	146,406
Other operating expenses	265,405	(1,462)	263,943
Finance costs	62,931	349	63,280

## Standards issued but not yet effective:

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but not yet effective and have not been applied by the Group:

- Amendments to MFRS 3, Business Combinations – Definition of a Business (effective 1 January 2020)
- Amendments to MFRS 101, Presentation of Financial Statements (effective 1 January 2020)
- Amendments to MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material (effective 1 January 2020)
- MFRS 17, Insurance Contracts (effective 1 January 2021)
- Amendments to MFRS 10 and MFRS 128, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Deferred)

## NOTE 2 – Seasonal or Cyclical Factors

The Group is principally engaged in:

- (a) the provision of drilling services for exploration, development and production wells and workover services to the upstream sector of the oil and gas industry; and
- (b) the provision of threading, inspection and repair services for Oil Country Tubular Goods, with a focus on premium connections used in high-end and complex wells.

The Group's products and services are dependent on the level of activity, and the corresponding capital spending by oil and gas companies. These oil and gas companies are affected by volatile oil and natural gas prices, and cyclical in the offshore drilling and oilfield services industries.

## NOTE 3 – Exceptional Items

There were no material unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period ended 30th September 2019.

#### NOTE 4 – Accounting Estimates

There were no changes in estimates of amounts reported in prior interim periods of the current financial year and in prior financial years that have a material effect during the financial period ended 30th September 2019.

#### NOTE 5 – Issuance or Repayment of Debt and Equity Securities

There were no issuances, repurchases or repayments of debt securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the financial period ended 30th September 2019.

#### NOTE 6 – Dividends Paid

There were no dividends paid during the period ended 30th September 2019.

#### NOTE 7 – Segmental Reporting

	Financial Period Ended 30th September 2019		
Business Segment	Revenue RM'000	Profit / (Loss) Before Tax RM'000	Profit / (Loss) Attributable to Owners of the Company RM'000
Drilling Services	484,425	46,295	43,115
Oilfield Services	7,778	1,390	993
Others	451	(19,786)	(21,093)
<b>Consolidated Total</b>	<b>492,654</b>	<b>27,899</b>	<b>23,015</b>

	Financial Period Ended 30th September 2018		
Business Segment	Revenue RM'000	Profit / (Loss) Before Tax RM'000	Profit / (Loss) Attributable to Owners of the Company RM'000
Drilling Services	370,561	(31,351)	(31,631)
Oilfield Services	12,552	(7,387)	(6,607)
Others	816	5,654	5,604
<b>Consolidated Total</b>	<b>383,929</b>	<b>(33,084)</b>	<b>(32,634)</b>

The decrease in total assets from RM4,363.4 million to RM4,342.6 million during the financial period ended 30th September 2019 was mainly due to the depreciation of RM146.4 million of the Group's fixed assets. The deposit, cash and bank balances and other investments have reduced by RM31.8m mainly due to the net repayment of borrowings amounting to RM116.7 million, which includes quarterly instalment commitments and additional partial prepayment to pare down the term loan. The decrease was offset with the additions of property, plant and equipment of RM81.7 million mainly from the jack-up rigs 5-yearly special periodic survey.

Total liabilities reduced mainly due to reduction of term borrowings from repayment and partial prepayment of loan during the period.

Other than the above, there has been no other material movement in total assets and total liabilities as compared to the last annual financial statements.

## NOTE 8 – Subsequent Material Events

In the opinion of the Directors, there has been no material event or transaction during the period from 30th September 2019 to the date of this announcement, which substantially affects the results of the Group for the financial period ended 30th September 2019.

## NOTE 9 – Changes in Composition / Group

1. On 21st February 2019, the Board of Directors of the Group announced the incorporation of the following nine new subsidiaries in Malaysia under the Companies Act, 2016:
  - a) Velesto Rig Asset Sdn Bhd
  - b) Velesto Sumber Sdn Bhd
  - c) Velesto Drilling 2 Sdn Bhd
  - d) Velesto Drilling 3 Sdn Bhd
  - e) Velesto Drilling 4 Sdn Bhd
  - f) Velesto Drilling 5 Sdn Bhd
  - g) Velesto Drilling 6 Sdn Bhd
  - h) Velesto Drilling 7 Sdn Bhd
  - i) Velesto Drilling 8 Sdn Bhd

The above mentioned companies are wholly owned subsidiaries of Velesto Malaysian Ventures Sdn Bhd, with an initial issued and paid-up capital of RM2.

The above changes are not expected to have any material effect on the net assets per share, earnings per share and gearing of the Group for the financial period ended 30th September 2019.

Other than the above, there were no other changes in the composition of the Group during the financial period ended 30th September 2019.

## NOTE 10 – Commitments for the purchase of Property, Plant and Equipment

These are in respect of capital commitments:

	RM'000	RM'000
<b>Approved and contracted for:</b>		
Land and buildings	251	
Equipment, plant and machinery	22,131	
Others	287	22,669
	<hr/>	
<b>Approved but not contracted for:</b>		
Land and buildings	3,653	
Equipment, plant and machinery	111,369	
Others	2,577	117,599
<b>Total</b>	<hr/>	<hr/> <b>140,268</b>

## NOTE 11 - Significant Related Party Transactions

There were no significant related party transactions for the period ended 30th September 2019.

## NOTE 12 – Classification of Financial Assets

There were no changes in the classification of financial assets as a result of a change in the purpose or use of the asset.

## NOTE 13 – Changes in Contingent Liabilities and Contingent Assets

There were no material contingent liabilities and contingent assets as at 30th September 2019.

## NOTE 14 – Review of Performance

### Current Quarter Ended 30th September 2019

	Revenue		Profit / (Loss) Before Tax	
	3rd Quarter ended 30/09/2019 RM'000	3rd Quarter ended 30/09/2018 RM'000	3rd Quarter ended 30/09/2019 RM'000	3rd Quarter ended 30/09/2018 RM'000
<b>Business Segment</b>				
Drilling Services	205,175	144,998	42,016	(4,146)
Oilfield Services	3,214	4,907	1,369	(4,108)
Others	184	419	(7,560)	(5,111)
<b>Total</b>	<b>208,573</b>	<b>150,324</b>	<b>35,825</b>	<b>(13,365)</b>

### Group

Group revenue of RM208.6 million for the third quarter ended 30th September 2019 was higher than the RM150.3 million registered in the same quarter of 2018, an increase of RM58.3 million or 38.8%. It was mainly due to improved performance of the Drilling Services segment as a result of higher utilisation of rigs and average charter rate.

The Group recorded a profit before taxation of RM35.8 million in the third quarter of 2019 against a loss before taxation of RM13.4 million recorded in the same quarter of 2018, a significant improvement of RM49.2 million mainly due to higher revenue.

### Drilling Services Segment

In the third quarter of 2019, the Drilling Services segment contributed revenue of RM205.2 million or 98.4% of the total revenue for the Group, an increase of RM60.2 million or 41.5% from the RM145.0 million recorded in the same quarter of 2018. This was due to higher average jack-up rig utilisation of 92% as compared to 75% in the same period of 2018. In addition, the Hydraulic Workover Unit (HWU) also recorded higher revenue arising from higher utilisation and day rates in the current quarter of 2019.

Consequently, Drilling Services segment recorded a profit before taxation of RM42.0 million in the third quarter of 2019 compared to a loss of RM4.1 million reported in the same quarter of 2018.

### Oilfield Services Segment

The Oilfield Services segment contributed revenue of RM3.2 million or 1.5% of the total revenue of RM208.6 million in the third quarter of 2019. This was lower than the revenue registered in the same quarter of 2018 by RM1.7 million, mainly due to the cessation of business operation in Labuan.

Despite lower revenue, the Oilfield Services segment reported a profit before taxation of RM1.4 million in the third quarter of 2019 as compared to RM4.1 million loss recorded in the same quarter of 2018, a significant improvement of RM5.5 million. The loss in previous year corresponding period was due to a provision for retrenchment benefit amounting to approximately RM4.0 million for a subsidiary in Labuan as part of rationalisation exercise.

### Others Segment

Others segment recorded a higher loss before taxation of RM7.6 million as compared to loss of RM5.1 million mainly due to higher overhead expenses during the current period.

## Nine Months Ended 30th September 2019

	Revenue		Profit / (Loss) Before Tax	
	Nine months ended 30/09/2019 RM'000	Nine months ended 30/09/2018 RM'000	Nine months ended 30/09/2019 RM'000	Nine months ended 30/09/2018 RM'000
<b>Business Segment</b>				
Drilling Services	484,425	370,561	46,295	(31,351)
Oilfield Services	7,778	12,552	1,390	(7,387)
Others	451	816	(19,786)	5,654
<b>Total</b>	<b>492,654</b>	<b>383,929</b>	<b>27,899</b>	<b>(33,084)</b>

### Group

Group revenue of RM492.7 million for the nine months ended 30th September 2019 was higher than the RM383.9 million registered in the same period of 2018, an increase of RM108.8 million or 28.3% as a result of higher rigs utilisation and average charter rate.

In line with higher revenue, the Group posted a profit before tax of RM27.9 million for the nine-month period ended 30th September 2019 against a loss before tax of RM33.1 million recorded in the same period of 2018, a significant improvement of RM61.0 million.

### Drilling Services Segment

For the nine-month period of 2019, the Drilling Services segment contributed revenue of RM484.4 million or 98.3% of the total revenue for the Group, an increase of RM113.8 million or 30.7% from the RM370.6 million recorded in the same period of 2018. This was due to higher jack-up rigs utilisation of 77% as compared to 67% in the same period of 2018. In addition, our HWU also contributed to higher revenue for the nine months in 2019 following from the higher utilisation and day rates in 2019.

As a result, the Drilling Services segment incurred a profit before tax of RM46.3 million for the nine-month period ended 30th September 2019 compared to the loss of RM31.4 million reported in the same period of 2018, an improvement of RM77.7 million.

### Oilfield Services Segment

The Oilfield Services segment contributed revenue of RM7.8 million or 1.6% of the total revenue of RM492.7 million in the nine-month period of 2019. This was lower than the revenue registered in the same period of 2018 by RM4.8 million, mainly arising from the rationalisation exercise which was completed during the year 2018.

Consequently, the Oilfield Services segment reported a profit before taxation of RM1.4 million in the nine-month of 2019 as compared to RM7.4 million loss before taxation recorded in the same period of 2018, a significant improvement of RM8.8 million. Higher loss in previous year corresponding period was mainly due to a provision for retrenchment benefit amounting to approximately RM4.0 million for a subsidiary in Labuan

### Others Segment

Others segment recorded loss before taxation of RM19.8 million as compared to profit before taxation of RM5.7 million. This was mainly due to the net foreign exchange gain of RM18.2 million resulted from early settlement of revolving credit in the previous year corresponding period. Lower investment income in the current period by RM3.1 million due to lower cash and other investment after paring down borrowings and higher overheads expenses contributed to further loss for the segment.

## NOTE 15 – Comparison with Preceding Quarter’s Results

	Revenue		Profit / (Loss) Before Tax	
	3rd Quarter ended 30/09/2019 RM'000	2nd Quarter ended 30/06/2019 RM'000	3rd Quarter ended 30/09/2019 RM'000	2nd Quarter ended 30/06/2019 RM'000
<b>Business Segment</b>				
Drilling Services	205,175	154,515	42,016	17,244
Oilfield Services	3,214	2,359	1,369	295
Others	184	178	(7,560)	(5,850)
<b>Total</b>	<b>208,573</b>	<b>157,052</b>	<b>35,825</b>	<b>11,689</b>

Group revenue of RM208.6 million for the third quarter of 2019 was higher than the RM157.1 million achieved in the second quarter of 2019, an increase of RM51.5 million or 32.8%. Higher revenue in the current quarter was due to higher jack-up rigs utilisation of 92% as compared to 74% in the previous quarter. In addition, our HWU contributed higher revenue in third quarter 2019 due to the commencement of additional contract.

As a result, the Group posted a higher profit before taxation of RM35.8 million in the third quarter of 2019 compared to a profit before taxation of RM11.7 million reported in the previous quarter. Drilling Services segment recorded a significant increase in profit as a result of higher rigs utilisation.

## NOTE 16 – Current Prospect

### Drilling Services Segment

The current global issues on the economy and its growth continue to influence benchmark Brent oil price. The oil price continue to hover around USD60 per barrel as the positive and negative developments continue to balance each other. Supporting the price are the continued production quota by the Organisation of the Petroleum Exporting Countries (“OPEC”) and non-OPEC major producers, the Iran and Venezuela sanctions and the declining production capability of some of the major producers. The growth in US shale production is also expected to decline in 2020. The main threat remains to be the potential slowdown in global economy due to continuing US-China trade war.

Drilling activities have continued to increase with more contracts being tendered out and awarded, both locally and globally. The Group’s seven jack-up drilling rigs are under contracts. However, Naga 3 and Naga 7 are currently undergoing the mandatory five-yearly Special Periodic Survey (SPS). After completion of the SPS which is expected towards the end of the year, both are scheduled to resume work under their existing respective contracts. With the continuation of the long term contracts awarded in 2019, the rigs utilisation is expected to continue to be high in 2020.

The demand for hydraulic workover units is also improving with two of the four units owned by the Group contracted in 2019, while a number of tenders are presently in progress.

The continued demand in both jack-up drilling rigs and hydraulic workover units is expected to benefit the Group, being the main player with strong domestic and regional track records. Improvements in time charter rates and contract durations are also seen based on recently awarded contracts.

### Oilfield Services Segment

Notwithstanding the business outlook has shown some improvement, the Group will continuously evaluate the viability of the subsidiary operating under this segment.

### Group

Based on the higher utilisation and time charter rates for the Group’s assets in the second half of the year, the Board expects an improved financial performance for the Group in 2019.

**NOTE 17 – Statement on Revenue and Profit Forecast**

This is not applicable to the Group.

**NOTE 18 – Variance from Profit Forecast and Profit Guarantee**

This is not applicable to the Group.

**NOTE 19 – Taxation**

	<b>3rd Quarter ended 30/09/2019 RM'000</b>	<b>Nine Months ended 30/09/2019 RM'000</b>
Taxation for current period	2,504	5,314
Under/(Over) provision in prior periods	12	(66)
	2,516	5,248
Deferred taxation	(20)	(216)
<b>Total</b>	<b>2,496</b>	<b>5,032</b>

Several companies in the Group were profitable and in tax payable position while the rest of the companies were in a loss position. Hence the tax charge of RM2,496,000 and RM5,032,000 for the current quarter and the nine-month period ended 30th September 2019, respectively.

**NOTE 20 – Corporate Proposals**

- (a) The Company has announced on 30th August 2019, that the Company proposes to establish an employees' share option scheme ("ESOS") of up to 7.5% of the total number of issued shares of the Company (excluding treasury shares, if any) at any point in time over the duration of the ESOS for eligible executive directors and employees of the Company and its subsidiary companies (excluding subsidiary companies which are dormant) ("Proposed ESOS").

The approval for the establishment of an ESOS has been obtained from the shareholders of the Company at an extraordinary general meeting, which was convened on 31st October 2019. The Company has announced on 1st November 2019 that the first offer of options under the ESOS has been made to the executive director and eligible employees of the Company and its subsidiary companies (excluding subsidiary companies which are dormant).

Other than the above, there were no other corporate proposals announced but not completed at the date of this announcement.

**(b) Status of Utilisation of Proceeds**

Not applicable.

## NOTE 21 – Group Borrowings and Debt Securities

	USD'000 borrowings	RM'000 equivalent/ borrowings
Short term borrowings		
- Secured		
Revolving credit	50,000	209,450
Term loans payable within 12 months	25,244	105,746
	<u>75,244</u>	<u>315,196</u>
Long term borrowings		
- Secured		
Long term loans	276,053	1,156,389
Term loans payable within 12 months	(25,244)	(105,746)
Less: Transaction cost		(23,717)
	<u>250,809</u>	<u>1,026,926</u>
Grand Total	<u>326,053</u>	<u>1,342,122</u>

Movements of Borrowings	Revolving Credit RM '000	Short Term Borrowings RM '000	Long Term Borrowings RM '000	Total RM '000
Opening Balance	-	88,828	1,348,379	1,437,207
Transaction cost	-	-	30,995	30,995
Amount payable within 12 months	-	(88,828)	88,828	-
Adjusted Opening Balance	-	-	1,468,202	1,468,202
Exchange Difference	-	-	13,797	13,797
Repayment	-	-	(325,610)	(325,610)
	-	-	1,156,389	1,156,389
Transaction cost	-	-	(23,717)	(23,717)
Drawdown	209,450	-	-	209,450
Amount payable within 12 months	-	105,746	(105,746)	-
Closing Balance	<u>209,450</u>	<u>105,746</u>	<u>1,026,926</u>	<u>1,342,122</u>

## NOTE 22 – Material Litigation

Reference is made to the previous announcements made by the Company on enforcement proceeding against Frontier Oil Corporation (“FOC”) by Velesto Drilling Sdn Bhd (“VED”), a wholly-owned subsidiary of the Company at the Regional Trial Court, in Makati City, Philippines (“Makati Court”).

VED has on 18 October 2019 filed an ex parte motion for clarification and confidential treatment of information in the Petition for publication.

The Company will make further announcement on material development on this matter from time to time.

Other than the above, there was no other material litigation pending on the date of this announcement.

**NOTE 23 – Dividend**

No dividend has been recommended for the period ended 30th September 2019.

**NOTE 24 – Earnings Per Share**

Basic earnings per share for the current quarter and the nine-month period ended 30th September 2019 are calculated by dividing the net profit attributable to equity holders of the Company of RM33,321,000 and RM23,015,000 respectively, by the weighted average number of ordinary shares in issue as at 30th September 2019 of 8,215,600,000 shares.

**NOTE 25 – Audit Qualification**

The audit report in respect of the annual financial statements of the Company for the financial year ended 31st December 2018 was not qualified.

**NOTE 26 – Items to Disclose in the Statement of Comprehensive Income**

	<b>3rd Quarter ended 30/09/2019 RM'000</b>	<b>Nine Months ended 30/09/2019 RM'000</b>
(a) Interest income	1,070	2,937
(b) Other Investment Income	986	3,133
(c) Depreciation and amortisation	(52,358)	(146,406)
(d) Net gain/(loss) on disposal of property, plant and equipment	(650)	(592)
(e) Net foreign exchange gain / (loss)	(765)	(218)
(f) Property, plant and equipment written off and impairment	-	-

**By Order Of The Board**

**LEE MI RYOUNG**  
**Secretary**  
**(MAICSA 7058423)**

Kuala Lumpur  
28th November 2019