
Nik Aisyah Amirah Mansor, Head, Treasury & Investor Relations

Ok. We may start now. A very good evening to everyone and *Assalamualaikum*. Welcome to Sapura Energy Berhad Q3 Financial Year 2022 Financial Results Briefing. Thank you for joining us today.

So, we just announced our Q3FY22 financial results in just a few moments ago. You can also find it on our website www.sapuraenergy.com.

So just before we start, some housekeeping rules: please mute your mic at all times. We will open the Q&A session at the end of the presentation. You may ask question by putting up your virtual hand in Teams or answer question in Teams chat. We'll call you up once we have the questions.

Let me introduce our leadership team here with us today. We have our Group CEO, Datuk Mohd Anuar and our Group CFO Andy Chew. We also have our CEO for E&C En. Ahmad Zakiruddin, CEO for O&M Business, En. Nasri Mehat, CEO for Drilling Mr. Raphael Siri, our Chief People Officer Pn. Puspa Hanita. We also have our Group General Counsel, En. Nik Azli.

Without further ado, Datuk Anuar, I pass this session to you to begin.

Datuk Mohd Anuar Taib, Group Chief Executive Officer

Thank you very much, Nik. Good afternoon or good evening, and *Assalamualaikum* to all of you. Thank you very much for joining us today.

I will cover the early part, then afterward as usual, the CFO will cover the financial reports as well as the individual CEOs will talk about their segments.

So, let me talk a little bit more about Q3FY22. Nik, could you move to the key messages?

So, in essence, quarter three remains a challenging quarter for us. What we have today, we have about 59 projects which we are running, and the majority of these projects are legacy; from the legacy contracts. What I meant by legacy contracts is that the COVID and pandemic provisions wasn't there. So, in many cases, so that's what's in that legacy contracts.

And then you know, COVID – in the execution site remains prevalent and I think this quarter we have about 130 odd million ringgit worth of COVID cost. In total, and in the COVID cost for us has been about 560 million or so. These are direct costs and none of it has yet to be claimed. None of that we have been putting our claims, but none of them has been approved by our clients.

We do have issues with project execution, especially when it gets into the utilisation of some of the third-party assets. So, certain third-party assets like BP dynamically position, diving support vessels, those where we have issues in project execution in some of the key projects and all of these has amounted to liquidity challenge in the past and that liquidity challenge, because of – we have not been able to resolve a lot of these COVID costs. That has put a lot of pressure in our overall liquidity that are now impacting their project delivery.
Well, we do have that – we continue to deliver in quarter three, seven projects completed. So, as it is for the three quarters, we have completed 26 projects in many parts of the world and we are starting four major projects this quarter.

On the E&P side, the general development for Block SK 408 remains on track and we have an order book – the total subsidiary ordet book is about 7 and 7.6 billion within this quarter with the most recent wins in the range of about 1.8 billion, of which the majority of the winds are split into 50/50. I'll show it to you later between the Atlantic and Asia Pacific and Malaysia.

We have, like I mentioned before, we're going to be very focused on where we bid, because this is where we want to go, and improve and put a lot of focus on our big book, today is 22 billion ringgit. Yeah, I remember last quarter I mentioned to you that we are going to be very focused, putting a lot of risk lens and in this framework – the renewed risk framework.

So last quarter we had about 36 billion ringgit at 35 billion ringgit worth of a big book. Prior to that, it was 54 billion. I think today we follow that focus and the big book that we have today is about 22 billion and it's concentrated around Asia Pacific and the Atlantic.

In terms of what we are working on, in terms of, you know in the next couple of quarters are: one, we're in intense negotiation with our client for the Yunlin project in Taiwan for the execution of the project in the next installation season, which commences in April 2022. We're also in negotiation with ONGC, our client in the 98/2 project.

Whilst that is being done on the project level, at the corporate level we are drawing up our reset plan. We have things – we have put up the board restructuring task force headed by me and five board members and we have appointed advisors for this particular task, and these are Rothschild & Co and PricewaterhouseCoopers.

As far as asset divestments are going, are concerned, it is progressing. It is progressing well. We are balancing, we're basically focusing on a value that we get on all those asset divestment. And we know that, and what we do with that – we are very selective for the asset that we put in place as well as we are very selective on the range of value that we should actually chase from.

With that, I will hand over the presentation to Andy, our CFO.

Andy Chew, Group Chief Financial Officer

Thank you, Datuk Anuar. Good afternoon, good evening to all.

Let me start by talking about revenue. So revenue for this quarter is just under 1.5 billion, which reflects our normal burn rate and consistent with our project activities this quarter and you will recall that in our Q2 revenue, our recognition was severely impacted by the recognition of foreseeable losses, which had resulted in a lower percentage of completion calculation for the purposes of recognising revenue.

So now this quarter, we are back to the normal burn rate.

If you look at the graph at the bottom left on the slide comparing to Q3 last year, you will see that almost 400 million revenue was generated from new projects executed this quarter. So, this is more than offset the completed projects and the ramping down of the existing projects.

Against this backdrop, the EBITDA, this quarter is a loss of 244 million compared to almost 1.2 billion loss, last quarter and 237 million positives in the same quarter last year.

In Q3 last year, E&C posted the positive EBITDA of 55 million, compared to 205 million negative this quarter. So, you can see that, that's why E&C – looking at the graph at the bottom, quarter to quarter comparison we see a decline of EBITDA for E&C.

Similarly, for O&M you see again comparatively two quarters, the duration was close to 120 million. And again, this quarter O&M registered EBITDA of 1 million compared to EBITDA of 120 million a year ago.

And Drilling EBITDA had improved from 41 million in the same quarter last year, to 101 million this quarter. So, the negative EBITDA was mainly due to cost overruns in our portfolio projects and that includes 131 million ringgit worth of direct COVID-19 costs.

If you look at the LATAMI, this is the loss of tax after minority interests (MI), so, it is negative 669 million. This has included an impairment charge of 212 million related to assets held for sale and also a net foreign exchange loss of about 29 million, due to the strengthening of ringgit in our lending company books.

Moving on – our share of JV earnings have improved compared to Q2 this year and if you recall there was a well right off and also the impairment charge in our E&P segment last quarter, so comparatively, we are having a slightly higher JV earnings recognised this quarter.

Let me move to next slide.

Cash flow wise, we have improved slightly compared to early this year, with cash and cash equivalents balance of close to 600 million, 590 million not to be exact, at the end of the quarter. However, our net debt to equity has increased to 1.48 time close to 1.5, mainly due to the accumulated losses that we have incurred since the beginning of the year.

So as at end of October, our net debt was 10.1 billion compared to our shareholder equity of 6.8 billion. So, as you can see in the footnote, as a result of the breach of our financial covenant, last quarter we had a secured the waiver from our lender to waive the covenant. That waiver came with the condition, so at the moment, we are still in the midst of fulfilling the condition requirement.

As a result, this quarter our loan balances will continue to be classified as current.

So, with that, I hand over to Zakir to speak a little bit about the E&C performance.

Ahmad Zakiruddin, Chief Executive Officer – Engineering & Construction

Thanks, Andy. Good afternoon everyone.

So, in the E&C front, we're in the quarter that's just passed. A lot of activities offshore in Q3 with Mubadala, Pegaga, Hess Phase 3, Bayan and Seligi being the main projects ongoing in Malaysia. We had Andalas ongoing in the Malaysia-Thailand Joint Development area and in Mexico we had pipelaying installation work for E&I Amoca.

In the same quarter we completed four projects, the main one being Total, Al-Khalij out of Qatar, so that's flowing oil already now.

And we start the commencement of fabrication works for Hess phase four in our yard in Lumut. So, asset utilisation in Q3 in the yard, we are at 36% and for our main vessels we are at a utilisation of 77%.

So, some of the challenges that we are still working through in the quarter is our Taiwan project. We've stopped work for the time being because of the winter months. So, there is a natural stop there. So, whilst we are in that closed season, we are in commercial discussions for restarting work in 2022.

COVID-19 remains a major disruption factor that's impacting our execution. We are still in very active discussions with all our customers to address these disruption related issues through commercial settlements – so that's still ongoing with all our customers.

Next, so in Brazil, in the quarter we had six vessels working in Brazil, five for Petrobras and one for Petro Rio. Average utilisation for the vessels is at 94%. So, as we briefed everyone last quarter, *Diamante* and *Topázio* have secured a new contract, so *Diamante* started work on the contract in September 2021 whilst *Topázio*, which is currently still doing work for Petro Rio is expected to start with Petrobras in February 2021.

That's it for Brazil, and I'll pass this over to Nasri. Thank you very much.

Nasri Mehat, Chief Executive Officer – Operations and Maintenance

Thank you, Zakir. Good evening everyone.

Updates on O&M – site operation and maintenance business, we have managed to keep busy throughout the last quarter. We have managed to actually achieve a utilisation rate of more than 80% of our hook-up accommodation, work barge and workboat – mainly serving our internal projects as well as some external projects, external customers in our existing long-term contracts are topside maintenance contract.

We have completed two main campaigns: One is the Boko Betty Year 2021 campaign safely, and we have also completed Andalas hook-up and commissioning Brownfield; hook-up and commissioning package within the quarter.

So, all in all, we are still busy in hook-up commissioning division. We have 13 projects ongoing, five topside major maintenance long-term contract and eight hook-up in brownfield contracts.

On the Geoscience side, similarly we are still busy. We have three projects commencing within the quarter: two packages for Conoco Phillips and one package for JGC near the FLNG 2.

We have achieved 63% utilisation, *Sapura Wira*, the only vessel we have in the Geoscience unit.

We could have actually achieved higher utilisation if not for the COVID impact that we suffered due to the closure of immigration and also the operation facilities at Labuan where you know, we were idle for quite substantial time before we could actually move to offshore and actually execute the work.

On the technology services where we have maintenance contract on our crane services as well as telecommunication service, we have completed three projects installing telecommunication packages on 43 major customers: PTTEP, Mubadala and also Hess phase three and 26 small contracts revolving around servicing cranes and equipment, still ongoing during the quarter.

On the Turbo machinery JV sides, we had 11 active projects, but we had also participated in renewal tenders to renew the long-term service contract with PETRONAS and other customers.

The tenders are being reviewed and being finalised, we are still waiting for the result, but we have just received a new award from Carigali Hess (CHOC) about a month ago so we're still working on other clients as well to follow up on this tender.

So, all in all, in a nutshell, O&M has been busy, and we have managed to keep our people busy throughout the quarter despite the many challenges, and ongoing challenges posted by the COVID pandemic.

We've managed to actually complete a few packages for our customers and kept the ongoing projects moving despite the challenges.

So that's all for me. Thank you very much. I'll pass over to Raphael, I believe is next.

Raphael Siri, Chief Executive Officer – Drilling Business

Yes, thank you, the next one is mine. So good afternoon everyone.

On the drilling front in terms of operational performance has been quite a robust quarter.

And if you look at Q2 versus Q3, we managed to get the *Berani* in a much more productive manner. It was starting last time, if you remember for Ivory Coast in around 80% of time now, we are 96.

Overall, seven rigs are working, some in and out like the *Pelaut* that moved from Brunei into Malaysia and also one that we are preparing the *T-17* for Thailand.

And we also put the number of secured days, this is not something we normally show to you at the bottom right, to show you more or less the number of rig days that we have. So, every day that the rig works.

I think that the strong messaging, that I want to put on – I mean, apart from operational performance and that includes the integrated drilling contract, it's the very good quarter in terms of securing our future cash flow.

We've secured three contracts – in fact, two contracts and one shorter extension. So, that secures us for three years in Thailand and two years in Africa, right? So, that's quite good for us in terms of foreseeable.

And that is all I've got for now. I can pass that to our E&P team.

Datuk Mohd Anuar Taib, Group Chief Executive Officer

I'll take that one, Raphael.

Zamri is currently in Mecca doing his *Umrah*. So, we need all the prayers that he could actually provide us to make sure that the industry remains vibrant.

So, support for the SapuraOMV in the past quarter we have completed the divestment of Peninsula Malaysia assets. There are strong growth prospects for the SK 408 and SK 310 production sharing contracts. But, the lower production quarter three is the result for the divestment. So, if you look at it, we sat in quarter two, was 3.4-million-barrel equivalent and what the three is worth 2.6 million barrel.

That lower production is a result of a divestment of the Peninsula Malaysia assets and also plan shut down, which was planned by Petronas for the SLA assets for maintenance activity.

As far as Jerun EPCIC development projects are concerned, it is progressing as per schedule and with the first steel cut on the 25th of October, which is about three weeks ahead of time.

There is area development plan ongoing for the five small discoveries in SK 408. And for SK310 B14, we are basically pursuing a joint development with PTTEP Lang Lebah under the gas phase two. This is basically Sarawak integrated sour gas development.

There are a significant potential upside from exploration activities in Malaysia. We no longer have an exploration anchorage, so we are pursuing exploration opportunities where the big rounds and the farmings.

In Mexico, Block 32 exploration wells are planned for next year. And now with Western Australia, we're expanding footprint with three new permits and farming into Neptune ACP 50 and again exploration wells have been planned next year.

In New Zealand we need to further appraise the discovery, the discovery that we had in Western Australia that's again, we are focusing in gas in the E&P, so in Western Australia those are the gas province that we are putting a lot of focus on.

So, my next page is about the group order book. As you can see today, we have an orderbook – this is subsidiaries. We do not talk much about the orderbook of joint entities.

For the orderbook, for the subsidiaries, today it stands about 7.6 billion of which 70% isin E&C, Drilling has 23% of the orderbook and then O&M at about 7%.

And if you look at on the right, so far, the recognitions are also as per what you see on the right side of it. So, the remaining part of FY22 we still have about 2.2 billion of order book that need to be recognised next year, but 3.8 and the year after.

So, some of the key contracts that we recently won has been Chevron offshore partner removal services – this one in Thailand.

Tullow in Ghana, that's installation project. We have a TechnipFMC Kasawari loadout and as well as another rig which is going to work again. So, this PTTEP Drilling *T-18* rig work.

So, all of these if you go to the next slide, kind of give us a little bit more.

So, if you were here last quarter, we mentioned about the need to be focused. Yes, we have a very big addressable market. That means what we have, the capability that we have – you know, we have about 773 billion ringgit worth of what we call in the addressable market between 21, 22.

These are EPCI, Drilling, offshore wind, all within our current coverage. But you can't go for everything because each one of them has different strengths and we also have different strengths in different location.

So, our prospect from addressable market, our prospect is about 96 billion ringgit and if you look at the split, it's about a 2/3 in the Americas. And that's, call it as an Atlantic that's in the Atlantic, and then the other in Malaysia and Asia Pacific is about 1/4 and then 10% in the Middle East.

As you can see, India is not mentioned here, because I think it is no longer region of focus for us moving forward. And then if you look at where the discipline starts, so we have a prospect 96 billion last quarter, you would have actually seen about 35 billion ringgit bid book.

Today it is down to about 22 billion. It is by choice because we are now becoming more selective. We're putting a lot more risk. We're putting the renewed risk framework into play, and if you look at now, based on the bid submission that we had, half of it in the in the Atlantic. The other half is mostly in Asia Pacific and Malaysia.

And if you look at the order book, we have out of the 7.6 billion ringgit order book that we have today. The new wins 1.8 billion is split 50/50 in the region of focus that we have, one is in the Atlantic and the other one is Asia Pacific nation.

So what we want to do to demonstrate going forward is our ability to be more disciplined in this side of the business, which is being very focused in our in our in our in our bid book, so that that bid book would when it translated into orderbook it gives us a lot more ability to deliver and allow us to get to the margin that we want, which is commensuration with the risk that we took.

In essence, and let's go to the final page.

So, in essence, this quarter, challenges for me, I think this industry, if you can – I mean, even if you if you watch our competitors or players in the in the similar industry, they suffer pretty much similar thing as we do.

Legacy contracts that do not cover pandemic and has a lot of disruption in the supply chain. Managing COVID-19 both with the client as well as with the vendors. Project execution, both in terms of a, you know we do have challenge in that in that project execution site both either – mostly by from COVID, but it does impact our supply chain and that in return it gets us into the first liquidity problem that we had before, and that liquidity problem has exacerbated and that's where we are working with many parties to get through the liquidity issues that we have.

While the challenge remains, we still continue to deliver projects that we want. We have completed 26 projects so far this year and we are commencing four major projects in quarter three and another two are going to start in quarter four.

And Jerun development, as part of our E&P portfolio is progressing as planned. We have been continuously to win, we have been continuously winning new contracts and as you can see, the last quarter got about 1.1 billion of new wins this quarter, we got 1.8 billion and our oder book stands at about 7.6 million.

What's key about it, now you see that we are becoming more focused. We have been more selective and throughout this time, in order for us to improve our liquidity position, we are in discussion with our clients on those claims – contractual claims, COVID claims.

I mean, COVID alone is 528 million so far, that's almost more than half a billion that have yet to be settled. That put a lot of cash pressure on us, so that's where we are, we are working with our clients.

Going forward this incoming quarter, we are negotiating with our clients for Yunlin and 98/2. We're throwing a preset plan with a focus stacking task force already stood up and we have appointed Rothschild and PwC as advisors in this quarter structuring task force.

Asset divestment is also progressing. This is where you know we must balance between the value that we recover from those asset divestments; focus that we need to put on what I call a core business as well as bringing cash in, so these are balls that we juggle as we as we go along.

I think with that, let me open the floor to Q&A. Thank you.

Nik Aisyah Amirah Mansor, Head, Treasury & Investor Relations

Thank you, Datuk. We have the first participant on the questions from Ho Meng, from UOB.

Ho Meng, UOB

Hello. Ok great, alright thanks for the call. I have several questions if it's ok I go through one by one.

My first question is: I noted that you mentioned there's asset divestment ongoing, maybe can you share a bit of color? I mean, if you can share anything that's not P&C.

How much is the amount that you target to raise from the divestment, and you know, aside from what the news reported, you know, what other assets that you may look to divest. For example, will you consider the divest the Brazilian assets?

Andy Chew, Group Chief Financial Officer

Well, obviously we are looking at all our asset portfolio and also a business portfolio to extend some of these assets, all the business that we think is non-call then it is, we will look into whether there's any opportunity to monetise the asset.

Now like what's done or had already said, we are not going into a fire sale mode, but in fact we would like to make sure that we continue to generate enough value for the asset that we think we can actually monetise.

At the moment, since the progress is ongoing, so it's hard to put an estimate of what sort of value will be generating but suffice to say that the intention to diverse non-key asset is actually progressing well at the moment.

Ho Meng, UOB

Ok, got it. But Andy, I know you can't mention which assets. But I'm sure – I mean your discussion with your creditors and all I'm sure you must have set some sort of target of how much cash should be raised from the set sales?

Otherwise you know, so any guidance on that like are you looking at, say, one billion below, you know a total amount that you target the raised from asset divestments, you know something like that?

Andy Chew, Group Chief Financial Officer

Yeah, yeah, it's like I said, it's hard to, you know, put a number because whatever number that we decide you know, depending on how you look at it and some would say it is enough, some may say it is not enough, right?

So, at the moment we have got our advisors looking at the entire portfolio and looking at what, it's a call and non-call and then looking at our future business direction and our affordability when it comes to carrying debt on our balance sheet, right?

So, all this conversation would then again link back to finding a right balance in terms of monetising some of these assets versus keeping them in our operation.

So, work continues, so until unless we complete that review, it is at this moment quite difficult for us to really pinpoint exactly, you know, what I said we have marked for divestment.

So please bear with us. the minute we have got clarity on this we definitely will make appropriate announcement.

Ho Meng, UOB

I know you mentioned this before, but you – recent news and also highlighted again that, you know, the summary of vendors and suppliers are being affected with delays in payments and something like that.

Can we get some colour on how many other vendors or suppliers that – where invoices are still being hold or whether have you made any good progress or is it still at an ongoing issue?

Andy Chew, Group Chief Financial Officer

Yeah, I think we acknowledge that you know at the moment, we do need to ensure that we're able to bring back cash in order for us to meet our payment obligation.

And we do have every intention to ensure that we meet our payment obligation.

So, I would divide it in maybe two or three buckets if I may, in terms of our responses to how we need to deal with this particular issue.

The first one I would say is self-help. So, what do I mean by that? First of all, we must continue to be able to execute our project. Why? Because if we continue to execute a project, then we continue to be able to build right? So, then we continue to be able to generate cash, so I think that's very important for us to maintain and continue.

And all above this, we also would like to reduce our cycle time when it comes to billing. So, at the moment, we are sitting at about 1.3 billion worth of contract asset. So, obviously not all of those things can be turned into cash fairly quickly.

We did our analysis, I think by us reducing and compressing our billing cycle by, for example, making sure that we fast track our documentation, or we work with our client to fast track the approval of our milestones.

So roughly, we think we could probably unlock about, you know, half a billion, in 5 million worth of you know, working capital being locked up so we can release that back to our system.

And above that also, I think we had already mentioned – we have some, you know, conversation with our client about commercial settlement, about recovery of certain costs, right?

For example, COVID costs and some of the you know, the extension of time conversation, so some of these conversations have progressed quite in advanced stage and some at the moment, I mean to be honest as well, it's a little bit more challenging than we hoped for.

But overall, I think ballpark is targeting around about, you know, plus minus about 300 million as well to be able to be unlocked.

So like I said, things like this requires degree of maturity when it comes to this commercial settlement and obviously in terms of self-help, the last one, is about, you know, divestment proceeds.

But unfortunately, at the moment, we are not at the stage where we're able to see how much proceeds we are targeting.

So that's the first bucket, self-help.

So, the next one is around – working with our shareholders and our lenders, who I must say that you know, they remain very supportive to our inner business operation despite the challenges in terms of our financial results, they continue to be available to us in terms of providing the necessary support as and when we require some sort of form of liquidity.

Like for example, extension of bank guarantees, or even drawing down bank guarantees for a new project. So, that is second bucket, you know, a little bit of a conversation with our key stakeholder in the form of our shareholders and lender.

The third bucket is a little bit longer term. It's linked back to the restructuring, the reset taskforce that Datuk Anuar mentioned, so I think longer term I think we need to deal with the structure at the capital structure because, well, however you look at it, it is not sustainable and then, and to this end, I think unfortunately at the moment we are still working on it, so there's not much I could say for the time being.

Ho Meng, UOB

Thanks for the explanation, Andy.

But I mean, I'm just – to share a bit of my opinion, but shouldn't you consider, you know, working together with your suppliers and vendors as your first bucket? Or your first emergency response, actually, because you know, even if you have raised enough cash to execute your own projects but say for example, so if your suppliers are not being paid and they decided to suspend works for you, you may end up not able to execute your contracts as well and you know it actually goes back to you. So, to me this is a very important concern, yeah?

Andy Chew, Group Chief Financial Officer

Yeah, I think you hit the nail on the head and apologies for missing that out.

Another reason – in fact this is an ongoing task. It's like you know, people like myself and Zakir, you know, we need to jump into calls with our vendors and subcontractors to see how we could actually support them and also in return they support us in terms of continuing to deliver work for us.

So, in the mix, we also speak to our client and I must say a lot of our clients have been very supportive in terms of like say you know shortening the cycle time for collections so that we're able to meet our payment obligation.

So, you're right and in fact, you know I should have stayed upfront that you know, we're working very closely with our vendors as well.

Ho Meng, UOB

Also in terms of the connection timing from your customers, has that been progressed very well in terms of, especially for problematic project such as Taiwan or India?

Let's say you know, are your other clients – have they been listening the *[unclear]*?

Datuk Mohd Anuar Taib, Group Chief Executive Officer

I think we got really good support from Mubadala and Hess, and we got, and we have a bit more challenge with us.

Ho Meng, UOB

And then we go to Taiwan – I know you're under negotiations with them, but assuming if no changes are being concluded, what would be your target deadline to complete the whole job?

Because as far as I see on news reports, only one turbine has started operations, so it seems that it's still a very long way to go.

And when I check back the date of when you first installed that monopile, that was exactly one year ago and that – the first turbine only started operations only around end of last month.

So you know, I'm just wondering, is this project a long way to go in terms of completion, and whether your client may only conclude all the payments to you when the whole project being done, meaning all the 80 turbines started operations on their side?

Ahmad Zakiruddin, Chief Executive Officer – Engineering & Construction

Yeah thanks, thanks for the question. The plan at the moment that we are discussing with the customer revolves around a strategy to try and complete the installation of all monopoles within 2022.

That's the plan – we are working closely with the client side; discussions are still ongoing and what we are discussing now would involve a payment as we progressively complete monopiles.

So, it's not something that's, pay at the end and do all the work now, that's not what we are discussing with the customer.

Ho Meng, UOB

Ok, and how much have you done so far? I mean, I'm not sure whether you mentioned it earlier, so how much has been done at the moment?

Ahmad Zakiruddin, Chief Executive Officer – Engineering & Construction

We have done 16 out of 80.

Ho Meng, UOB

See now, that's almost like the same as last quarter, right? In terms of completion?

Ahmad Zakiruddin, Chief Executive Officer – Engineering & Construction

Yes, because we are on the winter break now, Ho Meng. We will only restart activities in April.

Datuk Mohd Anuar Taib, Group Chief Executive Officer

This is, this part also of both sides learning, you know this is the first foray for WPD in Taiwan, it is also our first entry in this particular item, so as we work together more, we learn more and we start to look at risk profile.

They also look at, you know, execution plan. So that's why the negotiation takes a bit of time.

Ho Meng, UOB

Yes, being now, maybe you know, for the next wind job with these the Singapore Flyer in Ireland. How is that different from the Taiwan job?

Have you maybe, have you learned some lessons in Taiwan that you make sure that you secure better margins or is it different or worse or you have a partner there, you know, something like that, yeah?

Datuk Mohd Anuar Taib, Group Chief Executive Officer

No, I think you got it completely wrong.

I think, with the one in Ireland is still a feasibility study. The partner and, the partner has not awarded anything yet.

So, you know, sometimes translation of what's there, we put a clarification the other day, so in essence it's still very early.

It's only a feasibility study. Many gates need to be passed before we make decision on what to do next.

Ho Meng, UOB

Quickly, move on to second last question: so, in Thursday you mentioned the target bid book of 2 billion. But now my concern here is, you know on, given your financial situation, is this still realistic to aim for this 22 billion, you know, has some other clients, like for example with the Kasawari phase two – have they, the client still allowing you to bid for the job? Or have they disqualified you based on your financial standing?

Ahmad Zakiruddin, Chief Executive Officer – Engineering & Construction

Yeah, so I think maybe I'll clarify Kasawari piece first. In the Kasawari project, it is actually currently a FEED competition, right?

So, were we in the running? Yes. But the client will make a selection based on their own criteria, who they would want to consider for FEED competition and with FEED competitions, typically you don't ask five, six / seven bidders, FEED competition, typically, maybe three.

Right, so it is not an EPCI contract that is in play now. It is a FEED competition that will eventually translate to EPCI.

Now as to why Petronas make the decision, that is their internal selection criteria, but in general we are still being invited for bids.

In fact, there have been a few cases, when we exercise our own due diligence (put it that way), and we decided not to bid in certain areas.

Actually, we are being asked by the customers: Why are you not bidding? Why are you pulling out?

So, we've had to do a bit of explanation there on the client front.

So, at the moment we are still being invited for bids, but of course we will assess the bids on a case to case basis depending on scope, risks that are involved, client, region etc. before we make a decision to move forward with the bid.

Ho Meng, UOB

OK, but it's still a bit peculiar to me that PETRONAS, as you know at the very beginning, already disqualified you and only allow a contractor to bid for the Kasawari job.

You know that, although they're supposed to, you know, support the spirit of open tenders, right? But now it's only behind one contractor.

So, my guess is maybe this falls – maybe technical ability, you are there, but maybe this disqualified you based on finance – based on financial qualification. I don't know that that's my guess, so I'm not sure if that's the case.

Ahmad Zakiruddin, Chief Executive Officer – Engineering & Construction

You have to ask PETRONAS, Ho Meng.

But I heard there's two in the FEED competition. But you'll have to ask PETRONAS that. It's a carbon capture FEED. Maybe they have some technical and technology criteria there.

That's really our client’s call.

Ho Meng, UOB

One last question before I pass to the next person.

In terms of the gas production I know you mentioned earlier that there was some maintenance, but I remember in the previous quarter I did ask the question on gas production and remember that you explained that even though your gas reproduction was still as per expectation, but the volume can still be affected by the infrastructure issues of the existing infrastructure.

For example, the energy terminals, so you know, how much of that is for this quarter?

I just want to know how much it is really due to plant shut down and how much of that is due to setbacks from existing infrastructure issues, you know, that affected your gas volumes in this current quarter?

Datuk Mohd Anuar Taib, Group Chief Executive Officer

So, I think for us, well, from what we've been advised, it is a plant shut down. So, I think, you know, I used to be on that side.

Usually every year, around about, in quarter three, but the middle of quarter two, quarter three, that's where you do the plant shut down because of the low demand for LNG.

So, we are being roll on the curtailment on our side. It's because of the plant shut down.

Ho Meng, UOB

Yes, how much the pleasure lens is going to last until which quarter?

Datuk Mohd Anuar Taib, Group Chief Executive Officer

I think next quarter, we don't think there will be an impact on it because plant shutdowns are done.

Nik Aisyah Amirah Mansor, Head, Treasury & Investor Relations

Alright, thank you. Raymond, you're up next.

Raymond from CIMB.

Raymond, CIMB

Hi Anuar and everyone on the call, I have a one question on the impairment charge of 212 million that you booked in the third quarter.

Which asset is this that you impaired and what proportion is 212 million of the carrying value prior to the impairment?

Andy Chew, Group Chief Financial Officer

At the moment, the way we look at a valuation is by cash generating unit, so all our assets usually – we go mingle together and look at a particular line of business of vertical area for us to do the evaluation and only to the extent that we are developing plans for us to divest the asset going forward and the plans are sufficiently matured. Then we'll take a different valuation method.

So, on a so-called going concern basis, we use what we call value in used methodology. And the minute I say, you know, we decided to dispose of the asset and we have plan and the plan is, you know, sufficiently matured, only then we'll use what we call fair value minus cost of sale for evaluation and then we compared to the book value of that particular asset.

And then we take impairment so that as a result that you know, we look at the number of assets and then decide that that you know, some of these assets will need to be impaired.

So, at this juncture, because our divestment programme is ongoing and for that reason, I think it is probably not the right time yet for me to provide you know, more details than this.

Raymond, CIMB

Ok, thanks Andy.

Could you give us a sense of what percent of the number value ended up being impaired as represented by their 212 million?

Andy Chew, Group Chief Financial Officer

Well, so I would say the remaining net book value of the impact that the group of assets is fairly immaterial, so it's – if I could've percentage then you'll be able to back calculate, I would say it's fairly immaterial. The carrying value of that asset is fairly immaterial.

So, it's, ok, I'll give you a ballpark: I mean, it's less than 5% of the carrying value of our *[unclear]* at the moment. So, it is not like a huge amount of asset that we designated for sale, so it's just a small part of it.

Raymond, CIMB

Ok, so the asset they designated for sale is 5% of the total carrying value of all the assets that you have?

Andy Chew, Group Chief Financial Officer

No, it's not, 5% is. It's less than 5%.

Raymond, CIMB

Less than 5%.

Ok, so what I'm trying to get at is for that particular asset that you have impaired, how much is 212 million of the carrying value prior to the impairment for that specific asset alone, not your entire fixed asset or that line of business?

Andy Chew, Group Chief Financial Officer

Yeah, and I think I've just mentioned because we are in the process of maturing our divestment. So, at this juncture I'm not able to share more details because, you know, whatever we say at the moment would compromise our commercial interests.

Raymond, CIMB

Yes, I understand, it's just that from a balance sheet perspective: clearly, if you value your assets on a value in use and when you try and sell it, you're not getting the value that you want, and I think that 212 million seems to suggest, I'm not sure, but it seems to suggest that it's just a single asset, that would seem quite alarming, so you know if I'm looking at your balance sheet, how much of it can I actually believe? That's the question.

Andy Chew, Group Chief Financial Officer

Well yeah, obviously so that's where sometimes, you know we do have this dynamic about, you know how much we could say. And obviously our first criteria are about compliance. We need to comply to accounting standard. There's no question about that.

So, and then the next thing is to extend that, you know it is immaterial, so we would then choose a particular disclosure route to ensure that in our commercial interest is not compromised.

So, I think, it's the best interest for you know, a number of parties, to ensure that you know, we continue to pursue value when it comes to divestment rather than being, you know, cornered to a particular value. So, that's why it's a fine balance that we're taking.

I ask for your indulgence for now and Raymond, for a little bit more time. So, when the time is right, you know, when we take the boxes in terms of the majority of the transaction, we'll be able to say more about this.

Raymond, CIMB

OK, sure, thanks Andy.

Datuk, I wanted to ask you a question about something you mentioned right at the start of the call, which is something to do with the dynamic positioning diving support vessels.

Could you elaborate a little bit about the issues that you're facing in this particular instance?

Datuk Mohd Anuar Taib, Group Chief Executive Officer

Zakir, could you elaborate?

Ahmad Zakiruddin, Chief Executive Officer – Engineering & Construction

Raymond, the diving vessel space has proven to be quite a challenging space for us, and I think quite a number of our peers in two ways: there is a challenge on availability of vessels – in general diving vessels, DP vessels that do work. So, there's the availability of vessels.

There's been a challenge, and the availability of specialized personnel and the specialized personnel has been impacted by the pandemic restrictions, right? Certain countries we can't bring in key personnel or movement is impacted.

So, when you compound the two: challenges in availability of vessel, the challenges are securing competent personnel. It has resulted in scheduled delays and then it turns into schedule conflicts because we have diving work that we need to do in multiple projects.

And then there's a cost impact, so that's been one of the operational challenges that we've faced over the last 8-12 months. It's a bit of a unique situation, but diving vessel availability and movement of personnel have been very challenging.

Raymond, CIMB

OK, are you able to solve it or is this going to be recurring theme?

Ahmad Zakiruddin, Chief Executive Officer – Engineering & Construction

Well, that's something that we are actively working on in terms of securing. Sort of a collaborative approach to utilisation of diving vessels and customers also have been trying very hard to help us with schedule conflicts, so it's something that we will eventually resolve, but I think 2022 in particular because of the amount of work that's going on offshore, diving has been a bit of a challenge, but now I don't think, I don't see it recurring, it's something that we will eventually resolve.

Raymond, CIMB

OK, thanks Zakir, thanks everyone.

Nik Aisyah Amirah Mansor, Head, Treasury & Investor Relations

Thanks, Raymond.

Ben, go ahead with your question.

Ben, [Name of publication]

Hi Datuk, thanks for the presentation. My audio was cut, so I may have missed some of these parts, but I just want to zoom in on your liquidity position.

I just want to understand very clearly how big the funding gap is over an extra of months and what the position of your bankers and your shareholders are?

So, it sounds like if you are just able to get your working capital cycles moving better, you can unlock maybe about 3 to 800 million there, if I understand your presentation correctly.

Will you need additional borrowings? Are the banks willing to lend to you for additional borrowings, and you know if you talk about capital structure, how quickly or what was the timeline reasonably, you may need to raise funds on that front?

Andy Chew, Group Chief Financial Officer

So, the situation is a very dynamic, so you see, we are managing multiple fronts here so, Datuk Anuar earlier mentioned about some of the contracts you know that we need to renegotiate. And you know, I think to me that is key: that's number one, because if you are able to successfully renegotiate some terms for somebody's unique contract going forward, so we can see a completely different outlook.

Right, so similarly for 98/2. So, if you are successful again, you know it's a completely different outlook, so the situation is a bit dynamic at the moment.

So, and then you look at, you know, not just these two contracts we're working on, so our portfolio of projects we look at them portfolio by portfolio basis. You know, we group it by clients, for example and region, for example, and type of contract, for example.

And then also in terms of execution, whether they are near completion or, you know, in the beginning of execution. So, we do have, you know, strategy in terms of going back to a customer where needed to renegotiate and to talk about you know, what sort of you know support we require from them.

So, to me, that is the biggest driver in terms of the outlook, at this juncture it's very hard to pinpoint a particular number, the funding requirement, on the ongoing basis.

I think if I have that 800 million plus minus you know of a self-help you know coming in so that would sufficiently address some of my more immediate need of funds, you know, to pay vendors and to ensure that we have enough working capital to sustain my operations, right?

And you also asked about whether or not the position of a lender and our shareholder, so we have constant, you know, touch points with them so we spoke to them regularly to appraise them of the situation and the actions that we're taking up.

So, I think they're also very, first of all concerned with the situation we are in so after hearing us, you know sharing with them, the plan of action that we are taking in terms of how to address liquidity and things like that. Obviously, you know, they are very supportive and to expand, you know, they are able to support us.

They're quite willing to demonstrate flexibility to allow us to draw down on facility to extend BG to draw down new BG like say, like I mentioned earlier on so, I think all hands on deck in terms of making sure that one thing to ensure that you know we continue to be robust and going forward.

So, I hope I have addressed your question.

Datuk Mohd Anuar Taib, Group Chief Executive Officer

I think in essence it boils down to: What do we do with Sapura and its ecosystem?

So, I think so far what we have seen from, you know, PNB and also from our lenders, we have, I think it's about 3,000 vendors. You know, about 60% are Malaysians vendors, many of them are small, you know, and so this is an ecosystem that we need to maintain.

We need to deliver for, let's say for our clients and in Malaysia we are the only party that can actually have offshore assets that can actually install and put a pipeline on and that's why we have conversation as well with PETRONAS on what are the areas that we can work on so that we maintain that – what we call, the delivery to the ecosystem of the oil and gas industry here in Malaysia.

So, it's a lot of, I think I spent most of my time actually talking to lenders buyers, regulators and shareholders – the major shareholders to make sure that we keep this.

We want to keep this ecosystem intact as we go along.

Ben

Thanks, I appreciate it. You can't nail down, this is a dynamic situation, but perhaps could you have a bit of discussion around the worst-case scenario if you know some of these contract negotiations, don't go your way.

How much, you know, funds do you need potentially just to keep things running from the banks? I assume, and you know, will it need to come to a capital raising?

Andy Chew, Group Chief Financial Officer

Well, at this point of time, Ben, I must say that it is really premature for us to you know, put a finger on the pie and say, you know, this is definitely what we will be doing in terms of recent capital and so on so forth.

Because there are so many levels, so many levels that we could pull right, until unless we have exhausted every single one of them, so it's really hard for us right now to commit to a particular, you know, course of action.

So, I think it's safe to say that we have a, we have a very pointed, very competent advisors to advise us on our, you know, restructuring journey because we don't want to miss a thing, so it's so important that you know, we need to, you know, learn from others, we need to learn from other people's experience so that you know, like, say you know, when we execute our restructuring plan, we are not missing anything that is important, right?

So, to extend that, you know, whatever options are helpful to us and also our stakeholders. Those are the options that we will pursue relentlessly, right? So hence, you know, worst-case scenario, something that you know, I have it in my mind, but I will use it as a motivation for me to say: let's not be there.

So, because you know, the other option is far better so hence you know, worst-case scenario it's not a scenario that I think it is a choice that we want to take, so I'll leave it at that.

So, I'm not sure if it answers your question, but in all honesty, I think every one of us in in the company, you know all levels, we are working very hard to ensure that we deliver what we need to deliver.

So, just share a little bit of color with you and so we look at what is critical right now, for example.

So, we also stop or scale down activities, business activities right so that we're able to redirect resources to focus on, you know, key activities like you know, shortening the time for billing.

You know, we prove people and say, "Hey, you know, free you up from the day job, can you help me in, you know, making sure that our documentation for billing is in order," you know, so that kind of things that we're doing so all hands on deck.

I must say I'm speaking to a lot of our staff you know, from different level, I'm also very amazed with the level of energy people have in terms of wanting to ensure that they're able to come forward, step forward to contribute so hence, you know, a worst case scenario, let's say again, you know, so it's something to motivate us rather than a scenario that we plan for.

Ben

I need to press you on this, but could you give a number for how much facility?

Maybe you have a, you know, a range of the banks that you can draw down on.

I just want to know what is your head room, really?

Andy Chew, Group Chief Financial Officer

Ben, I ask for your indulgence.

It's a number that at the moment still being worked on up. So yeah, so I, I'm not in the position at the moment to pinpoint a particular number. So, safe to say that you know, like say 800 million.

So, a ballpark there about, you know it's something that it is important for us, so I'll leave it at that, Ben.

Ben

Ok please forgive my persistence. Thank you.

Andy Chew, Group Chief Financial Officer

It's ok, I mean you're here to do a job. We are here to do a job. So, I think the important thing is that now we're able to provide, you know, a lot more clarity, you know on the future direction that we are taking.

Nik Aisyah Amirah Mansor, Head, Treasury & Investor Relations

Thank you, Ben. TJ from Maybank, go ahead with your questions.

TJ, Maybank

Thank you. A few questions here: In one of your slides you basically stated down the challenges, I think there are four for, the so, that probably you in terms of ranking, which one will be your top challenge? And what shall be the least challenge of all.

Datuk Mohd Anuar Taib, Group Chief Executive Officer

So, I think for me, yeah, out of the four, very difficult to say top or not because they're all interlinked.

You look at how we started; a lot of legacy contract that are not overed and COVID become real. And it looks like nobody wants to deal with it, so we carry it at about 528 million today.

Direct costs accumulated direct person for weight is 520 million. That's our money and we have not gotten anything back. This is just direct.

Now if you look at what comes with it actually at in between Zakir and Nasri, they actually did a very thorough calculation, it's between two to four times.

That's actual costs that we do so that you know whilst we continue doing project execution, it impacted our liquidity. And that liquidity over the liquidity crunch that we have at the back of the first two, impacted the execution. But, now some when they say "Look unless you pay me, we don't want to go and proceed," so it is, it is a vicious cycle that we're in. I mentioned it before. It's a cycle that we in.

So how we going to go and deal with it? That's why one: we are going to see – we are meeting up with all of our customers and start looking at, you know, expediting all of those claims.

We have made some progress in certain areas; we have not made progress in for certain clients.

Project execution, we have a work stream that look at what I call E&C reset. So, we look at how do we do so we put a different framework.

We're going to put a lot more discipline in in the management of projects, and liquidity is what we are discussing with lenders, vendors, lenders and shareholders as well as vendors where we could actually look at scheduled payment and things like that.

So, you know it's this is you know, I wish I could actually say if I solved one, the rest will come get solved.

We actually have to deal with it in a – and when you pull it all together, because we all have different stakeholders that we need to deal with.

TJ, Maybank

Basically, can I check you on your legacy contract?

Out of your order book that you have so far, there's a percentage of legacy contracts, I believe that these are basically very challenging margin, sort of jobs – don't get *[unclear]* percentage of legacy contracts are relative to your order backlog.

Ahmad Zakiruddin, Chief Executive Officer – Engineering & Construction

No, not a number I have off hand to be honest, but legacy contracts, I would say our contracts that we won, based on bidding that we did prior to the pandemic, that would be, best way for me to define that, but it's not a number that I have off the top of my mind actually at the moment.

Datuk Mohd Anuar Taib, Group Chief Executive Officer

So, I think fundamentally even if you look at some of the key ones: Yunlin and 98/2, we are putting a complete renegotiation on those areas.

There are few others that we also want, let's say we won last year in the middle of the pandemic, but all the assumptions were made before.

So, we are already approaching some of those clients because some clients took a different approach.

Some client says COVID is a force measure, let's say for instance we take that position; it should be covered by us.

Our position is that if that's what you see, then I you know we should be able to force measure the contract. And that's a conversation that we're having with them.

So, we want to continue working, we want to make sure that we deliver for them. But the terms, it was provided pre-pandemic is not conducive for us to work.

So, I think we are not the only one, I can see our peers in the same industry are doing the same. So, the objective for us is actually, once you find an issue that need to be resolved, we got to go back to the clients and the vendors to make sure that we find a middle ground between all parties.

TJ, Maybank

Well, put it onto that, given that these legacy issues and also project execution is going to basically affect your business for next 24 months based on the job execution for E&C.

So, is it fair to say that we are not going to expect to see any turn around over the next 24 months?

Datuk Mohd Anuar Taib, Group Chief Executive Officer

I think yeah, you are too pessimistic, that you did, yeah, give us a little bit of a break.

Yeah, 24 months is, you know, an eternity. So, we hope, we want to get better in a much faster cycle in there.

TJ, Maybank

Would it be less than 12 months? Or on a more optimistic word?

Datuk Mohd Anuar Taib, Group Chief Executive Officer

So, I don't want to go to put anything yet. You just watch our performance, because there are few things that are there that remain some. We'll fix the project execution. I think legacy contracts will expire. We'll get the new ones coming in if you can see that we are becoming more focused with the new ones. But as you can see, we thought the world is going to be open.

Well, you see it as, "Oh now I can't travel, you know, for leisure". For us, our crew they come from all kinds of locations. Some of the crew, drilling crew or subsea crew, let's say they come from South Africa, which we have some, a very specialized position.

Now they can't go to many countries. What do you do then? You know and I know that Raphael has been managing it in Drilling, so these are things that we could go and say, well, we think we had it *[unclear]*.

People are vaccinated. Today, I believe we are more than 80% vaccinated and we are one of those companies or no one of those. We're the only company in Malaysia where we send vaccine to our workers offshore.

And we have completed our vaccination in Lumut and I think ever since we have completed that vaccination, we have not had anybody with COVID in Lumut.

So, these are the things that we do. But then again, this challenge with the pandemic remains, so what I'm hoping for is that soon we will clear the legacy contracts either by renegotiations or just natural completion of those projects.

COVID-19 remains as a risk to us. But the execution we have, workstream called E&C reset, in which we look at our engineering project management, contract management and bidding, risk framework that we put, but liquidity, that is currently being an issue for us.

We're also hoping to work it together with our clients, lenders and vendors to resolve.

Whether it's you know, will it be done in three months, maybe not. Will it be done in 24 months? Too long.

So, we're going to go and work on it, and it's, the truth is going to be somewhere in between.

TJ, Maybank

I got a few more questions. Given that what you mentioned, can we basically fairly say that the sizable kitchen sinking come Q4? Given the fact that we basically, we are now entering into, now December, January, we probably on last month for the financial year.

We expect to see a significant kitchen sinking like what we see, probably about few years ago, that is one? And secondly, in terms of cost down. How much more can you possibly cut?

Datuk Mohd Anuar Taib, Group Chief Executive Officer

I personally TJ, don't like the word kitchen sinking, because it indicates as if you do it for no good reason.

So, what we do is that we will look at our future business. We look at where we want to be, and actions related to it will be derived from that.

Andy, would you want to add?

Andy Chew, Group Chief Financial Officer

Yes, Datuk, I think, you're spot on in terms of how we need to deal with that and beyond that as well.

So, cost is – we need to look at cost from two perspectives: one perspective is obviously cost takeout, so hence, you know we are doing the reset and look at, you know, what's the right organisation that we want to, you know, establish going forward so with the new business direction, then naturally we will know that the asset model that we need do we want to operate.

So, that would drive structurally – our costs are going forward so, that piece of work at the moment is being done under the E&C reset so, that is that.

And then, also, you talk about a little bit about kitchen sink, right? I think it's not about you know, doing kitchen sink, because Q4, it is customary to do so.

The fact that we are looking at, you know, the future business direction and you know what makes sense for us and things like that.

So, even if – for example, you know if this quarter of Q3, for example, if you have already crystallized particular, you know, business direction, so you need to account for the impact, you know if that's any financial impact, right?

So, it's not about – we pick a particular quarter then then we – kitchen sink. So, it's a practice that we do not subscribe to. But having said that, it's important to note that you know, most company, including ourselves, we continue to look at, you know, business outlook.

So we are, you know, collecting a lot of insight about you know, what the market is informing us about, you know, some of the assumptions around you know, the outlook, the parameters and things like that, so we continue to make sure that we prepare our business plan according to those credible outlooks, right?

So, until – unless we do this and finish our work, you know, so at the moment we will not be able to say you know, what would be the potential impact to our financials.

So, and then I mentioned about cost. Take out the two perspectives: one is the structure and then the other one is, it's also about the efficiency of costs, right? So, it's not that we don't spend, but every dollar that you spend, you must make sure that it generates value for you, right?

I'll take an example: *[unclear]* conversation we had earlier on the call, so this has been Achilles heel for us. Because we look at how this particular the lack of vessel or other the tightness of market when it comes to this particular asset and also the specialist had cost us some money.

So, the question is about you know, how we should make sure going forward, we're able to have a better handle of this particular capacity or capability. So, either we can work with, you know, a subcontractor or partnership with someone or whatever.

So, it's something that we need to consider to ensure that in going forward, when we spend because we're able to spend it in the most efficient manner, and if I may add a third component about costs being in our industries like this, right?

Every single cost, every single cent we spend, we must make sure we always must challenge ourselves. “Am I able to build my customer?”

So, this is the commercial mindset, that means instill, not people, according to being commercial savvy, so it's no longer a situation where you know, it's always like you know, we spend first.

We talk later about; we talk first before we spend, so even that simple mindset shift would help address our cost performance going forward.

TJ, Maybank

So, having said that, is there a ballpark figure they can give us in terms of how much cost down you can basically execute properly from next year onwards?

Andy Chew, Group Chief Financial Officer

Well yeah, I think, yeah I think it's not – I mean I keep repeating this.

The fact that we are still, you know, undergoing our reset plan until, and unless we are able to mature that plan, so, because that would drive you know what would be our, you know, our asset footprint going forward.

And until unless that is clear, so it's very hard for me to say this will be the amount. So, please do allow us some time to progress this work so in due time, you know, we promise in due time, when we are ready with the story, we will come back to you all.

TJ, Maybank

One final question, based on depreciation, I think there's exuberated positioning Q3 now so probably could you publish – share some colors on today?

Andy Chew, Group Chief Financial Officer

Oh, the depreciation. I think probably you're reading from the, our Bursa announcement, so it's included in the DD&A. I call it depreciation, depletion, and amortization. It's the 212 million impairment charge.

So, minus that, I think that the depreciation is more or less, pretty stable.

TJ, Maybank

Oh, I see. So, that impairment, this is related to depreciation, in the sense.

Andy Chew, Group Chief Financial Officer

Yeah yeah, yeah, impairment is part of DD&A, we call it.

TJ, Maybank

Ok, thank you very much.

Nik Aisyah Amirah Mansor, Head, Treasury & Investor Relations

Thank you, TJ. Alex from AM Research, go ahead.

Alex, AM Research

Yeah, just following up on TJ's questions on impairments.

I know you're still looking at the things, and things are still dynamic, but I just want to know, is there is there risk that your intangibles of five billion could be impaired?

If you look into, going into the power button, is there a risk there?

Andy Chew, Group Chief Financial Officer

So, for intangibles, goodwill in this particular case, we always *[unclear]* every year – that is a part of our standard process and the way we do goodwill testing is against our segment enterprise value so, we need to look at, you know, going forward, based on the business plan.

You know, how much you know, enterprise value that we are generating. So then, we compare that to the entire, you know, asset value, including the intangibles, and to the extent that, you know, that so-called enterprise value is below our total assessed value.

Then we may need to take a haircut on a goodwill, so, at the moment it's hard to say, you know, whether we need to take a haircut on the goodwill or not, until again, we finish our business plan exercise in Q4.

Alex, AM Research

Yeah, I understand.

I'm looking at your order book right, of 7.6 billion. Would you say that almost all of them have been delayed in terms of project scope?

I just want to have a fill up, is it? Can I say, in safely about almost all of them needed because of COVID-19 and you are actually now looking to find how to recover the MCO costs involved?

Andy Chew, Group Chief Financial Officer

I'm not sure whether I understand the question.

Alex, AM Research

Yeah, for the orderbook of 16 billion to be recognized how, what is the percentage of that orderbook has been affected by the late, I would say, the delayed progress because of MCO, and could you give us a bit of the value of the recovery, potentially got from that?

Andy Chew, Group Chief Financial Officer

OK, so, well we don't track our order book from that perspective, Alex.

But I'm not sure whether I can give a bit more color along the lines of the question being asked.

Datuk Mohd Anuar Taib, Group Chief Executive Officer

I think Zakir, could you do so?

Ahmad Zakiruddin, Chief Executive Officer – Engineering & Construction

Yeah, I think the delay that; the projects that have been impacted by delays, are predominantly offshore, because of restriction in movements of material, equipment, and personnel, so some of the delays have been impacted out of the yard, but I would say a large chunk of it has been related to offshore activities.

But like Andy mentioned, we don't really slice our orderbook in that manner. But projects that are in engineering or procurement stage now or have just started fabrication, they are not impacted by delays.

The ones that have been heavily impacted by delays are predominantly, when we had to execute the offshore work this year. Because COVID was still very rampant at that point in time, right?

Alex, AM Research

Wasn't your fabrication yard closed? So, during that time and the actual progress, also was delayed during this period?

Ahmad Zakiruddin, Chief Executive Officer – Engineering & Construction

Yeah, that is calendar year 2020, right? Alex, in 2021 we had some short closures of the fabrication yard, but the delay essentially is driven by; in those instances, like I said, there is some delay in the yard, but the delay there is actually driven by delay of material arrival, right?

Because of the value chain disruptions, delivery movement of material through ports, so there is some delay impacted by fabrication more in 2020 rather than 2021.

But, in 2021 the biggest impact has been in offshore activities.

Alex, AM Research

Ok, what would you say; that it's a potential for recovery?

Say the clients are willing to compensate you. I mean, you're, you have losses of 2.3 billion right this year in nine months alone?

What is the potential ability for you to recover those costs, I mean, on a, I've got the best-case scenario?

Ahmad Zakiruddin, Chief Executive Officer – Engineering & Construction

Yeah, like uh Andy was saying just now. We are looking at the commercial settlements and we are hoping to bring home somewhere around the 300 million mark of commercial segments.

Alex, AM Research

300 million ringgit is it?

Ahmad Zakiruddin, Chief Executive Officer – Engineering & Construction

Yeah, correct.

Alex, AM Research

And that includes, starting from MCO last year until now?

Ahmad Zakiruddin, Chief Executive Officer – Engineering & Construction

It's what we're pursuing currently with our customers. The amount is larger than that, but if you ask me to put a value, that's what I would be targeting.

Alex, AM Research

Great, thank you that's all for me for now, thanks.

Nik Aisyah Amirah Mansor, Head, Treasury & Investor Relations

Alright thank you Alex. How many – do you have another question, Ho Meng?

Ho Meng, UOB

Yes, quick follow up questions. Can I just double check the impairment charge? Is it only coming from E&C, as I noticed in the Bursa announcement pack? Just to double check.

Andy Chew, Group Chief Financial Officer

Yes, for this particular quarter for that charge, yes, it is wholly from E&C.

Ho Meng, UOB

And are you able to share how much is the global accept value help for sale?

Andy Chew, Group Chief Financial Officer

It's lower than 5% of our total PP&E value.

Ho Meng, UOB

OK, lower than the outstanding 88.9 million, 5% like that?

Andy Chew, Group Chief Financial Officer

Less than 5% of that.

Ho Meng, UOB

OK, and in terms of the disposal gains that you have made so far, what was that related to – you have some disposal of PPE and I guess, I think in your cash flow, you have some proceeds from disposal as well.

So, I just want to see the trend of your asset divestments.

Andy Chew, Group Chief Financial Officer

Yeah, I think it's I think yeah, I think those are some minor; I think if I'm not mistaken, Drilling related iactivities. It's just – you carry on first, I'll see whether I can get some details.

Once I get the details, like, I'll come back and answer your question. Sorry, I don't have it.

Nik Aisyah Amirah Mansor, Head, Treasury & Investor Relations

Ok Ho Meng, alright, thank you. Steven from Kenanga, go ahead.

Steven, Kenanga

Hi, thank you for having me. I actually have just one question.

Regarding your borrowings, so you're borrowings, all of the borrowings of 10.7 billion as I understand, is being recognised under current liabilities and I think in the slides, you have mentioned that this is, you know, you guys have already received the waivers, but it's still in the midst of fulfilling the conditional requirements.

I just would like to understand specifically what are these conditional requirements?

Andy Chew, Group Chief Financial Officer

Sorry, maybe I'll take that question. So yeah, so, there are actually, the conditions are – quite a long list. And we fulfill almost all of them except probably one.

So, this one is coming back to the – to always why I say I need to mature this a little bit more. So, it's the so called the financial model, so the lender would like to understand you know, our revised financial model and that one we need to make sure that we look at it carefully because there's like, there's so many moving parts and we do, would like to make sure that we are able to manage some of the difficult levers embedded in our business at the moment.

So, that is taking a little bit of time. That's where we hire PwC to come and help us, you know, to provide some independent support and also challenge on our financial model.

So, we are making good progress, I must say so, but nonetheless, it's still something that we are pursuing at the moment, as we speak.

Steven, Kenanga

Ok, thank you for that. So, sorry because I'm a bit, you know, I initiated.

If you don't mind me asking a revised financial model. This basically refers to your profitability. Is it – basically, I'm asking what specifically needs to happen before these conditions can be met?

Andy Chew, Group Chief Financial Officer

OK, so it's, it's not, it's not the profitability per say it's also a cash flow going forward and basically the more important thing is, you know, the so called the E&C reset.

So, what the future looks like? Alright, so, if you want to share, you know, any of our say, assets, if any. So, how does that impact and our delivery and our cost structure and so forth, right?

And we mentioned about you know, earlier on the call about some of the contract we are in the midst of renegotiation with our client.

You know, the likes of Yunlin and also 98/2 and to the extent that we're able to renegotiate with a with a better outcome, so that will go into our, you know, financial model, so we can imagine there's so many moving parts, so we can't, you know, really immediately or in the short space of time, able to finalise the model very much, so that's picked ourselves back to earlier this year, so there was a financial model provided to the lender.

That's why as part of the refinancing and that time, you know, we, you know, everybody at that time didn't know any better about you know, what is the impact of COVID-19 right?

And passage of time, then we're beginning to realise a bit more about you know, how we have probably underestimated the COVID-19 impact on our operations. And then, also progressively we're beginning to see the challenges coming from two very difficult contracts so hence, you know, there's a need to for us to revise the model and these two contracts alone are problematic and it's complex right?

So, for us to be able to get to the bottom of it, have a clear line of sight and, so what the future might look like so that when we need time so hence, you know, we are very honest and open with our lenders so we told them exactly what we need to do and they were supportive because they also would like to ensure that whatever eventually we come up with is something that I can sign on as well.

So, it's, this is the best interest for all of us to ensure that we're able or rather, we are given enough time for us to do proper bottom up build to understand what the new financial model look like.

Steven, Kenanga

OK, alright thank you. Yeah, so it sounds like it, as you mentioned it, it sounds like it has to take quite some time, it sounds like I don't recommend it being completed, let's say in the next quarter, so you know, just –

Andy Chew, Group Chief Financial Officer

Oh no, we are hoping, we are able to complete that this quarter.

Steven, Kenanga

Ah, within the quarter. Basically, the next Bursa quarter results (Q4) yes? Ok, so you guys have until end of this month, is it? Or till end of January to finalise everything?

Andy Chew, Group Chief Financial Officer

Right, yeah, our internal target is to ensure that we get it out by end of December. But obviously, you know after that, we still need to have a conversation with our lenders. That's very obvious, for them to, you know, understand and I believe there will be a little bit of interaction between ourselves and our lenders, you know, in terms of understanding the assumption behind the financial model.

Steven, Kenanga

OK, alright, just one last question from me.

Assuming that this one goes through, that basically the lenders are happy with what you have to present. Your borrowings would then be reclassified back into a non-current, most of your borrowings anyway, what – how would the repayment schedule look like?

Andy Chew, Group Chief Financial Officer

Well, today we are only talking about classification, accounting, classification of our loan. So, there's no impact whatsoever on the repayment schedule and so on so forth.

So, it remained the way it was, so hence, the, like say, this purely accounting, classification. But nonetheless, you know, for good order, we do want to ensure that you know, we are able to comply with the loan covenant, because, no, it's a good thing to do anyway.

Steven, Kenanga

Alright, thank you very much. No more questions from me.

Nik Aisyah Amirah Mansor, Head, Treasury & Investor Relations

Alright, thank you Steven.

Just to be conscious of the time, 7:30 now and there's no more questions from the floor. I think we could end this session, but Datuk, maybe you would like to say a few words before we end the session?

Datuk Mohd Anuar Taib, Group Chief Executive Officer

I think, well, first of all, thank you very much for joining. I know that a lot of things are still fluid, but at the same time like I said, you know, we're back to challenges that we see in the industry.

And we want to make sure that we get stronger when you know, with, in managing those challenges you know, we are doing everything that we could to make sure that we manage our project execution and liquidity, COVID as well as the kind of contracts that we're going to go and embark on going forward.

You'll hear from us a lot more, in due time and please reach out to us if you have further questions.

With that, thank you very much. Stay safe and we look forward to engage with all of you soon.

Thanks, bye.

Nik Aisyah Amirah Mansor, Head, Treasury & Investor Relations

Alright, thank you Datuk, and thank you to all leadership teams for joining us tonight.

Thank you for all analyst, Sapura team members for joining us this evening.

We will share the presentation slide shortly to analysts and it will also be available on our website tomorrow. Reach out to myself, Nik Aisyah or Dayang, should you have any queries.

And then that's all we have for now. Thank you everyone and good night.