MISC BERHAD 53RD ANNUAL GENERAL MEETING 2022

MINORITY SHAREHOLDERS WATCH GROUP ("MSWG")

Operational & Financial Matters

1. **The Offshore Business segment's FY21 revenue of RM3,038.9m was RM1,750.4m or 135.4% higher than the previous year's revenue of RM1,288.5m mainly due to the higher recognition of revenue from an FPSO conversion following higher project progress in the current year. On the back of higher revenue, the segmental operating profit for FY21 improved by 42.3% y-o-y to RM805.3m. Nevertheless, the operating margin declined significantly from 45.6% and 43.9% for FY19 and FY20 respectively, to 26.5% for FY21.**

   a) **What were the main reasons for the significant margin contraction in FY21?**

   The margin contraction in FY21 is mainly due to the higher proportion of the segment's profit for the year being attributed to the construction profit of an FPSO turnkey project in tandem with higher project progress. FY20 results for the Offshore Business consists mostly of completed assets already in operation as the said FPSO project was at a very early stage in 2020. Assets in operation incur minimum operating costs while earning through its charter hire, resulting in higher margins compared to assets under construction.

   b) **Is the segmental operating margin expected to improve in FY22?**

   The margin is expected to be slightly lower than FY21 in view of the recent lockdown in parts of China and the challenges emanating from the pandemic.

   c) **In FY21, MISC embarked on conversion of the hull and topsides fabrication in China for which Petrobras will lease for a period of 22.5 years (page 139 of FY21 annual report). Did the recent lockdowns in various parts of China affect the progress of the project?**

   The recent lockdown in parts of China has an impact not only on MISC but all FPSO conversion projects in China. Some examples of the challenges faced are restrictions of movement for project personnel as well as project equipment because of the pandemic. However, significant efforts are being undertaken to recover the schedule and manage the challenges emanating from the pandemic.

2. Malaysia Marine and Heavy Engineering Holdings Berhad (MMHE), a 66.5% listed subsidiary of MISC, has been loss-making since 2016, except for 2017, and has been an earnings drag to MISC.

a) Besides the Covid-19 pandemic in the past 2 years, what were the headwinds and challenges faced by MMHE which resulted in uninspiring financial results in recent years? What are the steps taken by the Board to turnaround the loss-making subsidiary?

Our subsidiary, Malaysia Marine and Heavy Engineering Holdings Berhad (MHB Group) specialises, among others, in delivering integrated and complex solutions including deepwater services to oil and gas customers. Being part of the oil and gas industry value chain, MHB Group had already been badly affected by the 2014-2016 oil price collapse prior to the pandemic. The plunge in oil prices had caused oil and gas majors slashing their capital spending significantly, resulting in MHB Group unable to replenish its order book to the break-even level.

Considering MHB Group's risks, challenges and opportunities, the Board has identified several key strategic priorities to ensure sustainable growth and better profitability which include the following:-

- Fortify its core business and operations to provide a more robust value proposition to MHB's customers
- Develop strategic partnerships to expand MHB's presence in international locations
- Enhance and mobilise our critical core team in Front End Engineering Verification, Transportation & Installation (T&I) and Hook-up & Commissioning (HUC) scopes
- Focus on developing our T&I execution and partnership strategy
- Increase internal and in-house capability for pre-fabrication services and specialised scopes
- Diversify into the area of renewal energy (offshore windfarms)
- Explore plant maintenance & turnaround for power plants and oleochemical plants, to diversify our revenue streams.

b) When is the subsidiary expected to be profitable?

MHB Group is hopeful to be able to turn around the performance of the Company once it has sufficient order book and received costs recovery claims from the clients.

3. **The trade receivables (excluding amount due from customers on contracts and finance lease receivables) past due more than 90 days have surged from RM838.7m as at end-FY19 and RM1,139.8m as at end-FY20 to RM2,063.7m as at end of FY21.**

   a) **What were the reasons for the jump in the total amount of trade receivables past due more than 90 days?**

      The increase in the trade receivables due more than 90 days is mainly due to to the ongoing litigation relating to Gumusut Kakap, a Semi-FPS owned by a wholly owned subsidiary of MISC, Gumusut Kakap Semi-Floating Production System (L) Ltd (GKL). The client has elected to set off the charter payment against the amount awarded by the Arbitral Tribunal. However, MISC is challenging the Arbitration Tribunal's decisions as disclosed in the Financial Statements. Kindly refer to our disclosure in Note 43(a)(i) of the Financial Statements in the Integrated Annual Report for details of the litigation.

   b) **Which segment of MISC carried the highest amount of the RM2,063.7m trade receivables past due more than 90 days as at end-2021?**

      Offshore Business segment. The highest amount is in relation to the ongoing litigation for Gumusut Kakap as explained above.

   c) **What is the likelihood of the amount of RM2,063.7m being recovered?**

      The settlement of the receivables in relation to Gumusut Kakap mentioned above is subject to the outcome of the ongoing litigation. However, MISC is confident that it can challenge the Arbitration Tribunal's decision on a significant portion of the award.

   d) **What are the measures taken by the group to recover the above overdue receivables?**

      The Group is challenging the client's election to offset payment against the amount awarded by the Arbitral Tribunal. Please refer to our disclosure in Note 43(a)(i) of the Financial Statements in the Integrated Annual Report.

4. "The Gas Business segment currently faces a two-fold challenge. Firstly, is on how quickly we can replenish the revenue streams, as we have several long-term charters which are coming to an end soon, resulting in a significant impact to our revenue contribution to the Group. Secondly, we are facing the issue of managing old tonnage which may not be competitive and economical for longer service due to stricter industry emission requirements." (Page 123 of FY21 annual report)

a) How many long-term charters are expiring soon?

Four long-term charters will come to the end of their term charters within FY22-23.

b) How much revenue did these charters, which are expiring soon, contribute in FY21?

The revenue from these expiring charters represents only less than 4% of the overall Group revenue for FY21.

c) What are the Board's plans for these assets after the expiry of their long-term charters?

All possible options will be evaluated by the Management and the Board including disposal, use as spot vessel or the opportunity to re-purpose them into other uses such as floating storage unit (FSU), floating storage regasification unit (FSRU) and others.