RAM
RATINGS

CREDIT RATING RATIONALE

PP8713/10/2007

CORPORATE RATINGS

DECEMBER 2007

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Principal Activities:
Provision of integrated services to the oil and gas sector, including marine support services, engineering equipment and maintenance services, and drilling rig and platform services.

Instruments:
(i) RM150 million Serial Bonds with warrants (2006/2014)
(ii) Proposed RM400 million Islamic Medium-Term Notes Programme ("IMTN") (2007/2022)

Ratings:
(i) AA_3 [Reaffirmed]
(ii) AA_3 [Assigned]

Rating Outlook:
(i) Stable
(ii) Stable

Last Rating Action:
September 2006

Maturity Dates:
(i) 24 January 2014
(ii) To be confirmed

Coupon Rate/Profit Margin:
(i) 4.50% per annum, payable semi-annually
(ii) To be determined

Shariah Adviser:
Dr Mohd Daud Bakar

TANJUNG OFFSHORE BERHAD – Initial Rating & Rating Review

Summary

RAM Ratings has reaffirmed the AA_3 rating of Tanjung Offshore Berhad's ("Tanjung" or "the Group") RM150 million Serial Bonds with warrants (2006/2014). Concurrently, RAM Ratings has assigned a preliminary rating of AA_3 to the initial issuance of RM80 million Islamic Medium-Term Notes ("IMTNs") from Tanjung's proposed RM400 million IMTN Programme (2007/2022). Both long-term ratings have a stable outlook. Tanjung is a provider of integrated oil and gas ("O&G") support services; the Group offers marine support services, engineering equipment and maintenance services, and drilling rig and platform services to the upstream O&G industry.

The following strengths support the rating:

- ***Well poised to benefit from increasingly robust upstream O&G segment***
  Tanjung, with its diversified portfolio of services that mainly support the exploration, development and production ("ED&P") activities of the O&G industry, is poised to benefit from the heightening levels of upstream activities in Malaysia. RAM Ratings has a positive outlook on the local O&G support sector over the next 5 years; this is supported by escalating crude-oil prices and the country's O&G reserve-replacement initiatives.

- ***Steady contributions from time charters***
  Six out of Tanjung's 7 marine support vessels are currently locked into medium-term charters[1]. Under these arrangements, Tanjung gets paid fixed daily charter rates ("DCRs") regardless of the utilisation of the vessels, thus ensuring revenue stability during the contracted period. In addition, its operating margins are protected against rising bunker prices as the charterer bears all fuel costs. Nevertheless, Tanjung remains exposed

[1] Of 3-4 years' duration, inclusive of extension period.

Lead Arranger:
AmInvestment Bank Berhad

Trustee:
Malaysian Trustees Berhad

Securities:
For (i):
1) Third-party fixed charge over 3 offshore support vessels, *Tanjung Pinang 1, 2 & 3*.
2) Third-party assignment of the rights, titles and interests in the construction contracts of the 3 vessels.
3) Third-party assignment of all insurance policies of the 3 vessels.
4) Third-party assignment of all charter contracts in respect of the 3 vessels.
5) Fixed charge and assignment over the Designated Accounts.

For (ii):
1) First fixed charge over the new assets financed under the IMTN Programme.
2) Assignment of the rights, titles and interests in of all the construction contracts of the new assets financed under the IMTN Programme.
3) Assignment of all insurance policies and charter contracts in respect if the new assets financed under the IMTN Programme.
4) Fixed charge and assignment over the Designated Accounts.

to demand and pricing risks over the longer term, after these contracts expire.

- ***Young fleet sharpens competitive edge***
  Tanjung's fleet mainly comprises newbuilds, which gives it a competitive advantage when tendering for contracts. The oil majors prefer newer vessels as they are faster, have better capabilities and are less prone to breakdowns. In addition, RAM Ratings notes that Tanjung has been able to command premium rates for its new vessels.

- ***Set to become stronger after fleet expansion***
  While it is still a small player in its sector, Tanjung will emerge stronger after the expansion of its fleet to 12 marine support vessels; these are expected to contribute at least RM70 million of cashflow per annum from FYE 31 December 2009 ("FY Dec 2009") onwards. In addition, a larger fleet will help diffuse vessel-concentration risk, which is commonly associated with smaller operators.

- ***Favourable policies that protect local players***
  Given Petroliam Nasional Berhad's ("Petronas") inclination towards domestic O&G support companies - except where local expertise is unavailable - Tanjung does not compete head-on against the larger foreign players. In addition, the marine-support-services sub-sector is also protected by the Malaysian cabotage law[2].

- ***Strong counterparties***
  Tanjung's main clients consist of the upstream arms of established oil majors. Although these companies have collectively accounted for 70%-80% of Tanjung's annual turnover, their solid financial positions mitigate collection risk. Nevertheless, the Group remains exposed to concentration risk.

The following risk factors, however, mitigate the strengths above:

- ***Balance sheet weakened by latest debt-funded expansion***
  Under RAM's sensitised case, Tanjung's debt-funded fleet expansion is expected to raise its gearing and debt levels to respective peaks of around 2.44 times and RM363 million during the construction period of the new vessels. The Group's weakened balance sheet is, however, balanced by the robust outlook on the market for marine support vessels over the next 2-3 years, as evidenced by Tanjung's escalating DCRs as well as stronger post-expansion business profile. While the ratings of the debt issues may

[2] The law that reserves domestic shipping trade to Malaysian-flagged vessels. Foreign-flagged vessels may only be allowed if there is a shortage of Malaysian- ones.

be revised downwards should it gear up beyond the expected levels, the ability of Tanjung Offshore to borrow further is constrained by a gearing covenant of 2.50 times.

- ***Temporary impairment of debt-protection measures in near term***
  During the construction of the new vessels, Tanjung's funds from operations ("FFO") debt-coverage levels are expected to dip from 0.20 times - as initially expected - to around 0.12 times under RAM Ratings' sensitised projections. Nevertheless, Tanjung's FFO debt cover is expected to recover to around 0.20 times from FY Dec 2009 onwards. To minimise the financial strain on Tanjung in the short term, the initial issuance of IMTNs will be structured with step-up profit margins, allowing the Group to always maintain an interest coverage of 3 times under the sensitised case.

- ***Significant exposure to construction risk in short term***
  As Tanjung will add another 5 newbuilds over the next 2 years, any significant delay in the commissioning of these vessels would have an adverse impact on the Group's financials given its heavy reliance on the additional cashflow vis-à-vis its debt-servicing ability. However, RAM Ratings has factored in a 6-month delay in the commissioning of the vessels under our sensitised projections, as construction risk is not easily mitigated. Meanwhile, Tanjung is not expected to encounter cost overruns due to the fixed-priced contracts for vessel construction.

- ***More maintenance jobs needed to defray hefty opex***
  While the setting up of new workshops in Miri and Labuan has allowed the Group to tap the lucrative maintenance sectors in East Malaysia and Brunei, Tanjung has not been able to secure sufficient maintenance contracts to defray the hefty operating expenses ("opex") of these new facilities. The substantial opex has been the reason for the decline in the net profit of the Group's engineering and maintenance services division, despite its strong top-line growth. As such, it is imperative that Tanjung successfully bids for more projects in order to improve its profitability.

- ***Heightened risk appetite***
  While the doubling of its fleet within 2 years places the Group in a good position to benefit from the current boom in O&G marine support services, the management's current expansion is deemed aggressive as it is mainly debt-funded, unlike the previous round of expansion.

Objectives of the Proposed Issue

The proceeds from the IMTNs will be utilised to fund the acquisition and/or constructions of marine support vessels, production platforms, lift barges and oil rigs throughout the 15-year tenure of the debt facility. Tanjung intends to initially issue RM80 million of step-up profit IMTNs, which will be used to fund the construction of 2 marine support vessels. Subsequent drawdowns from the IMTN Programme will be subject to a gearing covenant of 2.50 times.

Company Background

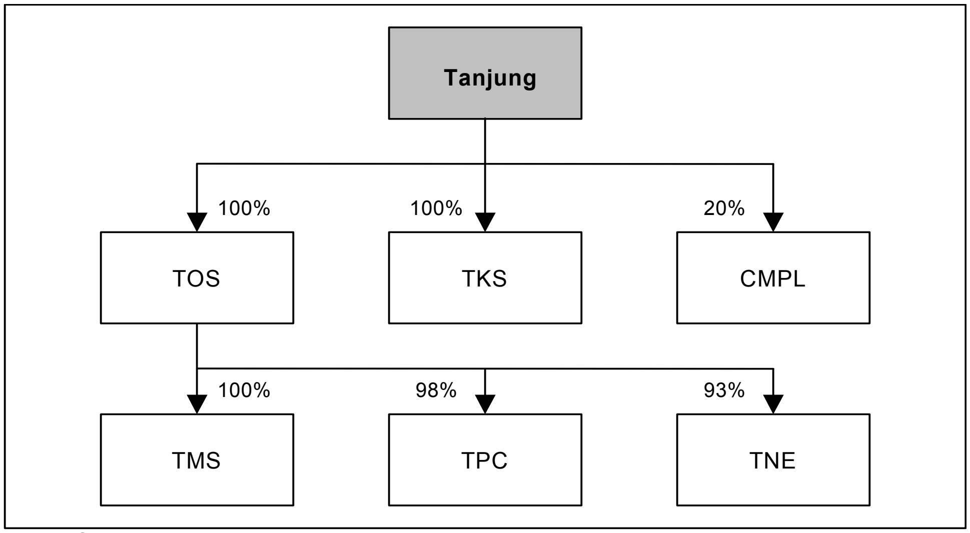
Tanjung was incorporated as a public company in Malaysia on 11 August 2004, and has been listed on Bursa Malaysia since 27 May 2005[3]. Its main subsidiary, i.e. Tanjung Offshore Services Sdn Bhd ("TOS"), commenced operations in March 1990. It had started by collaborating with a Norwegian offshore-drilling contractor, Odjfell Drilling & Consulting Co, on contract-drilling and exploratory activities in East Malaysia. The Group had subsequently expanded its business to include marine support services, the provision of engineering equipment and spare parts to the O&G sector and, more recently, other support services such as manpower, maintenance and repair works.

Table 1: Principal activities of main subsidiaries and associate

Major subsidiaries	Shareholding (%)	Principal activities
TOS	100	Provision of integrated services to the oil and gas sector, and related industries
Tanjung Kapal Services Sdn Bhd ("TKS")	100	Ownership of vessels and provision of ship-management services
Tanjung PetroConsult Sdn Bhd ("TPC")	100	Provision of engineering and professional manpower services
Tanjung Maintenance Services Sdn Bhd ("TMS")	99	Provision of maintenance services
Tanjung NewEnergy Services Sdn Bhd ("TNE")	93	Provision of project management services
Cendor Mopu Producer Ltd ("CMPL")	20	Owner and operator of a mobile offshore production unit

3 Tanjung had been initially listed on the Second Board; it was transferred to the Main Board on 8 September 2006.

Figure 1: Corporate structure of the Tanjung Group



Note: Shaded box indicates listed entity.

Industry and Business Assessment

Well poised to take advantage of ED&P boom

Tanjung, with its diversified portfolio of services that mainly support the ED&P activities of the O&G industry, is well poised to benefit from the heightening levels of upstream activities in Malaysia. RAM Ratings has a positive outlook on the local O&G support sector over the next 5 years. Amongst others, RAM Ratings expects the persistently lofty crude-oil prices and Malaysia's O&G reserve-replacement initiatives to continue driving local ED&P activities. According to Petronas, its revenue for FYE 31 March 2007 increased by 10% year-on-year ("y-o-y") to RM184.10 billion – a record level, supported by stronger sales volumes and prices. In terms of upstream expenditure, RM19.24 billion had been spent during the year, translating into a 20% y-o-y increase. With 7 deepwater fields scheduled to be commissioned up to 2013, local ED&P spending is expected to continue trending upwards.

Table 2: Indicators of ED&P activities

Year	2004	2005	2006
Total reserves (billion boe)	19.36	19.91	20.18
New domestic PSCs awarded (number)	5	9	4
Total domestic PSCs (number)	53	60	64
Exploration wells drilled (number)	47	53	39
Total domestic O&G fields (number)	75	77	85
Total production (billion boe)	0.62	0.60	0.59
Domestic ED&P spending (RM billion)	12.30	16.10	19.24

Source: Petronas
boe = barrels of oil equivalent
PSC = production-sharing contracts

Table 3: Deepwater fields coming on-stream (2008-2013)

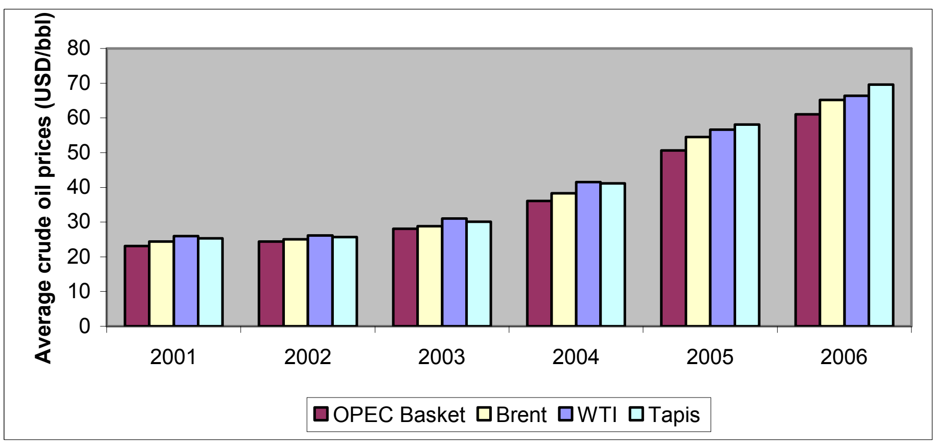
Field	Year of expected commencement	PSC operators
Gumusut	2010	Shell/ConocoPhillips/Carigali
Kakap	2010	Murphy/Carigali
Malikai	2011	Shell/ConocoPhillips/Carigali
Kebabangan	2011	ConocoPhillips/Carigali
Ubah Crest	2012	Shell/ConocoPhillips/Carigali
Pisagan	2012	Shell/ConocoPhillips/Carigali
Kamunsu	2013	Shell/Carigali

Source: Petronas and its PSC partners

Lofty crude-oil prices to continue driving upstream activities

RAM Ratings expects oil prices to remain high in 2007, with Brent crude averaging at USD75/barrel for the year, supported by tight global production, uncertainties vis-à-vis new discoveries and steadily rising consumption. The lofty prices are expected to drive global ED&P activities, especially for deepwater and ultra-deepwater hydrocarbon reserves as well as non-conventional oil such as oil shale and tar sands, which are more costly to develop. While Brent crude recently peaked at USD94/barrel and may well hit USD100/barrel in the near term, this is viewed to be a temporary spike caused by supply concerns arising from the current tensions in the Middle East and the lower-than-anticipated inventory levels of the United States.

Chart 1: Average crude-oil prices (2001-2006)



Source: Organisation of Petroleum Exporting Countries ("OPEC"), Platt's, Bloomberg

Favourable policies protect local players

Given Petronas' inclination towards domestic O&G support companies - except where local expertise is unavailable - Tanjung does not compete head-on against the larger foreign players. In fact, many of the latter penetrate the Malaysian market by partnering local companies like Tanjung. In this regard, the Group holds exclusive rights to distribute certain engineering equipment and drilling solutions in the country. Nevertheless, Tanjung still competes against local companies, which may have exclusive tie-ups with other international principals. In addition, marine-support-services operators like Tanjung are also protected from foreign competition by the Malaysian cabotage law.

Newcomers face high barriers of entry

Meanwhile, local companies trying to break into this sector face onerous licensing requirements, as they must demonstrate a proven track record and an ability to support the industry. Licences for the provision of products and services to the O&G industry are issued by the Ministry of Finance, Petronas and the Construction and Industrial Development Board.

Strong counterparties, mainly exploration arms of oil majors

Tanjung's main clients are the upstream arms of established oil majors such as Petronas Carigali Sdn Bhd ("Carigali"), Murphy Sarawak Oil Co Ltd ("Murphy Oil"), Sabah/Sarawak Shell ("Shell"), ExxonMobil Exploration & Production Malaysia Inc ("ExxonMobil") and Talisman Malaysia Limited ("Talisman"). Although these companies collectively account for 70% to 80% of Tanjung's annual turnover, their solid financial positions mitigate collection risk. In addition, payments from these customers have been prompt; only 5% to 10% of Tanjung's trade receivables have been outstanding for more than 90 days. Nevertheless, the Group remains exposed to concentration risk.

➢ Marine Support Services

Marine support services - main profit and cashflow generators

While the Group's largest revenue contributors are engineering equipment and maintenance services as well as rig and platform services, marine support services are still Tanjung's highest profit and cashflow generators due to the high margins of this business segment. In FY Dec 2006, revenue from marine support services catapulted 114% y-o-y, supported by higher charter rates as well as the commissioning of 2 additional vessels during the year. Revenue from this segment is expected to reach around RM57 million in FY Dec 2007, underscored by contributions from 3 new vessels. We note that marine support services accounted for 83% of the Group's net profit in 1H FY Dec 2007.

Table 4: Segmental analysis of revenue

	FY Dec 2005		FY Dec 2006		1H FY Dec 2007	
Segment	**RM million**	**%**	**RM million**	**%**	**RM million**	**%**
Engineering equipment & maintenance services	117.11	*57*	129.03	*44*	130.23	*64*
Rig & platform services	67.80	*33*	120.23	*41*	41.44	*21*
Marine support services	20.55	*10*	43.99	*15*	30.42	*15*
Total	205.46	*100*	293.25	*100*	202.09	*100*

Table 5: Segmental analysis of net profit

	FY Dec 2005		FY Dec 2006		1H FY Dec 2007	
Segment	**RM million**	**%**	**RM million**	**%**	**RM million**	**%**
Engineering equipment & maintenance services	5.10	*32*	4.53	*25*	1.48	*16*
Rig & platform services	1.50	*9*	3.25	*18*	0.08	*1*
Marine support services	5.00	*31*	10.50	*57*	7.60	*83*
Adjustments/Others*	4.45	*28*	-	-	-	-
Total	16.05	*100*	18.28	*100*	9.16	*100*

** Recognition of deferred tax assets.*

Still owns 7 vessels

In late FY Dec 2006, Tanjung sold *Jara*, a 21-year-old anchor-handling, tug-supply ("AHTS") vessel. Nevertheless, its fleet strength remains at 7 vessels after having acquired *Dawai,* a new straight-supply vessel ("SSV"), in September 2007. With just 7 vessels, Tanjung is considered a small player as there are at least 5 local companies with a fleet size of at least 10 vessels, with the larger ones owning more than 30 vessels. Tanjung's fleet, which comprises 5 SSVs, an AHTS vessel and a tug-utility vessel ("TUV"), is also less diverse compared to its larger peers.

Table 6: Tanjung's fleet as at 30 September 2007

Vessel name	Age	Vessel type	Contract tenure	Expiry^	Charterer
Huma	< 3 years	AHTS	2+1 years	Mar 2009	Carigali
Manis	< 3 years	TUV	Spot	n/a	Carigali
Pinang 1	< 1 year	SSV	2+1 years	Sep 2009	Jasa Merin Sdn Bhdϕ
Pinang 2	< 1 year	SSV			
Pinang 3	< 1 year	SSV	3+1 years	Dec 2011	Talisman
Pinang 4	< 1 year	SSV	3+1 years	Sep 2011	Carigali
Dawai	New	SSV	3+1 years	Oct 2011	Carigali

^ Includes option period
ϕ On-chartered to Carigali
n/a = not applicable

Table 7: Major domestic providers of marine support services

Companies	No. of vessels
Bumi Armada Navigation Sdn Bhd	40
Syarikat Borcos Shipping Sdn Bhd	36
Ajang Shipping Sdn Bhd	26
Petra Perdana Berhad	23
Alam Maritim Resources Berhad	18
Jasa Merin (Malaysia) Sdn Bhd	9
Tanjung	7

Source: Company websites
GRT = gross register tonnage

Vessels delayed but impact partially offset by LDs from builder

Pinang 3 and *Pinang 4*, the SSVs which were launched in later 2006, had had to be docked again as they had not complied with the requirements for ship classification. This had been because the shipbuilder, MSET Shipbuilding Corporation Sdn Bhd ("MSET"), had failed to install a key component of the vessels' respective fire-safety systems. As a result, the commissioning of these 2 vessels had been delayed by approximately 6 months, as the components had to be custom-ordered from overseas. Tanjung eventually took delivery of *Pinang 3* and *Pinang 4* in March and April 2007, respectively. The loss of profits during this period had been partially offset by the payment of liquidated damages ("LDs") by MSET.

Medium-term charters ensure revenue stability

All of Tanjung's vessels are currently locked into medium-term charter arrangements that expire between 2009 and 2011, with the exception of *Manis*, which is on spot charter. There are plans to secure a medium-term charter for *Manis* after the expiry of its spot arrangement. Under these time charters, Tanjung is paid fixed DCRs regardless of the utilisation of the vessels, thus ensuring revenue stability during the contracted period. Nevertheless, the Group remains exposed to demand and pricing risks over the longer term, after the expiry of these contracts.

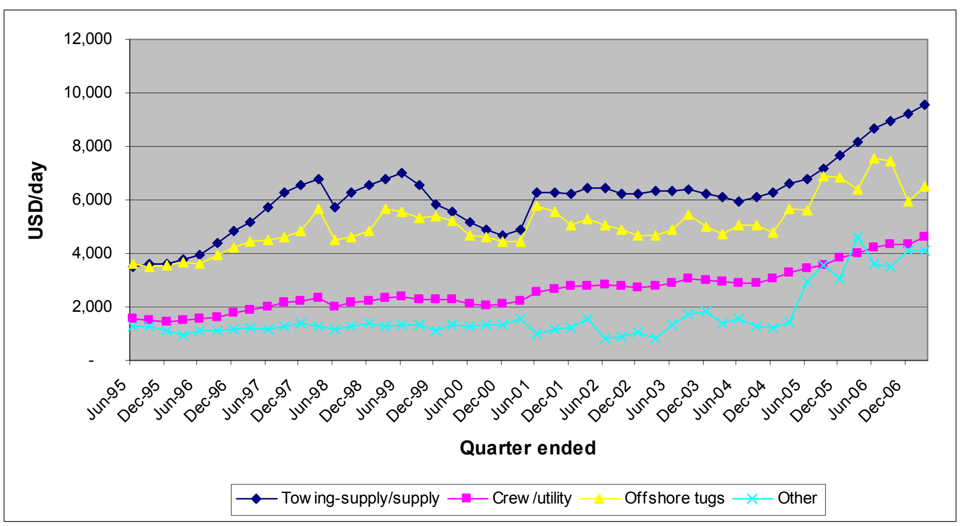
Insulated from volatile bunker prices

Meanwhile, the Group's operating margins are protected against rising bunker prices as the charterers bear all fuel costs under the time-charter arrangements; Tanjung bears the maintenance expenses, crew salaries and insurance costs. Even so, rising crew salaries may still impinge on Tanjung's profitability going forward, as such costs account for 90% of the cost of sales for marine support services. To cope with staff turnover and costs, Tanjung currently enters into 2-year contracts with its crew members.

Rising DCRs indicate strong demand for marine support services

Based on the recent time-charter contracts secured by Tanjung, DCRs have increased 17% to 27% over the past 12 months, despite the increasing supply of local marine support vessels; this has exceeded our expectations. The rates translate into an OPBDIT margin of 65% to 70%. Tanjung's ability to secure better-than-anticipated DCRs, which are generally lower than spot rates, indicates the strong demand for marine support services. RAM Ratings notes that DCRs for global marine support vessels have been trending up since 2004.

Chart 2: Quarterly average DCRs for Tidewater Inc (1995–March 2007)



Note: Tidewater Inc is the global market leader in the provision of marine support vessels and has an extensive fleet of around 400 vessels covering all specifications, age profiles and geographic locations. Hence, Tidewater Inc's DCRs can be used as a proxy to the global market for marine support vessels. DCRs for deepwater vessels have been excluded as they have only been tracked since 2001, and may skew our analysis since these DCRs are twice the average rates.

Young fleet sharpens competitive edge

Tanjung's fleet mainly comprises newbuilds, which gives it a competitive advantage when tendering for contracts. Newer vessels are preferred by the oil majors as they are faster, have better capabilities and are less prone to breakdowns. As such, off-hire days and maintenance expenses are relatively lower for new vessels. In addition, these vessels can bid for medium and long-term charter contracts that may not be granted to old vessels, especially those that have been in service for more than 20 years. RAM Ratings notes that Tanjung has been able to command premium rates for its new vessels.

Significant exposure to construction risk in the near term

In addition to the recently acquired *Dawai*, Tanjung will add another 5 newbuilds over the next 2 years. Any significant delay in the commissioning of these vessels would have an adverse impact on Tanjung's financials, given the Group's heavy reliance on them vis-à-vis cashflow generation and Tanjung's debt-servicing ability in the future. While some comfort can be derived from the commendable delivery track record of Muhibbah Marine Engineering Sdn Bhd ("Muhibbah")[4], which is building 3 of the vessels, construction risk is not easily mitigated. As such, RAM Ratings has factored in a 6-month delay in the commissioning of the vessels in our sensitised projections. At the moment, all the vessels are on schedule except for *Sari*, which has been slightly delayed by the late drawdown of its bank loan. Meanwhile, Tanjung is not expected to encounter cost overruns due to the fixed-priced contracts for vessel construction.

Table 8: Tanjung's vessel-building plans

Vessel name	Vessel type	Builder	Cost (RM mil)	Start date	Delivery date
Sari	AHTS	Boustead	40.80	13 Nov 2006	20 Feb 2009
Puteri 1	AHTS	Muhibbah	45.85	3 May 2007	30 Sep 2008
Puteri 2	AHTS	Muhibbah	45.85	3 May 2007	30 Sep 2008
Gaya	TUV	Muhibbah	30.26	7 Aug 2007	31 Mar 2009
*Gelang**	WTSV	Boustead	47.80	12 Sep 2007	15 Nov 2008

Boustead = Boustead Heavy Industries Corporation Berhad
WTSV = Well Testing & Servicing Vessel
** Contract secured*

A stronger player in marine support services after expansion

While it is still a small player in marine support services, Tanjung is set to emerge as a stronger contender after its expansion, with a fleet of 12 marine support vessels that are expected to contribute a relatively stable cashflow of more than RM70 million from FY Dec 2009 onwards. In addition, a larger fleet will help diffuse vessel-concentration risk that is commonly associated with smaller operators. While Tanjung has only secured a contract for one of the 5 new vessels, vessel DCRs are unlikely to soften significantly over the near term due to robust demand.

[4] *Pinang 1 and Pinang 2* had been constructed by Muhibbah and had been delivered 2-3 months ahead of schedule.

Market for marine support vessels still healthy despite additional capacity in near term

While other local operators of marine support vessels have been aggressively expanding their fleets, RAM Ratings believes that the additional capacity had only replaced old tonnage as well as displaced the foreign operators due to the enforcement of the cabotage law. Currently, foreign-flagged vessels are estimated to command 60% of the domestic market for marine support vessels. In addition, their escalating DCRs indicate that there is still room for supply expansion as offshore upstream activities intensify in the near term. Nevertheless, RAM Ratings cautions that should supply outstrip demand over the longer term, the fall in DCRs will adversely affect the financial profiles of players in this sub-sector.

➢ Engineering Equipment and Maintenance Services

Strong growth in revenue from engineering services due to lumpy contracts

In FY Dec 2006, Tanjung's revenue from O&G engineering equipment and maintenance services increased 10% y-o-y to RM129.03 million. This had been mainly due to stronger revenue from maintenance services as the Group had ventured into East Malaysia. In 1H FY Dec 2007, revenue from this segment reached RM130.23 million, underpinned by 2 large contracts secured earlier in the year: the RM50 million water-injection treatment-facilities module for Carigali's Sumandak platform, and the RM30 million gas-dehydration/glycol-regeneration package, water-injection-system package and water-treatment system for Talisman's Bunga Orkid A platform.

Order-book-driven and thin margins

Tanjung's estimated order book for engineering equipment services currently stands at around RM95 million for FY Dec 2008. The outlook on engineering equipment services remains bright, with an estimated 65-70 new offshore production facilities to be commissioned over the next 5 years. While competition in this arena is quite intense, as evidenced by the thin margins, the Group has secured several large contracts and exclusive agency rights from foreign principals, to supply engineering equipment and spare parts. Tanjung is currently bidding for an estimated RM500 million worth of contracts. Nevertheless, given the lumpy, order-book-driven nature of this segment, we have conservatively factored in only RM150 million engineering equipment services revenue in our sensitised projections.

Table 9: Tanjung's agency rights

<table>
<tr><th>Type of equipment/ spare parts</th><th>Principal</th><th>Oilfield operators</th></tr>
<tr><td>Gas compressor</td><td>Siemens AG</td><td rowspan="5">▪ Carigali
▪ Shell
▪ Talisman
▪ ExxonMobil
▪ Murphy Oil</td></tr>
<tr><td>Gas turbine</td><td>Siemens AG</td></tr>
<tr><td>Control valves</td><td>Severn Glocon Ltd</td></tr>
<tr><td>Switchgears and distributed control system</td><td>ABB Industrial and Building Systems Sdn Bhd</td></tr>
<tr><td>Water injection systems</td><td>Global Process System</td></tr>
</table>

Source: Tanjung

Table 10: Major contracts for engineering equipment secured by Tanjung

Date	Contract Announced (expected delivery)	Amount
31 Oct 2007	Murphy Oil – Gas Engine Driven-Generator Package (Aug 2008)	RM45 million
2 Aug 2007	Talisman – control valves for Bunga Orkid A (Dec 2007)	RM10 million
1 Aug 2007	Global Process Systems - refitting of accommodation facilities on SERF (Sep 2007)	RM11 million
14 Jun 2007	Sabah Shell – refurbished SIEMENS gas turbines (Aug 2007)	RM6 million
26 Apr 2007	Petronas Methanol Labuan - safety/fire & gas systems (Jul 2007)	RM6 million
8 Mar 2007	Talisman – seal and fuel gas treatment package (mid-Dec 2007)	RM8 million
7 Mar 2007	Talisman – nitrogen gas compressor (Dec 2007)	RM7 million
6 Mar 2007	Talisman - gas dehydration/glycol regeneration package, water injection system package and produced water treatment system (Dec 2007)	RM30 million
18 Jan 2007	Petronas – Sumandak water injection treatment facilities module (Dec 2007)	RM50 million
15 Nov 2006	Petronas – reciprocating compressors (Jul 2007)	RM8 million
2 Oct 2006	Larsen & Toubro – switchgear package (Mar 2007)	RM10 million
7 Sep 2006	Petronas – glycol dehydration system (Jun 2007)	RM8.5 million
16 Aug 2006	Shell – gas generator (Aug 2006)	RM20 million
10 Jul 2006	Petronas – switchgears & control system (Jan 2007)	RM8 million
6 Jul 2006	Ranhill - integrated control/safety systems (Dec 2006)	RM4.5 million
4 Jul 2006	Ramunia - water injection system (Aug 2006)	RM5 million
29 May 2006	Muhibbah – distributed control systems, safety and fire gas systems and field instrumentations (Sep 2006)	RM4 million

Source: Bursa Malaysia

More maintenance jobs needed to defray hefty opex

To complement its engineering services, Tanjung offers value-added services like maintenance, trouble-shooting and various after-sales services. Unlike revenue from engineering equipment, which fluctuates from year to year, maintenance revenue is more stable as facilities for the upstream O&G industry need to be regularly maintained. While the setting up of new workshops[5] in Miri and Labuan has allowed the Group to tap the lucrative maintenance sectors in East Malaysia and Brunei, Tanjung has not been able to secure any large maintenance contracts other than the RM80 million agreement with Carigali to maintain rotating equipment. While gross margins for maintenance services are higher than those of engineering equipment services, the Group’s current maintenance order book is insufficient to defray the hefty opex of its new facilities. This has been the reason for the decline in the division’s net profit despite its strong top-line growth. As such, it is imperative that Tanjung successfully bid for more projects in order to improve its profit performance.

[5] Tanjung has 6 centres in total, including those in Kemaman Supply Base, Manjung, Pasir Gudang and Teluk Kalong.

Table 11: Major contracts for engineering equipment secured by Tanjung

Date	Contract Announced (expected delivery)	Amount
27 Dec 2006	Petronas – gas turbine maintenance (July 2007)	RM6 million
30 Nov 2006	Sabah Shell – gas turbine maintenance (March 2007)	RM5.5 million
29 Nov 2006	Petronas – gas turbine maintenance (Dec 2006)	RM5.3 million
19 Sep 2006	Petronas - SIEMENS gas turbine maintenance services (5 years)	RM13 million
12 July 2006	Petronas - site support services for fire gas systems & switchgears (5 years)	RM5 million
11 Jan 2006	Petronas – maintenance of rotating equipment (5 + 2 years)	RM80 million

Source: Bursa Malaysia

➢ Rig and Platform Services

Licensed to provide various types of drilling rigs and production platforms

Activities in this segment include the provision of various types of drilling rigs (such as jack-ups, semi-submersibles and drillships) and production solutions for marginal fields (such as Mobile Offshore Production Unit ("MOPU") and Self-Elevating Relocatable Facility ("SERF")[6]. Due to the heavy capital outlay, the Group does not own any of these rigs/mobile platforms; instead, it has exclusive agency agreements with international drilling-rig contractors like Hercules Offshore Inc ("Hercules")[7] and Global Process Systems Inc ("GPS") on the marketing rights of their rigs/mobile platforms for the Malaysian market.

Rig and platform revenue to pick up again in FY Dec 2008

In FY Dec 2006, revenue from rig and platform services jumped 77% y-o-y to RM120.23 million after the commissioning of an MOPU to Petrofac (Malaysia PM-304) Limited ("Petrofac"), as well as a higher DCR for a rig commissioned to Shell. In 1H FY Dec 2007, however, the segment's turnover plunged to just RM41.44 million after the expiry of Shell's rig contract in January 2007[8]. Nevertheless, revenue from rig and platform services is expected pick up again in FY Dec 2008, as Tanjung has secured contracts for a drilling rig and SERF from Murphy. The existing contracts are expected to bring in USD330 million of revenue from FY Dec 2008 onwards. Nevertheless, profit contributions will remain small as Tanjung earns a mere 3% gross margin from the contracts secured.

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[6] A MOPU/SERF is essentially a jack-up drilling rig that has been converted into an O&G production platform; it is designed to operate as a stand-alone O&G processing facility in marginal oilfields. Marginal fields are smaller fields with a lifespan of 5 to 8 years, while larger oilfields usually last 15 to 20 years.

[7] Hercules is one of the world's largest offshore-drilling contractors.

[8] Although Tanjung has been servicing a jack-up rig-drilling contract for Shell since 1999, this agreement will not be extended beyond January 2007. this must be rephrased – it's now mid-November 2007! Meanwhile, Pride Offshore Inc has decided to redeploy its jack-up rig elsewhere as the rates offered by Shell are deemed not attractive enough for an extension.

Table 12: Secured rig/platform contracts

Rig/Platform	Principal	Client	Start date	Tenure (years)	DCR (USD/day)
MOPU*	GPS	Petrofac	Jun 2006	2 + 6	32,500
THE 208 rig	TODCO	Murphy Oil	Jan 2008^	3 + 2	110,000
SERF	GPS	Murphy Oil	Nov 2007	1.5 + 1 + 1	40,000

^ Delayed from November 2007.

** Owned by CMPL, Tanjung's associate company.*

First-mover advantage in marginal field solutions

Tanjung is also the sole distributor of another marginal-field solution, i.e. the Guyed Monotower Platform ("Tarpon"). Unlike an MOPU/SERF contract, Tanjung will derive income from the installation of the Tarpon structure and not from recurring agency fees. Given its first-mover advantage in marginal field solutions, the Group is in discussions with several oil majors to develop other marginal fields, which have become economically viable due to escalating crude-oil prices. Malaysia has an estimated 90 marginal oil fields that can be commercially exploited. Nonetheless, the contributions from such services are still expected to be minimal compared to marine support services.

■ Financial Assessment

Table 13: Tanjung's key financial indicators

FY Dec	Actual		
	2005	**2006**	**1H 2007**
Absolute (RM million)			
Revenue	205.46	293.25	202.09
OPBDIT	11.26	21.71	17.51
Pre-tax profit	11.55	17.51	9.16
Total debts	51.36	169.34	158.55
Profitability (%)			
OPBDIT margin	5.48	7.40	8.67
Return on capital employed	10.07	7.31	8.88
Capitalisation (times)			
Gearing ratio	0.71	1.50	1.32
Net gearing ratio	0.56	1.32	1.12
Debt-capital ratio	0.41	0.60	0.57
Debt coverage (times)			
Interest coverage ratio	3.15	2.20	4.32
FFO debt coverage ratio	0.18	0.13	0.16
OCF debt coverage ratio	(0.08)	(0.24)	0.32
FOCF debt coverage ratio	(1.00)	(0.78)	0.19

OPBDIT = operating profit before depreciation, interest and tax
FFO = funds from operations
OCF = operating cashflow
FOCF = free operating cashflow

Higher revenue and OPBDIT consistent with pick-up in upstream activities

In FY Dec 2006, the Group's top line and OPBDIT jumped a respective 43% and 93% y-o-y to RM293.25 million and RM21.71 million, underscored by stronger contributions from all segments. This was consistent with the pick-up in local ED&P activities. Based on the RM202.09 million of revenue achieved in 1H FY Dec 2007, Tanjung is on track towards meeting its RM320 million full-year target or 9% y-o-y growth. Meanwhile, the Group's OPBDIT is expected to leap 84% to RM40 million in FY Dec 2007, buoyed by stronger contributions from the marine-support segment.

Margin improvement due to growing contributions from marine support services

The Group's OPBDIT margin has been gradually improving due to the increasingly robust contributions from the marine-support segment, underpinned by its fleet expansion over the years. In FY Dec 2006, Tanjung's OPBDIT margin broadened to 7.40% from 5.48% the previous year. While operating margins are expected to strengthen in FY Dec 2007 due to contributions from *Pinang 3*, *Pinang 4* and *Dawai*, Tanjung's new oil-rig and production-platform contracts are envisaged to have a dilutive effect in FY Dec 2008. Nevertheless, we expect its OPBDIT margin to recover in FY Dec 2009, once all 5 new vessels have been commissioned.

Highly leveraged balance sheet during construction of new vessels

Given its debt-funded fleet expansion, RAM Ratings' sensitised case shows Tanjung's gearing and debt levels peaking at a respective 2.44 times and RM363 million during the construction period of the new vessels. The Group's fleet expansion will involve the initial issuance of RM80 million of IMTNs as well as the gradual drawdown of RM157.83 million of loans. The weakened balance sheet is, however, balanced by the robust outlook on the market for marine support vessels over the next 2-3 years, as evidenced by the escalating DCRs, as well as the stronger post-expansion business profile of Tanjung. While the ratings of the debt issues may be revised downwards should it gear up beyond the expected levels, the ability of Tanjung Offshore to borrow further is constrained by the gearing covenant of 2.50 times.

Temporary impairment of debt-protection measures in near term

During the construction of the new vessels, Tanjung's FFO debt-coverage levels are expected to dip from 0.20 times - as initially expected - to around 0.12 times under RAM Ratings' sensitised case. Nevertheless, its FFO debt cover is expected to recover to around 0.2 times from FY Dec 2009 onwards. At this level, Tanjung's debt-protection measures are deemed sufficient, backed by its stable marine-support business. To minimise the financial strain on Tanjung over the short term, the initial issuance of IMTNs will be structured with step-up profit margins, thus allowing the Group to always maintain an interest cover of 3 times under the sensitised case.

Changes to terms of Serial Bonds by themselves have no rating impact

To allow the Group to gear up for its fleet expansion, the gearing covenant under the financing documents of the Serial Bonds has been amended to remove the restriction that Tanjung can only gear up to 2.50 times only if it has secured long-term contracts for the new vessels. Previously, the gearing limit had only been 2 times if no long-term contracts were secured for new vessels. In addition, Tanjung can now list its marine support operations, provided it maintains at least a 51%-stake in TOS and TKS, and no less than 50% of the proceeds from the listing exercise is used to repay outstanding debts at the holding company's level. Previously, the Trust Deed had stated that those subsidiaries must remain wholly owned by Tanjung. While the changes to the covenants by themselves do not have any rating impact, RAM Ratings may revise Tanjung's ratings should there be material changes in the Group's business and financial profiles.

Erratic operating cashflow due to working-capital requirements of engineering equipment services

In the meantime, Tanjung's historical operating cashflow has been rather erratic as its engineering-equipment services, being order-book-driven, may experience substantial fluctuations in revenue from time to time and be affected by mismatches in billings and collections at cut-off points. RAM Ratings notes that Tanjung's working-capital deficit was unusually large in FY Dec 2006; this had been due to a steep reduction in other payables, i.e. amounts related to the capital expenditure of vessels as well as advance payments to certain suppliers. Nevertheless, the Group's FFO has been consistently trending upwards over the years.

■ Financial Flexibility and Liquidity

Managed by team of professionals

Tanjung is expected to face hefty annual debt repayments of between RM33 million and RM 61 million effective FY Dec 2009, when the scheduled redemption of its RM150 million Serial Bonds commences. Nevertheless, the Group should be able to generate an annual FFO of RM55 million to RM72 million over the next 5 years to meet these obligations under the sensitised case. Meanwhile, Tanjung's liquidity profile remains excellent at the moment. As at end-June 2007, its short-term debts amounted to RM11.64 million, which could be sufficiently met by its RM23.74 million of cash and bank balances.

■ Management Assessment

Tanjung to focus on areas that generate stable profits and cashflow

While the doubling of its fleet within 2 years would place the Group in a good position to benefit from the current boom in O&G marine support services, the management's current expansion strategy is deemed aggressive as it is mainly debt-funded, unlike the previous round of expansion.

Corporate Information – Tanjung Offshore Berhad

Date of Incorporation:	11 August 2004
Commencement of Business:	August 2005

Major Shareholders as at 30 March 2007:

Omar bin Khalid	47.41%
Abdullah bin Hashim	15.43%

Directors:

Senator Datuk Wira Syed Ali bin Tan Sri Syed Abbas Alhabshee (Chairman)
Haji Omar bin Khalid
Haji Abdullah bin Hashim
Haji Hamidon bin Md Khayon
Haji Abdul Wahab bin Haji Ibrahim
Edwanee Cheah bin Abdullah
George William Warren Jr

Auditor: Messrs AljeffriDean

Listing: Main Board of Bursa Malaysia

Key Management:

Haji Omar bin Khalid	Managing Director
Haji Hamidon bin Md Khayon	Executive Director/Head of Business Development
Haji Abdullah bin Hashim	Executive Director
Abdul Mutalib bin Idris	Chief Executive Officer, TMS
Khairiri bin Abdul Karim	Director, TMS
Hassan bin Haji Ali	Chief Executive Officer, TKS
Abdul Rahman bin Abdul Hamid	Chief Operating Officer, Controls & Instrumentation
Rakan Al-Dalali	General Manager, Well Testing Services
Zaaba bin Sedek	General Manager, Aftermarket Services
Muhammad Sabri bin Abdul Ghani	Senior Manager, Application Engineering
Ahmad bin Khalid	Senior Manager, Marine Vessels
Joachim Tan Seow Hoe	Senior Manager, Corporate Finance
Abdul Razak bin Alias	Manager, Technical Marine Operations
Azman bin Mohamed	Manager, Marine Operations

Major Subsidiaries:

Tanjung Offshore Services Sdn Bhd	100.00%
Tanjung Petroconsult Sdn Bhd	100.00%
Tanjung Kapal Services Sdn Bhd	100.00%
Tanjung Maintenance Services Sdn Bhd	98.75%
Tanjung NewEnergy Services Sdn Bhd	62.86%

Capital History as at 26 November 2007:

Year	Remarks	Amount	Cumulative Total
2005	Date of incorporation	100	100
2005	Issuance of ordinary shares	42,079,400	42,079,500
2006	Issuance of ordinary shares	4,328,500	46,408,000
2007	Issuance of ordinary shares	54,925,348	101,333,348

FINANCIAL SUMMARY
Tanjung Offshore Berhad – Group

	proforma	*proforma*			*unaudited*
BALANCE SHEET (RM million)	**31-Dec-03**	**31-Dec-04**	**31-Dec-05**	**31-Dec-06**	**30-Jun-07**
Property, Plant & Equipment	6.34	36.40	122.02	211.26	216.06
Investment in Subsidiaries & Associates	0.69	2.46	4.17	1.78	1.49
Deferred Tax Assets	0.00	0.00	4.30	5.51	5.61
Other Investments & Non-Current Assets	0.00	0.00	0.00	0.00	0.00
Goodwill & Intangible Assets	0.07	0.06	0.00	0.00	0.00
Total Non-Current Assets	**7.10**	**38.92**	**130.49**	**218.54**	**223.17**
Inventory	0.42	0.72	0.98	1.76	1.82
Trade Receivables	44.83	28.41	68.28	108.86	111.67
Other Current Assets	2.64	3.81	5.54	20.37	20.05
Amounts Due from Holding/Related Companies & Directors	0.00	0.00	0.00	0.00	0.00
Amounts Due from Subsidiaries & Associates/Joint Ventures	3.33	2.79	2.79	0.00	0.00
Cash & Bank Balances	0.89	1.50	10.57	20.38	23.74
Total Current Assets	**52.10**	**37.23**	**88.15**	**151.36**	**157.29**
Total Assets	**59.21**	**76.15**	**218.64**	**369.90**	**380.45**
Equity Share Capital	7.50	7.50	42.08	70.79	100.53
Equity-Like Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Reserves	0.00	0.00	14.54	9.57	4.76
Retained Profits/(Accumulated Losses)	6.70	15.03	16.03	32.31	15.04
Minority Interests	0.02	0.04	0.00	0.00	0.00
Total Shareholders' Funds & Minority Interests	**14.21**	**22.57**	**72.65**	**112.67**	**120.32**
Short-Term Private Debt Securities	0.00	0.00	0.00	0.00	0.00
Amounts Due to Holding/Related Companies & Directors	0.00	1.00	0.00	0.00	0.00
Amounts Due to Subsidiaries & Associates/Joint Ventures	0.00	0.00	0.00	0.00	0.00
Other Short-Term Debts	0.74	6.03	10.51	22.22	11.64
Trade Payables	39.21	25.35	59.95	79.72	91.08
Taxation	2.53	2.54	0.04	0.05	0.01
Dividends Payable	0.00	0.00	0.00	0.00	0.00
Other Current Liabilities	1.65	1.02	34.64	8.12	10.49
Total Current Liabilities	**44.12**	**35.95**	**105.14**	**110.11**	**113.21**
Long-Term Deferred Liabilities	0.08	0.11	0.00	0.00	0.00
Debt-Like Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Long-Term Private Debt Securities	0.00	0.00	0.00	145.60	145.60
(Sinking Fund)	0.00	0.00	0.00	0.00	0.00
Other Long-Term Debts	0.78	17.53	40.85	1.53	1.32
Total Non-Current Liabilities	**0.87**	**17.64**	**40.85**	**147.12**	**146.92**
Total Liabilities	**44.99**	**53.58**	**145.99**	**257.23**	**260.13**
Shareholders' Funds & Minority Interests + Total Liabilities	**59.21**	**76.15**	**218.64**	**369.90**	**380.45**

FINANCIAL SUMMARY
Tanjung Offshore Berhad – Group

	proforma	*proforma*			*unaudited*
INCOME STATEMENT (RM million)	**31-Dec-03**	**31-Dec-04**	**31-Dec-05**	**31-Dec-06**	**30-Jun-07**
Revenue	**210.86**	**223.80**	**205.46**	**293.25**	**202.09**
Operating Profit/(Loss) Before Depreciation, Interest & Tax	**8.94**	**8.66**	**11.26**	**21.71**	**17.51**
Depreciation & Amortisation	(0.58)	(0.68)	(1.96)	(4.34)	(5.31)
Operating Profit/(Loss) Before Interest & Tax	**8.36**	**7.98**	**9.29**	**17.37**	**12.20**
Finance Costs	(0.09)	(0.12)	(0.94)	(3.11)	(3.23)
Debt-Related Foreign Exchange Gain/(Loss)	0.00	0.00	0.00	0.00	0.00
Operating Profit/(Loss) Before Tax	**8.27**	**7.86**	**8.36**	**14.26**	**8.97**
Other Income	0.10	1.22	1.75	1.30	0.10
Non-Recurring Items	0.00	0.00	0.00	0.00	0.00
Share of Associated Companies'/Joint Ventures' Profits/(Losses)	0.60	1.79	1.44	1.95	0.08
Pre-Tax Profit/(Loss)	**8.98**	**10.88**	**11.55**	**17.51**	**9.16**
Taxation	(2.60)	(2.53)	4.46	0.77	0.00
Net Profit/(Loss)	**6.38**	**8.35**	**16.01**	**18.28**	**9.16**
Minority Interests	0.02	(0.01)	0.04	0.00	0.00
Dividends	0.00	0.00	0.00	(2.00)	(3.14)
Post-Distribution Profit/(Loss)	**6.40**	**8.33**	**16.05**	**16.28**	**6.02**

	proforma	*proforma*			*unaudited*
CASHFLOW STATEMENT (RM million)	**31-Dec-03**	**31-Dec-04**	**31-Dec-05**	**31-Dec-06**	**30-Jun-07**
Pre-Tax Profit/(Loss)	**8.38**	**10.88**	**11.55**	**17.51**	**9.16**
Adjustments	0.60	(0.96)	0.66	4.06	3.90
Operating Profit/(Loss) Before Working Capital Changes	**8.98**	**9.92**	**12.21**	**21.57**	**13.06**
Tax Paid	(1.28)	(2.50)	(2.93)	(0.15)	(0.06)
Funds from Operations	**7.69**	**7.42**	**9.28**	**21.42**	**13.00**
Changes in Working Capital	(9.70)	2.00	(13.57)	(61.87)	12.26
Other Income/(Expenses)	0.00	0.00	0.00	0.00	0.00
Net Cashflow from Operating Activities	**(2.01)**	**9.42**	**(4.29)**	**(40.45)**	**25.26**
Capital Expenditure	(1.85)	(30.67)	(47.04)	(92.43)	(10.12)
Free Operating Cashflow	**(3.85)**	**(21.25)**	**(51.33)**	**(132.88)**	**15.14**
Other Investing Outflows	(0.10)	(0.73)	(0.42)	(1.42)	0.00
Investing Inflows	3.54	0.01	0.39	9.03	0.17
Pre-Financing Cashflow	**(0.40)**	**(21.97)**	**(51.36)**	**(125.27)**	**15.31**
Interest Payments	(0.08)	(0.12)	(0.43)	(2.96)	(3.23)
Net Changes in Borrowings	(0.32)	(1.42)	(4.11)	(44.32)	0.00
Dividend Payments	0.00	0.00	0.00	(2.00)	(3.14)
Others	0.00	21.65	58.27	169.20	5.06
Net Increase/(Decrease) in Cash & Cash Equivalents	**(0.80)**	**(1.87)**	**2.37**	**(5.35)**	**14.01**
Opening Cash Balance	0.94	0.14	0.00	2.37	(2.98)
Closing Cash Balance	**0.14**	**(1.73)**	**2.37**	**(2.98)**	**11.03**

FINANCIAL RATIOS
Tanjung Offshore Berhad – Group

	proforma	*proforma*			*unaudited*
KEY RATIOS	**31-Dec-03**	**31-Dec-04**	**31-Dec-05**	**31-Dec-06**	**30-Jun-07**
PROFITABILITY (%):					
OPBDIT Margin	4.24%	3.87%	5.48%	7.40%	8.67%
OPBIT Margin	3.96%	3.57%	4.52%	5.92%	6.04%
Pre-Tax Profit Margin	4.26%	4.86%	5.62%	5.97%	4.53%
Net Profit Margin	3.03%	3.73%	7.79%	6.23%	4.53%
After-Tax Return on Equity	44.89%	36.98%	22.04%	16.22%	15.23%
Return on Capital Employed	57.57%	23.33%	10.07%	7.31%	8.88%
CAPITALISATION (TIMES):					
Gearing Ratio	0.11	1.09	0.71	1.50	1.32
Net Gearing Ratio	0.04	1.02	0.56	1.32	1.12
Debt-Capital Ratio	0.10	0.52	0.41	0.60	0.57
DEBT COVERAGE (TIMES):					
Interest Coverage Ratio	103.12	29.43	3.15	2.20	4.32
Operating Cashflow Interest Coverage Ratio	(26.67)	78.96	(10.09)	(13.66)	7.83
OPBDIT Debt Coverage Ratio	5.85	0.35	0.22	0.13	0.22
Funds from Operations Debt Coverage Ratio	5.04	0.30	0.18	0.13	0.16
Operating Cashflow Debt Coverage Ratio	(1.31)	0.38	(0.08)	(0.24)	0.32
Free Operating Cashflow Debt Coverage Ratio	(2.52)	(0.87)	(1.00)	(0.78)	0.19
LIQUIDITY (TIMES):					
Current Ratio	1.11	0.99	0.81	1.37	1.39
Quick Ratio	1.10	0.96	0.80	1.36	1.37
CASH CYCLE (DAYS)					
Receivables Cycle	77.60	46.33	121.30	135.49	100.85
Payables Cycle	72.68	44.43	118.68	114.51	96.33
Inventory Cycle	0.77	1.26	1.93	2.52	1.93
Operating Cash Cycle	5.69	3.16	4.55	23.50	6.45

OPBDIT = Operating Profit Before Depreciation, Interest & Tax

OPBIT = Operating Profit Before Interest & Tax

FINANCIAL RATIOS
Tanjung Offshore Berhad – Group

KEY FINANCIAL RATIOS	FORMULAE
PROFITABILITY (%):	
OPBDIT Margin	OPBDIT / Revenue
OPBIT Margin	OPBIT / Revenue
Pre-Tax Profit Margin	Pre-Tax Profit / Revenue
Net Profit Margin	Net Profit / Revenue
After-Tax Return on Equity	Net Profit / (Shareholders' Funds + Minority Interests)
Return on Capital Employed	(Pre-Tax Profit + Finance Costs* + Debt-Related Foreign Exchange Loss/(Gain)) / (Total On-Balance Sheet Debts + Shareholders' Funds + Minority Interests)
CAPITALISATION (TIMES):	
Gearing Ratio	Total On-Balance Sheet Debts / (Shareholders' Funds + Minority Interests)
Net Gearing Ratio	(Total On-Balance Sheet Debts - Cash & Bank Balances) / (Shareholders' Funds + Minority Interests)
Debt-Capital Ratio	Total On-Balance Sheet Debts / (Shareholders' Funds + Minority Interests + Total On-Balance Sheet Debt)
DEBT COVERAGE (TIMES):	
Interest Coverage Ratio	OPBDIT / (Finance Costs* + Preference Share Dividends + Interest Capitalised + Realised Debt-Related Foreign Exchange Loss/(Gain))
Operating Cashflow Interest Coverage Ratio	Net Operating Cashflow / (Interest Paid* + Preference Share Dividends Paid + Realised Debt-Related Foreign Exchange Loss/(Gain))
OPBDIT Debt Coverage Ratio	OPBDIT / Total On-Balance Sheet Debts
Funds from Operations Debt Coverage Ratio	Funds from Operations / Total On-Balance Sheet Debts
Operating Cashflow Debt Coverage Ratio	Net Operating Cashflow / Total On-Balance Sheet Debts
Free Operating Cashflow Debt Coverage Ratio	Free Operating Cashflow / Total On-Balance Sheet Debts
LIQUIDITY (TIMES):	
Current Ratio	(Current Assets - Amounts Due from Related Parties) / (Current Liabilities - Amounts Due to Related Parties)
Quick Ratio	(Current Assets - Amounts Due from Related Parties - Inventory) / (Current Liabilities - Amounts Due to Related Parties)
CASH CYCLE (DAYS)	
Receivables Cycle	Trade Receivables / Revenue x 365
Payables Cycle	Trade Payables / Cost of Sales x 365
Inventory Cycle	Total Inventory / Cost of Sales x 365
Operating Cash Cycle	Receivables Cycle - Payables Cycle + Inventory Cycle

** Include on-going, non-discretionary payments on hybrid securities, if any.*

OPBDIT = Operating Profit Before Depreciation, Interest & Tax

OPBIT = Operating Profit Before Interest &Tax

CREDIT RATING DEFINITIONS
Issue Ratings

LONG-TERM RATINGS

AAA	Issues rated AAA are judged to be of the best quality and offer the highest safety for timely payment of interest and principal.
AA	High safety for timely payment of interest and principal.
A	Adequate safety for timely payment of interest and principal. More susceptible to changes in circumstances and economic conditions than debts in higher-rated categories.
BBB	Moderate safety for timely payment of interest and principal. Lacking in certain protective elements. Changes in circumstances are more likely to lead to weakened capacity to pay interest and principal than debts in higher-rated categories.
BB	Inadequate safety for timely payment of interest and principal. Future cannot be considered as well-assured.
B	High risk associated with timely payment of interest and principal. Adverse business or economic conditions would lead to lack of ability on the part of the issuer to pay interest or principal.
C	Very high risk of default. Factors present make them vulnerable to default. Timely payment of interest and principal possible only if favourable circumstances continue.
D	Payment of interest and/or repayment of principal are currently in default or face imminent default, whether or not formally declared.

SHORT-TERM RATINGS

P1	Very strong safety with regard to timely payment on the instrument.
P2	Strong ability with regard to timely payment of obligations.
P3	Adequate safety with regard to timely payment of obligations. Instrument is more vulnerable to the effects of changing circumstances than those rated in the P1 and P2 categories.
NP	High investment risk, with doubtful capacity for timely payment of short-term obligations.

For long-term ratings, RAM Ratings applies subscripts 1, 2 or 3 in each rating category from AA to C. The subscript 1 indicates that the issue ranks at the higher end of its generic rating category; the subscript 2 indicates a mid-ranking; and the subscript 3 indicates that the issue ranks at the lower end of its generic rating category. In addition, RAM Ratings applies the suffixes (bg) or (s) to ratings which have been enhanced by a bank guarantee or other supports, respectively.

CREDIT RATING DEFINITIONS
Debt-Based Sukuk

LONG-TERM RATINGS

AAA	Issues rated AAA are judged to be of the best quality and offer the highest safety for timely payment of financial commitments under the Islamic instruments.
AA	High safety for timely payment of financial commitments under the Islamic instruments.
A	Adequate safety for timely payment of financial commitments under the Islamic instruments. More susceptible to changes in circumstances and economic conditions than Islamic instruments in higher-rated categories.
BBB	Moderate safety for timely payment of financial commitments under the Islamic instruments. Lacking in certain protective elements. Changes in circumstances are more likely to lead to weakened capacity for timely payment of financial commitments under the Islamic instruments than those in higher-rated categories.
BB	Inadequate safety for timely payment of financial commitments under the Islamic instruments. Future cannot be considered as well-assured.
B	High risk associated with timely payment of financial commitments under the Islamic instruments. Adverse business or economic conditions would lead to lack of ability on the part of the issuer to make timely payments of financial commitments under the Islamic instruments.
C	Very high risk of default. Factors present make the Islamic instruments vulnerable to default. Timely payment of financial commitments under the Islamic instruments possible only if favourable circumstances continue.
D	Payment of financial commitments under the Islamic instruments is currently in default or faces imminent default, whether or not formally declared.

SHORT-TERM RATINGS

P1	Very strong safety for timely payment of financial commitments under the Islamic instruments.
P2	Strong safety for timely payment of financial commitments under the Islamic instruments.
P3	Adequate safety for timely payment of financial commitments under the Islamic instruments. Timely payment of financial commitments is more vulnerable to the effects of changing circumstances than issues rated in the P1 and P2 categories.
NP	Capacity for timely payment of financial commitments under the Islamic instruments is doubtful or minimal due to presence of strong negative factors. This category includes financial commitments expected to be in default on maturity, or are already in default.

For long-term ratings, RAM Ratings applies subscripts 1, 2 or 3 in each rating category from AA to C. The subscript 1 indicates that the issue ranks at the higher end of its generic rating category; the subscript 2 indicates a mid-ranking; and the subscript 3 indicates that the issue ranks at the lower end of its generic rating category. In addition, RAM Ratings applies the suffixes (bg) or (s) to ratings which have been enhanced by a bank guarantee or other supports, respectively.

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