SCOMI ENERGY SERVICES BHD

Letter to Shareholders
Second Quarter 2016 Performance Update

27 November 2015

Dear Shareholders,

The activity level in the energy sector continues to be challenging due to the low crude oil price and the weak coal market. Amidst this demanding environment, the Group result for the quarter is encouraging.

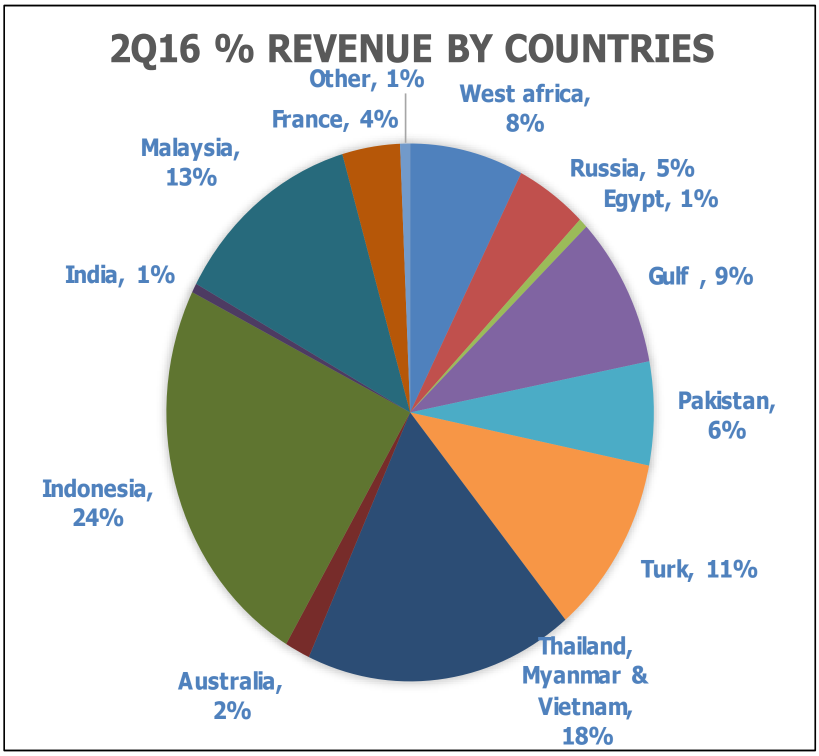
A snapshot of the Q2 results is as below:

Figures in MYR '000

	Q2 2016	**Q1 2016**
Revenue	294,449	333,803
GP	64,198	65,276
GP Margin	21.8%	19.6%
OPEX	46,229	44,116
PBT	17,291	17,577
PBT margin	5.9%	5.3%
PAT	9,283	11,662
PAT Margin	3.2%	3.5%
EBITDA	50,366	47,382
EBITDA margin	17.1%	14.2%

Revenue was lower by 11.8% as compared to the previous quarter in line with the market activity. Drilling Services contributed 85.2% of the revenue and the balance from Marine Services. As a multi-national company, our revenue is generated across the various countries we operate in. For the quarter, 87% of our revenue in Drilling Services was derived outside Malaysia. While activity in Malaysia and Indonesia remain subdued, other countries have cushioned the impact to a certain extent.

The Drilling Services revenue composition by countries for the quarter is as below:



Cost management has been a key focus area during the quarter. Gross Profit as a percentage, improved over the previous quarter as a result of various supply chain and cost optimization initiatives. Operating expenses was lower by 6.8% as compared to previous quarter in US$ terms, but the impact was negated by the weakening of MYR against US$. As compared to the average of previous year, operating expenses has dropped by 24% in the current quarter. These eventually resulted in PBT at RM17 million, the same level as the previous quarter. The weakening of the MYR also benefitted us, as our income is largely in US$ with local costs in MYR. EBITDA margin also increased over the previous quarter.

We also had another good quarter in terms of **cash flow**, with free cash flow of RM 49 million as compared to RM46 million in the previous quarter primarily contributed by reduction in operating costs and working capital management. These will continue to remain our key focus areas.

Tendering activity remained robust with over US$400 million of bids submitted in Q2. However, bid awards are being delayed due to the market environment.

Our balance sheet remains healthy with low debt level (net gearing of 0.20 times), steady cash balance, debtor days and inventory levels within expectations.

Drilling Services ("DS"):

Drilling Services profits improved over the previous quarter in spite of lower revenue. Cost management initiatives such as renegotiating prices with suppliers, identifying cheaper sources of chemicals and improving material planning process, and right-sizing helped push cost down.

Q2 revenue was RM250.9million which was lower by 11.6% as compared to the previous quarter. The drop was mainly due to the lower activity level particularly in Indonesia, Malaysia, West Africa and Turkmenistan.

A summary of the Drilling Services performance is as below:

Drilling Services Results

Figures in MYR '000

	Q2 2016	Q1 2016
Revenue	250,857	283,828
GP	63,803	63,958
GP Margin	25.4%	22.5%
OPEX	42,078	39,369
PBT	23,707	21,191
PBT margin	9.5%	7.5%
PAT	16,423	15,630
PAT Margin	6.5%	5.5%
EBITDA	44,891	40,601
EBITDA margin	17.9%	14.3%

Marine Services ("MS"):

The weak coal prices continue to weigh down recovery in activity level which translated to lower shipments. Nevertheless, the coal segment in Indonesia registered a 13% increase in revenue from the preceding quarter due to higher utilization of their vessels in Q2. On the other hand, the offshore vessel segment registered a 11% drop in revenue from the preceding quarter, as it continues to be affected by low utilization of vessels which were either into docking or off-hired. Overall, Marine Services accounted for RM43.6million in revenue in Q2, down by 12.8% as compared to the previous quarter.

Gross Profit also dropped to RM0.4million from RM1.3million in the previous quarter, primarily due to low margins in the offshore vessels segment.

Outlook

The dampening factors governing the Oil & Gas sector continues to cast a shadow on revenue growth. The expectation is for the crude oil prices to be subdued over the near term and as such activity levels are likely to remain low. The weak offshore oil and gas market also continues to impact our Marine Services performance.

In this challenging market environment, cash flow and cost optimization remains a focus area. We continue to explore new areas such as graphene enhanced drilling fluids and lubricants and well rejuvenation to drive revenue growth. On the Marine side, we continue to look towards expanding our marketing efforts across a wider geographical area.

The Development and Production Asset and Services segment continues to explore opportunities with active bidding and evaluation. Our joint venture in Ophir Production Sdn Bhd. continues to progress well.

While we continue to exercise prudence in this challenging market, the long term outlook is positive and we believe that the company has the right fundamentals to weather through this period.

On behalf of the Board of Directors and the entire management team, we would like to thank our customers, suppliers, distributors, employees, bankers and shareholders for their continued support.

RAMESH VEETIKAT RAMACHANDAN
Chief Financial Officer
Scomi Energy Services Bhd

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