MISC BERHAD 52ND ANNUAL GENERAL MEETING 2021

MINORITY SHAREHOLDERS WATCH GROUP ("MSWG")

<u>Operational & Financial Matters</u>

1. **Tanker market is expected to remain challenging in 2021, as subsequent waves of infections continue to hit oil demand centers of North America, Europe and Asia. Sustained oil supply cuts by OPEC+ are continuing to impact tanker demand. (page 153 of AR 2020)**

   (a) What is the current utilization rate for vessels under petroleum segment?

   The utilization rate for the petroleum segment for FY2020 is 98.4%.

   (b) What is the term-to-spot ratio for your petroleum portfolio mix? How much of the Group's tanker rates for petroleum segment is exposed to the volatile spot market?

   The term-to-spot ratio for the petroleum segment for FY2020 is 69:31.

   (c) Given that spot tanker rates will remain weak, what is the impact to the Group's tanker's earnings in FY2021?

   Given the high term-to-spot ratio with a larger percentage of the petroleum fleet covered by term charter contracts, the impact to the Group's earnings is expected to be limited.

2. **In FY2020, the Group made a provision for litigation claims amounting to RM1,049.2 million due to an unfavorable arbitration decision relating to the dispute between MISC's wholly owned subsidiary, Gumusut-Kakap Semi-Floating Production System (L) Limited (GKL) and Sabah Shell Petroleum Company Limited (SSPC) (page 127 of AR 2020). To-date, the suit is still on-going and GKL has pursued an application to set aside a substantial portion of the Award and the hearing of GKL's setting aside application is expected within Quarter 2, 2021 (page 463 of AR 2020).**

(a) What are the legal grounds that GKL have to challenge the decision by the Arbitral Tribunal?

The Arbitral Award is challenged on 3 main grounds; excess of jurisdiction, breach of natural justice and breach of public policy wherein GKL argues that:

i. the Award should not have exceeded the agreed limitation of liability under the contract which is capped at USD200 million;
ii. part of the Award was made arbitrarily without any legal basis; and
iii. the Award allows for double recovery of certain costs by SSPC.

(b) What is the Group's view on the probable outcome of this legal suit?

GKL is confident in obtaining a positive outcome as regards the legal suit.

3. The Group was awarded Mero 3 FPSO project by Petróleo Brasileiro S.A. (Petrobras) in August 2020. It was the Group's maiden large-scale deepwater project in Brazil (page 41 of AR 2020).

(a) What is the status of Mero 3 project including its expected contributions to the Group moving forward?

Currently, the team is working hard on the project where the most critical part of the project execution will be in 2022. All the key partners have been identified and contracted namely Aker as our Engineering partner, Siemens as our Technology partner and Yantai CIMC Raffles Offshore Limited as our construction yard for the works.

We have mobilized personnel from our Kuala Lumpur headquarters to Aker's engineering office and China to progress the work and are working closely with Siemens and its other key globally based subcontractors and suppliers.

As for the expected contributions, we will be recognizing construction profit on a progressive basis until such time that the asset is fully operational. The revenue contribution from the 22.5 years charter will commence from the date of final acceptance of the project from the Charterer. The FPSO is expected to commence operation in the first half of 2024.

(b) The global FPSO market is expected to showcase significant growth with up to USD78 billion worth of new projects to be commissioned within 2021-2026 (page 33 of AR 2020). Is the Group actively bidding for more projects to expand its FPSO assets in overseas?

Our primary focus for this year is to ensure the existing project progresses on time and on budget. In the meantime, we will continue to maintain and enhance our existing assets' operational performance, whilst working towards contract renewals and securing new awards from targeted opportunities.

Over the next few years, we expect project opportunities to increase particularly in South America and Africa. Therefore, in addition to our core markets of Malaysia and Southeast Asia, we will continue to selectively pursue opportunities farther afield in South America, especially in Brazil and around the Gulf of Mexico, with Africa remaining an area of interest for us.

(c) What are the specific tenders/opportunities for offshore business segment in the next 12-24 months?

We have put in one bid in the Southeast Asia region, and we will be selectively looking for opportunities over the next 12-24 months in Asia Pacific, the Americas, Middle East and Africa.

4. **Marine & Heavy Engineering segment incurred higher operating loss of RM100 million in FY2020, compared to previous year's operating loss of RM40.5 million (page 128 of AR 2020).**

   Is this segment expected to turnaround and register operating profits in FY2021? What are the Group's strategies to turnaround the segment?

   The Group's financial performance for 2021 would depend very much on the recovery of the oil and gas and marine repair industry.

   Nevertheless, MHB Group has a clear strategy moving forward to achieve turnaround in its financial results. Firstly, the Group continues to push forward in its diversification efforts to penetrate the renewables market specifically in offshore windfarm, the onshore modular structures market as well as to grow its plant turnaround and maintenance services business. This will provide more opportunities to grow our order intake. On the Marine segment, our newly-built third dry dock will enable us to provide more flexibility to our LNG customers and to capture more of the higher-value LNG repair jobs.

   MHB will also continue to explore possibilities for new JVs and alliances as part of its expansion strategies. We are open to collaboration provided it meets commercial imperatives and offers growth and value to MHB and its shareholders.

   One of the key strategies in our five-year business plan is internal capability building. Towards that end, we have established our own Transportation & Installation (T&I) core team. We are exploring to forge synergistic relationships with identified T&I partners to enhance our EPCIC services offering in view of the growing number of EPCIC projects while managing our risk exposure. This should also enhance our prospects to successfully secure new EPCIC jobs.

   On the operation front, MHB keeps on driving towards increasing productivity through process improvement, digitalization, and automation. With several initiatives in place, MHB has accomplished higher operational efficiency and effective project management. These initiatives have facilitated improved project progress tracking, potential risks identification and operation cost optimisation. This focus on improving efficiency and driving costs down will put MHB in a good position to protect and increase profits on projects through higher productivity and more effective project management.

   MHB is also actively looking at upgrading and enhancing assets, machinery and facilities in the yard to increase efficiency and productivity. With these in place, MHB will be able to improve service offerings and provide more competitive pricing to clients thereby capturing more job opportunities both locally and internationally.

   However, the volatile industry condition and the wider lingering effects of the COVID-19 pandemic remains a major risk moving forward and MHB continue to remain vigilant on the prospects amidst stiff competition and an uncertain outlook.

<u>Corporate Governance Matters</u>

5. **As MISC falls under the category of Large Companies as defined under the Malaysian Code on Corporate Governance (MCCG 2017), Practice 8.4 – Step-Up is applicable to the Company.**

   Practice 8.4 Step-up - The Audit Committee should comprise solely of Independent Directors.

   MISC's response: Not adopted. (page 26 of Corporate Governance Report FY2020)

   MSWG's comment: The Company's current board composition comprises of 8 Independent Non-Executive Directors (INED) and 2 Non-Independent Non-Executive Directors and 1 Executive Director. Majority of the Board members – 72.7% (i.e. 8 out of 11) of the Directors are INED. MISC is in a position to adopt this practice to enable an audit committee which is entirely comprised of Independent Directors.

   Why has MISC not adopted Step-Up 8.4? Are there plans to adopt the Step-up?

   MISC places importance on the qualification and experience of the directors to be placed in the Board Committee and the appointment should be based on merit. The current members of the Board Audit Committee (BAC) of MISC possesses the right mix of skills, knowledge and experience required to assist the Board in fulfilling its responsibilities in the area of financial, audit and internal control. Besides, the current MISC BAC composition complies with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

   The review on the Board and Board Committee composition together with Director's skills and experience are conducted on yearly basis, as part of the Board's succession planning. At present, the Board intends to maintain the current composition of MISC BAC and any proposal to adopt Step-up practice 8.4 shall be based on the Board succession plan and requisite requirements of the Board Committee.