

UMW OIL & GAS CORPORATION BERHAD

(COMPANY NO : 878786-H)
(INCORPORATED IN MALAYSIA)

Condensed Consolidated Statement Of Comprehensive Income For The Fourth Quarter Ended 31st December 2016

(The Figures Have Not Been Audited)

| | Current Quarter Ended 31/12/2016 RM'000 | Comparative Quarter Ended 31/12/2015 RM'000 | 12 Months Cumulative To Date 31/12/2016 RM'000 | (Audited) Comparative 12 Months Cumulative To Date 31/12/2015 RM'000 |
|--|---|---|--|--|
| <u>Continuing Operations</u> | | | | |
| Revenue | 53,466 | 131,310 | 320,808 | 839,877 |
| Operating Expenses | (162,790) | (176,438) | (657,674) | (838,503) |
| Impairment Provisions | (780,236) | (347,722) | (780,236) | (347,722) |
| Other Operating Income | 206 | 12 | 33,674 | 35,994 |
| Loss From Operations | (889,354) | (392,838) | (1,083,428) | (310,354) |
| Finance Costs | (33,319) | (22,906) | (117,314) | (64,059) |
| Share Of Profits Of Associated Company | 42 | 138 | 303 | 521 |
| Investment Income | 4,549 | 5,270 | 16,899 | 25,466 |
| Loss Before Tax From Continuing Operations | (918,082) | (410,336) | (1,183,540) | (348,426) |
| Taxation | (1,725) | 2,840 | (5,450) | (20,005) |
| Loss From Continuing Operations, Net Of Tax | (919,807) | (407,496) | (1,188,990) | (368,431) |
| <u>Other Comprehensive Income:</u> | | | | |
| Translation Of Foreign Operations | 208,659 | (107,541) | 95,580 | 501,174 |
| Cash Flow Hedge | 13,328 | 2,868 | 2,692 | 2,868 |
| Other Comprehensive Income / (Loss), Net Of Tax | 221,987 | (104,673) | 98,272 | 504,042 |
| Total Comprehensive (Loss) / Income For The Period | (697,820) | (512,169) | (1,090,718) | 135,611 |
| <u>Loss For The Period Attributable To:</u> | | | | |
| Equity Holders Of The Company | (918,429) | (406,101) | (1,186,184) | (369,277) |
| Non-controlling Interests | (1,378) | (1,395) | (2,806) | 846 |
| | <u>(919,807)</u> | <u>(407,496)</u> | <u>(1,188,990)</u> | <u>(368,431)</u> |
| <u>Total Comprehensive (Loss) / Income Attributable To:</u> | | | | |
| Equity Holders Of The Company | (695,648) | (510,673) | (1,086,412) | 133,174 |
| Non-controlling Interests | (2,172) | (1,496) | (4,306) | 2,437 |
| | <u>(697,820)</u> | <u>(512,169)</u> | <u>(1,090,718)</u> | <u>135,611</u> |
| LPS Attributable To Equity Holders Of The Company: | | | | |
| Basic (Sen) | (42.48) | (18.78) | (54.87) | (17.08) |

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

UMW OIL & GAS CORPORATION BERHAD

Condensed Consolidated Statement Of Financial Position

| | (Unaudited) As At 31/12/2016 RM'000 | (Audited) As At 31/12/2015 RM'000 |
|---|--|--|
| ASSETS | | |
| Non-Current Assets | | |
| Property, Plant and Equipment | 5,292,587 | 6,081,634 |
| Land Use Rights | 2,515 | 2,631 |
| Investment In Associate | 2,197 | 2,073 |
| Deferred Tax Assets | 207 | 204 |
| Derivative Assets | - | 2,636 |
| Deposits At Bank | 336,450 | - |
| | <u>5,633,956</u> | <u>6,089,178</u> |
| Current Assets | | |
| Inventories | 210,961 | 204,508 |
| Other Investments | - | 89,565 |
| Trade Receivables | 107,051 | 265,389 |
| Other Receivables | 41,644 | 20,638 |
| Derivative Assets | 5,560 | 232 |
| Due From Related Companies | 3,551 | 3,666 |
| Deposits, Cash & Bank Balances | 553,532 | 973,807 |
| | <u>922,299</u> | <u>1,557,805</u> |
| | <u>6,556,255</u> | <u>7,646,983</u> |
| TOTAL ASSETS | | |
| EQUITY AND LIABILITIES | | |
| Equity Attributable To The Equity Holders Of The Company | | |
| Share Capital | 1,081,000 | 1,081,000 |
| Share Premium | 1,372,819 | 1,372,819 |
| Other Reserves | 834,703 | 734,931 |
| Retained (Losses) / Profits | (1,041,934) | 144,250 |
| | <u>2,246,588</u> | <u>3,333,000</u> |
| Non-controlling Interests | 6,131 | 10,437 |
| TOTAL EQUITY | <u>2,252,719</u> | <u>3,343,437</u> |
| Non-Current Liabilities | | |
| Deferred Tax Liabilities | 1,228 | 1,098 |
| Due To Holding Company | 308,000 | - |
| Long Term Borrowings | 2,291,604 | 1,746,965 |
| | <u>2,600,832</u> | <u>1,748,063</u> |
| Current Liabilities | | |
| Taxation | 2,388 | 1,143 |
| Short Term Borrowings | 1,499,745 | 2,257,330 |
| Trade Payables | 146,316 | 236,596 |
| Other Payables | 51,976 | 57,639 |
| Due To Holding Company | 1,447 | - |
| Due To Related Companies | 832 | 2,775 |
| | <u>1,702,704</u> | <u>2,555,483</u> |
| TOTAL LIABILITIES | <u>4,303,536</u> | <u>4,303,546</u> |
| TOTAL EQUITY AND LIABILITIES | <u>6,556,255</u> | <u>7,646,983</u> |
| Net Assets Per Share (RM) | 1.0391 | 1.5416 |

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

UMW OIL & GAS CORPORATION BERHAD

Condensed Consolidated Statement Of Changes In Equity For The Year Ended 31st December 2016

| | ← Non - Distributable → | | | | | | | Distributable | | Non - Controlling Interests RM'000 | Total Equity RM'000 |
|---|----------------------------|----------------------------|---------------------------------------|------------------------------|---|---|-------------------------------|--|-----------------|---|---------------------------|
| | Share Capital RM'000 | Share Premium RM'000 | Share Options Reserve RM'000 | Capital Reserve RM'000 | Foreign Currency Translation Reserve RM'000 | Gain On Derecognition of Intercompany Financial Liabilities RM'000 | Hedging Reserves RM'000 | Retained Profits/(Losses) RM'000 | Total RM'000 | | |
| 12 MONTHS ENDED 31ST DECEMBER 2016 | | | | | | | | | | | |
| At 1st January 2016 | 1,081,000 | 1,372,819 | 3,243 | 698 | 649,977 | 78,145 | 2,868 | 144,250 | 3,333,000 | 10,437 | 3,343,437 |
| Total Comprehensive Income / (Loss) | - | - | - | - | 97,080 | - | 2,692 | (1,186,184) | (1,086,412) | (4,306) | (1,090,718) |
| At 31st December 2016 | 1,081,000 | 1,372,819 | 3,243 | 698 | 747,057 | 78,145 | 5,560 | (1,041,934) | 2,246,588 | 6,131 | 2,252,719 |

Condensed Consolidated Statement Of Changes In Equity For The Year Ended 31st December 2015

| | ← Non - Distributable → | | | | | | | Distributable | | Non - Controlling Interests RM'000 | Total Equity RM'000 |
|---|----------------------------|----------------------------|---------------------------------------|------------------------------|---|---|-------------------------------|-------------------------------|-----------------|---|---------------------------|
| | Share Capital RM'000 | Share Premium RM'000 | Share Options Reserve RM'000 | Capital Reserve RM'000 | Foreign Currency Translation Reserve RM'000 | Gain On Derecognition of Intercompany Financial Liabilities RM'000 | Hedging Reserves RM'000 | Retained Profits RM'000 | Total RM'000 | | |
| (AUDITED) | | | | | | | | | | | |
| 12 MONTHS ENDED 31ST DECEMBER 2015 | | | | | | | | | | | |
| At 1st January 2015 | 1,081,000 | 1,372,819 | 3,243 | 698 | 150,394 | 78,145 | - | 513,527 | 3,199,826 | 8,000 | 3,207,826 |
| Total Comprehensive Income / (Loss) | - | - | - | - | 499,583 | - | 2,868 | (369,277) | 133,174 | 2,437 | 135,611 |
| At 31st December 2015 | 1,081,000 | 1,372,819 | 3,243 | 698 | 649,977 | 78,145 | 2,868 | 144,250 | 3,333,000 | 10,437 | 3,343,437 |

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

UMW OIL & GAS CORPORATION BERHAD
Condensed Consolidated Statement Of Cash Flows
For The Year Ended 31st December 2016

| | 12 Months Ended 31/12/2016 RM'000 | (Audited) 12 Months Ended 31/12/2015 RM'000 |
|--|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss Before Tax | (1,183,540) | (348,426) |
| Adjustments For: | | |
| Depreciation & Amortisation | 285,361 | 246,119 |
| Impairment Loss On Goodwill | - | 11,291 |
| Impairment Loss On Property, Plant And Equipment | 780,236 | 336,431 |
| Net Loss On Disposal Of Property, Plant & Equipment | 260 | 69 |
| Net Inventories Written Down | 4,439 | - |
| Interest Expense | 117,314 | 64,059 |
| Share Of Results Of Associate | (303) | (521) |
| Net Fair Value Gain On Derivatives | - | (604) |
| Net Unrealised Foreign Exchange (Gain) / Loss | (30,770) | 1,586 |
| Net Fair Value Loss / (Gain) On Money Market Fund | 81 | (240) |
| Interest Income | (16,899) | (25,466) |
| Property, Plant & Equipment Written Off | 6,281 | 14,054 |
| Operating (Loss) / Profit Before Working Capital Changes | <u>(37,540)</u> | <u>298,352</u> |
| Decrease In Receivables | 143,544 | 198,294 |
| Increase In Inventories | (2,817) | (64,631) |
| Net Changes In Related Companies Balances (Decrease) / Increase In Payables | <u>(103,094)</u> | <u>26,557</u> |
| Cash (Used In) / Generated From Operating Activities | (288) | 458,337 |
| Interest Paid | (114,797) | (66,003) |
| Taxes Paid | <u>(4,147)</u> | <u>(17,035)</u> |
| Net Cash (Used In) / Generated From Operating Activities | <u>(119,232)</u> | <u>375,299</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase Of Property, Plant & Equipment | (21,689) | (1,773,105) |
| Proceeds From Disposal Of Property, Plant & Equipment | 183 | 421 |
| Interest Received | 16,288 | 24,389 |
| Dividend Received From Associate | 179 | 669 |
| Investment In Money Market Fund | (1,351) | (299,338) |
| Proceeds From Disposal Of Money Market Fund | 90,835 | 210,013 |
| Net Cash Generated From / (Used In) Investing Activities | <u>84,445</u> | <u>(1,836,951)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment Of Long Term Borrowings | (259,614) | (184,340) |
| Drawdown Of Long Term Borrowings | 665,475 | 730,660 |
| Net Movement In Short Term Borrowings | (784,354) | 686,355 |
| Advances From Holding Company | 308,000 | - |
| Dividend Paid | - | (21,620) |
| Net Cash (Used In) / Generated From Financing Activities | <u>(70,493)</u> | <u>1,211,055</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (105,280) | (250,597) |
| CASH AND CASH EQUIVALENTS AS AT 1ST JANUARY | 973,807 | 1,178,046 |
| EFFECTS OF EXCHANGE RATE CHANGES | 21,455 | 46,358 |
| CASH AND CASH EQUIVALENTS AS AT 31ST DECEMBER | <u>889,982</u> | <u>973,807</u> |
| Cash and Cash Equivalents comprise: | | |
| - Current | 553,532 | 973,807 |
| - Non-Current | 336,450 | - |
| | <u>889,982</u> | <u>973,807</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 IAS 34, Interim Financial Reporting and 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 2015.

Revised Malaysian Financial Reporting Standards (MFRS)

The following revised MFRS that are effective and applicable to the Group and the Company on 1st January 2017 have not been early adopted:

- (a) MFRS 107 : Disclosure initiatives (Amendments to MFRS 107)
- (b) MFRS 112 : Recognition of Deferred Tax for Unrealised Losses (Amendment to MFRS112)

MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)

The amendments to MFRS 107 Statement of Cash Flows requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of this amendment, entities are not required to provide comparative information for preceding periods.

MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between retained earnings and other components of equity. Entities applying this relief must disclose that fact.

Adoption of the above revised standards is not expected to have a material impact on the financial statements of the Group for the financial year ending 31st December 2017.

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;
- (b) the provision of threading, inspection and repair services for Oil Country Tubular Goods (“OCTG”) in Malaysia and overseas, with a focus on premium connections used in high-end and complex wells; and
- (c) acting as agent in Malaysia for international companies providing specialised drilling equipment and services.

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

NOTE 3 – Exceptional Items

As at 31st December 2016, the Group impaired its assets by RM780.2 million mainly due to revision in basis and assumptions including charter rates and utilisation rates, to take into account latest developments in the oil and gas industry. The revision has resulted in lower projected discounted net cash inflows from the Group's assets.

The United States Dollar had strengthened against the Ringgit Malaysia by 4.4% as at 31st December 2016 compared to the exchange rate as at 31st December 2015. Consequently, the Group's equity increased by RM95.6 million upon translation of the Group's assets and liabilities denominated in USD to RM, the presentation currency of the Company.

Other than the above, there were no material unusual items affecting assets, liabilities, equity, net income or cash flows during the financial year ended 31st December 2016.

NOTE 4 – Accounting Estimates

During the fourth quarter of 2016, the residual values of offshore jack-up rigs were revised to reflect the expected pattern of consumption of the future economic benefits embodied in the assets to comply with MFRS 116 : Property, Plant and Equipment. The revision was accounted for as a change in accounting estimates prospectively and has the effect of increasing the depreciation charge for the year by approximately RM12.5 million.

Other than the above, there were no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years that have a material effect in the financial year ended 31st December 2016.

NOTE 5 – Issuance or Repayment of Debt and Equity Securities

There were no issuances and repayment of debt securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the financial year ended 31st December 2016.

NOTE 6 – Dividends Paid

There was no dividend paid during the period ended 31st December 2016.

NOTE 7 – Segmental Reporting

| Business Segment | Financial Year Ended 31st December 2016 | | |
|---------------------------|---|---|---|
| | Revenue RM'000 | Profit / (Loss) Before Tax RM'000 | Profit / (Loss) Attributable to Owners of the Company RM'000 |
| Drilling Services | 303,373 | (1,159,363) | (1,162,028) |
| Oilfield Services | 17,435 | (33,695) | (31,561) |
| Others | - | 9,518 | 7,405 |
| Consolidated Total | 320,808 | (1,183,540) | (1,186,184) |

The decrease in total assets during the financial year ended 31st December 2016 was mainly due to:

- a) asset impairment of RM780.2 million and depreciation of RM285.4 million that was however mitigated by the translation gain of approximately RM261.5 million from the strengthening of United States Dollar upon translation of the Group's fixed assets denominated in USD to RM, the presentation currency of the Company; and

- b) lower trade receivables and cash balance.

Other than the above, there has been no material movement in total assets 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 31st December 2016 to the date of this announcement, which affects substantially the results of the Group for the financial year ended 31st December 2016.

NOTE 9 – Changes in Composition / Group

There were no changes in the composition of the Group during the financial year ended 31st December 2016.

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

These are in respect of capital commitments:

| | RM'000 | RM'000 |
|---|--------|----------------------|
| Approved and contracted for: | | |
| Land and buildings | 321 | |
| Equipment, plant and machinery | 8,361 | |
| Others | 38 | 8,720 |
| | <hr/> | |
| Approved but not contracted for: | | |
| Land and buildings | 4,403 | |
| Equipment, plant and machinery | 33,877 | |
| Others | 6,185 | 44,465 |
| | <hr/> | <hr/> |
| Total | | <u><u>53,185</u></u> |

NOTE 11 - Significant Related Party Transactions

| No. | UMW-OG & Its Subsidiaries | Transacting Parties | Relationship | Nature of Transaction | RM'000 |
|-----|----------------------------------|---------------------------------|-------------------------------|--------------------------------|--------|
| 1. | UMW Oilpipe Services Sdn. Bhd. | UMW Industries (1985) Sdn. Bhd. | Subsidiary of holding company | Purchase of Goods and Services | 224 |
| 2. | UMW Offshore Drilling Sdn. Bhd. | U-TravelWide Sdn. Bhd. | Subsidiary of holding company | Purchase of Services | 86 |
| 3. | UMW Oil & Gas Corporation Berhad | U-TravelWide Sdn. Bhd. | Subsidiary of holding company | Purchase of Services | 405 |

| | | | | | |
|----|---|--|---|--------------------------------|--------|
| 4. | UMW JDC Drilling Sdn. Bhd. | Japan Drilling Co. Ltd. and its subsidiaries | Corporate Shareholder of UMW JDC Drilling Sdn. Bhd. | Purchase of Goods and Services | 16,359 |
| | | | | Bareboat Charter | 2,308 |
| 5. | UMW Oil & Gas Corporation Berhad | UMW Corporation Sdn. Bhd. | Subsidiary of holding company | Rental & Other expenses | 2,595 |
| | | | | Management fee | 1,099 |
| 6. | UMW Oil & Gas Corporation Berhad and its subsidiaries | Toyota Capital Malaysia Sdn. Bhd. | Associate of holding company | Operating lease expense | 1,356 |

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 31st December 2016.

NOTE 14 – Review of Performance

Current Quarter Ended 31st December 2016

| | Revenue | | Profit / (Loss) Before Tax | |
|-------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | 4th Quarter ended 31/12/2016 RM'000 | 4th Quarter ended 31/12/2015 RM'000 | 4th Quarter ended 31/12/2016 RM'000 | 4th Quarter ended 31/12/2015 RM'000 |
| Business Segment | | | | |
| Drilling Services | 50,801 | 124,779 | (892,695) | (410,021) |
| Oilfield Services | 2,665 | 6,429 | (19,627) | (9,366) |
| Others | - | 102 | (5,760) | 9,051 |
| Total | 53,466 | 131,310 | (918,082) | (410,336) |

Group

Group revenue of RM53.5 million for the fourth quarter of 2016 was lower than the RM131.3 million registered in the same quarter of 2015 by RM77.8 million or 59.3%. In view that drilling services tenders normally take many months to translate into rig utilisation, the positive effect from increased tendering activities in the upstream space during 2016 was only partially felt in the fourth quarter of 2016. Hence, the lower revenue recorded in the last quarter of 2016.

The Group posted a loss before tax of RM918.1 million in the fourth quarter of 2016 against the RM410.3 million of loss before tax recorded in the same quarter of 2015, mainly due to additional asset impairment loss of RM780.2 million compared to the RM336.4 million impaired in the same quarter of 2015.

Drilling Services Segment

In the fourth quarter of 2016, the Drilling Services segment contributed revenue of RM50.8 million or 95.0% of the total revenue of RM53.5 million, a decrease of RM74.0 million or 59.3% over the RM124.8 million recorded in the same quarter of 2015. During fourth quarter of 2016, two of the Group's seven jack-up rigs were income generating while another three jack-up rigs were preparing for mobilisation in 2017. Revenue for the same quarter of 2015 was however, contributed by four jack-up rigs with utilisation rates ranging from 15% to 100% at higher charter rates.

The Drilling Services segment incurred a higher loss of RM892.7 million in the fourth quarter of 2016 compared to the loss of RM410.0 million reported in the same quarter of 2015. Additional asset impairment losses of RM764.4 million owing to revision in basis and assumptions caused by slower than expected recovery in oil prices and charter rates, mainly contributed to the higher loss.

Oilfield Services Segment

In the fourth quarter of 2016, the Oilfield Services segment contributed revenue of RM2.7 million or 5.0% of the total revenue of RM53.5 million. This represented a reduction of RM3.7 million or 57.8% over the RM6.4 million registered in the same quarter of 2015. Persistent weak demand for oilfield services due to ongoing cost-cutting measures by oil majors resulted in the revenue decline in the fourth quarter of 2016.

The Oilfield Services segment reported a loss before tax of RM19.6 million in the fourth quarter of 2016 versus a loss of RM9.4 million recorded in the same quarter of 2015 primarily due to asset impairment of RM15.8 million compared to the goodwill impairment loss of RM6.2 million for the same quarter of 2015.

Financial Year Ended 31st December 2016

| | Revenue | | Profit / (Loss) Before Tax | |
|-------------------------|--|--|--|--|
| | Financial Year ended 31/12/2016 RM'000 | Financial Year ended 31/12/2015 RM'000 | Financial Year ended 31/12/2016 RM'000 | Financial Year ended 31/12/2015 RM'000 |
| Business Segment | | | | |
| Drilling Services | 303,373 | 802,363 | (1,159,363) | (385,329) |
| Oilfield Services | 17,435 | 37,412 | (33,695) | (5,030) |
| Others | - | 102 | 9,518 | 41,933 |
| Total | 320,808 | 839,877 | (1,183,540) | (348,426) |

Group

For the financial year ended 31st December 2016, the Group recorded total revenue of RM320.8 million against the RM839.9 million reported in the preceding year, a decrease of RM519.1 million or 61.8%. Whilst tender activities were increasing progressively in 2016 as a result of improving oil prices, asset utilisation was lagging behind due to the long lead time from tendering to asset mobilisation. In 2015, the Group continued to earn income from existing unfinished contracts at higher charter rates.

The Group posted a loss before tax of RM1,183.5 million for the financial year ended 31st December 2016, compared to the loss before tax of RM348.4 million in the preceding year. Generally, low levels of income-generating activities as well as asset impairment amounting to RM780.2 million had caused both the Drilling and Oilfield Services to incur higher loss in 2016.

Drilling Services Segment

The Drilling Services segment contributed revenue of RM303.4 million or 94.6% of the total revenue of RM320.8 million for the financial year ended 31st December 2016, a decrease of RM499.0 million or 62.2% over the RM802.4 million recorded in 2015. Low asset utilisation coupled with reduced charter rates caused by surplus drilling rigs mainly contributed to the revenue reduction in 2016.

Consequently, the Drilling Services segment incurred a loss of RM1,159.4 million in the financial year ended 31st December 2016 as opposed to a loss of RM385.3 million recorded in 2015. Additional asset impairment loss of RM764.4 million for the financial year ended 31st December 2016 also contributed to the current year loss.

Oilfield Services Segment

The Oilfield Services segment had yet to benefit from the gradual recovery in the oil & gas industry during the year 2016. Demands for oil pipes threading, inspection and repair services remained low as oil majors continued to control costs by making use of existing new and used stocks. As a result, the Oilfield Services segment recorded revenue of RM17.4 million or 5.4% of the total revenue of RM320.8 million, a reduction of RM20.0 million or 53.5% over the RM37.4 million registered in the preceding year.

Consequently, the Oilfield Services segment reported a loss before tax of RM33.7 million for the financial year ended 31st December 2016 compared to a loss of RM5.0 million incurred in 2015. Asset impairment loss of RM15.8 million also contributed to the loss in 2016.

NOTE 15 – Comparison with Preceding Quarter’s Results

| | Revenue | | Profit / (Loss) Before Tax | |
|-------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | 4th Quarter ended 31/12/2016 RM'000 | 3rd Quarter ended 30/09/2016 RM'000 | 4th Quarter ended 31/12/2016 RM'000 | 3rd Quarter ended 30/09/2016 RM'000 |
| Business Segment | | | | |
| Drilling Services | 50,801 | 46,304 | (892,695) | (125,299) |
| Oilfield Services | 2,665 | 3,349 | (19,627) | (2,549) |
| Others | - | - | (5,760) | (5,191) |
| Total | 53,466 | 49,653 | (918,082) | (133,039) |

Group revenue of RM53.5 million for the fourth quarter of 2016 improved over the RM49.7 million registered in the third quarter of 2016 by RM3.8 million or 7.6% due to higher asset utilisation. UMW NAGA 6 and UMW NAGA 8 commenced operations in October and November 2016, respectively albeit at lower charter rates. Revenue for the third quarter of RM49.7 million was predominantly contributed by NAGA 1 at higher charter rate and UMW GAIT 3, a hydraulic workover unit.

However, the fourth quarter of 2016 posted a higher loss before tax of RM918.1 million as compared to the RM133.0 million loss in the third quarter of 2016 due mainly to asset impairment of RM780.2 million.

NOTE 16 – Current Prospect

Drilling Services Segment

The joint decision by OPEC and non-OPEC producing countries in November 2016 to reduce oil production has brought some stability to the global oil price with the average Brent benchmark continuously trading above USD50 per barrel for a sustainable period. While the magnitude of upside in oil price is still uncertain, the decision effectively limits the downside and sets a floor for the oil price. This provides oil companies with a level of certainty in making investment decisions, resulting in an increase of activities in the upstream sector.

This is reflected in the increase in tender exercises and contract awards in late 2016 and early 2017. On 4th January 2017, the Group announced that UMW NAGA 7 had secured up to 18-month contract from Petronas Carigali Sdn. Bhd. UMW NAGA 7 as well as UMW NAGA 2 which also secured a contract earlier from Ophir Production Sdn Bhd, are expected to commence operations in April 2017. The Group is also currently in various stages of tendering for a number of local and overseas contracts and is optimistic on achieving a significant increase in asset utilisation this year.

Oilfield Services Segment

The Oilfield Services segment is also anticipated to gradually benefit from the increased activities in exploration and production. Thus, demand for oil pipes threading, inspection and repair services is expected to improve in 2017, resulting in a higher level of utilisation of the Group’s domestic and regional oilfield services facilities.

Corporate Proposals

On 19th January 2017, the Group announced several corporate proposals as detailed in Note 20 below. Upon completion of the corporate proposals, the enlarged Group will be transformed into one of the leading integrated service provider with stronger capital position. The enlarged Group would be able to improve competitiveness through bundling of services and cross marketing to uplift revenue and earnings potential. In addition, the enlarged Group with services covering a wider value chain both in the upstream and downstream sector would also be more resilient to the cyclicity of the oil and gas industry. The corporate proposals are to spearhead the industry’s call for consolidation and to position the Group to take advantage of the anticipated industry recovery.

Group

With the potential recovery in the oil and gas industry as mentioned above, the Group's asset utilisation is expected to improve in 2017. This will gradually improve the financial performance of the Group as the number of idling assets declines. Further improvement in the second half of 2017 is expected upon completion of the Proposed Icon Acquisition, Proposed Orkim Acquisition and Proposed Recapitalisation.

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

| | 4th Quarter ended 31/12/2016 RM'000 | Financial Year ended 31/12/2016 RM'000 |
|----------------------------------|--|---|
| Taxation for current period | 1,737 | 5,258 |
| Under provision in prior periods | - | 66 |
| | 1,737 | 5,324 |
| Deferred taxation | (12) | 126 |
| Total | 1,725 | 5,450 |

A few 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 RM1.7 million and RM5.5 million for the fourth quarter and financial year ended 31st December 2016, respectively.

NOTE 20 – Corporate Proposals

(a) Corporate Proposals

On 19th January 2017, UMW-OG announced the following corporate proposals:

- i. Proposed acquisition of 497,768,820 ordinary shares of RM0.50 each in Icon Offshore Berhad ("Icon") ("Icon Shares"), representing approximately 42.3% equity interest in Icon, for a purchase consideration of RM248,884,410 or RM0.50 per Icon share to be satisfied via the issuance of 311,105,513 new ordinary shares of RM0.50 each in UMW-OG ("UMW-OG shares") at an issue price of RM0.80 per UMW-OG share ("Proposed Icon Acquisition");
- ii. Proposed acquisition of 37,087,725 ordinary shares of RM1.00 each in Orkim Sdn Bhd ("Orkim"), representing approximately 95.5% equity interest in Orkim, for a cash consideration of RM472,725,000 ("Proposed Orkim Acquisition");
- iii. Proposed Mandatory General Offer ("MGO") for all the remaining Icon shares not already owned by UMW-OG and persons acting in concert with it after the Proposed Icon Acquisition including all new Icon shares that may be issued prior to the closing of the proposed MGO arising from the exercise of outstanding options granted pursuant to Icon's employees' share scheme;
- iv. Proposed Renounceable Rights Issue of new UMW-OG shares together with Free Detachable Warrants to raise gross proceeds of approximately RM1.8 billion ("Proposed Recapitalisation");

- v. Proposed increase in Authorised Share Capital of UMW-OG from RM2,500,000,000 comprising 5,000,000,000 UMW-OG shares to RM5,000,000,000 comprising 10,000,000,000 UMW-OG shares; and
- vi. Proposed amendments to the Memorandum of UMW-OG.

Subsequently on 13th February 2017, UMW-OG announced that Wan Izani bin Wan Mahmood (“WIWM”) and Khoo Chin Yew (“KCY”), being the minority shareholders of Orkim, had accepted UMW-OG’s offers by entering into the following agreements:

- i. Conditional share purchase agreement for the purchase of 970,883 Orkim Shares held by WIWM, representing 2.5% equity interest in Orkim, for a cash consideration of RM12,375,000; and
- ii. Conditional share purchase agreement for the purchase of 776,706 Orkim Shares held by KCY, representing 2.0% equity interest in Orkim, for a cash consideration of RM9,900,000.

Other than the above, there were no other corporate proposals announced but not completed.

(b) Status of utilisation of initial public offering proceeds as at 20th February 2017

The total IPO proceeds of RM1,713.0 million raised on 1st November 2013 had been fully utilised in accordance with designated purposes within the timeframe for utilisation except for the RM50.0 million allocated to meet mobilisation or demobilisation costs for drilling rigs, which still has an unutilised portion of RM1.6 million due to lower levels of assets utilisation in the past two years.

| Purpose | Proposed utilisation RM'million | Actual utilisation to date RM'million | Deviation in amount & % | Explanation | Expected timeframe to achieve full utilisation |
|---|------------------------------------|--|-------------------------|-------------|--|
| Mobilisation / demobilisation costs for drilling rigs | 50.0 | 48.4 | n/a | n/a | 4th Quarter of 2017 |

NOTE 21 – Group Borrowings and Debt Securities

| | RM'000 | RM'000 | USD'000 |
|---|-----------|------------------|----------------|
| (a) Short term borrowings | | | |
| - Unsecured | | | |
| Short term loans and revolving credits | 1,227,617 | | 272,541 |
| Portion of long term loans payable within 12 months | 272,128 | 1,499,745 | 60,662 |
| | | <u>1,499,745</u> | <u>333,203</u> |
| (b) Long term borrowings | | | |
| - Secured | | | |
| Long term loans | | 740,190 | 165,000 |
| - Unsecured | | | |
| Long term loans | 1,823,542 | | 406,496 |
| Portion of long term loans payable within 12 months | (272,128) | 1,551,414 | (60,662) |
| | | <u>2,291,604</u> | <u>510,834</u> |

NOTE 22 – Material Litigation

Reference is made to the previous announcement dated 1st September 2016.

On 13th October 2016, UMW Offshore Drilling Sdn. Bhd. (“UOD”) as the Claimant has served its Amended Reply and Defence to Counterclaim on Frontier Oil Corporation (“FOC” or “Respondent”). UOD has been advised by its solicitors from the facts of its case that, UOD has a good claim and a good defence to the Respondent’s counterclaim. The arbitration proceedings are not expected to have a material impact on the earnings per share and the net assets per share of UMW-OG for the financial year ending 31st December 2017. UMW-OG will make further announcement if there is any material development in the matter.

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

NOTE 23 – Dividend

No dividend has been recommended for the quarter ended 31st December 2016.

NOTE 24 – Earnings Per Share

Basic loss per share for the current quarter and the financial year ended 31st December 2016 are calculated by dividing the net loss attributable to equity holders of the Company of RM918,429,000 and RM1,186,184,000, respectively, by the weighted average number of ordinary shares in issue as at 31st December 2016 of 2,162,000,000 shares of RM0.50 each.

The Company has no dilutive potential ordinary shares as at 31st December 2016.

NOTE 25 – Realised and Unrealised Profits / (Losses)

The breakdown of retained profits / (losses) of the Group as at 30th September 2016 and 31st December 2016, pursuant to the format prescribed by Bursa Securities, are as follows:

| | As at 30/09/2016 RM'000 | As at 31/12/2016 RM'000 |
|--|-------------------------------|-------------------------------|
| Total retained profits / (losses) of the Company and its subsidiaries: | | |
| - Realised | 96,489 | (768,514) |
| - Unrealised | 30,933 | 29,199 |
| | 127,422 | (739,315) |
| Total share of retained profits from associated company: | | |
| - Realised | 1,972 | 2,015 |
| - Unrealised | - | - |
| | 129,394 | (737,300) |
| Less : Consolidation adjustments | (252,899) | (304,634) |
| Total Group retained losses as per consolidated accounts | (123,505) | (1,041,934) |

NOTE 26 – Audit Qualification

The audit report in respect of the annual financial statements of the Company for the financial year ended 31st December 2015 was not qualified.

NOTE 27 – Items to Disclose in the Statement of Comprehensive Income

| | 4th Quarter ended 31/12/2016 RM'000 | Financial Year ended 31/12/2016 RM'000 |
|---|--|---|
| (a) Interest income | 4,470 | 15,665 |
| (b) Other investment income | 79 | 1,234 |
| (c) Depreciation and amortisation | (82,294) | (285,361) |
| (d) Reversal of impairment / (impairment) losses of receivables | - | - |
| (e) (Provision for) / write back of inventories | (4,439) | (4,439) |
| (f) Loss on disposal of quoted or unquoted investment | (1) | (81) |
| (g) (Loss) / gain on disposal of properties | - | - |
| (h) Impairment of assets | (780,236) | (780,236) |
| (i) Net foreign exchange gain | 903 | 25,478 |
| (j) Net gain on derivatives | - | - |
| (k) Property, plant and equipment written off | (6,042) | (6,281) |

By Order Of The Board

LEE MI RYOUNG
Secretary
(MAICSA 7058423)

Kuala Lumpur
27th February 2017