SCOMI GROUP BHD

Letter to Shareholders
Second Quarter 2016 Performance Update

27 November 2015

Dear Shareholders,

As we move into 2QFY2016, the climate for our businesses has continued to be challenging. Oil and Gas activities do not show any visible uptake as oil price remained subdued. The transport division is faced with global markets volatility that continues to delay securing of new projects. The weak coal prices translated to lower shipments for our coal contracts. Additionally, the utilisation of the offshore vessels continues to be low as our vessels were either into docking or offhired.

Nevertheless, tendering activity remained robust with over US$400 million of bids submitted in Q2 2016 but bid awards are being delayed due to the market environment. We continue to actively pursue Monorail bids in Chennai, Turkey, Colombo, Brazil and Malaysia and opportunities for Commercial Vehicles in the leasing and maintenance business.

Amid the continuing challenges of the current environment, these were the highlights/ lowlights for the quarter:

Revenue dropped by 11.1% against the preceding quarter
Gross Profit reduced marginally, however GP margins improved to 19.9%
EBITDA increased by 9.6% over the preceding quarter
PATAMI was lower by 51.4% with the lower revenue
Reduction of Opex in USD terms but impact negated by USD appreciation

Some of the key takeaways to the Q2FY2016 performance are summarised:

1. The Group's main activity of Drilling Services remains asset light.
2. Debt levels for the Group is stable (gearing of 0.71 times)
3. As a response to market, we continue to be aggressive in cost management that has yielded a 20% reduction in Opex run rate.
4. Our income is largely USD, which is a benefit as regional currencies weaken. We also gain from local costs conversion.
5. Tender submission for Oilfield Services in excess of USD 400 million.

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Snapshot of the consolidated financial results:

	Q2 2016	Q1 2016	YTD 2016
Revenue	337,756	379,895	717,651
GP	67,136	69,281	136,417
GP Margin	19.9%	18.2%	19.0%
OPEX	53,189	50,781	103,970
OPEX/Revenue	15.7%	13.4%	14.5%
PBT	14,686	20,025	34,711
PBT Margin	4.3%	5.3%	4.8%
PAT	6,569	14,008	20,577
PAT Margin	1.9%	3.7%	2.9%
PATAMI	5,009	9,734	14,743
PATAMI Margin	1.5%	2.6%	2.1%
EBITDA	57,665	53,943	118,436
EBITDA Margin	17.1%	14.2%	16.5%

(all figures above are stated in RM'000, unless otherwise stated)

As tabulated above, the Group's overall financial performance was largely lower as compared to preceding quarter ended 30th June 2015 ("Q1 2016"). This is due principally to the continuing sluggish oil & gas and marine segments, where several new projects were being deferred with customers scaling down their operations. Rig counts were significantly lower in Malaysia, Indonesia and West Africa but the Middle East and Russian markets have increased or remained stable. The coal market, which continues to be weak, impacted our Marine operations in Indonesia. In addition, the transportation segment also recorded marginally lower value of work done that led to lower sales during the quarter.

Despite the drop in revenues, the Group continues to focus on managing its overall costs down. Gross Profit margins improved slightly to 19.9% compared to 18.7% achieved in Q1 2016. Our Opex run rate has also reduced by 20% from an average of RM65 million/ quarter in FY2015 to RM52 million/ quarter over the first half of FY2016.

Oilfield Services

With activity levels lower, the Oilfield Service division Q2 2016 revenues fell by RM33 million to RM250.8 million, down 11.0% from RM326.1 million posted in Q1 2016. However, profit before tax was higher at RM28.5 million, as compared RM25.4 million in Q1 2016 as several Supply Chain initiatives such as renegotiating with vendors, sourcing for cheaper goods and improved material planning contributed to the improvement. The division's Opex has also reduced by 20% over FY2015 average run rate.

The division continues to invest in R&D in order to improve, expand and differentiate its product offerings from the competition. The graphene enhanced drilling fluids, lubricants and well rejuvenation are some products/ areas that is our focus. Sale of thegraphene products has been encouraging.

Marine Services

Lower coal tonnage carried in Q2 2016 by the Marine Services division lead to lower revenues of RM40.7 million, down by 18.6% as compared RM50.0 million posted in Q1 2016. The division posted a segment loss before tax of RM4.2 million (Q1 2016: segment loss of RM0.7 million). The division remains cautiously optimistic having already secured coal affreightment contracts in Malaysia, which provides a steady 2 to 3 year recurring earnings base for the division's operations. However, the division's offshore vessels operations in Indonesia continue to be adversely affected by the reduced E&P activities by its clients, as oil prices remain subdued.

Transportation

Despite the many challenges that the Transportation division face in the form of project delays that are not within its control and exchange rates volatility, it posted a segment profit before tax of RM1.8 million on revenues of RM43.3 million for the current quarter Q2 0216. Key focus for the division continues to be the completion of its current project portfolio, which involves continuous improvement of project execution, and successful development of the 5- and 6-car train with driver-less operation, raising the carrying capacity to 36,000 people per hour per direction. Going forward, the division is looking at submitting its tender for monorail bids in multiple markets.

Outlook

Oilfield Services Division operating environment continues to remain challenging for the remainder of FY2016. Oil price has stagnated below the USD50/bbl level, activity has slowed down withspending being deferred and projects being pushed back. However,management is closely monitoring the situation and will exercise prudence in this current market. We continue with our cost management measuresalong with focusing on new products such as graphene-enhanced drilling fluids and lubricants,in order to maintain profitability. The division remains active in tendering for new jobs and has outstanding bids submitted amounting to USD400 million. The strengthening US Dollar has a favorable impact the performance of the division.

Marine Services Division outlook remains challenging. Nevertheless, with the division securing new contracts, a major part of our coal fleet will be utilized over the next 3 years. Moving forward, there are nosigns that coal prices rebounding in the short or middle term amid persistent concernsabout a global supply glut in combination with expected declining coal demand from China. Management continues to focus their efforts in managing costs as well as expanding marketing efforts across a wider geographical area. On the offshore side, persistent low oil price have curbed demand for offshore vessels. Competition in this area continues to be tough but management remains focused on prioritising utilisation of our vessels by being very competitive with charter rates.

Transport Solutions Division continues to focus on project execution in its KL and Brazil monorail projects and will endeavor to complete its portion of work on the Mumbai and Kuala Lumpur monorail project within agreed timelines. Management continues to focus on stringent costs management whilst taking measures to move the business forward and building up its order book. The Group continues to pursue monorail projects in multiple markets and new growth opportunities for the commercial vehicles in the leasing and maintenance business, both locally and abroad. With the continued challenges to the Brazilian and Indian currencies, the Group is cautious about the coming financial year.

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

MUKHNIZAM MAHMUD
Chief Financial Officer
Scomi Group Bhd

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