



# Minority Shareholder Watch Group (MSWG) Queries

MISC 50th Annual General Meeting | 24 April 2019



# Strategic and Financial Matters



# MSWG Queries

## Strategic and Financial Matters

1. We note that 2018 was a financially challenging year for the Company as indicated by the 5-year Group Financial Performance data on page 70 of the AR 2018.

Apart from external macro factors that impacted the business as disclosed in the Management Discussion & Analysis ("MDA"), what are the key internal factors that restricted the full potential of the Company in meeting its Key Performance Indicators ("KPI")?

### Answer:

- The key internal challenges towards meeting our goal of long term sustainability for MISC are the availability of a long term pool of skilled talents at all levels and the ability to generate recurring operating cashflow to sustain our growth agenda into the future. This is particularly so as we expand our business into regions such as the Atlantic Basin, and diversify into newer segments such as non-conventional LNG solutions and production-based manufacturing for our Heavy Engineering segment.
- We will continue to upgrade our skill sets and invest in our talent pipeline in order to build the right bench strength of MISC leaders for the future. We will also continue to be prudent in our investments decisions, and continuously grow our base of secured income, so that we have greater stability and predictability in our operating cash flow, regardless of market conditions.

## MSWG Queries

2. International Maritime Organisation ("IMO") 2020 will implement Global Sulphur Cap ("GSC") of 0.5% for marine bunker fuel and takes effect from 1 Jan 2020.

MISC has disclosed in its AR 2018 that the compliance with IM02020 Sulphur Cap could result in uncertainty regarding availability, quality and pricing of marine fuels.

The IM02020 is expected to impact 3 main business segments of MISC: Liquefied Natural Gas ("LNG"), Petroleum and Heavy Engineering.

a) What are the costs and benefits of complying with the IM02020?

### Answer:

- MISC fully supports the decision by the IMO to implement the global sulphur cap as it will help the long term sustainability of our industry.

# MSWG Queries

## Answer (cont'd):

- Among the key benefits are:
  - i. A significant reduction in overall sulphur oxide emissions, which is expected to improve air quality and protect the environment;
  - ii. Tangible health benefits, particularly for populations close to major ports and shipping routes; and
  - iii. Potential earlier scrapping of older vessels, reducing the tonnage oversupply and supporting the recovery in tanker charter rates and earnings.
- As for the costs, MISC is actively implementing solutions to ensure cost-effective compliance. In line with our sustainability agenda, the majority of our fleet will adopt the usage of low sulphur fuels.
- For our LNG carrier fleet, some modifications are required to burn compliant fuels. For our petroleum tanker fleet, all our vessels are already capable of operating on compliant fuels. Only a few of our petroleum vessels will be installed with scrubbers, whereby the cost of the scrubbers will be borne by charterers.

## MSWG Queries

2. International Maritime Organisation ("IMO") 2020 will implement Global Sulphur Cap ("GSC") of 0.5% for marine bunker fuel and takes effect from 1 Jan 2020. MISC has disclosed in its AR 2018 that the compliance with IM02020 Sulphur Cap could result in uncertainty regarding availability, quality and pricing of marine fuels. (cont'd)
- b) Please quantify the impact of switching to compliant bunker fuels? This may lead to reduced margin as the Company may not be able to pass on the higher fuel cost to customers. What is the plan to address this?

### Answer:

- Most of MISC's vessels are on time charter, where the fuel cost is borne by charterers. A smaller proportion of our fleet are on spot trading, where the bunker cost is borne by MISC. This limits our exposure.
- It is worth noting that our Atlantic fleet regularly operates within Emission Control Areas (ECA) and have already been burning compliant fuels which are costlier than the more commonly used Heavy Fuel Oil.

## MSWG Queries

3. In the Chairman's statement, it was highlighted that the positive development in the upstream Oil & Gas (O&G) industry resulted in a more stable and higher oil price environment thus creating new tenders for offshore floating assets.
- a) What are the opportunities and success (if any) in securing new tenders in the offshore segment?

### Answer:

- With an improving environment for offshore greenfield development, we expect more opportunities going forward. In line with our aim to establish ourselves as a leading global deepwater Floating Production Systems (FPS) solutions provider, we are focusing on offshore Brazil, while we remain open to offshore opportunities in Asia Pacific and other regions.
- In 2018, we secured a long term contract to provide an FSO for Idemitsu Kosan and entered into a sale-and-charter agreement to purchase FSO *Mekar Bergading* from HESS.

## MSWG Queries

3. In the Chairman's statement, it was highlighted that the positive development in the upstream Oil & Gas (O&G) industry resulted in a more stable and higher oil price environment thus creating new tenders for offshore floating assets. (cont'd)
- b) Please quantify the amount, period of contract and challenges (if any) and measures to be undertaken to overcome these challenges.

### Answer:

- FSO *Mekar Bergading* for HESS: 16 years contract, contract value of USD441 million
- FSO for Idemitsu Kosan: seven (7) years contract, contract value of USD176 million
- The main challenges faced by the Offshore segment are having to deal with projects of increasing technical complexity and larger financial commitment, as well as to operate in new jurisdictions. To address these, we have a stringent Project Risk Assessment process to ensure material risks are identified and mitigated, before submitting any bid. We are also investing into strengthening and expanding our Offshore team, and building up partnerships.

## MSWG Queries

4. On page 89 of the AR 2018, the President/Group CEO shares that in order to mitigate MISC's exposure to the cyclical and volatility of the energy and shipping market, a strategic focus has been formulated to grow the Company's secured and long-term business. Please elaborate how this is done.

### Answer:

- Our MISC 2020 strategy seeks to drive sustainable value for our shareholders by sustaining a portfolio of long term secured income across all our businesses which will allow us to achieve greater stability and predictability in our cash flows during the worst of cycles.
- In 2018, we have continued to secure more projects for our core businesses, which will provide MISC with long term recurring income, such as:
  - four (4) Dynamic Positioning Shuttle Tankers for Petrobras and one (1) for Shell Brasil
  - two (2) dual-fuel Aframax tankers for Shell
  - One (1) FSO unit for Idemitsu Kosan
  - the sale and leaseback of FSO Mekar Bergading from HESS
  - two (2) sale and leaseback of LNG vessels, Lerici and Portovenere with ENI.

## MSWG Queries

4. On page 89 of the AR 2018, the President/Group CEO shares that in order to mitigate MISC's exposure to the cyclical and volatility of the energy and shipping market, a strategic focus has been formulated to grow the Company's secured and long-term business. Please elaborate how this is done. (cont'd)

### Answer (cont'd):

- In our Petroleum shipping segment, our strategy is also to place more vessels within our conventional fleet on fixed rate long term charters.
- We are actively seeking and prospecting for new projects which delivers high quality long term recurring income. We have our eyes on approximately USD5.6 billion worth of projects in the four core businesses for 2019.

# Corporate Governance and Sustainability Matters



# MSWG Queries

## Corporate Governance and Sustainability Matters

1. Based on the Corporate Governance ("CG") report of the Company on the application of the Practices under the Malaysian Code on Corporate Governance ("MCCG") 2017, please provide clarification on the following:
  - a) Practice 4.5 - The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

**MISC's response: Departure**

### MSWG's comment:

Page 14 of the CG report states that only 22% of the Directors are women (i.e. 2 of 9 directors are women). Is there a challenge to meet the 30% target at the Board level? How does the Board intend to address this matter at the Board level?

## MSWG Queries

### Answer:

The Company has established a Board Diversity Policy which includes the target to achieve 30% women representation on the MISC Board and is fully committed to meet the gender diversity target through the Nomination & Remuneration Committee (NRC) succession planning. The Board, via the NRC is undertaking the necessary steps to progress the matter and MISC will pursue to achieve the 30% gender diversity target within 2 years from 2019. In its evaluation of candidates, the Board places emphasis on other key aspects of diversity, including skills and experience, whilst maintaining meritocracy as a key ingredient. The Company has also widened its source of candidates, including Directors' registries available under the NAM Institute for the Empowerment of Women, under the MSWG and LEAD Women.

## MSWG Queries

- b) 7.2 - The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

**MISC's response: Departure**

**MSWG's comment:**

On page 21 of CG report, it was disclosed that the Company opted not to disclose the senior management's remuneration components as it is not in the best interest of the Company and senior management personnel.

Such disclosures promotes better transparency and benchmarking which provides a standard level of remuneration within industries and curbs excessive pay.

**Answer:**

The MISC Senior Management remuneration package has been benchmarked with the industry and is based on salary bands that are reviewed by the NRC to ensure proper benchmarking. In addition, any rewards payable is based on performance of each individual during the period of review.

## MSWG Queries

As MISC falls under the category of Large Companies as defined under MCCG 2017, the following Step Up practices are applicable to MISC.

c) 8.4 - The Audit Committee should comprise solely of Independent Directors.

**MISC's response: Not Adopted**

**MSWG's comment:**

Currently the majority - 55.5% i.e. 5 out of 9 of the Directors are Independent Directors. MISC is in a position to adopt this practice to enable an audit committee which is entirely comprised of Independent Directors.

**Answer:**

The MISC Board has deliberated on the matter and supports the BARC's recommendation to retain Pn. Liza Mustapha on the BARC because she possesses the requisite knowledge, skills and experience to add value to the BARC's deliberations.

## MSWG Queries

- d) 9.3 - The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.

**MISC's response: Not Adopted**

**MSWG's comment:**

As disclosed on page 6 of the Terms of Reference ("TOR") of MISC, the Board Audit & Risk Committee's ("BARC") functions includes the review of the risk management framework of the Company.

Ideally the risk management oversight should be undertaken by a separate committee to allow dedicated oversight by the committee to ensure matters of risk are accorded with due attention. In combining the audit and risk management oversight, there is a risk that consideration of risk management issues may be compromised due to the dual functions of the BARC. The spirit of Practice 9.3 is to consider risk management important enough to warrant a separate and dedicated committee.

## MSWG Queries

**d) 9.3 - The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.**

**Answer:**

Although the Risk Management function currently resides with MISC BARC, the Risk Management oversight focus is not compromised. The Risk Management function has been specifically embedded in the Terms of Reference of MISC BARC to reflect its importance, as follows:

- Adequacy and effectiveness of MISC Berhad's Risk Management Framework and the on-going activities (including reports on key strategic and business risk) for identifying, evaluating, monitoring and mitigating risks;
- To ensure that appropriate systems and processes are in place to effectively monitor and manage the identified risks in Enterprise Risk Management Risk Register; and
- Determination of MISC Berhad's level of risk tolerance.

Each BARC meeting and Agenda provides for adequate time and attention to be given to Risk Management matters by the Members.

## MSWG Queries

2. Per paragraph 9.21 (b) of the Main Market Listing Requirements ("MMLR") of Bursa Securities, listed issuers must disclose on their website a summary of the key matters discussed at the annual general meeting ("AGM"), as soon as practicable after the conclusion of the annual general meeting.

As at 18 April 2019, the minutes for the AGM held for FY 2017 and FY 2018 were not published on your website - <https://www.misc.com.mv/corporate-governance/>

Please explain why the AGM minutes for FY2017 and FY 2018 were not disclosed on the Company's website as this is a requirement under the MMLR.

### Answer:

The AGM minutes for FY2017 and FY2018 were not published on the MISC website due to unintentional oversight. As at 19 April 2019, the minutes have been published on our website under the Corporate Governance section. Moving forward, the Company will ensure that the minutes are published in a timely manner.



# Thank You