moving energy

ANNUAL REPORT

UNITY IN DIVERSITY

UNITY IN DIVERSITY

THEME RATIONALE

This year's Annual Report theme – **"Unity in Diversity"** – pays tribute to our people. – we say it often and with good reason. It is only because of the determination and dedication of our people that we can serve our customers, generate long-term value for our shareholders, as well as contribute to the industry and broader community. This has been particularly true amidst the challenges of our industry these past few years.

Based in different geographic locations around the world, our multi-faceted workforce of seafarers and shore employees bring onboard their unique skills and talents as well as their disparate perspectives, beliefs and cultural nuances that make MISC a colourful yet energetic place to work in. It is this diversity that accords us a vital strategic advantage and enables us to deliver dynamic results. While the differences between our people are marked, they are never foreign; instead the variety is harmonious and never discordant. At the crux of the Group's efforts is a focus on cultivating and sustaining a diverse work environment and workforce which is critical to connecting with and meeting the unique needs of our diverse clientele and the many communities in which we operate.

This year's "Unity in Diversity" theme also underscores our efforts to cultivate more effective teamwork throughout our diverse workforce across the globe and to strengthen synergistic collaboration among our many businesses. We understand that great strength comes from unifying the hearts and minds of diverse groups of people. It is this collective might which gives people the boldness to stretch beyond their limits and boundaries and attempt new things in new and better ways.

As we strive to fulfil our potential and achieve our aspirations, we will harness the unified strength of our people through fostering and cultivating solidarity, as well as by enabling collaboration and positive relationships across our different businesses, departments and geographic locations.

The "Unity in Diversity" theme does not just stop at our internal efforts but also extends to our relationships with our partners and industry players. Strategic partnerships and collaborations are vital to our sustainability in the marketplace and enhance our efforts to build better businesses as well as generate value to our stakeholders. We believe that our efforts today will support a stronger and flourishing industry tomorrow as well as help build our brand reputation for the long-term.

Today, with a solid foundation and clear perspective of who we are and where we need to get to, a unified, strengthened and focused MISC Group is ready to pursue growth opportunities. The future holds much promise for us.

moving energy

to build a better world

LOGO RATIONALE

Our enhanced MISC logo draws its energy from the natural strength and fluidity of the ocean. The blue sea bed at the base represents the solid foundations upon which MISC is built. Above it, dynamic waves depict the energy that drives us forward with confidence and vigour. The continuous rise of the waves reflects our growth ambitions and our quest to consistently push ourselves to provide better solutions for our customers and stakeholders.

INSIDE THIS REPORT

INTRODUCTION

BUSINESS & OPERATIONS

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FINANCIAL REPORT & OTHER INFORMATION

49TH ANNUAL GENERAL MEETING

Please scan the QR Code to view our interactive report

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman, Independent Non-Executive Director
DATO' AB. HALIM MOHYIDDIN

Independent Non-Executive Directors
DATO' SEKHAR KRISHNAN
LIM BENG CHOON
DATUK NASARUDIN MD IDRIS

Non-Independent Non-Executive Directors
DATUK MANHARLAL RATILAL
MOHD YUSRI MOHAMED YUSOF
LIZA MUSTAPHA

President/Group CEO
Non-Independent Executive Director
YEE YANG CHIEN

AUDIT AND RISK COMMITTEE

Chairman
DATO' SEKHAR KRISHNAN

Members
LIM BENG CHOON
DATUK NASARUDIN MD IDRIS
LIZA MUSTAPHA

NOMINATION AND REMUNERATION COMMITTEE

Chairman
DATUK NASARUDIN MD IDRIS

Members
LIM BENG CHOON
MOHD YUSRI MOHAMED YUSOF

COMPANY SECRETARY

FADZILLAH KAMARUDDIN
(LS 0008989)

REGISTERED OFFICE

Level 25, Menara Dayabumi
Jalan Sultan Hishamuddin
50050 Kuala Lumpur
Tel : +603 2264 0888
Fax : +603 2273 6602
Homepage : **www.misc.com.my**
Email : miscweb@miscbhd.com

AUDITORS

Ernst & Young
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur
Tel : +603 7495 8000
Fax : +603 2095 5332

SHARE REGISTRAR

Symphony Share Registrars Sdn. Bhd.
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
Tel : +603 7841 8000 / 7849 0777
Fax : +603 7841 8151 / 8152

FORM OF LEGAL ENTITY

Incorporated on 6 November 1968
as a public company limited by shares.

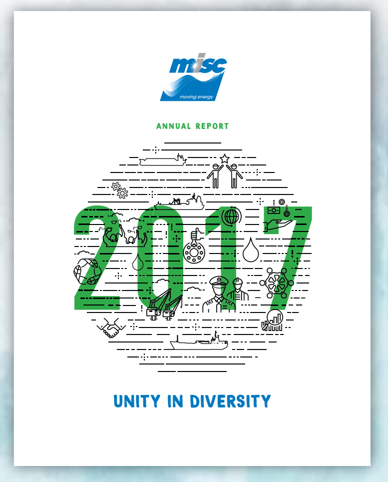
PLACE OF INCORPORATION AND DOMICILE

Malaysia

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia
Securities Berhad
Stock Name : MISC
Stock Code : 3816

ABOUT THIS REPORT



This Annual Report reflects the MISC Group's inaugural shift towards adopting the Integrated Reporting <IR> Framework and is in line with our commitment towards adhering to the best practices of corporate reporting.

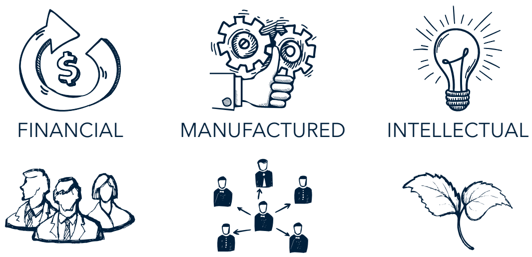
This Report also acknowledges the relationship between the economic, environmental and social considerations and their impact on the Group while pursuing sustainable value creation. It aims to provide :

- An insight as to how our corporate strategy creates and sustains value for us and our various stakeholders;
- A record of how we have performed in our journey towards accomplishing our strategic targets; and
- An indication of where we aim to be and how we plan to address the expectations and challenges ahead.

In the course of preparing this Report, we have worked with our business units, subsidiaries and key internal departments to provide a holistic perspective of the Group.

Some of the information we provide in this document is forward-looking and therefore could change over time to reflect changes in the operating environment in which the Group operates.

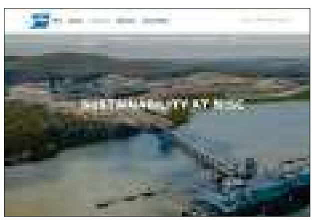
Moving forward, we shall endeavour to improve the clarity of our reporting in accordance with the <IR> Framework. This will include comprehensive disclosures of our value creation activities for key stakeholders over the short, medium and long-term that are guided by the six capitals :



Further information can be found on our website **www.misc.com.my**

- Business Solutions *www.misc.com.my/solutions*

- Investor Relations *www.misc.com.my/investor-relations*



- Sustainability *www.misc.com.my/sustainability*

- Corporate Governance *www.misc.com.my/corporate-governance*

ABOUT THIS REPORT

In line with this, our plan for the implementation of the <IR> Framework will be coordinated in phases over the next few years as follows :

PARTIAL ADOPTION

Current State :
Annual Report

GRADUAL SHIFT TOWARDS <IR> FRAMEWORK

Desired State :
Integrated Annual Report

CONTINUED PROGRESSION TO FULLY ALIGN WITH <IR> FRAMEWORK

Desired State :
Integrated Report

SCOPE & COMPLETENESS

This Report covers information on the MISC Group's operations and activities around the world, including our Liquefied Natural Gas (LNG) Shipping, Petroleum & Product Shipping, Offshore and Marine & Heavy Engineering business segments. It also covers our Maritime Education & Training, Port & Terminal Services as well as Integrated Marine Services business segments.

There were some changes to the Group's structure in FY2017 including the divestment of MISC's entire equity interest in our Tank Terminal services, and the integration between MISC's Fleet Management Services Division and AET Shipmanagement under the new Integrated Marine Services unit known as Eaglestar.

Further details in understanding the scope of this report and its basis, which includes the Group's core businesses, key enablers, value chain and business locations can be found in pages 10 to 13 of this Report.

REPORTING PERIOD

This report presents the Group's corporate and sustainability strategies and targets as well as our financial and operational performance for the financial period 1 January 2017 until 31 December 2017 (FY2017) and will be published on an annual basis.

CONTEXT

In this report, MISC Berhad is referred to as MISC or the Group. The content of this report prioritises areas deemed material for a Malaysian-based energy related maritime solutions and services company with a global footprint. It also incorporates references to global development, industry challenges and outlook.

DATA MEASUREMENT TECHNIQUES & ASSUMPTIONS

All financial data disclosed in this report has been audited by an independent third party. Other sustainability information presented in this report is based on internal data collection systems and widely accepted calculation methodologies such as the Greenhouse Gas (GHG) Protocol. The information in this report is presented on a best-effort basis and is subject to further improvement in future reporting cycles.

ASSURANCE

We have not undertaken third party assurance for the data disclosed in this report with the exception of financial data. However, our internal team has been looking into our reporting processes and are taking the necessary action for improvement. We are working towards a form of third party assurance in the future.

FOSTERING UNITY ACROSS A DIVERSE WORKFORCE

Amidst global uncertainties and the ever-changing operating environment of the energy and maritime industry, we introduced the "Unity in Diversity" campaign to promote better solidarity among our employees. We realised that if our employees were to find common ground with a common sense of purpose, they needed to respect individual differences, embrace diversity and shift the conversation from mere acceptance to truly understanding the differences that make us stronger together.

Today, as a more resilient and unified workforce that remains true to its core values and beliefs, we are unlocking our full potential as we move towards achieving our MISC2020 strategy.

ABOUT MISC

MISC Berhad (MISC) was incorporated in 1968 and is a world leading provider of international energy related maritime solutions and services.

MISC Group takes pride in our asset and service reliability, commitment to uphold the highest standards of Health, Safety and Environment (HSE), fostering a culture of excellence amongst our employees, operating responsibly and caring for the environment as well as making a positive difference to the communities in which we operate.

The principal businesses of the Group comprise energy shipping and its related activities, owning and operating offshore floating solutions, marine repair and conversion, engineering and construction works, integrated marine services, port and terminal services as well as maritime education and training.

As of 31 December 2017, MISC Group's fleet consists of more than 120 owned and in-chartered Liquefied Natural Gas (LNG), Petroleum and Product vessels, 14 Floating Production Systems (FPS) as well as 2 LNG Floating Storage Units (FSUs). The fleet has a combined deadweight tonnage (dwt) capacity of approximately 16 million tonne.

Aside from its shipping business, maritime education is a priority for the Group and its Malaysian Maritime Academy (ALAM) is ranked amongst the top 10% of the world's Maritime Education and Training (MET) institutions.

Since 2014, we have been a proud constituent of the FTSE4Good Bursa Malaysia Index, a testament to our sustainability performance and strong Environmental, Social and Governance (ESG) practices.

ABOUT MISC

VISION

▲ *To consistently provide better energy related maritime solutions and services*

MISSION

To be consistently better, we strive:

▲ To **exceed** the expectations of our **customers**

▲ To **promote** individual and team excellence of our **employees**

▲ To **create** a positive difference to the lives of **communities**

▲ To **care** for the **environment** and operate responsibly

▲ To **drive** sustainable value for our **shareholders**

CULTURAL BELIEFS

▲ **RESULTS MATTER**
I stretch my limits to deliver superior results

▲ **OWN IT!**
I own the results and don't blame others

▲ **FOCUSED EXECUTION**
I plan, commit, and deliver with discipline

▲ **NURTURE TRUST**
I always keep my promise and build mutual trust

▲ **TELL ME**
I seek, give and act positively on feedback

▲ **SHARED SUCCESS**
I collaborate for the greater good of MISC Group

SHARED VALUES

▲ **LOYALTY**
Loyal to corporation

▲ **INTEGRITY**
Honest and upright

▲ **PROFESSIONALISM**
Strive for excellence

▲ **COHESIVENESS**
United, trust and respect for each other

CORE BUSINESSES

LNG SHIPPING

Delivers Liquefied Natural Gas (LNG) across the globe with over three decades of proven experience as well as a distinguished reputation for overall operational excellence, reliability, safety and on-time cargo deliveries.

PETROLEUM AND PRODUCT SHIPPING

Provides safe, high quality and comprehensive ocean transportation and specialist petroleum services to the world's largest oil companies, trading houses and refiners. Its services include global marine transportation of crude oil, Clean Petroleum Products (CPPs) and chemicals; lightering and Ship-To-Ship (STS) transfer of oil; the provision of Dynamic Positioning Shuttle Tankers (DPSTs) to the world's oil majors; and the provision of Modular Capture Vessels (MCVs) for marine well containment systems in the US Gulf (USG).

OFFSHORE BUSINESS

Delivers complete, comprehensive and innovative solutions from design to operations, catering for marginal, conventional and deepwater field developments with an excellent production and operations performance track record for all its facilities.

(Certified with ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007)

MARINE AND HEAVY ENGINEERING

Specialises in offshore construction, offshore and onshore conversion and marine repair. Owns and operates one of the largest marine and heavy engineering facilities in the region.

Further details of the operations and performance of each Core Businesses can be found in pages 88 to 103 of this Report.

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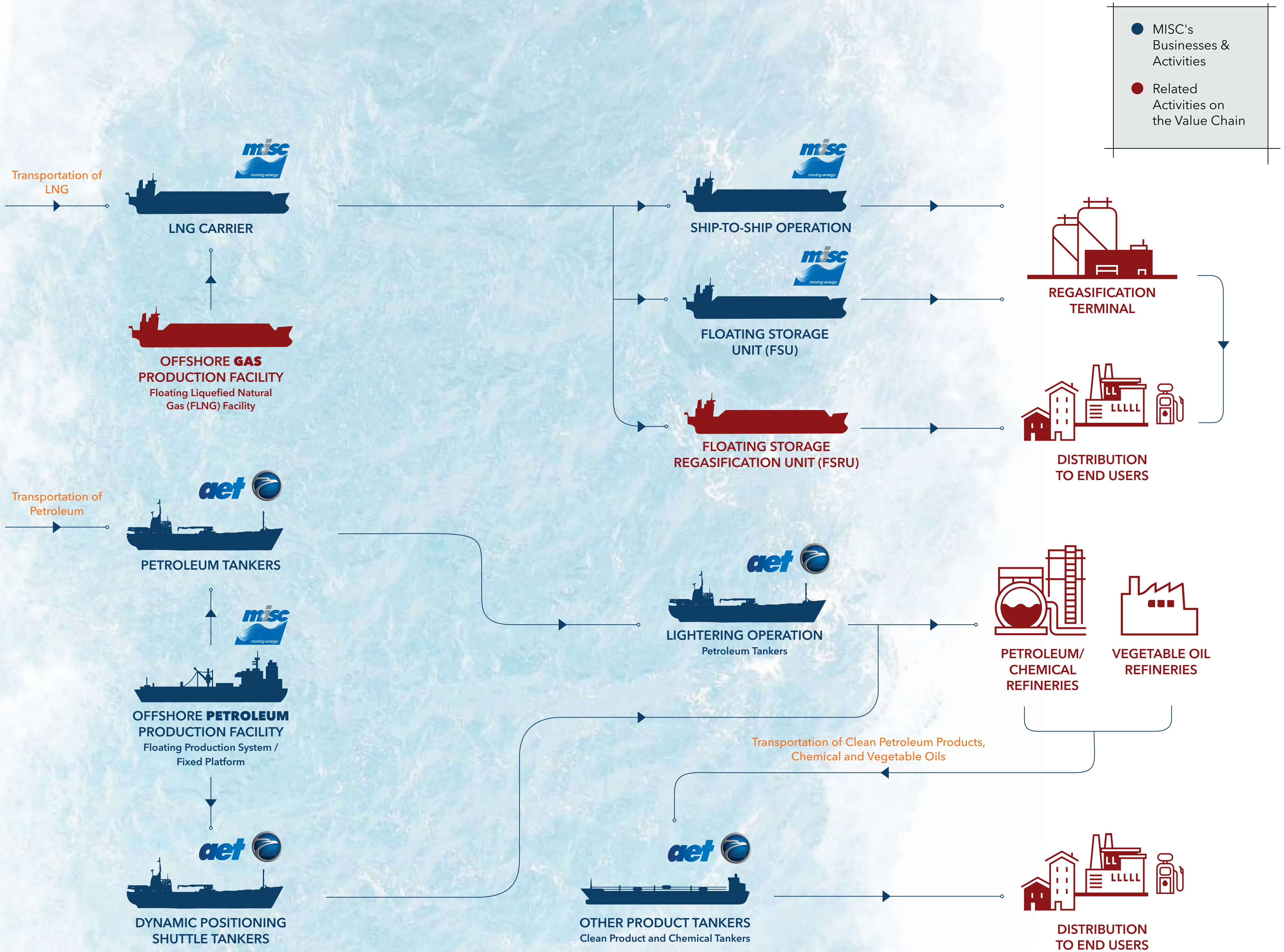


KEY ENABLERS

INTEGRATED MARINE SERVICES

Provides a comprehensive range of integrated marine services and strives to enable the delivery of reliable and efficient shipmanagement services to our customers globally. Eaglestar operate and maintain a modern and diversified fleet of vessels, supported by a team of highly skilled, competent and dedicated professionals.

PORT AND TERMINAL SERVICES

The centre for maritime services in provision of marine assurance and compliance, port and terminal operations & management, consultancy and services to the PETRONAS Group of companies.

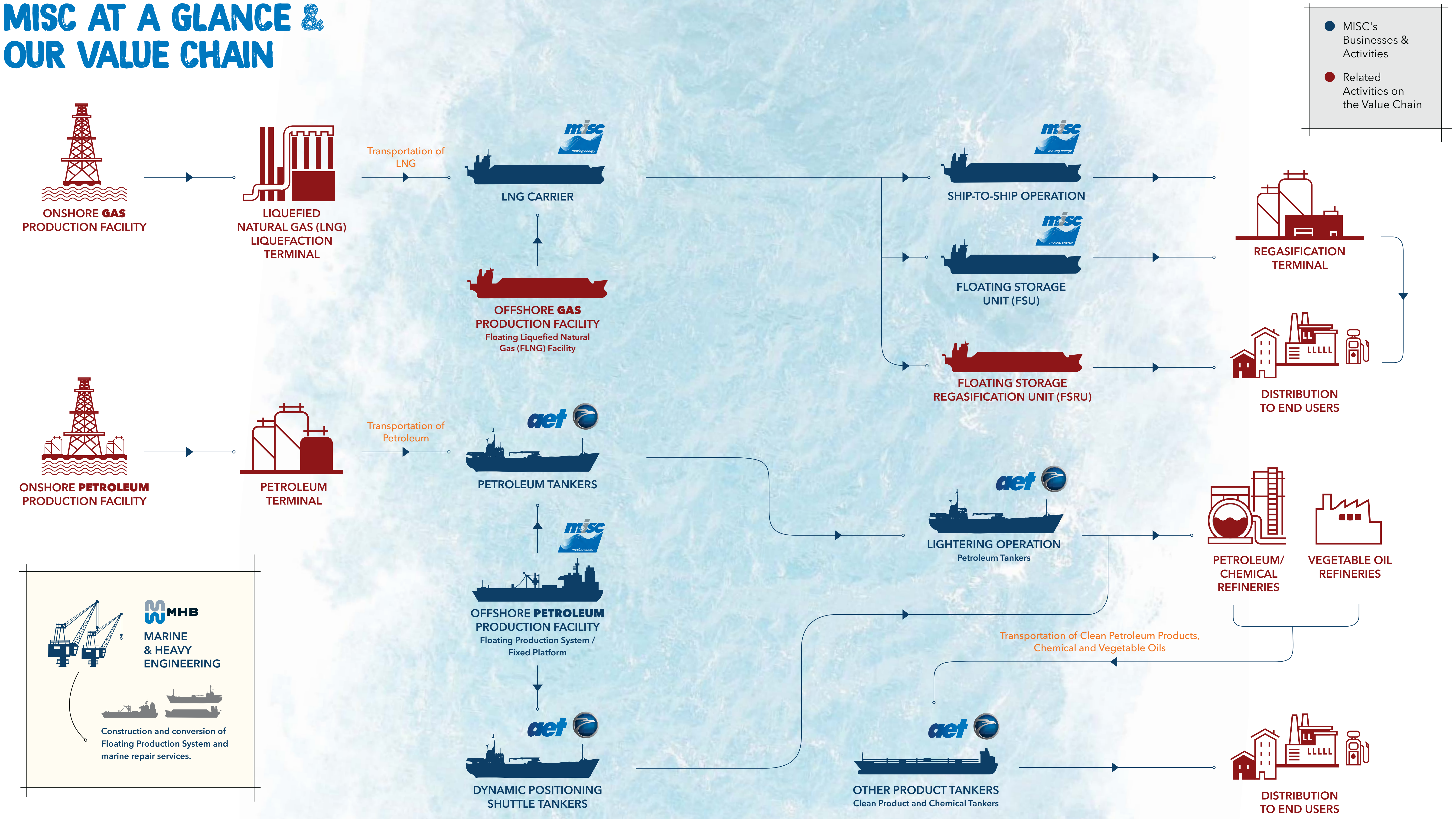
MARITIME EDUCATION AND TRAINING

Supports the industry's growing requirement for professionally trained seafarers, MISC's subsidiary, the Malaysian Maritime Academy (ALAM) is one of the premier Maritime Education and Training (MET) institutions in the region and is consistently rated highly by Det Norske Veritas Germanischer Lloyd (DNV GL).

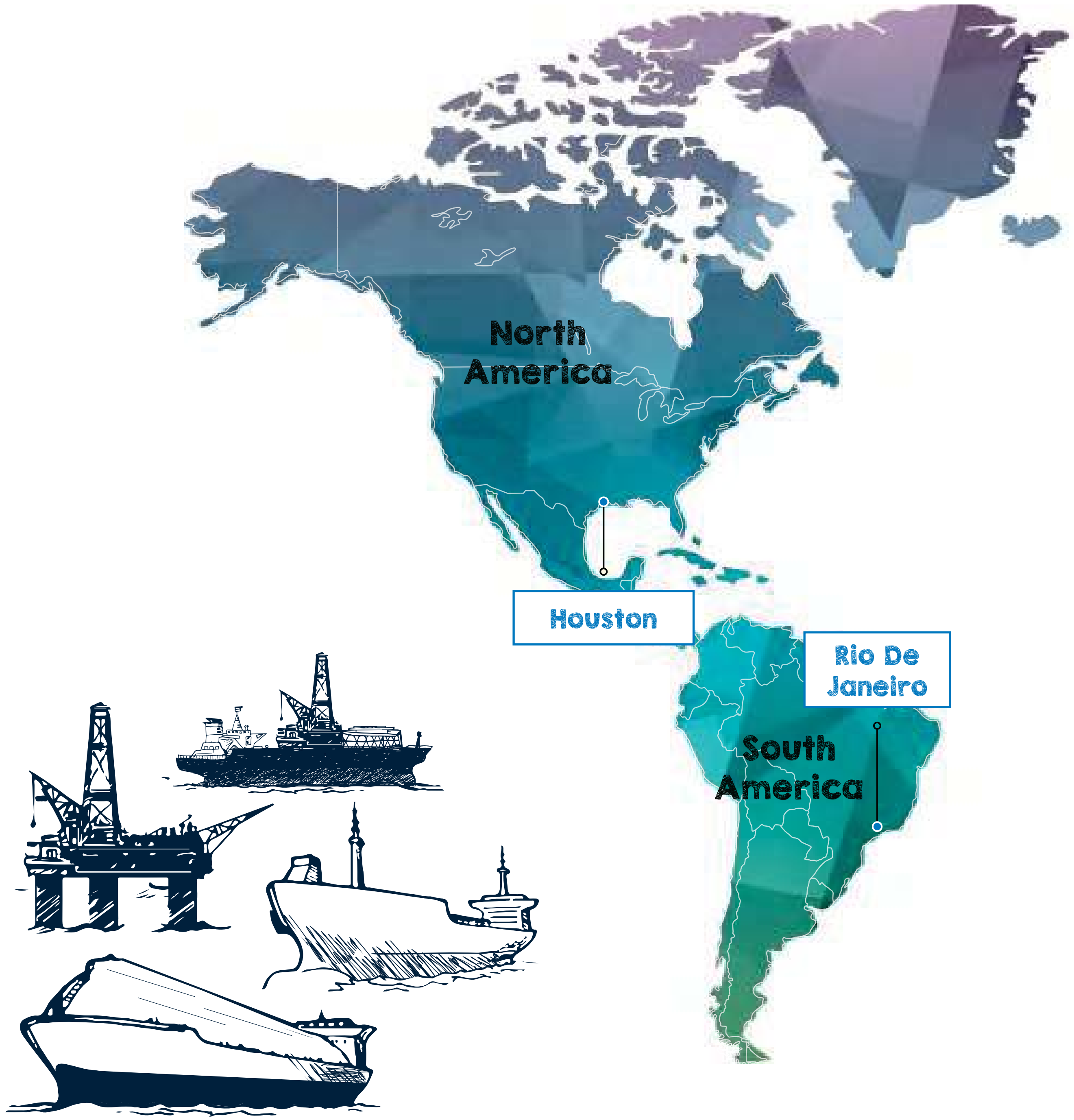
The Academy provides the full spectrum of MET as required by IMO along with offshore and other courses.

Further details of the operations and performance of each Key Enablers can be found in pages 104 to 113 of this Report.

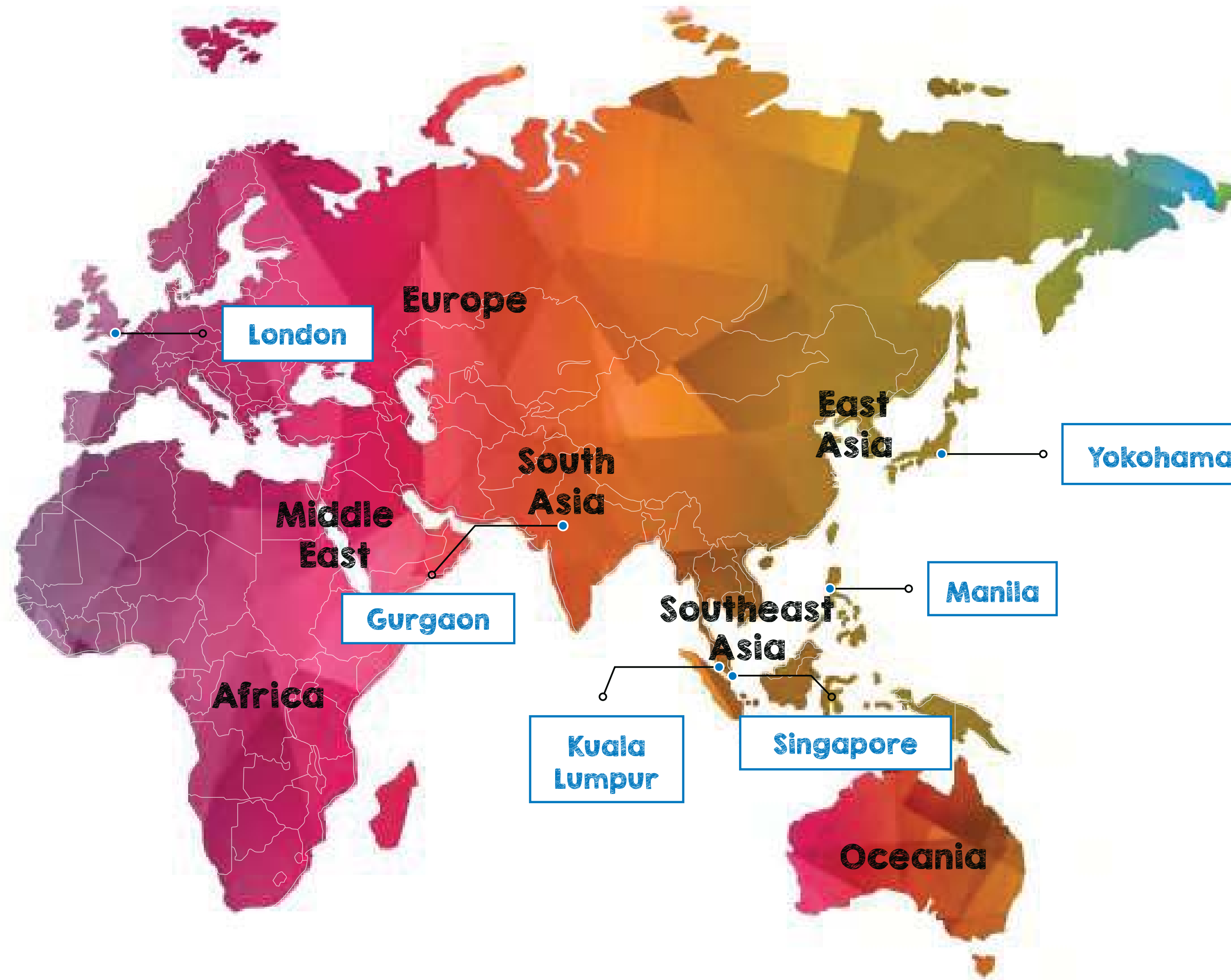
MISC AT A GLANCE & OUR VALUE CHAIN

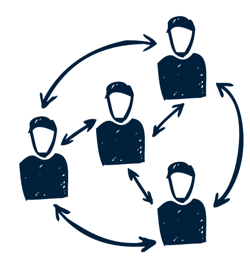


OUR GLOBAL PRESENCE



Supported by over 120 LNG, Petroleum and Product vessels, 14 Floating Production Systems and 2 LNG Floating Storage Units.





Close to 9,000 Sea and Shore employees shaping our global footprint in moving energy to build a better world.

MISC GROUP STRUCTURE

AS AT 20 FEBRUARY 2018

**Excluding Dormant Companies*

LNG SHIPPING

- 100% **MISC Tankers Sdn. Bhd.** *(Investment Holding and Provision of Management Services)*
  - 100% Puteri Delima Sdn. Bhd. *(Shipping)*
  - 100% Puteri Firus Sdn. Bhd. *(Shipping)*
  - 100% Puteri Intan Sdn. Bhd. *(Shipping)*
  - 100% Puteri Nilam Sdn. Bhd. *(Shipping)*
  - 100% Puteri Zamrud Sdn. Bhd. *(Shipping)*
  - 100% Seri Camellia (L) Private Limited *(Shipping)*
  - 100% Seri Cenderawasih (L) Private Limited *(Shipping)*
  - 100% Seri Cempaka (L) Private Limited *(Shipping)*
- 100% **Puteri Delima Satu (L) Pte. Ltd.** *(Shipping)*
- 100% **Puteri Firus Satu (L) Pte. Ltd.** *(Shipping)*
- 100% **Puteri Nilam Satu (L) Pte. Ltd.** *(Shipping)*
- 100% **Puteri Intan Satu (L) Pte. Ltd.** *(Shipping)*
- 100% **Puteri Mutiara Satu (L) Pte. Ltd.** *(Shipping)*
- 100% **Puteri Zamrud Satu (L) Pte. Ltd.** *(Shipping)*
- 100% **MISC PNG Shipping Limited** *(Investment Holding)*
  - 60% Western Pacific Shipping Limited *(Providing Shipping Solutions for LNG Project Requirements and Other General Shipping Requirements of Papua New Guinea)*
- 100% **Gas Asia Terminal (L) Pte. Ltd.** *(Development and Ownership of LNG Floating Storage Units)*
- 51% **Asia LNG Transport Sdn. Bhd.** *(Shipowning and Shipmanagement)*
- 51% **Asia LNG Transport Dua Sdn. Bhd.** *(Shipowning and Shipmanagement)*

PETROLEUM & PRODUCT SHIPPING

- 100% **MISC Tanker Holdings Sdn. Bhd.** *(Investment Holding)*
  - 100% MISC Tanker Holdings (Bermuda) Limited *(Investment Holding)*
    - 100% AET Tanker Holdings Sdn. Bhd. *(Investment Holding)*
      - 100% AET Product Tankers Sdn. Bhd. *(To carry on conduct of the chemical business)*
      - 100% AET Petroleum Tanker (M) Sdn. Bhd. *(Shipowning)*
        - 100% AET Shuttle Tankers Sdn. Bhd. *(Shipowning and Operations)*
        - 100% AET MCV Delta Sdn. Bhd. *(Investment Holding)*
          - 100% AET MCV Alpha L.L.C. *(Shipowning)*
          - 100% AET MCV Beta L.L.C. *(Shipowning)*
          - 100% AET Brasil Servicos Maritimos Ltda. *(Manning, Crewing Agent and Technical Office)*
        - 100% AET Brasil Servicos STS Ltda. *(Lightering Support Services)*
      - 100% AET Shipmanagement (Malaysia) Sdn. Bhd. *(Shipping Management)*
        - 100% AMI Manning Services Pvt. Ltd. *(Shipmanagement and Manning Activities)*
        - 24% Eagle Star Management Corporation *(Recruitment and Provision of Manpower for Maritime Vessels)*
      - 100% AET Tankers Pte. Ltd. *(Commercial Operation and Chartering)*
        - 100% AET Tanker India Private Limited *(Shipowning)*
        - 100% AET Singapore One Limited *(Owning, chartering and operating of vessel)*
      - 100% AET UK Limited *(Commercial Operation and Chartering)*
        - 95% AET Sea Shuttle AS *(Owning and Operating DP Shuttle Tankers)*
      - 100% AET Holdings (L) Pte. Ltd. *(Investment Holding)*
        - 100% AET Inc. Limited *(Shipowning and Operations)*
          - 100% AET Bermuda One Limited *(Owing, chartering and operating of vessel)*
          - 100% AET STS Limited Inc *(Lightering Operations)*
          - 100% AET Tankers (Suezmax) Pte. Ltd. *(Shipowning and Operations)*
          - 100% AET MCV Gamma L.L.C. *(Chartering and Operations)*
          - 100% AET Agencies Inc. *(Property Owning)*
            - 100% AET Offshore Services Inc. *(Lightering)*
          - 100% AET Lightering Services L.L.C. *(Lightering)*
          - 50% ELS Lightering Services S.A. *(Lightering Activity)*
          - 100% Paramount Tankers Corp. *(Shipowning and Operations)*
            - 100% Atenea Services S.A. *(Shipowning)*
            - 100% Hendham Enterprises Ltd. *(Shipowning)*
            - 100% Odley Worldwide Inc. *(Shipowning)*
            - 100% Oldson Ventures Ltd. *(Shipowning)*
            - 100% Twyford International Business Corp. *(Shipowning)*
            - 100% Zangwill Business Corp. *(Shipowning)*

OFFSHORE BUSINESS

- 100% **MISC Offshore Holdings (Brazil) Sdn. Bhd.** *(Investment Holding)*
  - 49% SBM Systems Inc. *(FPSO Owner)*
  - 49% FPSO Brasil Venture S.A. *(Investment and Offshore Activities)*
    - 49% SBM Operacoes Ltda. *(Operating and Maintaining FPSO Terminals)*
    - 49% Brazilian Deepwater Floating Terminals Limited *(Construction of FPSO)*
    - 49% Brazilian Deepwater Production Limited *(Chartering of FPSO)*
    - 49% Brazilian Deepwater Production Contractors Limited *(Operation and Maintenance of FPSO)*
    - 49% Operacoes Maritamas em Mar Profundo Brasileiro Ltda. *(Operation and Maintenance of FPSO)*
- 100% **MISC Offshore Floating Terminals (L) Limited** *(Owning Offshore Floating Terminals)*
- 100% **MISC Offshore Floating Terminals Dua (L) Limited** *(Owning Offshore Floating Terminals)*
- 100% **Malaysia Offshore Mobile Production (Labuan) Ltd.** *(Mobile Offshore Production Unit Owner)*
- 100% **Gumusut-Kakap Semi-Floating Production System (L) Limited** *(Asset Ownership and Leasing of Semi-Submersible Floating Production System)*
- 51% **Malaysia Vietnam Offshore Terminal (L) Limited** *(FSO Owner)*
- 51% **Malaysia Deepwater Floating Terminal (Kikeh) Limited** *(FPSO Owner)*
- 51% **Malaysia Deepwater Production Contractors Sdn. Bhd.** *(Operating and Maintaining FPSO Terminals)*
- 51% **FPSO Ventures Sdn. Bhd.** *(Operating and Maintaining FPSO Terminals)*
- 40% **Vietnam Offshore Floating Terminal (Ruby) Ltd.** *(FPSO Owner)*

MISC GROUP STRUCTURE

MARINE & HEAVY ENGINEERING

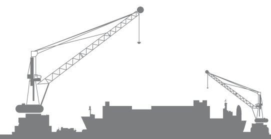
- 66.5% **Malaysia Marine and Heavy Engineering Holdings Berhad** *(Investment Holding)*
  - 66.5% Malaysia Marine and Heavy Engineering Sdn. Bhd. *(Provision of Oil and Gas Engineering and Construction Works and Marine Conversion and Repair Services)*
    - 66.5% Techno Indah Sdn. Bhd. *(Sludge Disposal Management)*
    - 40% MMHE-TPGM Sdn. Bhd. *(Provision of Engineering, Procurement, Construction Installation and Commissioning Services)*
    - 27% MMHE-ATB Sdn. Bhd. *(Manufacturing of Pressure Vessels and Tube Heat Exchangers)*
    - 46.6% MMHE EPIC Marine & Services Sdn. Bhd. *(Provision of repair services and dry docking of marine vessels at the ship repair facilities located in Kemaman, Terengganu)*
  - 33.3% Technip MHB Hull Engineering Sdn. Bhd. *(Builds and Develops Hull Engineering and Engineering Project Management Capacities)*

INTEGRATED MARINE SERVICES

- 100% **Eaglestar Marine Holdings (L) Pte. Ltd.** *(Provision of Marine Services and Investment Holding)*
  - 100% Eaglestar Shipmanagement (L) Pte. Ltd. *(Provision of Shipmanagement Services)*
  - 100% Eaglestar Marine (S) Pte. Ltd. *(Hiring of personnel)*
  - 100% Eaglestar Shipmanagement (S) Pte. Ltd. (formerly known as AET Shipmanagement (Singapore) Pte. Ltd.) *(Shipmanagement, manning and technical activities)*
    - 100% AET Shipmanagement (USA) L.L.C. *(Shipmanagement)*
  - 100% Eaglestar Marine B.V. *(Provision of Marine and Procurement Services)*

MARITIME EDUCATION & TRAINING

- 100% **Malaysian Maritime Academy Sdn. Bhd.** *(Education and Training for Seamen and Maritime Personnel)*



PORTS & TERMINAL SERVICES

- 100% **MISC Maritime Services Sdn. Bhd. (formerly known as PETRONAS Maritime Services Sdn. Bhd.)** *(Provision of maritime services and consultancy and maritime audit)*
  - 100% Sungai Udang Port Sdn. Bhd. *(Operation and Management of Sungai Udang Port)*

OTHERS

- 100% **MISC Capital (L) Limited** *(Special Purpose Vehicle for Financing Arrangement)*
- 100% **MISC International (L) Limited** *(Investment Holding)*
  - 49% SL-MISC International Line Co. Ltd. *(In Liquidation)*
- 100% **MISC Ship Management Sdn. Bhd.** *(Investment Holding)*
- 100% **MISC Agencies Sdn. Bhd.** *(Holding Company)*
  - 100% MISC Agencies (Netherlands) B.V. *(Property Owning)*
  - 60% MISC Agencies India (Private) Limited *(In Liquidation)*
  - 40% MISC Agencies Lanka (Private) Limited *(In Liquidation)*
  - 100% MISC Berhad (UK) Limited *(Commercial Operations)*
- 100% **MISC Enterprises Holdings Sdn. Bhd.** *(In Liquidation)*

BOARD OF DIRECTORS

DATO' AB. HALIM MOHYIDDIN
Chairman
Independent Non- Executive Director

YEE YANG CHIEN
President/Group CEO
Non-Independent Executive Director

DATUK NASARUDIN MD IDRIS
Independent Non-Executive Director

BOARD OF DIRECTORS

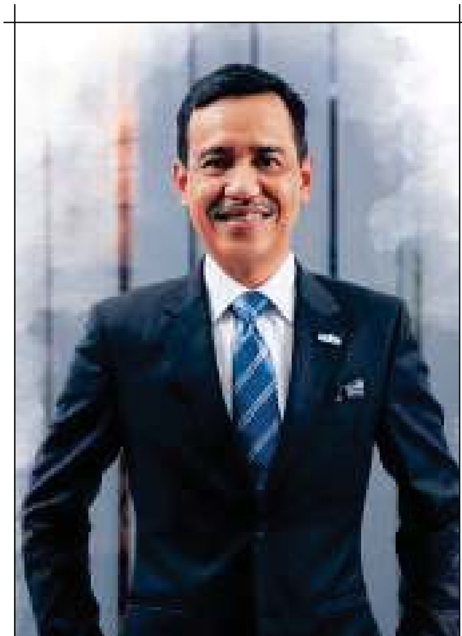
DATO' SEKHAR KRISHNAN
Senior Independent Non-Executive Director

LIM BENG CHOON
Independent Non-Executive Director

DATUK MANHARLAL RATILAL (DATUK GEORGE RATILAL)
Non-Independent Non-Executive Director

LIZA MUSTAPHA
Non-Independent Non-Executive Director

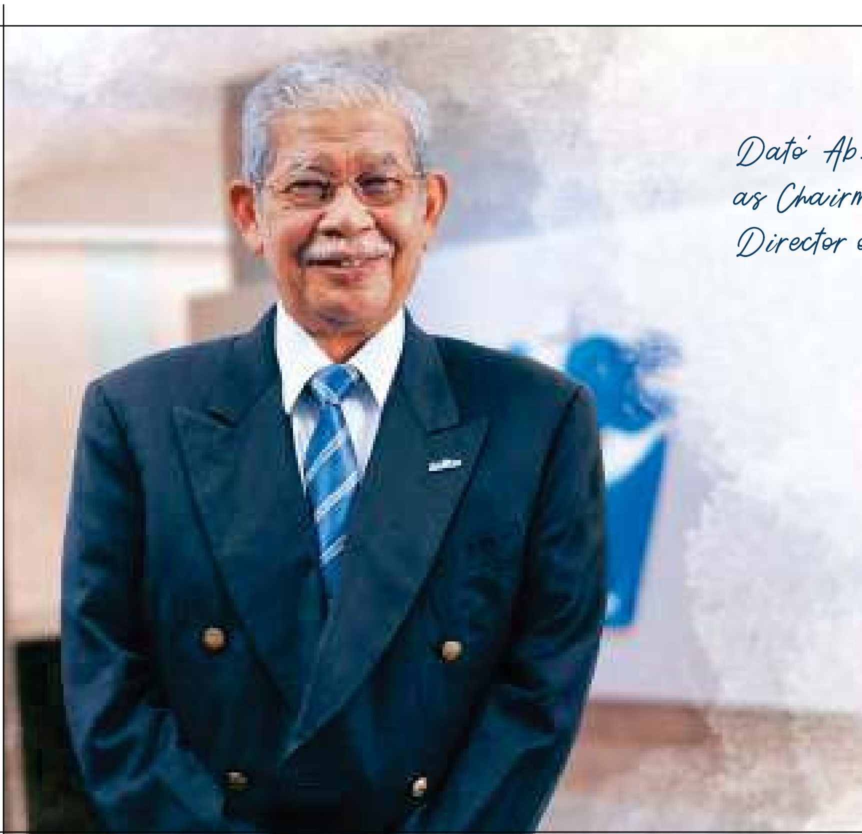
MOHD YUSRI MOHAMED YUSOF
Non-Independent Non-Executive Director



None of the Directors have :

- A family relationship with other directors and/or major shareholders of the Company;
- A conflict of interest with the Company; and
- Been convicted of any offence within the past 5 years and have not been imposed any penalty by the relevant regulatory bodies during the financial year 2017.

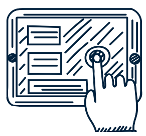
PROFILES OF DIRECTORS



Dato' Ab. Halim Mohyiddin was appointed as Chairman and Independent Non-Executive Director of MISC Berhad on 15 January 2015.

DATO' AB. HALIM MOHYIDDIN

Chairman,
Independent Non-Executive Director
Age 72, Male, Malaysian



QUALIFICATION, SKILLS AND EXPERIENCE

Dato' Ab. Halim graduated with a Bachelor of Economics (Accounting) from the University of Malaya in 1971 and thereafter joined University Kebangsaan Malaysia as a Faculty member of the Faculty of Economics. He obtained his Masters of Business Administration degree from the University of Alberta, Edmonton, Alberta, Canada in 1973 and subsequently a Diploma in Accountancy (post-graduate) from University Malaya in 1975.

He is a member of the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Certified Public Accountants (MICPA).

Dato' Ab. Halim joined KPMG/ KPMG Desa Megat & Co. in 1977. He had his early accounting training both in Malaysia and the United States of America. He held various positions in KPMG and acted as receiver and manager and liquidator for several companies. He was made Partner of KPMG in 1985. At the time of his retirement on 1 October 2001, he was the Partner in Charge of the Assurance and Financial Advisory Services Divisions and was also responsible for the Secured e-Commerce Practice of the firm.

OTHER COMMITMENTS

Dato' Ab. Halim currently sits on the boards of PETRONAS Gas Berhad, Amway (Malaysia) Holdings Berhad and KNM Group Berhad.

PROFILES OF DIRECTORS

Yee Yang Chien was appointed as President / CEO and Non-Independent Executive Director of MISC Berhad on 1 January 2015.

YEE YANG CHIEN

President / Group CEO
Non-Independent Executive Director
Age 50, Male, Malaysian

QUALIFICATION, SKILLS AND EXPERIENCE

Yee Yang Chien holds a double-degree in Financial Accounting/ Management and Economics from University of Sheffield, United Kingdom.

He began his career as an auditor, undertaking both external and internal audit assignments, and progressed on to equity research and investment banking work with various local and international financial institutions.

He joined MISC Berhad in 2001 as Senior Manager of Research and Evaluation of the Corporate Planning and Development Unit. He subsequently joined AET Group as Group Vice President of Corporate Planning in June 2005.

Yee Yang Chien returned to MISC Berhad in April 2008 as the Vice President of Corporate Planning and Development, focusing on strategic planning, enterprise risk management, budget development and special projects for the Group.

He was appointed as the Chief Operating Officer of MISC Berhad in July 2013 where he was also given oversight over Group Finance and Human Resource functions as well as the Chemical Tanker Business unit.

OTHER COMMITMENTS

Yee Yang Chien is the Chairman of AET Tanker Holdings Sdn. Bhd. and Eaglestar Marine Holdings (L) Pte. Ltd. as well as Deputy Chairman of Malaysian Maritime Academy Sdn. Bhd. He is also a Director of Malaysia Marine and Heavy Engineering Holdings Berhad and FPSO Ventures Sdn. Bhd.

Additionally, Yee Yang Chien is a Director of the Members' Committee of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited (UK P&I Club).

PROFILES OF DIRECTORS

Datuk Nasarudin Md Idris was appointed as a Non-Independent Non-Executive Director of MISC Berhad on 11 October 2004 before assuming the position of President / CEO on 15 June 2010. On 1 January 2015, Datuk Nasarudin was re-designated as Non-Independent Non-Executive Director following his retirement as President/ CEO of MISC Berhad on 31 December 2014. Effective 23 February 2017, Datuk Nasarudin was re-designated as Independent Non-Executive Director of the Company.

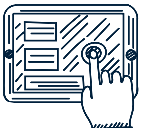
DATUK NASARUDIN MD IDRIS

Independent Non-Executive Director
Age 62, Male, Malaysian

QUALIFICATION, SKILLS AND EXPERIENCE

Datuk Nasarudin graduated from the University of Malaya with a Bachelor of Arts (Honours) degree and holds a Masters degree in Business Administration from Henley – The Management College (Brunel University), United Kingdom. He also attended the Stanford Executive Programme at Stanford University, United States of America (USA).

He joined PETRONAS in 1978 and had held various positions within PETRONAS Group including as Vice President, Corporate Planning and Development; Group Chief Executive Officer of KLCC Holdings Berhad; Senior General Manager, Corporate Planning and Development Division; Executive Assistant to the President; General Manager, Marketing of PETRONAS Dagangan Berhad; General Manager, Corporate Development; and General Manager, Group Strategic Planning.



OTHER COMMITMENTS

Datuk Nasarudin is the Chairman of Malaysia Marine and Heavy Engineering Holdings Berhad and a Director of AET Tanker Holdings Sdn. Bhd., two major subsidiaries within the MISC Group. He is also a Director of Bintulu Port Holdings Berhad.

BOARD COMMITTEE MEMBERSHIP

Datuk Nasarudin is a member of the Board Audit and Risk Committee and chairs the Nomination and Remuneration Committee of MISC Berhad.

PROFILES OF DIRECTORS

Datuk George Ratilal was appointed as Chairman and Non-Independent Non-Executive Director of MISC Berhad on 1 August 2011. On 15 January 2015, he was re-designated as a Non-Independent Non-Executive Director of MISC Berhad.

DATUK MANHARLAL RATILAL (DATUK GEORGE RATILAL)

Non-Independent Non-Executive Director

Age 58, Male, Malaysian

QUALIFICATION, SKILLS AND EXPERIENCE

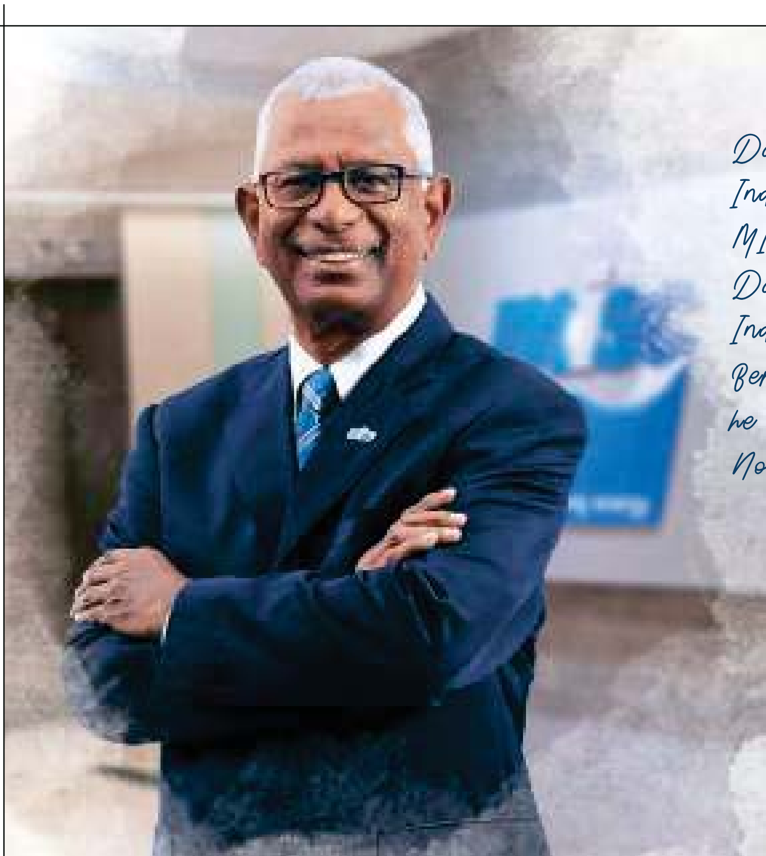
Datuk George holds a Bachelor of Arts (Honours) degree in Accountancy from Birmingham City University, United Kingdom in 1982 and Masters in Business Administration from the University of Aston in Birmingham, United Kingdom in 1984.

Prior to joining PETRONAS in 2003, he was attached with a local investment bank for 18 years, concentrating on corporate finance where he was involved in advisory work in mergers and acquisitions, equity and debt capital markets. From 1997 to 2002, he served as the Managing Director of the investment bank. Datuk George is the Executive Vice President and Group Chief Financial Officer of PETRONAS. He is also a member of the Board of Directors of PETRONAS and its Executive Leadership Team.

OTHER COMMITMENTS

Datuk George also sits on the boards of KLCC Property Holdings Berhad, KLCC REIT Management Sdn. Bhd., Cagamas Holdings Berhad and other subsidiaries of the PETRONAS Group.

PROFILES OF DIRECTORS



Dato' Sekhar Krishnan was appointed as Independent Non-Executive Director of MISC Berhad on 15 January 2015.
Dato' Sekhar Krishnan was appointed as Independent Non-Executive Director of MISC Berhad on 15 January 2015. On 8 August 2017, he was appointed as the Senior Independent Non-Executive Director of MISC Berhad.

DATO' SEKHAR KRISHNAN

Senior Independent Non-Executive Director
Age 62, Male, Malaysian

QUALIFICATION, SKILLS AND EXPERIENCE

Dato' Sekhar is a member of the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Certified Public Accountants (MICPA).

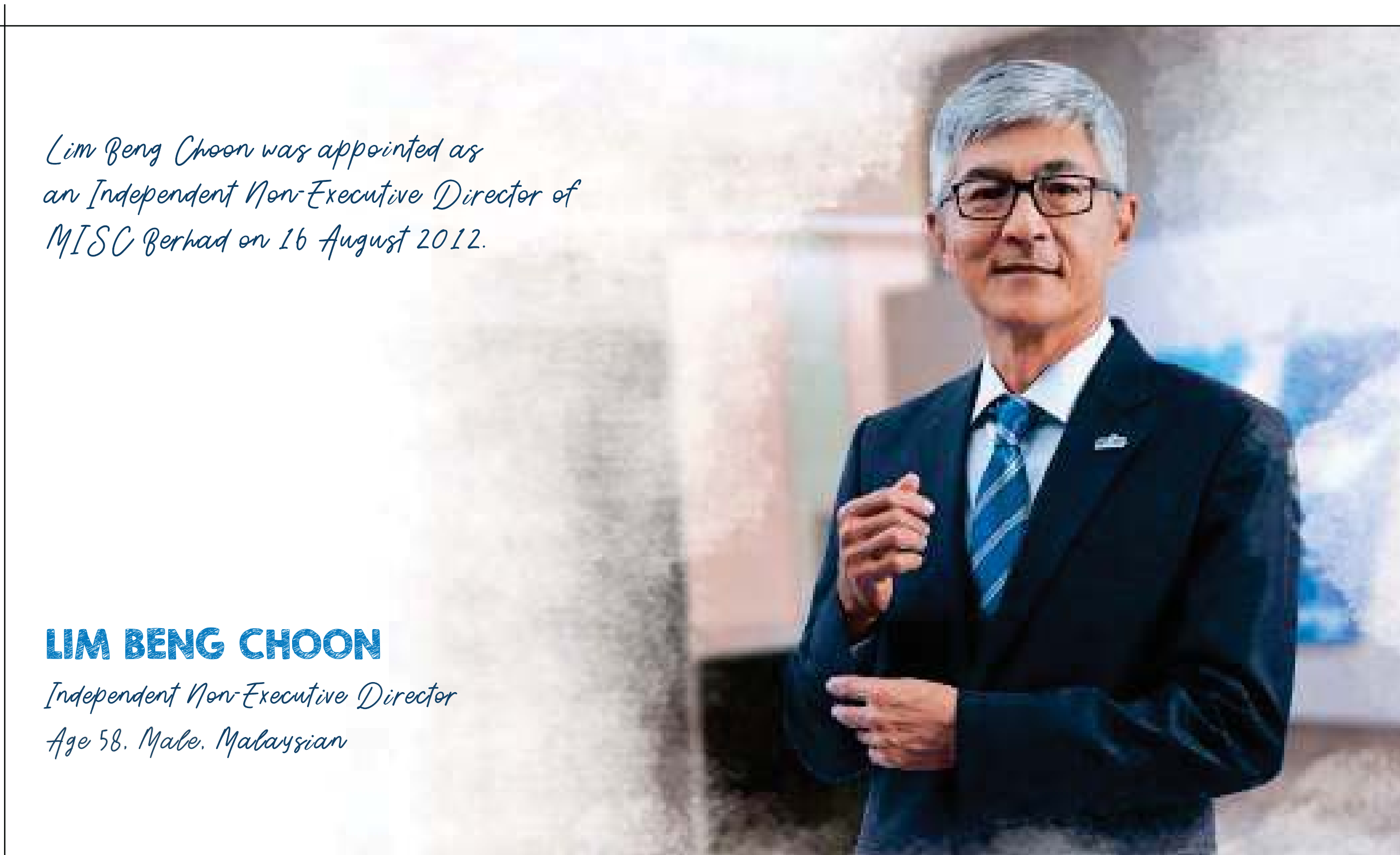
Dato' Sekhar retired in 2010 as the Executive Vice President, Corporate Services of Sime Darby Berhad. He was responsible for Sime Darby Group's legal, secretarial, risk management, sustainability and quality management functions, as well as the Commodity Trading and Marketing and Allied Products & Services activities of the group.

Prior to joining the Sime Darby Group in 1982, Dato' Sekhar had three years of post-qualifying experience with Peat Marwick Mitchell & Co. (now known as KPMG). Since then, he had held various senior financial positions within the Sime Darby Group including as Finance Director of Sime UEP Properties Berhad, Group Financial Controller of Sime Darby Berhad and Finance Director of Tractors Malaysia Holdings Berhad.

BOARD COMMITTEE MEMBERSHIP

Dato' Sekhar is the Chairman of the Board Audit and Risk Committee of MISC Berhad.

PROFILES OF DIRECTORS



Lim Beng Choon was appointed as an Independent Non-Executive Director of MISC Berhad on 16 August 2012.

LIM BENG CHOON

Independent Non-Executive Director

Age 58, Male, Malaysian



QUALIFICATION, SKILLS AND EXPERIENCE

Lim Beng Choon holds a Bachelor of Science (Honours) in Mathematics and Computer Science from the Australian National University, Canberra, ACT, Australia and has attended numerous Accenture Management Training Programmes around the globe including the IMD Leadership Programme in Switzerland.

He was the Country Managing Director of Accenture, the global consulting, technology and outsourcing giant, before retiring in 2009. He held various positions during his 28 years tenure in Accenture, including Managing Partner for Accenture's Resources Industry Group (Oil & Gas, Chemicals, Utilities) in South-East Asia, India and Korea. His experience in management consulting spans accross strategy formulation, operational consulting and merger integrations. He has led complex projects to deliver transformational change for Malaysian and foreign multinational companies.

Prior to moving into management consulting, he was in technology consulting covering technology strategy and systems integration work.

Between 2010 and 2016, he served on the boards of Hong Leong Bank Berhad and PETRONAS Gas Berhad.

OTHER COMMITMENTS

Lim Beng Choon serves as a Trustee of the ECM Libra Foundation, actively advising on their welfare initiatives. He is an Independent Non-Executive Director of PETRONAS Dagangan Berhad.

BOARD COMMITTEE MEMBERSHIP

Lim Beng Choon is a member of the Board Audit and Risk Committee and the Nomination and Remuneration Committee of MISC Berhad.

PROFILES OF DIRECTORS

Liza Mustapha was appointed as Non-Independent Non-Executive Director of MISC Berhad on 1 July 2017.

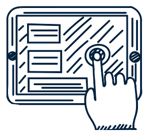
LIZA MUSTAPHA

Non-Independent Non-Executive Director
Age 47, Female, Malaysian

QUALIFICATION, SKILLS AND EXPERIENCE

Liza is a Fellow of the Association of Chartered Certified Accountants (FCCA) and holds a Bachelor of Science degree in Economics, majoring in Accounting and Finance from The London School of Economics and Political Science, UK. She also attended the Advance Management Programme at The Harvard Business School, USA.

She started her career as a finance executive in PETRONAS Carigali Sdn. Bhd. in 1995 and in the ensuing years held various positions within the PETRONAS Group including Chief Financial Officer for PETRONAS Gas Berhad, Senior General Manager of PETRONAS Group Treasury and Chief Financial Officer for PETRONAS' Upstream Business. Liza is currently the Head of Group Financial Controller, Group Finance, PETRONAS.



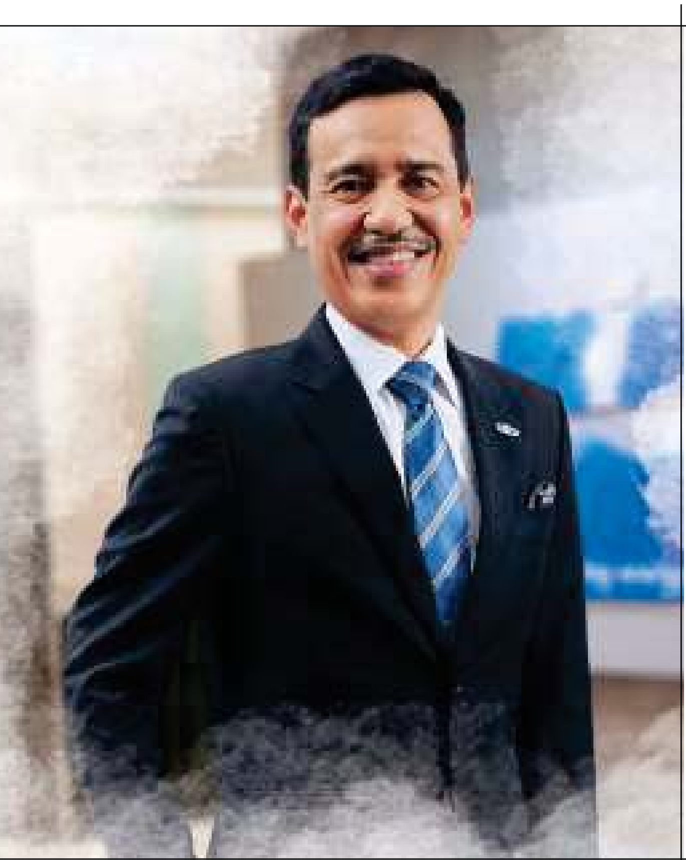
OTHER COMMITMENTS

Liza also sits on the boards of several subsidiary companies within the PETRONAS Group.

BOARD COMMITTEE MEMBERSHIP

Liza is a member of the Board Audit and Risk Committee of MISC Berhad.

PROFILES OF DIRECTORS



Mohd Yusri Mohamed Yusof was appointed as a Non-Independent Non-Executive Director of MISC Berhad on 7 December 2017.

MOHD YUSRI MOHAMED YUSOF

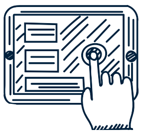
Non-Independent Non-Executive Director

Age 51. Male. Malaysian

QUALIFICATION, SKILLS AND EXPERIENCE

Mohd Yusri holds a Bachelor of Science Degree in Chemical Engineering from Oklahoma State University, USA and has attended the Advanced Management Programme at The Wharton School, University of Pennsylvania, USA. He is a registered Professional Engineer (PE) with Board of Engineers Malaysia and a Fellow Chartered Engineer (FIChemE) with Institution of Chemical Engineers United Kingdom.

Mohd Yusri is currently the Vice President of Refining and Trading, Downstream Business, PETRONAS and has over 25 years of experience in the Oil & Gas industry covering project management, process technology, operation management and strategic planning.



OTHER COMMITMENTS

Mohd Yusri also sits on the boards of several subsidiary companies within the PETRONAS Group.

BOARD COMMITTEE MEMBERSHIP

Mohd Yusri is a member of the Nomination and Remuneration Committee of MISC Berhad.

MANAGEMENT COMMITTEE

CAPTAIN RAJALINGAM SUBRAMANIAM
President & CEO,
AET Tanker Holdings Sdn. Bhd.

SYED HASHIM SYED ABDULLAH
Vice President, Offshore Business

YEE YANG CHIEN
President/Group CEO

ZAHID OSMAN
Vice President, LNG Business

<u>None of the Management Committee have :</u>

- A family relationship with other directors and/or major shareholders of the Company;
- A conflict of interest with the Company; and
- Been convicted of any offence within the past 5 years and have not been imposed any penalty by the relevant regulatory bodies during the financial year 2017.

MANAGEMENT COMMITTEE

CAPTAIN RAJA SAGER
Managing Director/CEO,
Eaglestar Marine Holdings (L) Pte. Ltd.

IWAN AZLAN MOKHTAR
Vice President, Human Resource Management

WAN MASHITAH WAN ABDULLAH SANI
Managing Director/CEO, Malaysia Marine and
Heavy Engineering Holdings Berhad

ROZAINAH AWANG
Vice President, Finance

FADZILLAH KAMARUDDIN
Vice President, Legal,
Corporate Secretarial and Compliance

PROFILES OF THE MANAGEMENT COMMITTEE

YEE YANG CHIEN

President / Group CEO
Non-Independent Executive Director
Age 50, Male, Malaysian

Yee Yang Chien was appointed as President / CEO and Non-Independent Executive Director of MISC Berhad on 1 January 2015.

QUALIFICATION, SKILLS AND EXPERIENCE

Yee Yang Chien holds a double-degree in Financial Accounting/Management and Economics from University of Sheffield, United Kingdom.

He began his career as an auditor, undertaking both external and internal audit assignments, and progressed on to equity research and investment banking work with various local and international financial institutions.

He joined MISC Berhad in 2001 as Senior Manager of Research and Evaluation of the Corporate Planning and Development Unit. He subsequently joined AET Group as Group Vice President of Corporate Planning in June 2005.

Yee Yang Chien returned to MISC Berhad in April 2008 as the Vice President of Corporate Planning and Development, focusing on strategic planning, enterprise risk management, budget development and special projects for the Group.

He was appointed as the Chief Operating Officer of MISC Berhad in July 2013 where he was also given oversight over Group Finance and Human Resource functions as well as the Chemical Tanker Business unit.

OTHER COMMITMENTS

Yee Yang Chien is the Chairman of AET Tanker Holdings Sdn. Bhd. and Eaglestar Marine Holdings (L) Pte. Ltd. as well as Deputy Chairman of Malaysian Maritime Academy Sdn. Bhd. He is also a Director of Malaysia Marine and Heavy Engineering Holdings Berhad and FPSO Ventures Sdn. Bhd.

Additionally, Yee Yang Chien is a Director of the Members' Committee of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited (UK P&I Club).

PROFILES OF THE MANAGEMENT COMMITTEE

CAPTAIN RAJALINGAM SUBRAMANIAM

President & CEO, AET Tanker Holdings Sdn. Bhd.
Age 52, Male, Malaysian

Captain Rajalingam Subramaniam was appointed as the President & CEO of AET Tanker Holdings Sdn. Bhd. on 1 January 2016.

QUALIFICATION, SKILLS AND EXPERIENCE

Captain Rajalingam holds a Post Graduate Masters in Business Administration, a Master Certificate (Foreign Going) from Malaysian Maritime Academy Sdn. Bhd. (ALAM), a wholly-owned subsidiary of MISC Berhad and recently pursued his Executive Education in a Finance Programme. He began his career at sea and came ashore in 1996 and has since held various positions in the MISC Group which included AET as General Manager and subsequently, Group Vice President of AET Shipmanagement between 2005 to 2008.

Prior to this appointment, he was Vice President, Fleet Management Services of MISC Berhad since 1 September 2008.

OTHER COMMITMENTS

Captain Rajalingam continually contributes to the Marine Shipping industry. He has served at the International Association of Independent Tankers Owners (INTERTANKO) as Vice Chairman and currently as Chairman of its Gas Tankers Committee. He serves as a Board member of GARD P&I and sits on committees for a number of class societies. He continues to serve in the Royal Malaysian Navy Reservist Programme since his appointment as a Honorary Commander in November 2009.

Captain Rajalingam also serves as a board member in several subsidiaries and joint venture companies within the MISC and AET Group.

ZAHID OSMAN

Vice President, LNG Business
Age 45, Male, Malaysian

Zahid Osman was appointed as Vice President, LNG Business, effective 1 August 2017.

QUALIFICATION, SKILLS AND EXPERIENCE

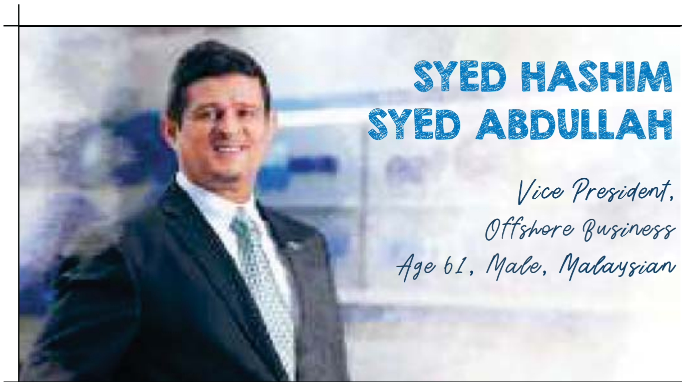
Zahid holds a Masters in Business Administration from the University of Chicago Booth School of Business, USA and a Degree in Industrial Economics from the University of Nottingham, UK. He also attended a Management Programe on Strategy Creation by Columbia Business School.

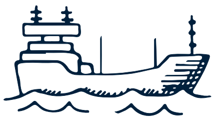
Prior to joining MISC Berhad, he was with the Shell Group of Companies for almost 20 years in various positions, most recently as the Vice President of Venture Development at Shell Integrated Gas & New Energies based in Kuala Lumpur. During his tenure with the Shell Group of Companies, Zahid has held a variety of roles (including management positions) in finance, Liquefied Natural Gas (LNG) marketing and trading, business development, commercial, Upstream production sharing contract (PSC), stakeholder management, Joint Venture (JV) governance, gas advocacy and project management in Upstream, Downstream, Integrated Gas and Trading businesses.

OTHER COMMITMENTS

Zahid sits on the boards of several subsidiaries and joint venture companies within the MISC Group. He is also the Council Member of the Malaysian Gas Association (MGA) since May 2012 and its Vice President between 2012 and 2017.

PROFILES OF THE MANAGEMENT COMMITTEE





Syed Hashim Syed Abdullah was appointed as Vice President, Offshore Business on 5 May 2015.

QUALIFICATION, SKILLS AND EXPERIENCE

Syed Hashim holds a Diploma in Industrial Chemistry from Institute Technology MARA and has attended the Senior Management Development Programme at INSEAD in 2004.

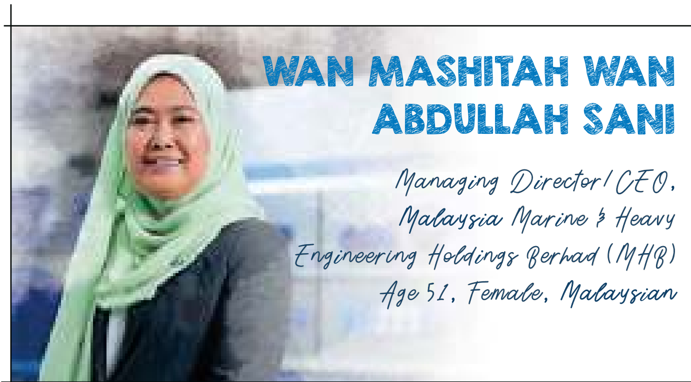
He has more than thirty (30) years of experience in the upstream Oil & Gas industry business chain, i.e. exploration, development and production, serving in various roles and capacities. He has thus, acquired in-depth technical knowledge, capability in operations, safety and project management, and also management competencies in strategic planning, PSC management, problem solving and decision making in addition to human resource development and management.

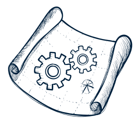
He commenced his career in 1978 as Production Superior/Planner with Hewlett Packard Malaysia and left in 1982 to join PETRONAS Carigali Sdn. Bhd. (PSCB) as a Production Specialist. He was with PCSB until 2011 where the last position held was as General Manager, JV Operations.

Prior to his current position, he was the General Manager, Asset Management of Offshore Business since 1 December 2014.

OTHER COMMITMENTS

Syed Hashim also holds directorships in various subsidiaries and joint venture companies within the MISC Group including Malaysia Marine and Heavy Engineering Holdings Berhad.





Wan Mashitah Wan Abdullah Sani was appointed as Managing Director/CEO of Malaysia Malaysia Marine & Heavy Engineering Holdings Bhd on 1 January 2017.

QUALIFICATION, SKILLS AND EXPERIENCE

Wan Mashitah is an accountant by profession. She is a fellow of the Chartered Association of Certified Accountants, United Kingdom and a member of the Malaysian Institute of Accountants.

Prior to joining the MISC Group, Wan Mashitah was a professional accountant at Grant Thornton, Malaysia. She joined MISC Berhad in 2002 and had served in various capacities including as the General Manager, Finance before being seconded to Malaysia Marine and Heavy Engineering Sdn. Bhd. and was subsequently appointed as Chief Financial Officer of MHB on 30 June 2010. Wan Mashitah took up the position as Acting Chief Executive Officer of MHB and has been responsible for overseeing the business operations of MHB since May 2016.

OTHER COMMITMENTS

Wan Mashitah sits on the boards of several subsidiaries and jointly controlled entities within the MHB Group.

PROFILES OF THE MANAGEMENT COMMITTEE

CAPTAIN RAJA SAGER

Managing Director/CEO, Eaglestar Marine Holdings (L) Pte. Ltd.
Age 56, Male, Malaysian

Captain Raja Sager was appointed as the Managing Director/CEO of Eaglestar Marine Holdings (L) Pte. Ltd. on 1 May 2017

QUALIFICATION, SKILLS AND EXPERIENCE

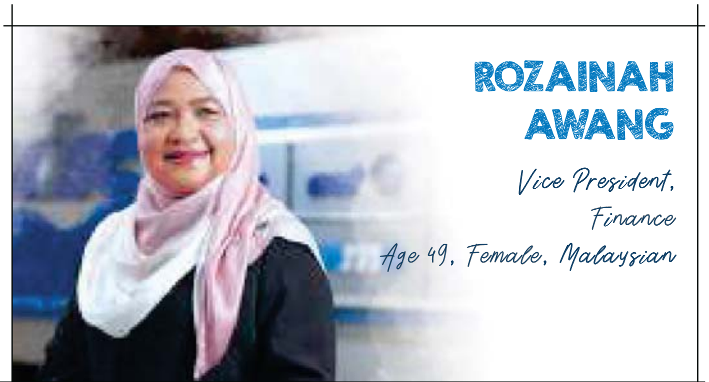
Captain Raja holds a Masters in Business Administration from University Utara Malaysia and a Master's Foreign Going Certificate of Competency from the Ministry of Transport, New Zealand. He joined MISC as a Cadet Officer in 1981 and had sailed on the MISC fleet of ships, finishing his sea career as the Captain on Chemical Tankers. In 1995, he was transferred to shore service and has worked in various positions in MISC.

Between 2008 and 2011, he was seconded to AET, where he served as General Manager in the Shipmanagement Group and subsequently assumed the responsibility of the Fleet Director in AET Shipmanagement. Captain Raja returned to MISC Berhad on 1 March 2011 as the Senior General Manager of Fleet Operations & Maintenance.

Prior to holding the current position, he was Head of Fleet Management Services of MISC Berhad since 1 January 2016.

OTHER COMMITMENTS

Captain Raja sits on the boards of several subsidiaries and joint venture companies within the MISC Group.



ROZAINAH AWANG

Vice President, Finance
Age 49, Female, Malaysian

Rozainah Awang was appointed as Vice President, Finance on 1 April 2013.

QUALIFICATION, SKILLS AND EXPERIENCE

Rozainah obtained a Chartered Institute of Management Accountants (CIMA) qualification from A.T. College, London in the United Kingdom in 1991. She is also a fellow Member of CIMA (FCMA) and a member of the Malaysian Institute of Accountants.

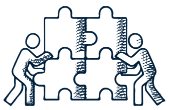
She joined MISC Group in 2002 and prior to her current position, she was the General Manager, Finance and Project Services for Offshore Business. Rozainah held various positions within MISC Berhad including General Manager, Strategic Planning within the Corporate Planning and Development Division. In addition to her roles within the MISC Group, Rozainah was involved in the Economic Transformation Plan (ETP) by PEMANDU.

She has accumulated more than 20 years of professional experience in Management Accounting, Strategic Planning as well as Cost Control. Her external working exposure includes working with multinationals ALCOM (M) Berhad and Colgate Palmolive.

OTHER COMMITMENTS

Rozainah holds directorships in various subsidiaries and joint venture companies within the MISC Group including Malaysia Marine and Heavy Engineering Holdings Berhad. She is also a Board Member of The London Steam-Ship Owners' Mutual Insurance Association Limited (The London P&I Club).

PROFILES OF THE MANAGEMENT COMMITTEE



Iwan Azlan Mokhtar was appointed as Vice President, Human Resource Management on 1 April 2009

QUALIFICATION, SKILLS AND EXPERIENCE

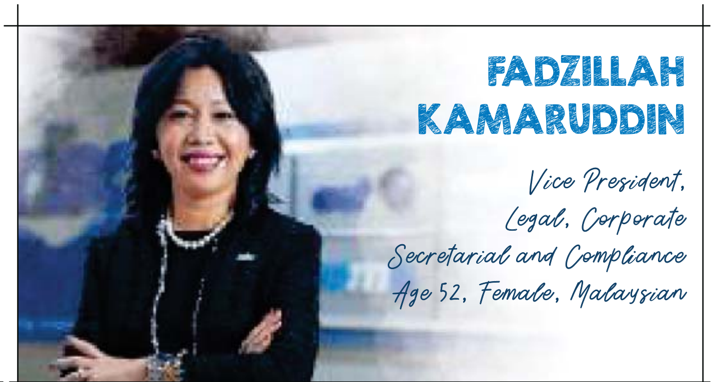
Iwan Azlan holds a Degree in Law from the University of Nottingham, United Kingdom.

He was with the Shell Group of Companies for almost 17 years in various positions including as Regional Human Resource Policy Manager for Shell Downstream based in Kuala Lumpur and Human Resource Advisor for Shell Services International based in Melbourne, Australia.

Prior to joining MISC Berhad, he was the Country Human Resource Manager, Shell Global Solutions (M) Sdn. Bhd., a technical consulting subsidiary of the Royal Dutch Shell Group.

OTHER COMMITMENTS

Iwan Azlan also sits on the boards of several subsidiary companies within the MISC Group.



Fadzillah Kamaruddin was appointed as Vice President, Legal, Corporate Secretarial and Compliance on 1 August 2010 and Company Secretary of MISC Berhad on 1 November 2007

QUALIFICATION, SKILLS AND EXPERIENCE

Fadzillah acquired her LLB (Honours) Degree from the University of Nottingham, United Kingdom, and was further conferred Barrister-at-Law (Lincoln's Inn). She began her legal career with the Advisory and International Division, Attorney-General's Chambers and in 1999, she joined the Ministry of International Trade and Industry (MITI) as its Legal Adviser until 2003.

She then served PETRONAS Carigali Sdn. Bhd., a subsidiary of PETRONAS as Senior Legal Counsel, Domestic Operations, before joining MISC Berhad as General Manager, Legal & Corporate Secretarial Affairs on 1 July 2005.

Prior to her current position, she was the Senior General Manager, Legal and Corporate Secretarial Affairs, since 1 January 2008.

OTHER COMMITMENTS

Fadzillah holds directorships in, and serves as Company Secretary of various subsidiaries and joint venture companies within the MISC Group.

MISC2020 ASPIRATIONS

OUR SUSTAINABILITY STRATEGY

CUSTOMERS | SHAREHOLDERS | GOVERNANCE & BUSINESS ETHICS | EMPLOYEES | ENVIRONMENT | COMMUNITY

PURPOSE AND PRINCIPLES

MISSION | SHARED VALUES | CULTURAL BELIEFS

*ROACE = Return On Average Capital Employed

MISC2020 JOURNEY

PRIORITIES	OBJECTIVES	JOURNEY SO FAR (2017)	MOVING FORWARD (2018-2020)
LNG Shipping	• Grow third party business portfolio. • Develop concepts for non-conventional Liquefied Natural Gas (LNG) solutions.	• Realignment and refinement of strategy to respond to market developments and changes in customers' requirements. • Enhanced conventional LNG shipping income with delivery of Seri C vessels. • Participated in various tender submissions to capture non-conventional LNG business.	• Continue to pursue selective conventional LNG shipping opportunities taking note of shorter term contracting requirements. • Aggressively venture into new applications like Floating Storage Regasification Unit (FSRU) and LNG bunkering. • Develop new LNG solutions to open up new markets in order to have a balanced portfolio with high resilience including collaboration with PETRONAS for total value chain propositions.
Petroleum & Product Shipping	• Pursue more time charters for conventional fleet.	Serviced approximately 30 Time Charters (TCs) of various terms and rates. Notable chartering activities in 2017 : • Acquired two on-water Very Large Crude Carriers (VLCCs) from Gener8 Maritime and fixed them on long-term TCs. • Delivered the first two owned LR2 newbuilds to service long-term TCs with an Oil Major. • Serviced a landmark three-year global Aframax Contract of Affeightment (COA) with an Oil Major – the first of its kind in the world. • Injected four product tankers into the WOMAR Tanker Pools. • Performed a 4+1 years TC with Repsol for Eagle San Francisco – the first for AET Suezmax and with Repsol, opening up potentials for higher value assets with this global energy company for MISC Group.	• Expand the VLCC fleet and develop the business sector into a performed income generator. • Optimise the midsize tanker fleet focusing on efficiency and rejuvenation to ensure long-term competitiveness. • Restructure the Products Asset Portfolio focusing on fleet efficiency and business sustainability by optimising the fleet size and mix. • Develop more LR projects to build the performed income portfolio. • Leverage on existing long-term relationships with Oil Majors in pursuing other business opportunities for the MISC Group.
	• Expand niche market assets such as shuttle tankers with time charter.	• Performed new contracts from Statoil to provide two Dynamic Positioning Shuttle Tanker (DPST) newbuilds on a long-term basis from 2019. • Opted to equip two Aframax newbuildings with LNG dual fuel systems, moving into niche asset markets.	• Continue to seize opportunities to grow its DPST market share in both the North Sea and Latin America. • Establish new niche markets for the new breed of green vessels with like-minded charterers.

MISC2020 JOURNEY

PRIORITIES	OBJECTIVES	JOURNEY SO FAR (2017)	MOVING FORWARD (2018-2020)
Offshore Business	• Explore acquisition opportunities arising from asset divestments by Oil & Gas players globally. • Pursue organic growth when oil price recovers.	• Remain active in exploring acquisition opportunities in the domestic and international market. • Actively participated in bidding exercises for offshore projects in South East Asia, Brazil and India. • Successfully negotiated contract extension for existing charter contracts.	• Continue pursuing potential projects in Asia and expanding international footprint. • Build strategic alliances to strengthen capability in deepwater assets. • Increase capacity and capability to bid for large scale deepwater projects. • Design comprehensive project and country based financing framework with selected lenders, financiers and investors.
Marine & Heavy Engineering	• Develop larger recurring income base e.g. marine repair business.	• Commenced construction work of Dry Dock No. 3 that offers additional capacity in the marine repair business. • Obtained license to provide downstream plant maintenance and turnaround services to PETRONAS. • Established partnership with international player to bid for the PETRONAS Integrated Downstream Contract.	• Continue developing Oil & Gas services capability for onshore (plant maintenance & turnaround, process module fabrication) and offshore (Hook-Up and Commissioning (HUC) & Platform maintenance).
	• Manage cost and process efficiency.	• Revised commercial bidding procedure for process standardisation. • Ongoing cost database initiatives to help reduce time, ensure price consistency and improve bidding process efficiency exercise. • Develop partnership with vendors and subcontractors by identifying 2 to 3 reliable key subcontractors for each discipline (i.e piping, blasting & painting, structural etc) to develop a win-win partnership model.	• Strengthen onshore construction & fabrication capabilities. • Focus on price competitiveness and operational excellence via bid cost reduction and productivity improvement initiatives. • Up-skilling manpower through capability development programme.

LEVERAGING ON SYNERGIES AND STRATEGIC ALLIANCES

Cross-business synergies are at the heart of MISC and a key strategy for enhancing our internal growth potential. We continue to promote these collaborative efforts and pursue synergy creation by deploying resources more efficiently, leveraging on common tools and technology, and aligning our Group efforts. We are also determined to continue building and consolidating a collaborative culture with our partners.

By working synergistically together with the right stakeholders, this will enable us to offer a comprehensive array of energy related maritime solutions and services to the market.

SUSTAINABILITY@MISC

Sustainability is an integral component in MISC's operations, from the way we conduct our business, manage our employees, reduce impact on the environment, deliver sustainable returns to our investors and shareholders, and strive to exceed the expectations of our customers, to the way we create positive impact for the local communities.

Focusing on Sustainability will better position us to manage our non-financial risks, exploit opportunities for increasing efficiency, explore new markets, as well as enhance our reputation and position in the industry.

This section will provide a review of the identification and management of material areas, the governance structure in place to manage sustainability, progress updates of the MISC Sustainability Strategy, as well as sustainability trends and challenges. The scope of our report and basis of the scope can be found within the About this Report section on pages 4 to 5.

Further details and information can be found in the MISC Sustainability Report 2016 and our corporate website **www.misc.com.my/sustainability** including :

- The governance structure in place to manage economic, environmental and social risks and opportunities.
- The scope of our sustainability statement and basis for the scope.
- The identification and management of material areas.
- Our stakeholder engagement process.
- Our journey towards embarking on a strategic sustainability approach.
- The process of deriving MISC's Sustainability Strategy, sustainability programmes and initiatives relevant to our sustainability pillars.
- Key performance data and other sustainability related information.

SUSTAINABILITY@MISC
SUSTAINABILITY MILESTONES

Since we began taking a more focused approach towards managing our sustainability performance these last few years, we have made good progress. Our key sustainability milestones and achievements include :

2012
MISC SUSTAINABILITY FRAMEWORK
Development of MISC Sustainability Framework, which sets out the commitment/principles to sustainability that takes into account the most material issues for us.

2012
SUSTAINABILITY STEERING COMMITTEE (SC)
Representation of key individuals from across the Group, with the purpose of providing valuable inputs and direction to assist the Group in achieving its sustainability objectives.

2014
ACCA MASRA 2014 - BEST FIRST-TIME REPORTING AWARD
Following MISC's inaugural standalone Sustainability Report published in 2014, we were proud to have been named the Winner for Best First-Time Reporting at the ACCA Malaysian Sustainability Reporting Awards (MaSRA) 2014.

2014
FTSE4GOOD BURSA MALAYSIA ENVIRONMENT, SOCIAL & GOVERNANCE (ESG) INDEX
Became a constituent of the FTSE4Good Bursa Malaysia ESG index since its launch in December 2014, with an improved overall score each year since the launch of the index.

This is in recognition of our leading approach in addressing ESG issues amongst Malaysian public listed companies.

2015
BURSA MALAYSIA CAP10 SUSTAINABILITY SYMPOSIUM
MISC's President/Group CEO was invited to address regulators, the investor community and other public listed companies at the Bursa Malaysia CAP10 Sustainability Symposium in October 2015, on the subject of "The value of sustainability practices and reporting to stakeholders".

2015
REFRESHED VISION & MISSION STATEMENTS
The incorporation of sustainability elements into our revised Mission Statements for the Group to demonstrate our commitment towards sustainable value creation for each stakeholder group. The Mission Statements will underpin our efforts as we work towards achieving the Group's Vision.

2016
ACCA MASRA 2016 SHORTLIST
The MISC Sustainability Report 2015 was shortlisted for the prestigious ACCA MaSRA Awards under the 'Best Standalone Report' category.

2016
MISC SUSTAINABILITY STRATEGY
The five-year MISC Sustainability Strategy was officially endorsed and approved in December 2016. The strategy will essentially act as our roadmap to guide us further in conducting business as a responsible corporate citizen.

2017
MISC SUSTAINABILITY STRATEGY ROLLED-OUT
Formal roll-out and implementation of the various programmes and initiatives of each pillar under the MISC Sustainability Strategy. The progress of these are tracked, measured and managed based on our internally developed frameworks and systems.

2017
FTSE4GOOD BURSA MALAYSIA ESG INDEX
MISC maintains its position in the FTSE4Good Bursa Malaysia Index with its highest score since inception in 2014 and currently in our fourth year running with an improved score annually. We have been progressively enhancing our efforts in championing the sustainable development agenda and this achievement reflects the constant improvement we have made in adhering to good ESG practices.

2017
ACCA MASRA 2017 SHORTLIST
MISC's Sustainability Report 2016 themed 'Dynamic. Resilient.Synergistic', was recognised amongst the best sustainability reports in Malaysia, when it was shortlisted at the ACCA MaSRA Awards.

SUSTAINABILITY@MISC
MATERIALITY

MATERIALITY AND PROCESS FOR DERIVING THE MISC SUSTAINABILITY STRATEGY

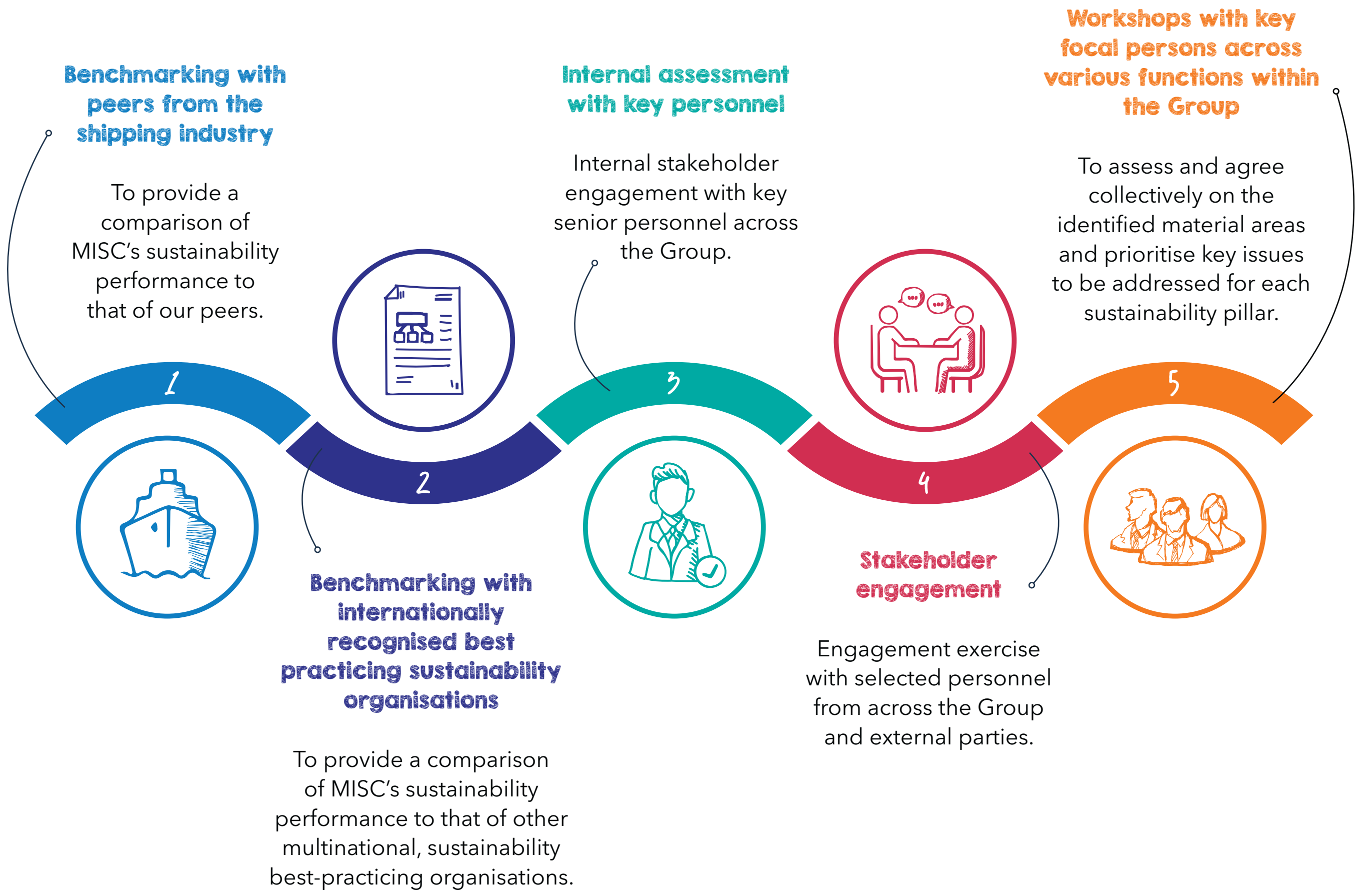
The identification of material issues was very much aligned with the development of MISC Sustainability Strategy (referred to as 'the strategy'). The material issues identified are meant to be applicable and relevant until the year 2020 (the final year of the current strategy roadmap), whereupon another materiality assessment will be conducted. The five-year strategy is essentially the process and tool in managing the identified material areas.

In deriving the strategy including actions plans, several steps, assessments and engagement sessions had to take place, for the purpose of discovering and identifying issues that were most material to the organisation across the six identified sustainability pillars. This is based on the understanding of gaps and issues that are most pressing to the organisation from a sustainability perspective and the understanding of best practices based on sustainability leadership.

The process took place for the most part of 2016, with the final endorsement and approval achieved in December 2016. It is recognised as the initiative for the first year of the five-year Sustainability Strategy roadmap, which included the planning and development of strategic initiatives for each of the six sustainability pillars. 2017 onwards are years of the formal roll-out and implementation of the various initiatives, with targets to be achieved by 2020.

The process of deriving the material areas upon which the strategy was based on is as follows :

IDENTIFICATION OF MATERIAL AREAS



SUSTAINABILITY@MISC
MATERIALITY

This multi-layered, multi-stakeholder approach provided a thorough and substantial review and understanding of material aspects relevant to the Group, which ultimately formed the foundation upon which MISC's Sustainability Strategy was developed.

The assessments and engagement sessions were carried out on the basis of inclusivity, ensuring that MISC Group was represented as a whole. This was to safeguard the relevance of MISC Sustainability Strategy for the Group, incorporating inputs across the various Business Units (BUs), Service Units (SUs) and Subsidiaries.

It was through these assessments that a universe of material issues was uncovered. Subsequent to the completion of these assessments, a thorough review and analysis was conducted for the purpose of identifying the themes/aspects/issues that were most common across all the assessments. The common themes/aspects/issues identified represent the areas that are most material to the organisation, which were then separated according to the six sustainability pillars :

Employees
- Employee training/development/competency
- Employee remuneration and mobility
- Employee benefits
- Working relationships
- Bureaucracy
- Employee retention and knowledge retention
- Employee engagement
- Health & Safety

Shareholders
- Business outlook/approach/diversification
- Innovation
- Direction of MISC Group
- Stakeholder engagement

Governance & Business Ethics
- Transparency and disclosure
- Bureaucracy
- Stakeholder engagement
- Board oversight on Sustainability

Environment
- Environmental consciousness
- Beyond compliance
- Corporate approach to environment
- Energy and emissions management
- Material/resource efficiency

Customers
- Branding/reputation/perception
- Innovation
- Business outlook and approach
- Asset quality
- Competition

Community
- Strategic community initiatives/engagement
- Maritime industry development/research and education

SUSTAINABILITY@MISC
MATERIALITY

Following on from the identification of the material issues, workshops were conducted for each of the sustainability pillars, for the purpose of agreeing on and prioritising the material issues. The workshops served as a platform to formalise and prioritise material areas for MISC, as well as to derive action plans in order to address these areas. The outcome of these workshops was consolidated and culminated into the MISC Sustainability Strategy.

There were a total of three workshops for each of the six pillars, with representation from identified key focal persons across the BUs, SUs and Subsidiaries within the Group. Representation from across the Group was encouraged to ensure all thoughts, views and concerns were represented and are consistent. This ensures that the strategy is not just unique to a specific unit/part of the organisation but is indeed relevant and applicable across the Group and safeguards against any misrepresentation upon completion of the strategy. There were a total of 18 workshops conducted across all sustainability pillars.

In deriving MISC's Sustainability Strategy, the work and processes conducted were indeed thorough, comprehensive and voluminous, to ensure an effective and efficient plan that is considerate of materiality, meaningful, substantial and relevant to the Group. The following table presents a summary of the overall process, from beginning until the final derivation and implementation of MISC Sustainability Strategy :

STAGES	STEPS	DETAILS
1. Identification of Material Issues and Engaging Internal Stakeholders	1. Identifying material issues based on strategic elements	• Consolidating findings from internal assessment, stakeholder engagement • Categorising material issues
	2. Engaging internal stakeholders within the Group (First Workshop)	• Workshop on sustainability • Sharing of material issues and findings derived from Step 1 • Sharing of best practices and examples from other organisations
2. Developing Action Plans	3. Agreement and prioritisation of material issues with internal stakeholders (Second Workshop)	• Discussion with internal stakeholders to identify material issues based on sharing of findings • Stakeholders to brainstorm and identify potential solutions to address material issues
	4. Development of Action Plans (Third Workshop)	• Internal stakeholders to present proposed solutions and actions plans (short, medium, long-term) to address material issues, forming MISC's Sustainability Strategy
	5. Approval of MISC's Sustainability Strategy	• Presentation of MISC's Sustainability Strategy to President/Group CEO and the Management Committee (MC) for approval and endorsement
3. Implementation of Sustainability Strategy	6. Implementation of MISC's Sustainability Strategy	• Derivation of measurable KPIs from MISC's Sustainability Strategy – channelled back to relevant stakeholders/ departments • Inclusion of these KPIs into Scorecards
	7. Reporting & Monitoring Strategy Implementation	• Public reporting on the development of MISC's Sustainability Strategy in MISC's Sustainability Report • Monitoring of strategy implementation and performance

SUSTAINABILITY@MISC
SUSTAINABILITY STRATEGY UPDATES

Endorsed in December 2016 and formally rolled out in 2017, the MISC Sustainability Strategy comprises our six identified sustainability pillars :

MARKETPLACE		GOVERNANCE
Customers	Shareholders	Governance & Business Ethics

WORKPLACE	ENVIRONMENT	COMMUNITY
Employees	Environment	Community

This strategy acts as our five-year roadmap to guide us further in conducting business as a responsible corporate citizen in a way that will enhance our social integrity, improve our environmental stewardship and create economic value for our stakeholders.

It is intended to ensure our material areas and the initiatives we embark on are in line with our Vision and Mission as well as our Corporate Strategy MISC2020, and aligned to the requirements of impending regulations/legislations and the expectations of our stakeholder community, adapting to the volatile shipping industry and strengthening our market position.

Our ambition is to take sustainability leadership in our sector with it being embedded into our business philosophy, principles and value systems, organisational structures, and business operations.

Together, MISC's Vision and Mission, the MISC2020 Corporate Strategy and our Sustainability Strategy will act as our compass for the Group as we steer towards a successful journey.

THE APPROACH AND DESIGN

The MISC Sustainability Strategy demonstrates in a clear way how we will address our impact on the environment, our marketplace (including shareholders and customers), our governance and in the wider communities that we have influence on.

MISC's Sustainability Strategy is designed to :

- Assist the organisation to embed sustainability as an integral part of its business.
- Develop short, medium and long-term strategies as well as KPIs relevant to sustainability.
- Improve the ability to respond to stakeholders on matters related to sustainability.
- Promote the integrity and quality of responsible products and services.
- Promote internal understanding of sustainability and accountability among Heads of Departments and employees.

The strategy presented here represents the overarching goals to be achieved by 2020 for each sustainability pillar, their link to MISC's Mission Statements, objectives and the rationale behind them.

2017 was the year of the formal roll-out and implementation of the various initiatives and activities under each pillar of the Strategy. Progress updates are also provided here, in addition to the new activities and initiatives to be undertaken for the upcoming year.

A formal process and management system is in place where progress will continue to be tracked, measured and managed, with regular updates to be provided in upcoming disclosures.

INTEGRATED REPORTING AND FUTURE DISCLOSURE

As we transition towards Integrated Reporting <IR>, we will also now no longer be producing standalone Sustainability Reports as we did in the previous years, as information relating specifically on sustainability will be assimilated within the <IR>. This will also be in line with our commitment towards environmental protection and conservation, through the reduction of paper usage and printing.

We are planning towards comprehensive disclosure of our Sustainability programmes and performance through the online platform via our corporate website. In addition to annual corporate disclosure, all further information and disclosure on Sustainability including the MISC Sustainability Strategy pillars, objectives, initiatives, performance updates shall be made available through this platform and will be updated on a regular and scheduled basis.

SUSTAINABILITY@MISC
SUSTAINABILITY STRATEGY UPDATES

Our focus is to provide the best service and experience to all our customers through operational responsiveness and tailored solutions. We aspire to increase the standard of customer experience and consequently affirm our status as a recognised global energy related maritime solutions and service provider.

MISSION	OBJECTIVES
To exceed the expectations of our customers.	• Experience • Recognition

2020 TARGETS	PROGRESS	2018 NEXT STEPS
1. Customer elements improvement : Increased standard of customer experience through efforts to exceed customers' expectations.	• Developed the structure and implementation plan to carry out a targeted mini-survey for key customers across the Group. • The purpose is to gauge customer's perception of the Group and to identify areas of improvements to better serve our customers.	• Roll-out mini-survey and analysis of feedback. • Development of mechanisms and processes to address identified gaps from survey exercise.
2. Customer perception and interaction : To be a recognised global energy related maritime solutions and service provider.	• Established a Business Development (BD) Fraternity consisting of selected BDs from across the Group to ensure a formal, effective and efficient process of communication and sharing of information and to break away from silos. • Held the inaugural Appreciation Reception in Japan in September 2017 involving close to 80 representatives from terminal operators and service providers, with the Group represented by its key business unit representatives from LNG Shipping, Petroleum & Product Shipping (AET) and Integrated Marine Services (Eaglestar). • Held an Appreciation Dinner in Houston in November 2017 and represented by the Group's key business units, namely from LNG Shipping, AET, Marine & Heavy Engineering (MHB), Eaglestar and Offshore Business.	• Coordinate the development of a Group-wide marketing brochure. • Formalisation of BD fraternity working group. • Development and roll-out of personalised customer interaction plan. • Organise various other customer engagement activities in conjunction with MISC's 50th anniversary celebration.

SUSTAINABILITY@MISC
SUSTAINABILITY STRATEGY UPDATES

We recognise the importance of engaging with our shareholders as a means to enhance the visibility of our organisation. Our strategy focuses on the delivery of broader, structured and consistent engagement activities for our shareholders.

MISSION	OBJECTIVES
To drive sustainable value for our shareholders.	• Engagement • Education • Communication

2020 TARGETS	PROGRESS	2018 NEXT STEPS
3. Shareholders' engagement : Greater visibility to shareholders through broader engagement activities.	• Participated in overseas conferences to broaden the investor base. This is part of the strategic objective of encouraging greater visibility through broader engagement activities. • Incorporated the Sustainability elements into corporate packs for the investment/ analysts community to showcase MISC's Sustainability programmes and initiatives. • Further enhancement of Investor Relations and Sustainability communication through the revamp and redevelopment of MISC's corporate website.	• Broaden the understanding of MISC's businesses for investors/analysts through site visit of MISC's physical asset (with specific sharing sessions by key MISC employees on site). • Periodic sustainability communication to shareholders and analysts through various platforms. • Ensure the sustainability information in corporate packs are regularly updated.

SUSTAINABILITY@MISC
SUSTAINABILITY STRATEGY UPDATES

Governance & Business Ethics

With a vast global outreach that operates across markets and cultures, conducting ourselves with the highest standards of integrity is a key priority. Our focus is on embedding business ethics and ethical conduct as a cultural component throughout the organisation.

MISSION	OBJECTIVES
To maintain a sustainable governance and business ethics framework.	• Transparency & Trust

2020 TARGETS	PROGRESS	2018 NEXT STEPS
4. Business conduct & ethics : Business ethics and ethical conduct embedded as a cultural component within the organisation. **5. Board oversight on sustainability :** Formal inclusion of sustainability on the Board agenda.	• Integration of Compliance and Ethics management into the Board and Management Committee (MC) agenda has been fully established and on-going. • Established communication and awareness programmes which includes the "See, Speak, Support" campaign, to raise awareness on the Code of Conduct and Business Ethics and Whistleblowing. • The MISC Integrity Day, which was part of the CoBE "See, Speak Support" campaign was held on 24 November 2017, with the key objective to demonstrate commitment from the Board Members and Senior Management. • Rolled-out and implemented CoBE training programmes for employees including 98% of MISC Group of Companies based at MISC HQ. • The Anti-Bribery and Corruption (ABC) Risk assessment dialogues were completed with recommended way forward. • Improvement of the implementation process on due diligence (Ethics and Compliance) including the engagement with third party compliance service provider to conduct enhanced due diligence. • Completed an end-to-end review of the Whistleblowing (WB) Management process and completed several enhancement of the WB process including : - Development of the Whistleblowing Management Procedures; and - Enhancement to the WBC reporting structures and Terms of Reference (TORs). • Completed the formal adoption of the Economic Sanctions and Export Policy. • Planning and development for the inclusion of Sustainability on Board agenda according to Bursa guideliness.	• Monitor, review and assess the effectiveness of communications and awareness programmes (e.g. Culture survey to gauge the level of understanding and awareness on Compliance and Ethics culture in MISC). • Regularly provide updates to the Board and MC on Compliance and Ethics Initiatives. • Continuation of the : - Annual refresher training course. - CoBE Awareness sessions for third parties to MISC, with focus on MISC's vendors. - Conflict of interest disclosure to employees and also Board of Directors (BOD). • Following the anti-bribery and risk assessment exercise, to implement approved action items on Way Forward : - ISO 37001: Anti-Bribery Management System Certification. - Enhancement of Supply Chain Management. - Effective Audit Enforcement (to specifically include scope on Bribery and Corruption) - Training and awareness to third parties in supply chain. • Present to BOD on MISC Sustainability Programmes and Initiatives.

SUSTAINABILITY@MISC
SUSTAINABILITY STRATEGY UPDATES

In line with our mission of promoting individual and team excellence of our employees, we aim to drive superior performance and enhance productivity while providing opportunities for growth within the Group.

MISSION	OBJECTIVES
To promote individual and team excellence of our employees.	• Training & development • Engagement • Safe & healthy working environment

2020 TARGETS	PROGRESS	2018 NEXT STEPS
6. Succession planning : To have in place a sustainable talent pipeline across the job levels in the organisation.	• Continuation of the annual Year-End Succession Planning review. • Extension of succession planning by including Group-wide talent-pool and expanded the identification of successors for the non-critical positions. • Introduced Mid-Year Succession Planning review to gauge progress of successors against plan. • Completed the Advanced Leadership Communication Programme, as part of the accelerated development programmes.	• Extend the succession planning exercise for the Manager level positions. • Coordinate the Individual Development Plan (IDP) for the potential successors identified in 2017. • Design follow-through development plans for the identified potential successors at the General Manager and Senior Manager level. • Introduce potential assessment tool to support the succession planning process.

SUSTAINABILITY@MISC
SUSTAINABILITY STRATEGY UPDATES

7. Employee competency development : To have a competent and capable workforce through a structured and holistic development process.	• 23 leadership training programmes for employees at all job levels had been carried out throughout the year. • 397 employees have attended functional and technical training programmes, which translated into a total of 837.5 training man days in 2017. • 12 employees (Managers and Executives) have been identified across the Group for an 18-month developmental stint as part of leadership and functional competencies development initiative. • Revisited the existing Skill Group (SKG's) programmes in order to customise the content as to address the functional learning needs for both technical and non-technical disciplines. • Inculcate the Cultural Beliefs in various leadership development programmes including the performance appraisal process in order to accelerate the institutionalisation of Cultural Beliefs among the employees. • Periodical review of the development programmes to gauge the effectiveness of the programmes in addressing the competency gap among employees.	• Develop and implement generic career mapping for Executives and above job levels. • Finalise the design of the revised Functional Competency content and roll-out the assessment for Leadership Competency and Functional Competency for all employees. Based on the assessment result, intervention plans will be identified to address employees' competency gap. • Develop and launch Leadership Learning Calendar programmes for year 2018. • Foster deeper understanding and implementation of Cultural Beliefs across the Group through various programmes and initiatives. • Identify more employees for the 18-month developmental stint as part of leadership and functional competencies development initiative.
8. Focus on Health : To have a healthy workforce with a focus on improvement in BMI levels and effective management of Health Risks at the workplace.	• Health, Safety, Security & Environment (HSSE) Plan and b-HSSE programme had been approved. This is an enhancement to the prior year's Culture Enhancement Programme to portray management visibility and commitment and to cultivate employee's ownership in shaping their attitude and behaviour towards creating positive HSSE culture within the Group. • In addition to the '7,000' daily steps campaign, the 3M's programmes for Health; 'Move' (Physical activity), 'Munch' (Healthy nutrition) and 'Mind' (Mental Wellness) was approved. • Incorporation of Health element in the Health, Safety & Environment (HSE) induction programme has been completed as planned.	• Implementation of the approved HSSE and b-HSSE Plan. • To develop and implement the procedures on Health Risk Assessment (HRA). • Continue with the implementation of the various initiatives and activities under the 3M's programme.

SUSTAINABILITY@MISC
SUSTAINABILITY STRATEGY UPDATES

Environment

Operating in a responsible manner and minimising impact on the environment where possible, is key to the way business is managed in MISC. We are proactively managing our environmental footprint, focusing on carbon/key emissions, waste (hazardous and non-hazardous) and biodiversity, as well as inculcating environmental consciousness amongst our employees.

MISSION	OBJECTIVES
To care for the environment and operate responsibly.	• Carbon • Biodiversity • Waste

2020 TARGETS	PROGRESS	2018 NEXT STEPS
9. Environmental performance targets for Carbon/Key Emissions and Waste and established Biodiversity programmes : • To achieve reduction in our carbon footprint/key emissions and waste against set targets. • A sustainable and long-term biodiversity conservation programme run successfully and sustained as part of the company's agenda.	• Carbon commitment, carbon intensity reduction targets and strategy for our shipping operations were established and endorsed (the following targets are to be achieved by MISC's fleet in year 2020 from a baseline in 2016: LNG – 6%; Petroleum – 9% and Product – 1%). • Continue the implementation of the compliance plan for Clean Air Regulations (CAR) for MISC's non-shipping entities. • European Union (EU) Monitoring Reporting & Verification (MRV) monitoring plan has been prepared and verified by an accredited third party. • Waste assessment of non-shipping operations is in progress to identify key opportunities for 4R (Reduce, reuse, recycle, recovery). • Carried out feasibility assessment on Biodiversity Conservation Programmes.	• Implementation of the Greenhouse Gas (GHG) reduction strategy. • Monitoring and reporting of carbon performance for the MISC fleet in accordance to regulatory (EU and IMO MRV) as well as corporate requirement. • Enhance process for hazardous waste characterisation. • Enhance the implementation of waste separation and 4R programmes. • Development of action plan for MISC's biodiversity conservation programmes.
10. Environmental consciousness : Well-informed and empowered employees on environmental awareness and consciousness.	• Established a baseline study on paper use and purchase as part of the paper reduction campaign. • Established Plastic and Polystyrene awareness campaign and disseminated information on the harmful effects of these materials through various platforms.	• Continuation of campaign on paper reduction and plastic & polystyrene which has been incorporated as part of the recently approved 2018 b-HSSE plan under the 4R programme. • The campaigns will be focused on enhancing knowledge, understanding and cultivate the appropriate behaviour. • Plan and develop Energy Efficiency campaign to reduce energy usage.

SUSTAINABILITY@MISC
SUSTAINABILITY STRATEGY UPDATES

Our primary focus of value creation for the wider community is through education, with an emphasis on maritime education. The initiatives include the promotion of upskilling and expansion of career opportunities for the youth, as well as raising knowledge and awareness of our industry in a way that is long-term and meaningful.

MISSION	OBJECTIVES
To create positive difference to the lives of communities.	• Investing in the next generation

2020 TARGETS	PROGRESS	2018 NEXT STEPS
11. Investing in the next generation via education : Well-established and fully functioning programmes that promote education and awareness amongst the youth towards becoming the next leaders in the industry and in contributing towards their future development.	• Participated in the World Maritime Day (WMD) in Kuala Lumpur in September 2017. Two local schools participated in the Maritime Education Programme organised by MISC to increase their awareness and understanding of the maritime industry. • Developed the plans for a structured and dedicated five-year community investment programme with focus on youth education and development as well as employee volunteering.	• Facilitate the development of high potential ALAM post-sea personnel through scholarship opportunities. • Encourage active engagement with school students to enhance their awareness on the maritime industry and MISC through events such as WMD. • Attain approval and endorsement for the five-year community investment programme.

SUSTAINABILITY@MISC
SUSTAINABILITY GOVERNANCE

SUSTAINABILITY GOVERNANCE

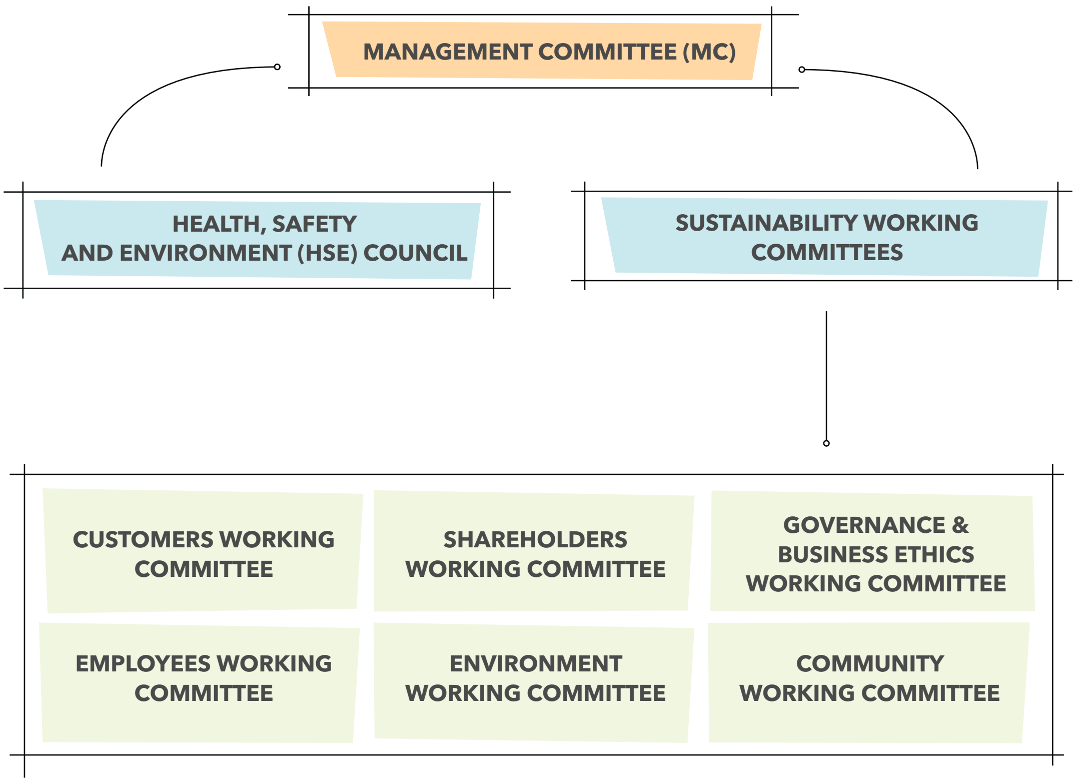
The governance of sustainability issues and matters is a fundamental consideration, as we continue our efforts in embedding sustainability principles into our decision-making process and operations as a whole. We seek to fulfil our responsibilities and commitments to our five key stakeholders – Shareholders, Customers, Employees, Environment and Community – via progressive governance and management practices, and guided by our Mission and MISC Sustainability Strategy.

With the aim to fortify sustainability governance across the Group, sustainability elements have been incorporated into the MISC Board Charter to ensure that the management of matters relating to sustainability begins at the highest level within the Group.

This is supported by a multi-pronged approach through the Management Committee (MC), the MISC Group Health, Safety & Environment (HSE) Council and the Sustainability Working Committees (SWCs). Working committees have been set up for each of the six sustainability pillars (Shareholders, Customers, Governance & Business Ethics, Employees, Environment and Community), with specific focus on ensuring the successful delivery and implementation of the respective strategies and initiatives for each pillar.

This cross-functional approach is required to coherently address and manage sustainability matters and identified material issues arising across all our businesses and location of operations. Collaboratively, these committees are involved in decision making processes and in setting the tone for our sustainability direction and initiatives, as well as addressing risks, communications and stakeholder management.

SUSTAINABILITY GOVERNANCE FRAMEWORK



SUSTAINABILITY@MISC
GOVERNANCE

MANAGEMENT COMMITTEE (MC)

The MISC MC is the highest decision-making authority in the Sustainability Governance Framework and is led by our President/Group CEO, Mr. Yee Yang Chien. The MC also comprises all Vice Presidents (VPs) and Senior General Managers (SGMs) of the respective Business Units (BUs) and Service Units (SUs), as well as the CEOs of selected subsidiaries.

MISC GROUP HSE COUNCIL

The MISC Group HSE Council was formed to provide greater stewardship towards HSE excellence. The Council is chaired by the President/Group CEO and oversees HSE related matters within the Group.

SUSTAINABILITY WORKING COMMITTEES (SWCs)

Following the endorsement of MISC Sustainability Strategy, Sustainability Working Committees (SWCs) were established for each of the six sustainability pillars. These SWCs are led by a champion – a member of MISC Management Committee (MC) – and is comprised of key focal persons/placeholders representing the various BUs, SUs and Subsidiaries within the Group. Senior Management representation at the respective working committees signifies the Group's commitment towards ensuring the successful implementation of the strategy.

The purpose of the Sustainability Champion and the respective SWC members is to have active participation in the planning, coordination and implementation of the programmes and initiatives relevant to MISC Sustainability Strategy. Together, the Sustainability Champion and SWC members will work in synchrony to ensure the effective and efficient implementation of the strategy.

All initiatives and programmes under the strategy will be monitored and measured periodically, for the purpose of tracking progress and addressing any concerns/issues that may arise. Progress updates will be provided to the MC to ascertain their inputs and guidance to ensure a successful process of implementation and achievement of objectives set out under MISC Sustainability Strategy.

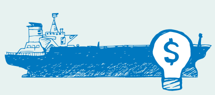
Additionally, in support of the overarching sustainability governance process, the Group and also the various businesses within, have various internal and external mechanisms and systems in place for the management of specific sustainability related matters. We are continuing our ambitions to streamline these practices into a more cohesive and holistic approach.

The following table highlights some of the policies and systems in place that supports the sustainability governance process and the management of specific sustainability related matters.

STAGES	STEPS
Governance	• Code of Conduct and Business Ethics (CoBE) • MISC Anti-Bribery and Corruption (ABC) Manual • Whistleblowing • Gift and Entertainment Policy • Conflict of Interest • Due Diligence • Personal Data Protection Act (PDPA)
Environmental	• MISC Policy of Health, Safety and Environment (HSE) • HSE Requirements for Contractors • ISO 14001:2004 Environmental Management Systems • ISO 50001:2011 Energy Management Systems
Social	• MISC Policy on Drug and Alcohol • MISC Policy on HSE • MISC Safety Rules • Health, Safety and Environment Requirements for Contractors • ISO 9001:2008 Certified Quality Management Systems • OHSAS 18001:2007 Certified Occupational Health & Safety Management Systems • Performance Management System • International Labour Organisation (ILO) Maritime Labour Convention 2006 • MISC Employee Handbook

SUSTAINABILITY@MISC
SUSTAINABILITY TRENDS & CHALLENGES

In addition to the identified material areas as highlighted earlier, there are also broader sustainability related trends and challenges relevant to the shipping industry that could have a direct or indirect impact on the industry and must be paid attention to. The following is a summary of the key highlights of trends and challenges facing the shipping industry and our position with respect to these.

Sustainability Trends and Challenges	Summary	Our Position
 **Support for Seafarers**	• ILO estimates, over 1.5 million people around the world are employed as seafarers. • Protecting their welfare continues to be the main priority by shipping operators worldwide in addition to adherence to internationally agreed standards as well as providing necessary training that will enable them to operate ships safely and in a responsible manner.	• Several programmes and initiatives have been put in place by Eaglestar to cater for the continuous developmental needs of our seafarers such as : – Senior Officers Leadership Assessment Programme (SOLAP) – Senior Engineers Leadership Assessment Programme (SELAP) • Our commitment to facilitate conducive work environment for our seafarers is aligned to the ILO Maritime Labour Convention (MLC) 2006, which encourages provisions for the minimum standards required for seafarers to work on a ship, including : – Employment terms and conditions – Wages and benefits – Welfare – Social security – Health protection – Medical care
 **Energy and Transport Costs**	• The heavy reliance of maritime transportation on heavy fuels for propulsion exposes freight rates and transport costs to oil price volatility. • The negative implications of volatile oil and fuel costs will impact the transport costs, affordability of services and trade competitiveness. • Introduction of new regulatory requirements from the International Marine Organisation (IMO) such as the Ballast Water Management System and the 2020 Global Sulphur Cap.	• MISC Group has carried out strategic optimisation programmes for our fleet operations while staying competitive, in consideration of cost savings and also our impact on the environment. • We are conscious of the development of alternative fuel option, keeping in mind the efficiency measures and minimising our environmental footprint. • Some of the steps we have undertaken include the use of LNG as a fuel option with the announcement that up to four of our new Aframax tankers will be equipped with LNG dual fuel option.

SUSTAINABILITY@MISC
SUSTAINABILITY TRENDS & CHALLENGES

Sustainability Trends and Challenges	Summary	Our Position
Energy Efficiency	• The shipping industry is continuously exploring ways to further reduce fuel consumption, improve ships' energy efficiency management and reduce their carbon footprint.	• MISC Group continues to undertake efforts to improve efficiency through various energy saving initiatives, apart from adhering to IMO regulations. This includes the : – Development of five new MOSS-Type LNG Carriers incorporating "Green" technologies. – International Organisation for Standardisation (ISO) 50001 certification for the Group's floating assets. – Application of fuel saving technology on all our vessels.
Climate Change	• The impact of climate change to the maritime sector will require industry-wide attention beyond climate mitigation efforts, which are currently focused on reducing carbon emissions. • The contribution of international shipping to global carbon emissions may be low, but these emissions are likely to grow if remain unchecked. • There is a compelling case to take action to prepare for the possible impacts of climate change, as well as mitigating measures, in line with global commitments and expectations such as the 2015 United Nations Climate Change Conference (COP 21) Paris Agreement.	• Climate change mitigation and adaptation continues to be one of our priority areas, with emphasis on our shipping business as a significant portion of carbon emissions are derived here. • We have adopted several energy efficiency measures as our continued commitment towards mitigating our GHG footprint. • Climate change mitigation is one of our commitment under the environment pillar of the MISC Sustainability Strategy, where we are committed towards the reduction of carbon emissions and in the setting of targets. • Carbon reduction targets have been established for our LNG, Petroleum and Product fleet.
Regulations and Legislations	• The shipping industry will continue to face new regulatory requirements due to public expectations (as expressed by Governments through the regulatory process at IMO). • Increasing pressure on global resources will lead to demands for higher sustainability standards. • Regulations that protect the environment, and labour or community rights, will continue to be a significant reality for the shipping industry. • Growing public awareness and demand for tougher laws meant that regulatory bodies are under pressure to be stricter with enforcement.	• We proactively keep abreast of maritime legislations and unilateral decisions of maritime nations. • As the main shipping operator in Malaysia, we participate in numerous government initiatives including representation during IMO sessions. • We also subscribe to classification societies, who in turn provide advice on legislative requirements and proposed measures to meet these requirements.

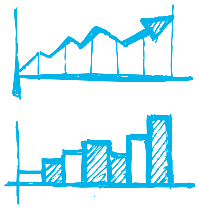
SUSTAINABILITY@MISC

SUSTAINABILITY TRENDS & CHALLENGES

Sustainability Trends and Challenges	Summary	Our Position
Demand for Transparency	• Shipping is ever more subject to scrutiny considering the rise of social media, data availability and real-time monitoring. • Businesses will have opportunities to demonstrate leadership by giving customers, regulators and Non-Governmental Organisations (NGOs) the opportunity to monitor their performance. • This could lead to extremes of transparency in the not so distant future.	• At MISC, we utilise various communication platforms (including digital and print) guided by relevant internal policies and guidelines. • We consistently provide regular updates and reports on our business operation, financial performance, strategies and future prospects to our shareholders in a timely manner. • We are continuously evolving our communication efforts to ensure that we meet the expectations of our stakeholders and are aligned with our commitment to uphold best practices in Corporate Governance.
Maritime Security	• Maritime piracy is a global issue that directly affect ships, ports, terminals, cargoes and seafarers. • The problem becomes a multifaceted and complex transnational security challenge that threatens lives, livelihoods and global welfare as piracy activities evolve.	• MISC Group works closely with the Royal Malaysian Navy (RMN) to ensure the safety of our crew and vessels, especially in the Gulf of Aden and the Indian Ocean. • Emergency preparedness procedures and practices has been put in place, such as the Group Crisis Management Plan which will activate upon any incidences of crisis, including piracy.
Advancing Technology	• New ships will be increasingly sophisticated in their design, construction and technology while existing ships will be expected to meet ever more stringent efficiency as well as environmental demands. • Existing vessels and their crew will be required to adopt operational practices or retrofit new equipment in order to adhere to regulatory requirements.	• MISC Group is committed to comply with regulatory requirements by adopting technological and efficiency measures as the need arises. • This is evidenced in some of the initiatives we have taken for our newbuilds and the retrofitting of our existing vessels with green technologies as follows : – Energy efficiency measures – Emissions reduction – Ballast water treatment systems, amongst others.

GROUP FINANCIAL REVIEW

GROUP REVENUE

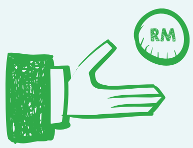


RM10,068.2 million

GROUP OPERATING PROFIT

RM2,733.6 million

TOTAL ASSETS



RM50,469.8 million

EARNINGS PER SHARE

44.4 sen

REVENUE

For the financial year ended 31 December 2017 (FY2017), Group revenue of RM10,068.2 million was 5% higher than the financial year ended 31 December 2016 (FY2016)'s revenue of RM9,597.2 million. Full year consolidation of Gumusut-Kakap Semi-Floating Production System (L) Limited (GKL), higher revenue from GKL's variation order approval, construction revenue from Floating, Storage and Offloading Vessel (FSO) Benchamas 2 and lease commencement of two new LNG vessels were the main contributors to the increase in Group revenue.

OPERATING PROFIT

Group operating profit of RM2,733.6 million was 22.6% higher than FY2016 operating profit of RM2,228.8 million. This increase was largely driven by higher revenue combined with improved operating margins primarily in the LNG and Offshore segments.

GROUP FINANCIAL REVIEW

PROFIT BEFORE TAX

Group profit before tax of RM2,003.6 million was 28.8% lower than FY2016 profit before tax of RM2,814.0 million. This contraction was largely due to higher impairment loss on ships, offshore floating asset and other investment by RM328.8 million in the current year. Furthermore, FY2016 included gains on acquisition of subsidiaries which amounted to RM903.7 million.

EARNINGS PER SHARE (SEN)

Profit attributable to the equity holders of the Corporation amounting to RM1,981.5 million translates to earnings per share of 44.4 sen in FY2017 as opposed to 57.8 sen in FY2016.

DIVIDENDS

In respect of FY2017, the Board had approved and declared on quarterly basis a total tax exempt dividend of 30.0 sen per share amounting to RM1,339.1 million.

The aggregated tax exempt dividend of 30.0 sen per share or RM1,339.1 million for FY2017 was consistent with the dividend declared and paid in respect of FY2016.

TOTAL ASSETS

Group total assets as at 31 December 2017 of RM50,469.8 million was 10.1% lower than RM56,151.3 million as at 31 December 2016.

The decrease in Group total assets were mainly due to the strengthening of Malaysian Ringgit against United States Dollar (USD) combined with the impairment loss on ships, offshore floating asset and other investment.

The Group's cash, deposits and bank balances as at 31 December 2017 of RM5,900.7 million was 10.0% lower than RM6,559.2 million as at the end of FY2016.

TOTAL LIABILITIES

Group total liabilities of RM14,565.0 million as at 31 December 2017 was 13.4% lower than RM16,820.3 million as at 31 December 2016, mainly from the loan repayments made during the year and lower provisions as a result of a reversal of in-charter provisions following early redelivery of the liner vessels.

SHAREHOLDERS' EQUITY

Shareholders' equity of RM34,844.2 million as at 31 December 2017 was 8.5% lower than RM38,065.7 million as at 31 December 2016. The decrease in shareholders' equity was mainly due to currency translation loss of RM3,398.0 million and lower profit attributable to equity holders of RM1,981.5 million in FY2017. The Corporation also paid dividends totalling RM1,830.2 million during the year.

NET DEBT/ EQUITY RATIO

The Group's net debt-to-equity ratio of 0.16 as at 31 December 2017 was higher compared to 0.15 as at 31 December 2016 following decrease in shareholders' equity during the year under review.

CAPITAL EXPENDITURE REQUIREMENTS

Group committed capital expenditure as at the end of FY2017 stood at RM3,831.7 million. Based on our strong cash position as at the end of FY2017 and existing funding facilities, the Group should be able to fund committed capital expenditure and growth plans.

FIVE YEAR GROUP FINANCIAL PERFORMANCE

	AUDITED 1.1.2017 TO 31.12.2017 RM MILLION	AUDITED 1.1.2016 TO 31.12.2016 RM MILLION	AUDITED 1.1.2015 TO 31.12.2015 RM MILLION	AUDITED [3] 1.1.2014 TO 31.12.2014 RM MILLION	AUDITED[3][4] 1.1.2013 TO 31.12.2013 RM MILLION
CONTINUING OPERATIONS:					
Revenue	10,068.2	9,597.2	10,908.4	9,296.3	8,971.8
Operating profit	2,733.6	2,228.8	2,782.6	1,841.7	1,552.6
Profit before taxation	2,003.6	2,814.0	2,566.9	2,410.3	2,227.7
PROFIT AFTER TAXATION	1,990.7	2,793.3	2,535.1	2,320.0	2,229.5
Continuing Operations	1,990.7	2,793.3	2,535.1	2,320.0	2,225.2
Discontinued Operations	-	-	-	-	4.3
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE CORPORATION					
Continuing Operations	1,981.5	2,581.6	2,467.8	2,204.3	2,081.1
Discontinued Operations	-	-	-	-	4.3
	1,981.5	2,581.6	2,467.8	2,204.3	2,085.4
Dividends paid during the year	1,830.2	1,450.7	602.6	401.7	-
EARNINGS PER SHARE (SEN) [1]	44.4	57.8	55.3	49.4	46.7
Continuing Operations	44.4	57.8	55.3	49.4	46.6
Discontinued Operations	-	-	-	-	0.1
Total assets	50,469.8	56,151.3	47,539.1	41,584.3	40,232.2
Total liabilities	14,565.0	16,820.3	11,079.9	12,763.2	14,474.9
Shareholders' equity	34,844.2	38,065.7	35,361.5	27,756.3	24,712.9
Total borrowings	11,663.9	12,601.5	6,504.4	8,739.2	10,218.8
Net tangible assets per share (sen)	785.4	860.1	796.0	624.8	556.8
Gross debt/equity ratio	0.32	0.32	0.18	0.30	0.40
Net debt/equity ratio	0.16	0.15	0.02	0.14	0.21
Interest cover ratio[2]	11.0	10.2	14.0	8.1	6.7

Notes:

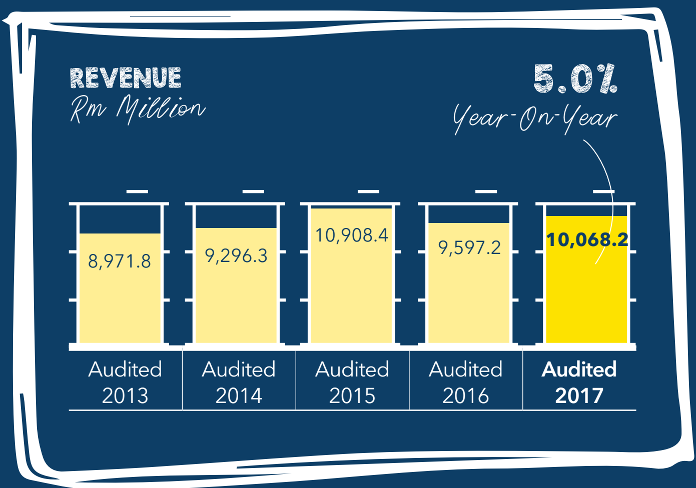
(1) Earnings Per Share (EPS) is calculated by dividing profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares in outstanding during the financial year.

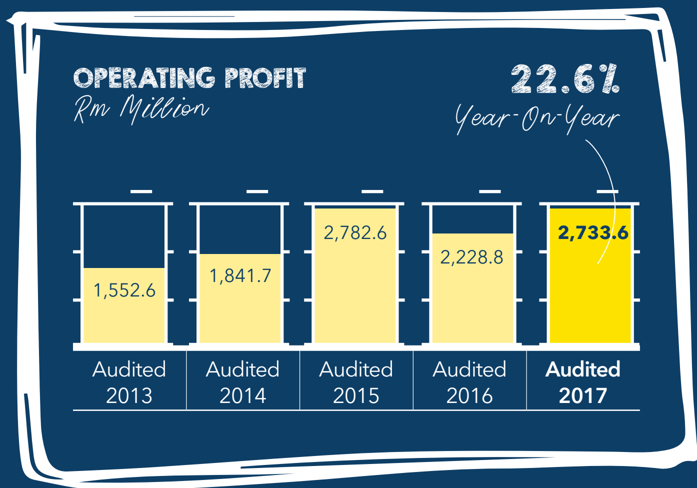
(2) Excluding gain on acquisition of subsidiaries, net gain on disposal of ships and impairment provisions.

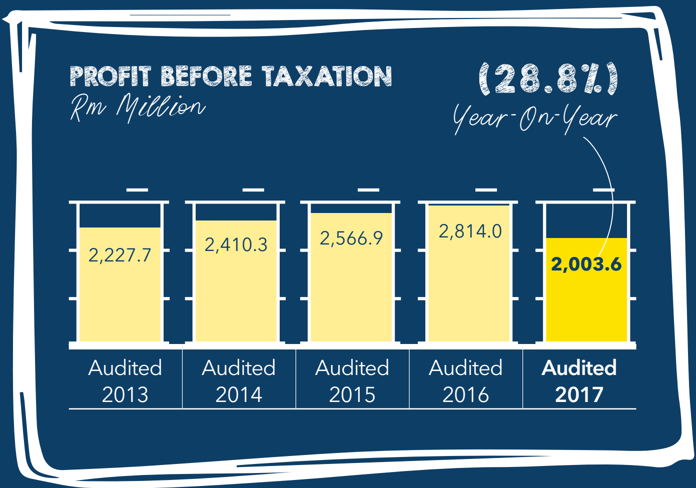
(3) Segregation of information between continuing and discontinued operations (Liner related business operations) effective FY2012.

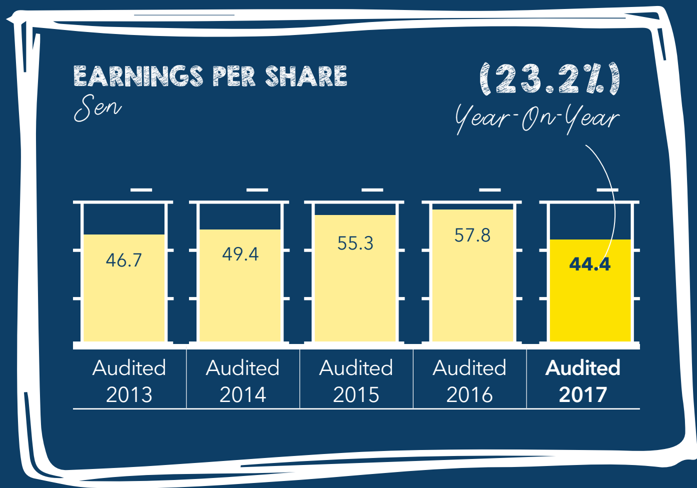
(4) The FY2013 audited summary data reflects the adoption of MFRS 10 & 11. Accordingly, the comparative figures have been adjusted to reflect the adoption of MFRS 10 & 11.

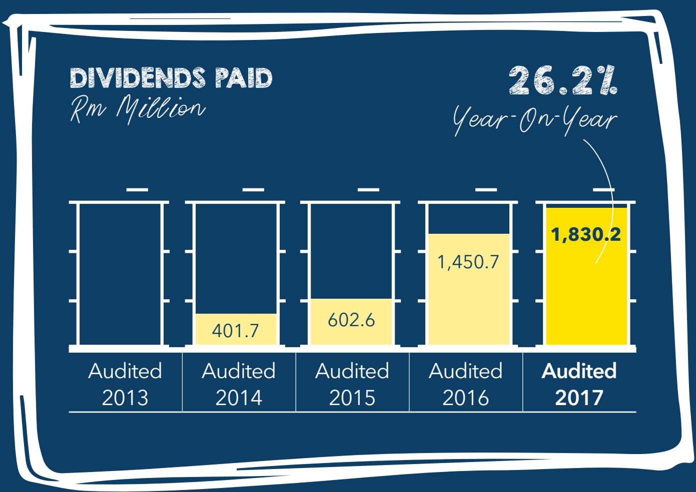
FIVE YEAR GROUP FINANCIAL PERFORMANCE

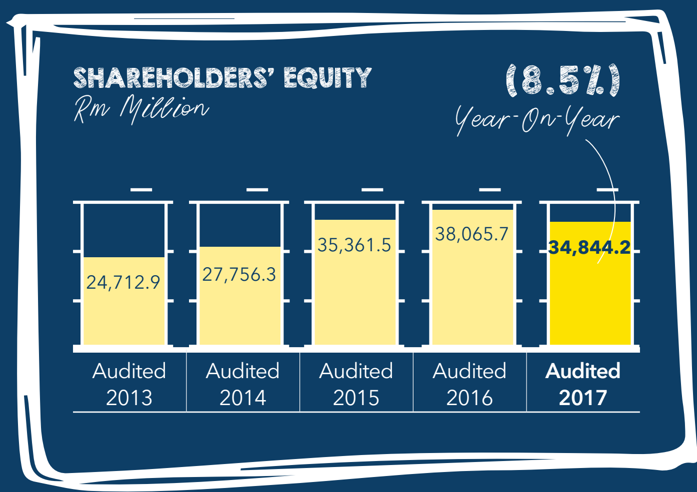












FINANCIAL CALENDAR

FINANCIAL PERIOD :

01 JAN 2017 → 31 DEC 2017

Announcement of Results & Dividends

1
QUARTER 1 ANNOUNCED
04
MAY 2017

2
QUARTER 2 ANNOUNCED
09
AUG 2017

3
QUARTER 3 ANNOUNCED
03
NOV 2017

4
QUARTER 4 ANNOUNCED
13
FEB 2018

DIVIDENDS

FIRST TAX EXEMPT DIVIDEND
Announced : 4 May 2017
Paid : 31 May 2017

SECOND TAX EXEMPT DIVIDEND
Announced : 9 August 2017
Paid : 7 September 2017

THIRD TAX EXEMPT DIVIDEND
Announced : 3 November 2017
Paid : 30 November 2017

FOURTH TAX EXEMPT DIVIDEND
Announced : 13 February 2018
Paid : 15 March 2018

MISC GROUP 2017 Highlights

The Business Milestones

18 JAN Commencement of FSO Benchamas 2 Conversion

20 JAN Naming and Delivery of Seri Cenderawasih, 2nd MOSS-Type LNG Carrier

24 FEB Launch of Eaglestar

3 MAR Delivery of F12 WHP topside and jacket

3 MAR Delivery of Besar A WHP

MISC GROUP 2017 *Highlights*

7 MAR
Delivery of Baronia-B CPP jacket, bridge and piles

17 APR
MHB Secures contract for the Bokor Phase 3 CPP Re-Development Project

25 APR
ALAM's 116th Convocation Ceremony

27 APR
MHB Launched the Operations of MEMS Floating Dock

3 MAY
MISC and Partners Pioneered in LNG Ship-to-Ship Transfer

11 MAY
AET Acquired Two VLCCs from Gener8 Maritime

MISC GROUP 2017 Highlights

18 MAY

Closing Ceremony of Eksesais Naga Emas Series 62/17

8 JUN

AET Unveiled New LR2 Vessels, Eagle Lyon and Eagle Le Havre

22 JUN

Statoil & AET Extended Partnership through 2 Specialist DP2 Offshore Loading Shuttle Tankers

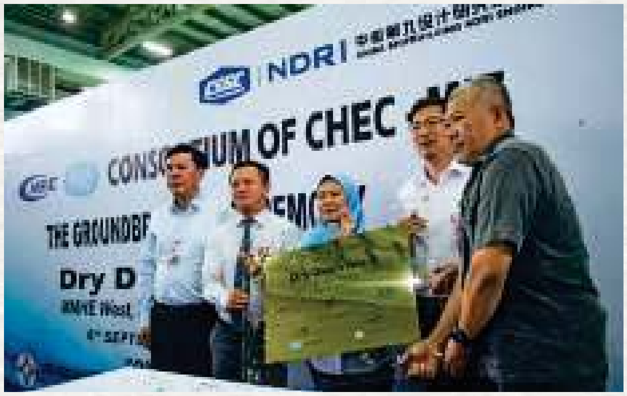
7 JUL

Rebranding and Launch of MISC Maritime Services Sdn. Bhd. (MMS)

MISC GROUP 2017 *Highlights*

27 JUL

Naming and Delivery of Seri Cempaka, 3rd MOSS-Type LNG Carrier



6 SEP

Groundbreaking Ceremony of Dry Dock No.3 at MMHE Yard

8 SEP

MISC Became One of the Founding Partners of the Global Maritime Forum

14 SEP

Maiden Voyage and First Loading of Seri Cempaka

MISC GROUP 2017 Highlights

The Internal Engagements

13 JAN President/Group CEO's Townhall

20 APR MISC's 48th Annual General Meeting

7 OCT MISC's Family Day 2017

6 NOV MISC's 49th Anniversary Celebration

MISC GROUP 2017 *Highlights*

7 NOV Senior Officers' Management Conference

8 DEC MISC's Annual Dinner

The Continuous Improvements

3 APR AET Champions Environmental Responsibility with LNG Dual Fuel Option for its Newbuilds

26 SEP Launch of MHB Enhanced Logo and Corporate Statements

24 NOV MISC Integrity Day

MISC GROUP 2017 *Highlights*

People We've Met & Friendships We've Forged

21 JAN Mokpo National University Student Exchange Programme at ALAM

20 MAR LIMA Langkawi 2017

1 MAY Offshore Technology Conference 2017 in Houston

7 MAY 19th Oil & Gas Conference 2017 in Kuala Lumpur

21 AUG

Nantong Maritime University Exchange Programme at ALAM

5 SEP

World Maritime Week Conference and Exhibition 2017 in Kuala Lumpur

8 SEP

MISC's Customer Appreciation Reception in Japan

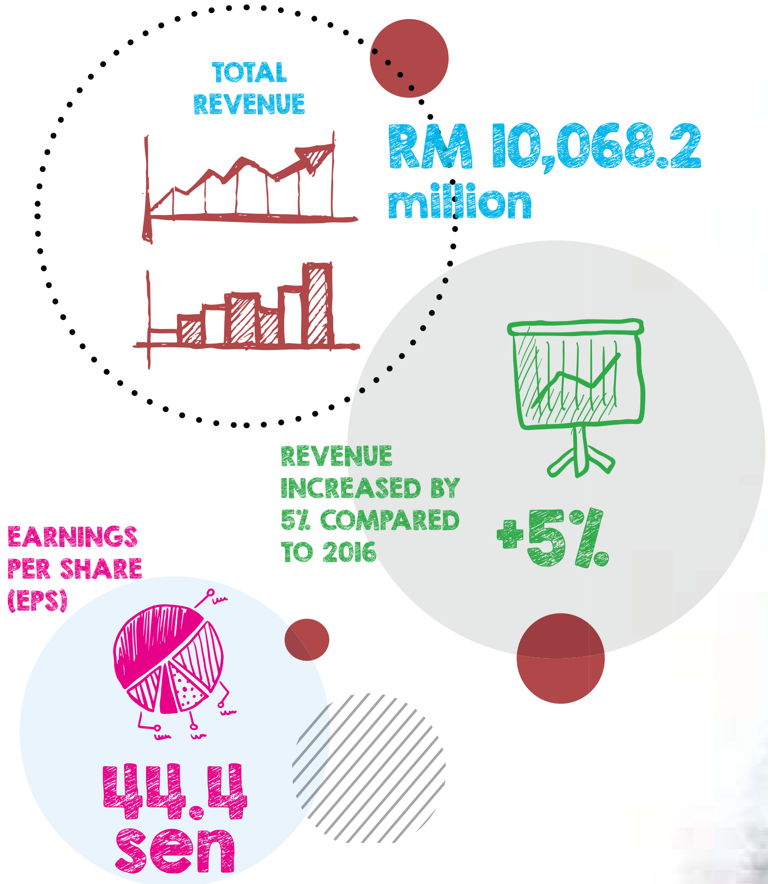
12 SEP

MISC's Bankers Hi-Tea in Malaysia & Singapore

CHAIRMAN'S STATEMENT

DEAR VALUED SHAREHOLDERS,

On behalf of the Board of Directors, I am pleased to present you the Annual Report and Audited Financial Statements of MISC Berhad and its subsidiaries for the financial year ended 31 December 2017.



In 2017, MISC Berhad, like other industry players, had to contend with weak market conditions in the energy shipping and offshore Oil & Gas segments. The year was characterised by a flurry of global geopolitical and economic issues. The low oil price environment that continued to impinge negatively on industry activities, only began to show signs of a recovery towards the latter part of 2017 when oil hit USD70 per barrel. Industry players also had to cope with project scarcity, weaker charter rates and the termination of client contracts. On top of this, shipowners had to make huge investments on their vessels to comply with a host of mandatory environmental regulations. All in all, 2017 was another challenging business year for the shipping industry with no solid turnaround in any of the segments.

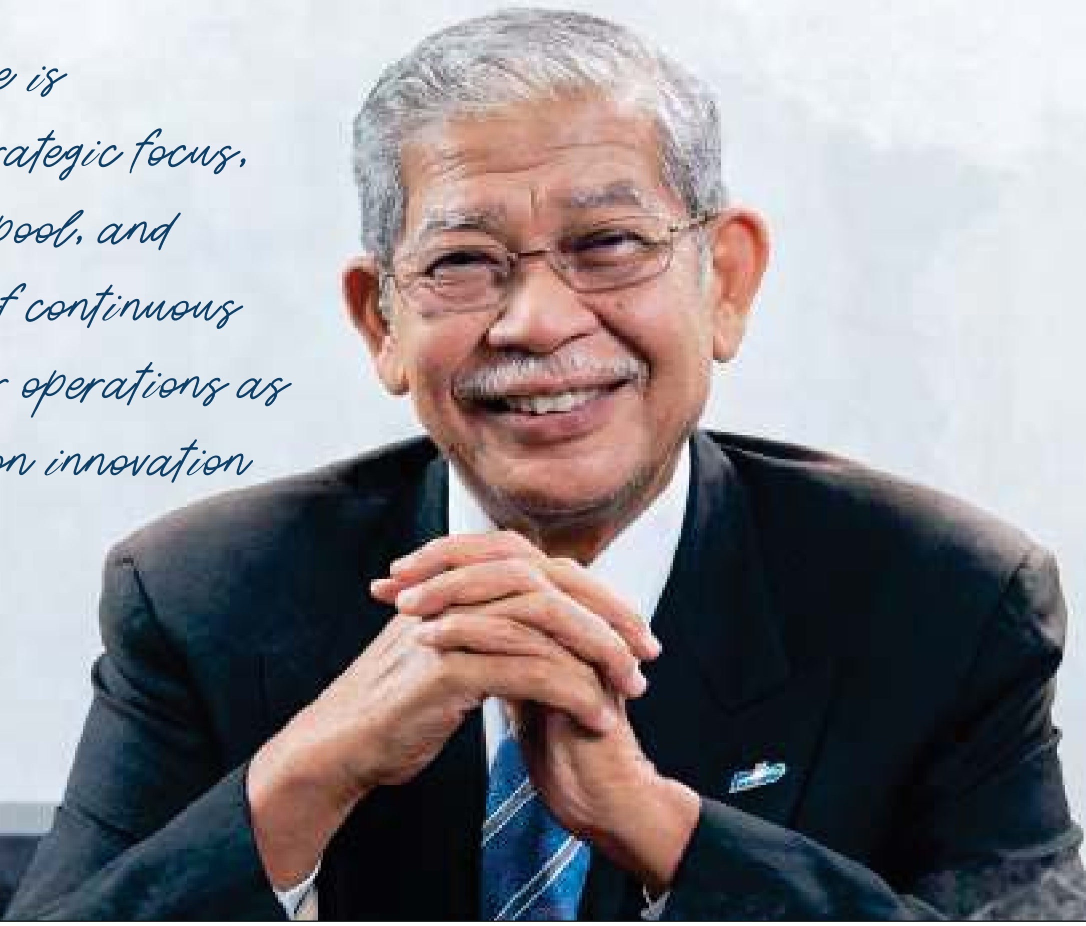
Come 2018, the global economy is expected to return to its potential for the first time in a decade supported by a rebound in investment and trade. However, substantial downside risks remain, including the possibility of financial stress, increased protectionism, and continuing geopolitical tensions.

Amidst this unpredictable operating environment, the MISC Group continued to implement measures to shore up our defences, once again demonstrating our resilience. The Group's resilience is underpinned by our strategic focus, highly capable talent pool, and above all, a culture of continuous improvement within our operations as well as an emphasis on innovation across the Group. While our efforts to grow our business met with some small success due to the dearth of available projects, we did, however, achieve several firsts for the Group. These included the successful completion of first of multiple Ship-to-Ship (STS) LNG transfers, the first commercial cargo load to the Regasification Terminal 2 in Pengerang, Johor and delivery of the first LR2 product tankers. The year also saw us further defining our business focus, as well as implementing measures that brought us closer towards fulfilling our strategic mandate and our Vision of consistently providing better energy related maritime solutions and services.

This year's Annual Report conveys the theme, **"Unity in Diversity"**. This highlights our efforts, not only to foster more effective teamwork among our people, but also to intensify synergistic collaboration among our businesses and energy shipping industry players.

Today, as a result of the many initiatives undertaken and the strong transformation foundations laid down over these past few years, MISC is well positioned to leverage on a host of growth opportunities as well as meet market challenges. We remain optimistic that the measures we have taken to streamline and future-proof our businesses, together with the Group's solid presence in the markets we operate in, will continue to strengthen our growth momentum and propel us forward.

The Group's resilience is underpinned by our strategic focus, highly capable talent pool, and above all, a culture of continuous improvement within our operations as well as an emphasis on innovation across the Group.



DATO' AB. HALIM MOHYIDDIN
Chairman

FINANCIAL PERFORMANCE AND VALUE CREATION

For the financial year ended 31 December 2017, the MISC Group recorded a credible performance turning in revenue totalling RM10,068.2 million. The increase in revenue of 5% was primarily attributable to full year consolidation of Gumusut-Kakap Semi-Floating Production System (L) Limited (GKL), higher revenue from GKL's variation order approval, construction revenue from Floating, Storage and Offloading Vessel (FSO) Benchamas 2 and lease commencement of two new LNG vessels were the main contributors to the increase in Group revenue, namely the Seri Cempaka and Seri Cenderawasih.

The Group's Profit Before Tax (PBT) fell by 28.8% to RM2,003.6 million in 2017 against PBT of RM2,814.0 million in 2016. This drop in profit was mainly due to the gain in the equity buy-back of GKL recognised in 2016 and the impairment of LNG and product vessels during the year.

The Company remains committed to creating value for its shareholders and this is reflected in our healthy balance sheet. As at the end of 2017, MISC had registered cash, deposits and bank balances of RM5,900.7 million, some 10% lower than 2016's figure of RM6,559.2 million. Following a decrease in total borrowings and total equity reported for 2017, the Group's net debt-to-equity ratio increased marginally to 0.16 times at the end of 2017 as compared to 0.15 times at the end of 2016.

The Group's Earnings Per Share (EPS) dropped to 44.4 sen in 2017 from 57.8 sen previously. For the year ended 31 December 2017, the profit attributable to the equity holders of MISC was lower by 23% dropping to RM1,981.5 million from the RM2,581.6 million in 2016.

Your Board of Directors remains committed to pursuing a policy which seeks to strike an ideal balance between providing a reasonable dividend pay-out corresponding with the financial health of the Group while preserving sufficient internal resources for investment purposes.

In respect of the financial year ended 31 December 2017, a total of 30.0 sen per share of tax exempt dividend amounting to RM1,339.1 million was declared on quarterly basis, consistent with the total dividend declared for the financial year 2016.

The Group also remains committed to creating intangible value for our shareholders. The many awards and accolades for excellence that MISC bagged in a variety of areas underscore this intent.

I am especially proud to announce that MISC was hailed "Tanker Operator of the Year" at the Lloyd's List Asia Pacific Awards 2017 event, the first such win for the Group. One of the most notable awards within the international maritime industry,

CHAIRMAN'S STATEMENT

We remain optimistic that the measures we have taken to streamline and future-proof our businesses, together with the Group's solid presence in the markets we operate in, will continue to strengthen our growth momentum and propel us forward.

the Lloyd's List Awards series recognises the industry's successes, sets a benchmark for excellence, as well as rewards innovative ideas and concepts that have pushed the boundaries of what is possible.

The judges lauded the Group's impressive performance that demonstrated operational excellence above the INTERTANKO average as well as prioritising high Health, Safety and Environment (HSE) standards and good environmental stewardship.

UPHOLDING RESPONSIBLE CORPORATE PRACTICES

MISC's Board of Directors has an unwavering commitment towards upholding and implementing the highest standards of corporate governance as well as robust risk management and internal control measures throughout the Group. These integral components of our business help to ensure sustainable business growth, strengthen investor confidence, safeguard our corporate reputation and sustain our ability to deliver continued shareholder value creation.

In our efforts to uphold the highest corporate governance standards, the Group subscribes to the principles, practices and guidance set out in the Malaysian Code on Corporate Governance (MCCG) 2017 issued by the Securities Commission of Malaysia and the Third Edition of the Corporate Governance Guide issued by Bursa Malaysia Securities Berhad.

The finer details of our corporate governance practices and risk management measures can be found in the relevant sections of this Annual Report as well as our Corporate Governance Overview Statement.

Business sustainability remains a priority on MISC's agenda and we look to our five-year Sustainability Strategy to guide us. Aligned with our Vision, Mission and the MISC2020 Strategy, the Sustainability Strategy focuses on enhancing MISC's social integrity, improving our environmental stewardship and creating economic value for our stakeholders. The strategy will serve as a manifesto of our sustainability commitments as we continue to conduct business as a responsible corporate citizen over the next few years.

MISC's sustainability journey has its roots in the year 2012 when we began to formally embed sustainability principles into our corporate strategies, structures and practices. We have made good strides forward these past few years and

CHAIRMAN'S STATEMENT

have achieved significant milestones. In that time, the Board has steadfastly supported MISC's leadership in ensuring the successful implementation of our sustainability agenda. At the same time, we have strengthened MISC's commitment to integrity and compliance, as well as continued to inculcate a high-performance culture throughout the Group.

Moving forward, the ongoing integration of sustainability principles as part of MISC's corporate aspirations, business practices and operations, will ensure that we are well placed to manage our non-financial risks, identify and increase our efficiencies, as well as strengthen our position and reputation in the industry.

I am pleased to report that as of December 2017, MISC once again secured its position as a constituent of the FTSE4Good Bursa Malaysia Index, as a result of the Group's strong performance across a variety of Environmental, Social and Governance (ESG) practices. The index has been designed to identify Malaysian companies with recognised corporate responsibility practices. We turned in an improved overall score which came on the back of an independent assessment of the MISC Sustainability Report 2016 by FTSE analysts.

This is the fourth consecutive year that we have been included in the index since its inception. Our ratings have been increasing year on year since the inaugural year. The scores for the Governance element in particular continue to stand out. This recognition underscores the Group's position as a role model for responsible corporate behaviour within the Malaysian market and reflects our commitment to managing our ESG risks. A more in-depth review of our sustainability initiatives can be found in the Sustainability@MISC section on pages 38 to 55 of this Annual Report.

This year, we took preliminary steps to adopt the Integrated Reporting <IR> framework which underscores our commitment to embracing best practices in corporate reporting. As we move forward, the Group will continue to refine our report by adopting a more cohesive integrated approach. This will involve detailed disclosure of our business strategy, business and financial performance, stakeholder engagement initiatives, as well as our efforts to create holistic value over time.

MOVING FORWARD

Venturing forward into 2018 and beyond, we anticipate that the markets will continue to change and our various businesses will evolve to address these changes. With several elements of our five-year MISC2020 masterplan already in place, we will now set our sights on implementing the next phase of our agenda of sustainable growth and continue advancing the growth of our various business segments. The issue of sustainability will continue to be integral to MISC's overall business agenda and

Business sustainability remains a priority on MISC's agenda and we look to our five-year Sustainability Strategy to guide us.

CHAIRMAN'S STATEMENT

Capitalising on our healthy balance sheet, we will allocate both our capital and human resources toward building value in our existing businesses.

PROFIT BEFORE TAX (PBT)

RM2,003.6 million

CHAIRMAN'S STATEMENT

throughout all aspects of our operations. In line with this, MISC remains committed to conducting our business in a responsible and in a manner that is considerate of our wider economic, social and environmental footprint. Thus, we will continue to push for more stringent performance standards across the sector and demonstrate our commitment towards stewardship.

Your Board of Directors is confident that, operationally, the Group will be able to maintain its financial performance for 2018. MISC will leverage on timely investment opportunities to ensure future business sustainability. Capitalising on our healthy balance sheet, we will allocate both our capital and human resources towards building value in our existing businesses. At the same time, we will work to bolster the quality of our income by expanding into growth areas that will provide us with recurring long-term income streams.

Today, as a much-reinvigorated energy shipping group, MISC has a much clearer sense of purpose. As we venture forth, we will adopt a unified approach, maintain a clear focus on growth, and ensure a shared understanding of who we are and what we can achieve. The future holds much promise for the MISC Group and we anticipate an exciting journey ahead as we continue with our efforts in moving energy to build a better world.

IN APPRECIATION

The year in review, while challenging, was also one in which MISC made good strides forward. For this, there are several parties that I would like to thank.

Firstly, I would like to convey my utmost gratitude to our business partners and customers for their trust and confidence in the Group's ability to deliver and excel. We pledge to continue in our efforts to enhance our operational efficiency and service quality so as to be on par with industry best practices. My heartfelt appreciation also goes out to our loyal and diligent management team and all employees who have worked hard to help us get through the year's difficulties. To my colleagues on the Board, thank you for your continued wise counsel and guidance in helping us steer through such a demanding playing field. It is my hope that we will continue to work together, drawing upon our collective strengths to build upon what we have achieved thus far.

At this time, I would like to pay tribute to our outgoing Independent Non-Executive Directors, Dato' Kalsom Abd. Rahman and Dato' Halipah Esa, who both retired from the Board on 20 April 2017. We also want to acknowledge our Non-Independent Non-Executive Director, Mohamed Firouz Asnan, who resigned from the Board on 1 December 2017. We thank these fine individuals for their contributions to MISC and wish them the very best in their future endeavours.

Please join me in welcoming Liza Mustapha and Mohd Yusri Mohamed Yusof who joined the Board as Non-Independent Non-Executive Directors on 1 July 2017 and 7 December 2017 respectively. We certainly look forward to their insights and contributions.

Last but not least, I wish to extend my deep appreciation to our shareholders for your continued loyalty and steadfast faith in us through yet another challenging year. Thank you for being ever so patient throughout the trials and tribulations of our industry and we ask for your continued patience as we pursue our agenda of sustainable growth.

I look forward to your unwavering support as we move forward towards fulfilling our MISC2020 strategy. On our part, rest assured that MISC will remain agile and resilient while leveraging on the synergistic partnerships between our people, businesses and industry to flourish and thrive in a robust and sustainable manner.

DATO' AB. HALIM MOHYIDDIN
Chairman
13 March 2018

PRESIDENT/GROUP CEO'S REVIEW

DEAR SHAREHOLDERS,

I am pleased to report that despite challenging market conditions that tested the Group's inherent strengths, MISC maintained its steadfastness in 2017 to emerge a more resilient energy shipping player with a clearer sense of purpose.

YEE YANG CHIEN
President/Group CEO

OPERATING PROFIT

RM 2,733.6 million

22.6% higher than 2016

TOTAL ASSETS

RM 50,469.8 million

PRESIDENT/GROUP CEO'S REVIEW

We recognise that great strength comes from uniting the hearts and minds of diverse groups of people. It is this combined strength which gives them the courage to push their limits and boundaries and to continue doing things better every day.

Our journey of resilience began in 2014 when we embarked on a rebuilding and rediscovery phase to strengthen our fundamentals, namely our aspirations, brand identity and working culture. From 2014 to 2016 we focused our efforts on shaping these fundamentals as well as defining our businesses in the energy related maritime solutions and services arena. The shift in our focus also culminated in the rollout of a refreshed Vision and Mission, the MISC2020 strategy and our Cultural Beliefs. In 2017, we ramped up our efforts and worked on consolidating our workforce and businesses, aligning the corporate brand and identity across the Group, as well as strengthening our capabilities to achieve our MISC2020 ambitions. As a result, we were able to ride out the ongoing downturn in the energy shipping segment and maintain our profitability.

Today, with a solid foundation and clear perspective of who we are and where we need to get to, we are now in a better position to move the business forward guided by our MISC2020 strategy (which focuses on business targets) and our Sustainability Strategy (which focuses on value creation for our key stakeholders).

In the coming years, the Group will focus on bolstering the brand essence of MISC where our people remain MISC's greatest asset. Our 2017 Annual Report theme, **"Unity in Diversity"**, reflects our endeavours to foster more effective teamwork among our diverse workforce as well as to strengthen synergistic collaboration among our businesses and energy shipping industry players. We recognise that great strength comes from uniting the hearts and minds of diverse groups of people. It is this combined strength which gives them the courage to push their limits and boundaries and continue to be better every day.

In order for our Company to move forward, it is important that we continue to harness the unified strength of our people through fostering and cultivating teamwork as well as enabling collaboration and positive relationships across our different businesses, departments and geographic locations. A united, strengthened and focused MISC will certainly be a force to be reckoned with as we pursue growth opportunities and continue to "move energy to build a better world".

STEADFAST PROGRESS DESPITE ONGOING CHALLENGES

The year in review was another challenging business year for the shipping and offshore sectors with all segments experiencing strained market conditions. Project scarcity, contract renegotiation or termination, tonnage oversupply and downward pressure on freight rates were some of the recurrent themes. Many industry players also had their hands full with issues of restructuring and insolvency. The companies that did manage to keep their heads above water still had to contend with declining charter rates and implement continual cost optimisation measures to remain competitive. Against this already tough backdrop, shipowners and operators also faced the added burden of preparing their vessels to comply with impending regulations relating to ballast water management and a global sulphur cap. On the upside, the year saw Liquefied Natural Gas (LNG) bunkering opportunities arising from the gaining popularity of LNG as a marine fuel of choice.

Even as this prevalent environment of challenge and change affected almost all industry players, MISC too was buffeted by strong headwinds. While none of our core business segments were spared the effects of the industry downturn, nonetheless, as they had taken the necessary steps to reshape and future-proof their businesses, they were able to mitigate the full brunt of marketplace volatility.

Within our LNG Shipping segment, spot charter rates remained sluggish due to tonnage oversupply led by higher vessel deliveries and older vessels coming off charters. This compelled the segment to explore opportunities outside of conventional LNG shipping and venture into new applications like Floating Storage and Regasification Units (FSRUs) and LNG bunkering.

Demand in the Petroleum Shipping segment continued to be affected by OPEC production cuts and high oil inventory levels. This was compounded by heavy delivery of new tankers and lower than expected vessel scrapping during the year.

The Group's Offshore Business segment had to contend with reduced opportunities in 2017. Akin to their global counterparts, Malaysian players experienced a dip in Floating Production System (FPS) orders as Oil & Gas investments were scaled down. In spite of a significant increase in the number of FPS projects awarded in 2017 as compared to the previous two years, the number of awards was still below the trend at the start of the decade.

PRESIDENT/GROUP CEO'S REVIEW

Larger scale FPS projects were mainly centred in the Atlantic Basin where the pace of activity had picked up, whilst smaller scale FPS awards were the norm in Southeast Asia.

Deferment or cancellation of offshore projects due to the prolonged Oil & Gas sector slump, saw the Marine & Heavy Engineering segment focusing its efforts on managing costs, optimising its resources and improving operational efficiency to combat the challenging environment. While the Marine & Heavy Engineering segment successfully secured several offshore fabrication projects during the period, the bulk of the contributions from these projects will only be realised in 2018 and beyond.

Notwithstanding this weak backdrop, MISC still managed to make steadfast progress on several fronts.

On the LNG Shipping front, MISC took delivery of the Seri Cenderawasih and Seri Cempaka in January and August 2017 respectively. The second and third newbuilds in a series of five MOSS-Type LNG carriers ordered from Hyundai Heavy Industries Co., Ltd., are bolstering MISC's position as a reliable and safe transporter of LNG globally. In February 2018, the segment also took possession of a fourth LNG carrier, the Seri Camar. These vessels join our fleet as our 26th, 27th and 28th LNG Carriers respectively.

The LNG Shipping segment also went on to chalk up several firsts including the successful completion of the segment's first of multiple Ship-to-Ship (STS) LNG transfers, and its first commercial cargo load to the Regasification Terminal 2 in Pengerang, Johor.

The Petroleum and Product Shipping segment, helmed by AET, too made strong strides forward. The segment landed a noteworthy three-year global Aframax Contract of Affreightment (COA) with an Oil Major, the first of its kind in the world. AET also bagged a contract to provide two Dynamic Positioning Shuttle Tankers (DPSTs) to Norwegian Oil Major, Statoil. Moreover, AET captured a significant portion of the growing reverse lightering business in the US Gulf, bolstering its US presence. To improve sustainability of the Product Shipping segment, AET had time chartered out vessels and participated in a tanker pool. The segment also took delivery of the first two LR2 product tanker newbuilds as part of an ongoing plan to shore up its product asset portfolio.

As part of its ongoing fleet renewal programme, AET took delivery of one Aframax, Eagle Barcelona in January 2018, with the other Aframax, Eagle Brisbane, scheduled for delivery in March 2018. Two more Aframax tankers, which are scheduled for delivery from the third quarter of 2018 onwards are currently under construction at Samsung Heavy Industries Co., Ltd. and will be equipped with LNG dual fuel options in line with the company's commitment to further improve its environmental footprint.

A united, strengthened and focused MISC will certainly be a force to be reckoned with as we pursue growth opportunities and continue to "move energy to build a better world".

PRESIDENT/GROUP CEO'S REVIEW

The year in review also saw us undertaking several excercises to redefine and strengthen our businesses.

Our Offshore Business segment too made good progress in its conversion of the donor vessel, the Bunga Kelana 5, into a Floating, Storage and Offloading Vessel (FSO) for Chevron Offshore (Thailand) Limited's FSO Benchamas 2 Project in the Gulf of Thailand. This 105,400 dwt Aframax tanker with the capacity to store 650,000 barrels of crude oil, is scheduled for sail away in the first quarter of 2018. The experience garnered from this project is expected to strengthen MISC's global offshore portfolio.

Meanwhile, our Marine & Heavy Engineering Business segment under the Malaysia Marine & Heavy Engineering Holdings Berhad (MHB), have successfully completed several offshore projects namely F12 Wellhead Platform's (WHP) topside and jacket, Besar A WHP, Baronia-B Central Processing Platform (CPP) jacket, bridge and piles, PETRONAS FLNG 2 external turret and FSO Benchamas 2 external turret. For the offshore services sector, the segment have completed 48 modification and rejuvenation work orders under the Facilities Improvement Project (FIP) for PETRONAS Carigali Sdn. Bhd. On the onshore sector, we have successfully completed two packages for Refinery and Petrochemical Integrated Development (RAPID) namely Package 3 Area 3 and RAPID Package 22 projects in 2017.

The year in review also saw us undertaking several exercises to redefine and strengthen our businesses.

One of the year's key highlights was the formation of the Integrated Marine Services segment following the integration of MISC's Fleet Management Services Division and AET Shipmanagement into a single new entity known as Eaglestar.

Eaglestar will now harness more than 60 years of knowledge and expertise across both companies to provide technical management and operation services to MISC's and AET's fleet of vessels. More importantly, it will allow for the pooling of knowledge and expertise into a "Centre of Excellence" for ship management to better serve key vessel segments in various markets.

In October 2017, we exited the Tank Terminal business by selling our 45% equity stake in Centralised Terminals Sdn. Bhd. (CTSB) to Dialog Group to fully focus on our core business segments. Through

PRESIDENT/GROUP CEO'S REVIEW

To strengthen industry collaboration and ensure the sustainability of our industry, we took on the role of a strategic partner in the Global Maritime Forum as well as the Gas4Sea initiative respectively.

unlocking the value of our investment in CTSB, we can now reinvest the proceeds into our core businesses in line with our MISC2020 Strategy.

Another significant development in 2017 involved the realignment of the brand identities of several of the Group's existing and newly introduced subsidiaries with the Group's overall brand identity to reflect a more cohesive MISC Group. One of these exercises saw the businesses, services and brand identity of MHB as well as MISC Maritime Services Sdn. Bhd. (MMS, formerly known as PETRONAS Maritime Services Sdn. Bhd.) being streamlined and aligned to that of the MISC Group.

A part from promoting solidarity and esprit de corps among our people, we also ramped up collaborative efforts to strengthen industry collaboration and ensure the sustainability of our industry. We took on the role of a strategic partner in the Global Maritime Forum as well as the Gas4Sea initiative respectively. A platform for high-level leaders from across the maritime spectrum, the Global Maritime Forum is dedicated to unleashing the potential of the global maritime industry and shaping the future of global seaborne trade. We are honoured to be counted among the likes of 14 industry heavyweights such as A.P. Møller Maersk, Euronav, GasLog and PSA International in initiating positive change.

Meanwhile, our involvement in the Gas4Sea initiative, together with PETRONAS and partners such as ENGIE S.A., Mitsubishi Corporation and Nippon Yusen Kabushiki Kaisha, will see us collaborating to advance the status of LNG as the preferred marine fuel by providing LNG bunkering services in the global market. Through our membership of Global Maritime Forum and the Gas4Sea initiative, MISC now has a voice to shape the future of our industry.

I am delighted to announce that MISC continued to garner recognition for its dedication to operational excellence on several fronts. MISC was acknowledged as the "Tanker Operator of the Year" at the Lloyd's List Asia Pacific Awards 2017 event, our first such win. Not only does this win accord the Group global recognition within the shipping industry, it attests to the high standards of operational excellence, good environmental stewardship, as well as high Health, Safety and Environment (HSE) standards that we subscribe to.

Recognition for our environmentally responsible operations also came from the Chamber of Shipping of America (CSA) when 54 of AET's vessels were awarded the Environmental Achievement Awards while 55 of AET's vessels received the Jones F. Devlin Awards for accident-free operations at the CSA Annual Safety Awards event. Apart from that, our first MOSS-Type LNG Carrier, Seri Camellia was shortlisted as one of the Top 4 candidates of the Nor-Shipping Energy Efficiency Award 2017.

On top of this, our maritime academy's position as a key player in the regional maritime education arena was reinforced when ALAM was named the "Best in Maritime Education & Training" at the prestigious Seatrade Maritime Awards Asia 2017 event.

These positive developments augur well for the Group and demonstrate our resilience as well as ability to strengthen our position and offerings despite challenging market conditions.

As we continue to chart a clearer path towards a better future, we remain committed to our credo of consistently doing things better. To this end, we will be aligning our corporate reports with the Integrated Reporting Framework in several phases over the next few years. This not only underscores our efforts to emulate current best practices in the marketplace, but it simply makes good sense as it further defines the link between our corporate and sustainability strategy as well our value creation efforts, all of which will ultimately help strengthen our corporate reputation and stakeholder relationships.

PRESIDENT/GROUP CEO'S REVIEW

RESILIENT FINANCIAL PERFORMANCE

Having implemented effective measures to drive robust operational performance amidst the year's challenging operating environment, I am pleased to report that MISC turned in a steadfast financial performance for the year in review. For the financial year ended 31 December 2017, the MISC Group posted revenue of RM10,068.2 million, a 5% increase against the preceding year's revenue of RM9,597.2 million. The higher revenue was primarily attributable to full year consolidation of Gumusut-Kakap Semi-Floating Production System (L) Limited (GKL), higher revenue from GKL's variation order approval, construction revenue from Floating, Storage and Offloading Vessel (FSO) Benchamas 2 and lease commencement of two new LNG vessels, namely the Seri Cempaka and Seri Cenderawasih.

The Group turned in an operating profit of RM2,733.6 million, which was 22.6% higher than 2016's operating profit of RM2,228.8 million. Subsequently, we recorded profit before tax of RM2,003.6 million in 2017, some 28.8% lower than the preceding year's profit before tax of RM2,814.0 million. This was mainly due to the gain in the equity buy-back of GKL recognised in 2016 and the impairment loss on certain LNG and Product vessels during the year.

As at the year's end, the Group's total assets stood at RM50,469.8 million or 10.1% lower than the RM56,151.3 million as at the end of 2016. The value of the Group's total assets was reportedly lower mainly due to the strengthening of the Ringgit against the US Dollar, the functional currency of the Company and significant subsidiaries within the Group, as well as the aforementioned assets impairment. The Group's total liabilities at the end of 2017 of RM14,565.0 million were 13.4% lower than the RM16,820.3 million posted at the end of 2016. This was mainly due to the settlement of a term loan during the year and lower provisions reported as at 31 December 2017 as a result of in-charter provision reversal after the early redelivery of the remaining legacy in-chartered liner vessels.

Won "Tanker Operator of the Year" at the Lloyd's List Asia Pacific Awards 2017.

ALAM was named the "Best in Maritime Education & Training" at the Seatrade Maritime Awards Asia 2017.

FTSE4Good

Constituent of the FTSE4Good Bursa Malaysia Index since 2014 & attained higher ratings in 2017.

PRESIDENT/GROUP CEO'S REVIEW

Following a decrease in total borrowings and total equity reported for 2017, the Group's net debt-to-equity ratio increased marginally to 0.16 times as at 31 December 2017 from 0.15 times as at 31 December 2016. Meanwhile, the Group's committed capital expenditure stood at RM3,831.7 million as at the end of 2017. Based on our continuous healthy financial position, combined with existing funding facilities and planned funding plans, the Group should be able to fund our committed capital expenditure and growth plans. Given the relatively low net debt/equity ratio, the Group will pursue the optimum capital structure for any capital project or investment.

OUR STRATEGIC PRIORITIES

Following the introduction of our revitalised Vision and Mission as well as the MISC2020 strategy in 2015, all of these elements are now well entrenched within our corporate culture. Not only are these strategic elements doing their bit to reinforce and sustain MISC's position in the Oil & Gas sector as a leading provider of energy related maritime solutions and services, they continue to strengthen the bonds within the MISC Group and guide us on our journey to unleash our full potential.

To recap, our MISC2020 five-year strategic plan (2016-2020) calls for the Group to deliver on two primary objectives, namely :

- To achieve a sustainable level of secured profit by 2020; and
- To achieve a sustainable Return on Average Capital Employed (ROACE) of more than 10% by 2020.

The finer details of the MISC2020 strategy and its impact on the performance of our core businesses can be found in the MISC2020 Journey section on pages 34 to 35 of this Annual Report.

A 5-YEAR MASTER PLAN

TO ACHIEVE SUSTAINABLE PERFORMANCE

SUSTAINABLE ROACE *(Return on Average Capital Employed)* **OF MORE THAN 10% BY 2020**	*Sustainable level of* **SECURED PROFIT BY 2020**

THE SUSTAINABILITY OF OUR BUSINESS

The issue of business sustainability has become increasingly prominent and challenging to many companies. Be it the need to cultivate and optimise finite resources, to ensure higher levels of transparency in business dealings amidst an increasingly competitive playing field, or to ensure compliance with stringent and ever-evolving environmental and social legislation – companies are having to implement a host of new measures to future-proof themselves and ensure their sustainable growth. Recognising that business sustainability is essential to our long-term success, MISC made it our top priority and a key business imperative.

Since embarking upon an extensive review of our sustainability agenda, we have improved our understanding of sustainability and today, better appreciate how integral it is to the success of our business. The past few years have seen us make significant strides forward in our sustainability journey and sustainability is today embedded in a deeper manner into our strategy and operations.

MISC's Sustainability Strategy was endorsed by the Board in late 2016 and formally rolled out across our organisation in 2017. Running parallel with our Vision and Mission as well as our five-year MISC2020 strategy, our Sustainability Strategy continues to serve as a five-year roadmap that is guiding us further in our conduct as a responsible corporate citizen.

With its focus on enhancing our social integrity, improving our environmental stewardship and creating economic value for our stakeholders over the short, medium and long-term, our strategy is divided into six pillars, namely the Customers, Shareholders, Governance & Business Ethics, Employees, Environment and Community pillars. Since its formalisation, today we have a more cohesive, systematic and synergistic platform from which to manage our sustainability commitment and objectives.

The year in review saw MISC making good progress across all six sustainability pillars. For instance, on the Environmental front, we successfully embarked on a more structured and strategic approach to manage greenhouse gas emissions and improve the energy efficiency of our fleet by setting specific targets and reduction plans.

PRESIDENT/GROUP CEO'S REVIEW

We established the following carbon intensity reduction targets to be achieved by our fleets by 2020 : LNG Shipping - 6%, Petroleum Shipping - 9% and the Product Shipping - 1%. This underscores our strong commitment to aligning with national and global agendas on greenhouse gas reduction.

We also implemented a number of initiatives under the Governance & Business Ethics pillar that helped propel us forward in this area. As part of the MISC Group Compliance and Ethics Programme – we successfully promoted the MISC Code of Conduct and Business Ethics (CoBE) and Whistleblowing principles through our "See, Speak, Support" Campaign utilising a variety of communication platforms. The inaugural MISC Integrity Day at Menara Dayabumi on 24 November 2017 served as an effective platform to strengthen our workforces' understanding of the key objectives of the CoBE and to formalise the commitment from our Senior Management team via the signing of a Corruption Free Pledge.

On the People front, our Human Resource division is on course with its five-year masterplan to promote individual and team excellence within the Group. The plan encompasses two main focus areas, namely succession planning and employee competency development for both leadership and functional skills.

For more updates on the progress made by each pillar under the MISC Sustainability Strategy, please refer to the Sustainability@ MISC section on pages 38 to 55 of this Annual Report. Our sustainability journey has just begun and there is much more to be accomplished. As a conscientious corporate citizen, we remain resolute in fulfilling our commitment towards the material aspects of our business and our stakeholders.

As MISC moves to adopt the Integrated Reporting <IR> Framework, we will ensure that it aligns with our current mechanisms and aspirations for sustainable growth as well as our focus on creating value as per the six capitals set out in the framework. We have always been operating based on a values-based process and system and it is now more a matter of formalising and disclosing the details with the guidance of the <IR> Framework. We aspire to be in a position where we can be fully transparent not only in our disclosures but operationally.

As we make the transition towards the <IR> Framework, we will now no longer be producing standalone Sustainability Reports as we did in the previous years, as all information relating to sustainability will be assimilated within the <IR> Framework. This also affirms our commitment to conserving the environment by reducing paper usage and printing.

CARBON INTENSITY REDUCTION TARGETS TO BE ACHIEVED BY OUR FLEETS BY 2020 FROM A BASELINE IN 2016

LNG SHIPPING ▽▽▽ 6%

PETROLEUM SHIPPING ▽▽▽ 9%

PRODUCT SHIPPING ▽▽▽ 1%

NET DEBT-TO-EQUITY

+ 0.16

The Group's net debt-to-equity ratio increased marginally to 0.16 times as at 31 December 2017

PRESIDENT/GROUP CEO'S REVIEW

Moving forward, we plan to provide comprehensive disclosure of our Sustainability programmes and performance through our corporate website at **www.misc.com.my/sustainability.** In addition to annual corporate disclosures, all further information and disclosures on sustainability including the MISC Sustainability Strategy pillars, objectives, initiatives and performance updates shall be made available through our website and will be updated on a regular and scheduled basis.

BUSINESS RISKS

As MISC ventures forth amidst a highly challenging playing field, there are several key risks that we are exposed to in the course of our business and we continue to do our best to mitigate these risks. The following is a summary of the key anticipated or known risks that the Group is exposed to that may have a material effect on our operations, performance and our financial status. We also touch upon the plans we have to mitigate such risks here.

The sustainability of the Group's future earnings is at stake in the face of the expiry of charters for our assets, specifically our Offshore and LNG vessels. Take the case of our Puteri class vessels – when the charters for these vessels expired, this made a dent in our overall profitability. We will face a similar situation with our other assets over the next few years when the existing contracts for our offshore floating production systems (FPSO and FSOs) and recently extended contracts come to an end. To mitigate this, we are actively participating in bids for new projects in the Offshore segment, especially in the Atlantic region which promises more opportunity for Oil & Gas development and shipping requirements.

At the same time, we face the risk of earnings volatility from an imbalanced asset portfolio. To counter this, managing the volatility of our earnings will be key. We will achieve this by balancing our exposure to long-term income generating assets with assets traded in the spot market. This will ensure the sustainability of the long-term returns on our investment and the predictability of our future cashflow which funds our investments and returns to shareholders. In addition to maintaining a well-balanced group of core businesses, the portfolio of assets within each of the core businesses will be continually fine-tuned to increase the proportion of assets that generate long-term recurring income.

Another risk we face is the inability to trade and deliver market freight earnings from our assets given the age of our fleet. Our older LNG and AET vessels will face increased competition from more efficient and newer vessels in the market, especially in a market where environmental regulations have become more stringent. To mitigate this, we are continually assessing fleet age, rejuvenating the fleet by redelivering or disposing of older tonnage, and investing into systems that will ensure the tradability of the fleet.

The availability of projects to be invested in, whether it is in the Offshore or LNG shipping space remains limited due to the low Oil & Gas price market and the oversupply of vessels. In the Offshore space, however, we expect there will be ample opportunities in the Atlantic basin where deepwater field development is taking place. In the LNG Shipping segment, investment into unconventional LNG solutions will be the way forward, particularly in the areas of LNG bunkering, FSRUs and floating LNG power generation amidst a market with limited new shipping requirements.

Talent attraction and retention across the maritime industry is a perennial challenge even as the industry competes for experienced maritime personnel. There is also the risk of an insufficient number of readily available successors to assume critical positions within the Group. To mitigate this, we have implemented manpower and succession planning measures to bring about business continuity and sustenance. A structured employee competency development plan ensures that our internal capabilities and competencies are continuously strengthened. We continue to also strengthen employee mobility

PRESIDENT/GROUP CEO'S REVIEW

The strategic decisions we have implemented these past few years and the positive results that have ensued, place us in a strong position to tap inorganic growth opportunities and deliver sustained growth.

processes and rigorously develop identified successors. Moreover, through our maritime academy, ALAM, we have in hand a strong in-house pool of ready, high quality talent thru our cadet sponsorships.

We are confident that these and the other mitigation strategies that we are already employing will help deflect any risks to our business. Further details of our business risk and mitigating actions are included at the end of the Management Discussion & Analysis section in this Annual Report for each of the Core Businesses.

THE WAY FORWARD

While global risks remain significant and difficult to predict, the continued upturn in global economic activity forecast for 2018 will see global market growth continue to be driven by the emerging markets with the developed economies making strides at a more gradual pace.

The rebalancing of the global oil market is expected to continue on the back of OPEC and non-OPEC production cuts, rising drilling activity in the United States, inventory drawdowns and recovering Libyan and Nigerian production.

With the OPEC production cut deal set to run until the end of 2018, it is generally expected that oil prices will remain stable and continue to hover around or above USD60 per barrel based on market forecast.

Moving forward, this is how we foresee things playing out for our core businesses.

As new gas/LNG capacity from the US and Australia comes onstream, this is impacting the way buyers of LNG are behaving in a market where the buyers have much stronger bargaining power. In view of this, gas buying contracts have become shorter, where buyers have more choices, and this is impacting shipping requirements in the LNG shipping space. Today, LNG shipping contracts are getting shorter and smaller and opportunities for new LNG shipping contracts are limited, with most of the new capacity coming on-stream having locked in most of their shipping requirements. The demand growth for LNG/gas is tilted towards emerging markets especially in Asia and this will be the driving force for demand, be it for heating, industrial or power generation.

As such, shipowners like MISC will have to be more creative to develop non-conventional solutions which will help to expedite the build-up of infrastructure to cater to the downstream demand of LNG, in areas such as LNG for Power or LNG bunkering. These developments, however, are not expected to impact the steady performance of the Group's LNG Shipping segment as the majority of our vessels are employed under long-term charters.

In 2017, our Petroleum and Product Shipping segment experienced a challenging year as the tanker market continued to be suppressed by tonnage oversupply, oil production cuts and supply disruptions. In light of the OPEC-led agreement to extend its oil cuts untill the end of 2018, the Petroleum and Product Shipping segment's performance may continue to face pressure as a result of dampening demand for petroleum tankers from OPEC countries. However, robust oil demand projections and dwindling global oil stock amidst abating aggressive tanker supply growth are expected to lend support to the overall supply/demand balance and improve charter rates in the later part of 2018.

Meanwhile, expectations of a more stable oil price environment in 2018 will pave the way for a gradual recovery in investments in the global offshore exploration and production space, especially for developments within the Atlantic Basin. The expected increase in Foreign Investment Decisions (FIDs) will give rise to more opportunities and our Offshore Business will continue to pursue potential projects both locally and internationally including opportunities in Africa, the Middle East and the Americas. Notwithstanding the above, the current long-term and stable contracts in hand will support the financial performance of the Offshore Business segment.

PRESIDENT/GROUP CEO'S REVIEW

Despite the expected recovery and improved sentiment in the Oil & Gas market, the impact may not be seen immediately in the Marine and Heavy Engineering segment. As such, this segment will continue to maintain its resolute focus efforts on cost management and resource optimisation to reduce its operating cost. At the same time, it will maintain a focus on order book replenishment and the development of a larger recurring income base through its marine repair business.

Going forward into this uncertain environment, MISC will continue to leverage on its financial strength, highly competent and unified workforce, a strengthened brand, strong strategic assets plus robust business strategies to maintain its forward momentum and create opportunities for growth. We have demonstrated to the market that we have been able to think out-of-the-box and find new ways to grow despite challenging market conditions, and we believe we will continue to prove our mettle.

The strategic decisions we have implemented these past few years and the positive results that have ensued, place us in a strong position to tap inorganic growth opportunities and deliver sustained growth. Whether we will achieve this through the acquisition of distressed companies or assets, or strategic partnerships that we form with allies with common objectives, we can only be limited by our own ambition and creativity.

The year 2018 will be a pivotal and significant year for MISC. How we execute on our plans will determine how we write our future. I, for one, am confident in the tremendous potential of MISC and I am certain that our people will step up to the plate to fight the good fight and achieve our full potential.

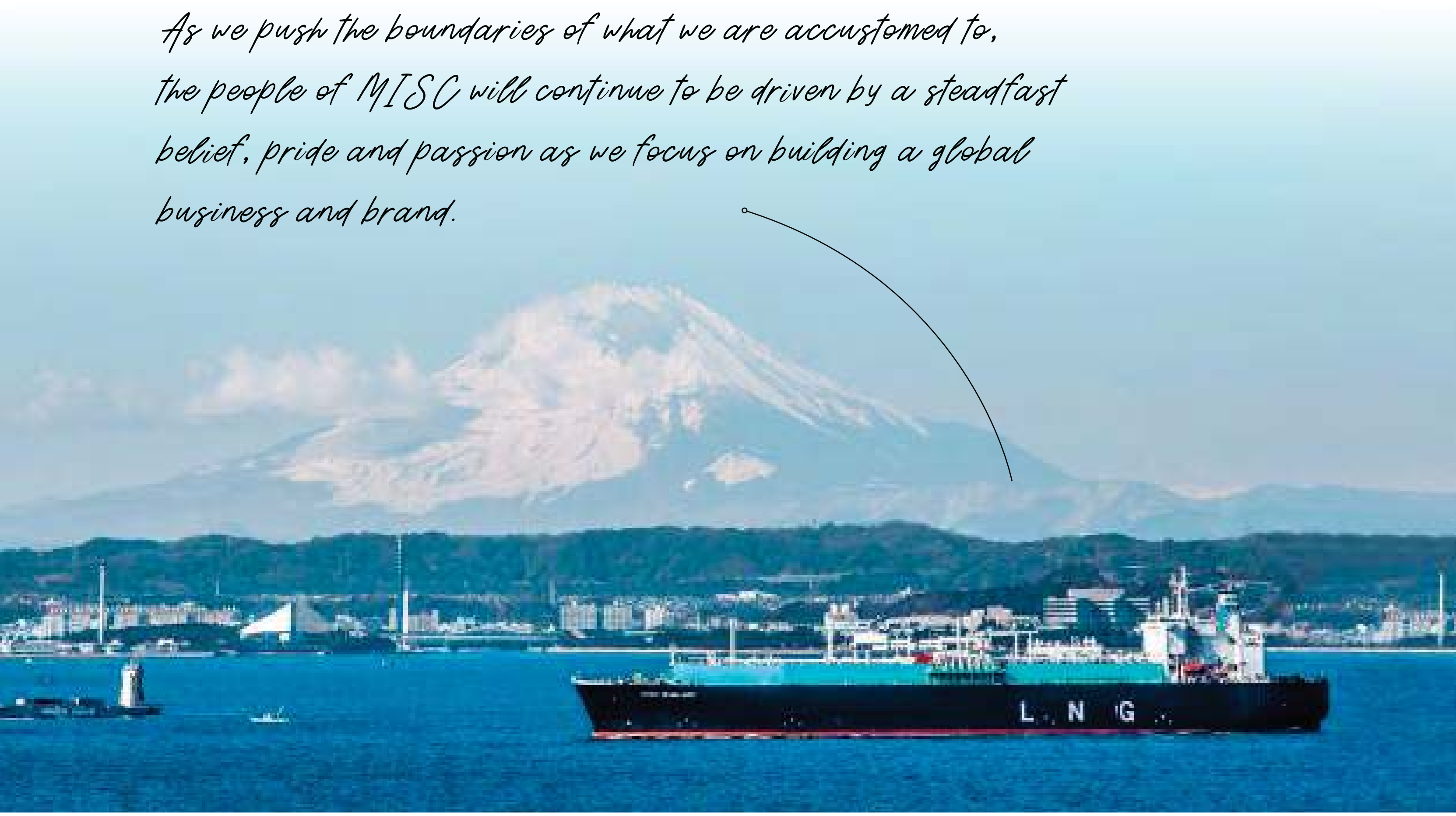
The year in review was one in which we initiated measures to harness our individual and corporate strengths into a unified force. Symbolically all company logos were realigned and our people continued to embrace a common Vision, Mission and Cultural Beliefs despite their differences. The diversity across the Group did not become a roadblock but rather lent us strength even as we leveraged on mutual respect and common ground to withstand the industry downturn.

Moving forward, we will continue to leverage on cross-functional teams for our projects and embed the very best people across the MISC Group into our projects. As we push the boundaries of what we are accustomed to, the people of MISC will continue to be driven by a steadfast belief, pride and passion as we focus on building a global business and brand.

We will also endeavour to conduct our business operations in a responsible and sustainable manner, strengthen the bonds with our key stakeholders, as well as ensure the delivery of holistic value creation over time. I believe that as the MISC Group works together to fulfil our common ambitions, there is little that can hold us back.

PRESIDENT/GROUP CEO'S REVIEW

As we push the boundaries of what we are accustomed to, the people of MISC will continue to be driven by a steadfast belief, pride and passion as we focus on building a global business and brand.



A NOTE OF APPRECIATION

I wish to express my heartfelt appreciation to our valued shareholders, clients and partners for their unwavering trust and confidence in us despite the ongoing challenges of the Oil & Gas industry. My sincere thanks also go to the Malaysian Armed Forces for their continuous efforts to protect our fleet from the threat of regional piracy.

My sincere gratitude goes to the members of the Board of Directors for their wise counsel in helping us navigate through the shoals of another challenging year to emerge an even stronger and better entity. Your astute insights continue to be an invaluable help to MISC Group.

Last but not least, my utmost gratitude goes to the rest of our leadership team and our employees for their hard work, loyalty and invaluable contributions to MISC. Thank you all for rising above the challenges of our industry, for keeping your heads down, riding through the tough times and never giving up. Thank you for continuing to exhibit a spirit of innovation, excellence and above all, faith in MISC. I am both honoured and humbled to be serving alongside such a talented and hardy group of professionals.

Moving forward into 2018, MISC aims to be Better, Faster and Stronger and we will achieve this by collaborating across teams, businesses and our industry. As we venture forth with a clear sense of purpose towards achieving our aspirations to consistently provide better energy related maritime solutions and services, I call upon all our stakeholders to lend us their unwavering support. I am confident that MISC will realise its full potential even as we all work together to overcome all challenges and seizing meaningful opportunities.

YEE YANG CHIEN
President/Group CEO
15 March 2018

MANAGEMENT DISCUSSION & ANALYSIS

LNG SHIPPING

The Liquefied Natural Gas (LNG) Shipping segment owns and operates 28 LNG vessels that transport LNG for PETRONAS and various international LNG companies across the globe as well as two Floating Storage Units (FSUs) which service Malaysia's first Regasification Terminal (RGT) offshore Sungai Udang, Melaka. The segment has over three decades of proven experience in providing LNG shipping services and continues to build upon its track record of operational excellence, reliability, safety and on-time cargo deliveries.

REVENUE

RM2,927.1 million

OPERATING PROFIT

RM1,422.6 million

MANAGEMENT DISCUSSION & ANALYSIS
LNG SHIPPING

LNG Shipping segment continues to strengthen its capabilities while exploring new concepts for non-conventional LNG solutions. This segment is well positioned to capitalise on emerging opportunities by leveraging on in-house shipmanagement capability as well as expertise in managing and supervising LNG newbuildings and refurbishment projects.

MARKET REVIEW

In 2017, demand for LNG continued to rise sharply, particularly in Asia and Europe. Three of the world's largest import markets, namely Japan, South Korea and China, registered material year-on-year increases in imports of LNG by 5%, 21% and 44% respectively. This fast-growing demand set the stage for long-term growth of the LNG Shipping segment.

The year saw a total of 29 Million Metric Ton Per Annum (MMtpa) of new liquefaction capacity coming online which led to a rise in shipping charter rates throughout most of the year. As new projects began absorbing the excess shipping availability already present in the market, there was an increase in spot charter rates around April 2017. By the fourth quarter of 2017, spot charter rates had increased dramatically, with day-rates reaching levels not seen in over three years. This was primarily attributable to China's aggressive environmental mandate to switch from coal to gas, leaving it with a winter gas shortage.

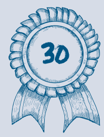
With Chinese LNG buyers increasing their spot purchases, Far East spot LNG prices also began to rise, prompting Atlantic Basin volumes to flow to the Far East. These longer voyages kept the Atlantic Basin tanker market extremely tight, with multiple weeks going by with no spot tanker availability in the region. Looking at the longer-term, Final Investment Decisions (FIDs) for new liquefaction projects continue to be limited, although a number of projects are making further progress towards FID in the US and other regions.

The market continues to see healthy delivery of 32 newbuilds for the year bringing the total number of active LNG vessels in the market to 492. In an oversupplied market, the spot charter rates have remained depressed for most part of the year and newbuild orders have been largely curtailed due to the extended poor market.

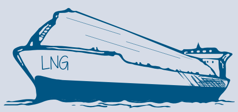
The year in review saw our LNG Shipping segment facing a more competitive business environment. A shift from long-term charters to shorter-term charters pushed the segment to explore new areas of opportunity outside the conventional LNG shipping solutions.

KEY DEVELOPMENTS

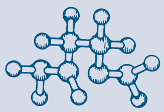
In 2017, the Seri Bakti successfully completed the first of multiple Ship-to-Ship (STS) LNG transfers with charterer, KOCH Commodities Europe Limited and sub-charterer, JOVO, a privately owned Chinese energy company. This was a



THREE DECADES
of proven experience in LNG transportation



Flexible fleet of
28 LNG CARRIERS
are able to call at more than 80 LNG Receiving Terminals and over 30 LNG Liquefaction Terminals worldwide



Cumulatively made more than 9,000 voyages carrying more than
460 million
tonnes of LNG

Further details on LNG Shipping
www.misc.com.my/solutions/lng-shipping

MANAGEMENT DISCUSSION & ANALYSIS
LNG SHIPPING

significant commercial achievement for the segment. With recurring STS LNG transfers fast catching on amidst the evolving LNG landscape, the segment's experience and expertise in this area augurs well for its continued success. This flexible solution goes beyond the conventional sale and delivery of LNG as it now opens up new markets for exporters as well as provides new supply sources for those with LNG requirements.

Another notable highlight in 2017 was Seri Begawan delivery of the first commercial cargo to the newly-commissioned import terminal, the Regasification Terminal 2 (RGT2) in Pengerang, Johor. This milestone signifies MISC's continuous commitment in delivering excellent services and maintaining the highest standards of vessel safety and operational reliability.

Towards the end of 2017, Puteri Intan Satu successfully commissioned and marked the initial cooling down of the new Soma LNG terminal located in the Fukushima Prefecture in North Eastern Japan. Our clients' trust in our ability to commission this new import terminal is a testament to the depth and breadth of our experience in the LNG shipping business.

The segment also took delivery of Seri Cenderawasih and Seri Cempaka, both of which are on 15-year long-term charters to PETRONAS LNG Sdn. Bhd. (PLSB) with options to extend for an additional five years. They were delivered in January 2017 and August 2017 respectively. These MOSS-Type LNG Carriers reinforce our position as a reliable and safe LNG transporter. Our first MOSS LNG Carrier, Seri Camellia was one of the Top 4 candidates of Nor-Shipping Energy Efficiency Award 2017.

Apart from that, in June 2017, Aman Sendai underwent Refurbishment and Life Extension (RLE) in preparing for her 10-year contract renewal with PLSB.

The LNG Shipping segment also continued to expand its international footprint in 2017 by participating in pre-qualifications and tenders for LNG shipping, bunkering vessels and FSRUs in China, Australia and Europe.

In collaboration with other business segments within the Group, LNG Shipping segment is evaluating the potential of offering FSRU solutions, FSUs, small-scale LNG bunkering services as well as LNG-to-Power (L2P) projects for niche markets in South Asia and ASEAN as to ensure that it is able to maintain its long-term revenue and profit streams. These are all new frontiers for MISC and we will continue to bid for these new LNG floating solutions and other market opportunities.

In addition to improving vessel flexibility for trading, all maritime vessels today are required to perform modifications to meet regulatory requirements such as the Ballast Water Management System (BWMS) and IMO 2020 Global Sulphur Cap regulations. Seri C vessels have been installed with the BWMS requirement whilst Seri Bijaksana will be made BWMS-ready by April 2018 ahead of the September 2019 deadline. In June 2018, the Puteri Mutiara Satu will be arranged for modification to meet the Global Sulphur Cap requirement to consume fuel with a sulphur content of 0.5% or less, before the 1 January 2020 Global Sulphur Cap deadline.

OUTLOOK

Today, changes in market dynamics and customers' requirements has led to market uncertainties in the LNG shipping sector. Charterers are no longer willing to charter LNG vessels on a long-term basis, most charters today involve a medium-term period of between seven to 10 years at lower rates. This has led to a decline in investments for LNG newbuilds. The unfavourable market conditions have also forced many LNG liquefaction project owners to postpone FID and this has put a cap on new LNG shipping projects. Charterers are also choosing to charter new LNG vessels which are bigger and have lower fuel consumption and boil-off rates.

Due to the increasingly unpredictable nature of conventional LNG shipping contracts and businesses, market competition has intensified with more and more players venturing aggressively into new areas such as FSRUs and LNG bunkering activities. To overcome these challenges, LNG Shipping segment will explore all avenues to secure long-term charters that will bring about sustainable revenue streams.

This will see the segment refocusing its efforts on non-conventional LNG shipping and alternative LNG floating solution projects in key LNG demand centres and emerging economies. The achievement of these initiatives, among other activities, will ensure that the LNG Shipping segment remains sustainable.

MANAGEMENT DISCUSSION & ANALYSIS
LNG SHIPPING

BUSINESS RISKS & MITIGATING ACTIONS

Summary of Business Risks	Mitigating Actions
• The LNG shipping industry has evolved based on LNG customers' requirements within an oversupplied gas market environment. • Shipping contracting term has shortened (seven to 10 years) resulting in the dearth of long-term contract opportunity that MISC is accustomed to.	• In the absence of attractive long-term LNG shipping contracts, MISC started to develop capabilities in new LNG asset based solutions.
• Entry of new and aggressive market participants have made the market highly competitive. • This, along with the oversupply of vessels in the market has impacted the rates negatively, lowering returns for the shipowners.	• MISC focuses on building vessels backed by long-term contracts and is not involved in speculative newbuilds. • Our project returns are guided by a rigorous risk assessment framework.
• Widening gap in charter rates between older steam engine propulsion vessels compared to dual fuel or tri fuel vessels. • Charterers are losing preference for steam vessels and more in favour of the latest design of LNG vessels which are bigger and have lower fuel consumption and boil-off rate.	• MISC is investing in more efficient and modern tonnages befitting the current market demand. • Vessels with expired charter contracts are being repurposed for redeployment for alternative solutions e.g. FSUs.

PETROLEUM & PRODUCT SHIPPING

The Petroleum & Product Shipping segment under AET continues to strengthen its reputation as a provider of safe, high quality and comprehensive ocean transportation and specialist petroleum services to the world's largest oil companies, trading houses and refiners.

REVENUE

RM4,511.8 million

OPERATING PROFIT

RM47.3 million

MANAGEMENT DISCUSSION & ANALYSIS
PETROLEUM & PRODUCT SHIPPING

Today, AET is involved in the global marine transportation of crude oil, Clean Petroleum Products (CPP) and chemicals; lightering and Ship-to-Ship (STS) transfer of oil; the provision of Dynamic Positioning Shuttle Tankers (DPSTs) to the world's Oil Major; and the provision of Modular Capture Vessels (MCVs) for marine well blowout containment systems in the US Gulf (USG).

As at 31 December 2017, AET's fleet strength stood at 96 commercial vessels including Very Large Crude Carriers (VLCCs), MCVs, DPSTs, Lightering Support Vessels (LSVs), Panamax, Suezmax and Aframax vessels, as well as CPP and chemical tankers. Two Suezmax newbuilds, Eagle San Francisco and Eagle San Jose, were delivered early this year in January and February respectively. As part of its ongoing fleet renewal programme, AET took delivery of one Aframax vessel, Eagle Barcelona in January 2018 with the other Aframax, Eagle Brisbane scheduled for delivery in March 2018. AET is one of the market leaders in the USG lightering market with the ability to provide end-to-end marine logistic services to the global petroleum industry. It is also the only tanker company worldwide to possess MCV capabilities and experience.

MARKET OVERVIEW

The year 2017 proved to be a challenging year for tanker owners as the market continued to be suppressed by tonnage oversupply and relatively lacklustre demand. While the lifting of sanctions on Iran in January 2016 and the end of the US crude export ban back in December 2015, continued to provide additional support for tanker demand in 2017, this, however, was offset by oil supply disruptions in Nigeria, Libya and Venezuela. US exports contributed to AET's overall USG activities through reverse lightering activities.

An OPEC-led production cut in late 2016, aimed at curtailing oil output and shoring up oil prices adversely affected the demand for crude tankers in 2017 (given the smaller amount of oil that needed to be moved). This also had an effect on stock and inventory withdrawals.

54 AET'S VESSELS awarded the Environmental Achievement Awards

55 AET'S VESSELS received the Jones F. Devlin Awards for accident-free operations

Owner and operator of a full suite of **CRUDE AND CLEAN** product tankers

Market Leader for **LIGHTERING OPERATIONS** in the US Gulf

The only tanker company globally to possess **MCV CAPABILITIES** & experience

Further details on Petroleum & Product Shipping
www.misc.com.my/solutions/petroleum-shipping

MANAGEMENT DISCUSSION & ANALYSIS
PETROLEUM & PRODUCT SHIPPING

Additionally, the market was besieged by tonnage oversupply as deferred execution of environmental regulations (e.g. Ballast Water Management (BWM) Convention will be held in 2019 instead of 2017) had contributed to lower-than-expected scrapping of older tonnages.

On a brighter note, the oil price recovery that took place over most part of 2017 encouraged the return of Exploration and Production (E&P) investments, albeit limited, and supported new demand for shuttle tankers during the year.

KEY DEVELOPMENTS

The year in review saw AET making good strides forward on the operational front and expanding its international footprint. Through an internationally competitive bidding, AET won the contract to provide two DPST newbuilds to Norwegian Oil Major, Statoil ASA, on a long-term basis (beginning the second half of 2019), thereby strengthening its presence in the North Sea shuttle tanker market. In the first half of 2017, AET secured a landmark three-year global Aframax Contract of Affreightment (COA) with an Oil Major, the first of its kind in the world with the potential to turn evergreen upon completion.

Leveraging on its leading position in the USG and its capability in the lightering operations, AET continued to capture a portion of the growing reverse lightering business brought about by increasing US crude oil exports. The company also expanded its presence and operations in South America in 2017 and with the support of several strategic customers, will expand its STS operation into Brazil in 2018.

In 2017, AET acquired two second-hand VLCCs from Gener8 Maritime, Inc. These vessels, the Eagle Venice (ex-Gener8 Noble) and Eagle Victoria (ex-Gener8 Theseus), are currently on long-term charters to Koch Industries, Inc., consistent with AET's strategy to expand its VLCC fleet and develop this business sector into another source of secured income.

The segment also took delivery of the first two LR2 product tanker newbuilds, namely the Eagle Lyon and Eagle Le Havre in 2017, as part of an ongoing plan to shore up its products asset portfolio. Both vessels, which received their Green Shipping Certificates, were delivered to long-term charterer TOTAL.

For the year in review, 54 AET vessels were awarded the Environmental Achievement Awards by the Chamber of Shipping of America (CSA) for their environmentally responsible operations, with 22 of these vessels having held this rank for ten years or more. 55 AET vessels also received the Jones F. Devlin Awards for accident-free operations at the CSA Annual Safety Awards event.

In line with its continuous commitment towards improving its global environmental footprint, AET has opted to equip two of its new Aframax tankers, currently under construction, with LNG dual fuel capabilities. In addition to this, the two DPST projects awarded by Statoil will also have dual fuel capabilities, and will be the most advanced DPSTs when they are delivered. To leverage on scale and improve sustainability, AET had injected four of its chemical tankers, namely the Bunga Lucerne, Bunga Lily, Bunga Lavender and Bunga Lilac, into a tanker pool, and secured time charters for its Akasia class product / chemical carriers.

OUTLOOK

Moving forward, rising global oil consumption, higher US exports and gradually moderating oil inventories are expected to drive a moderate increase in tanker demand in 2018. Tanker demand could possibly rise by some 4%, potentially matching supply growth. This should halt the market's deterioration, but tanker rates are unlikely to receive a significant boost without further vessel scrappage or slower capacity growth. As a consequence, we expect tanker rates to remain at the current low levels throughout 2018 though they should avoid the sharp falls of the last two years.

Against this backdrop, AET will explore opportunities to grow its DPST fleet in both South America and the North Sea. This may involve either acquiring second-hand DPSTs with attached charters, or participating in new tenders. AET will also look to expand the VLCC fleet to strengthen its source of secured income from long-term charters.

The segment will also work on optimising its midsize tanker fleet by focusing on efficiency, rejuvenation and building dual fuel capabilities. This will help AET to ensure its competitive edge in the USG and South America lightering business, apart from other niche business opportunities globally. In addition, this segment will continue to rebalance its product tanker portfolio focusing on fleet efficiency and business sustainability.

MANAGEMENT DISCUSSION & ANALYSIS
PETROLEUM & PRODUCT SHIPPING

BUSINESS RISKS & MITIGATING ACTIONS	
Summary of Business Risks	**Mitigating Actions**
• Tonnage oversupply continues to exert pressure on freight rates across all tanker sectors, exacerbated by continued fleet growth (albeit at decelerated rates). • High inventory levels and the OPEC-led crude oil supply cuts have and will continue to curb oil tanker demand growth, delaying any freight market recovery. • Increasing oil price on supply cuts and production outages is likely to limit demand growth for oil (and hence tanker), despite the projected continued global economic growth. • Reduced oil price volatility is likely to curb "trading cargoes", which ultimately depresses demand for tankers.	• Seek to reduce its exposure in the cyclical spot market and pursue more time charters and fixed contracts. • Continue to build, leveraging on its leading position and capability, the less volatile, semi-secured lightering/STS (and the growing reverse lightering) operations in the US Gulf and South America. • Continue to seek long-term employment for its larger tanker fleet at the opportune time, to ride out the market downturn. • Seek to grow its specialised asset (with long-term, secured employment) portfolio such as DPSTs and MCVs.
• Increasing bunker cost due to rising oil price. • New regulatory requirements (Ballast Water Management System (BWMS) and the IMO Sulphur Cap) will increase the P&L breakeven and operating costs. • Macroeconomic/general inflationary pressures that continue to push the cost of doing business and operations up.	• AET has a bunker procurement strategy to optimise its future bunker purchases. • Invested in the LNG dual fuel systems to maximise fuel efficiency whilst minimising its impact to the environment. • Developing options in complying with the new regulatory requirements. • Continue to exercise prudency in its cost management that has successfully lowered its overall P&L breakeven over the years.

OFFSHORE BUSINESS

The Offshore Business segment offers a comprehensive array of innovative offshore solutions ranging from concept selection, engineering design and project management, to operations and decommissioning for floating offshore solutions that cater to marginal, conventional and deepwater field developments. It has an extensive production and operations performance track record for all its facilities.

REVENUE

RM1,855.4 million

OPERATING PROFIT

RM1,129.7 million

MANAGEMENT DISCUSSION & ANALYSIS
OFFSHORE BUSINESS

The segment has a current fleet strength of 14 floating solutions comprising six Floating Production Storage and Offloading Units (FPSOs), five Floating Storage and Offloading units (FSOs), two Mobile Offshore Production units (MOPUs) and one Semi-Submersible Floating Production System. These are primarily located in Malaysian waters and include the largest FPS in Asia, the Gumusut-Kakap Semi-Submersible Floating Production System. Today, the Offshore Business segment owns some 50% of the total floating facilities in Malaysia.

The Offshore Business segment continued its excellent asset performance in 2017, registering more than 99% uptime. It also continued to demonstrate outstanding Health, Safety & Environment (HSE) performance, recording a zero lost time injury frequency rate for both 2015 and 2016 and registering only one lost time injury incident in 2017.

MARKET REVIEW

The Offshore Business segment continued to face challenging market conditions in 2017. Just like their global counterparts, Malaysian FPSO players experienced a dip in orders as investments in Oil & Gas projects were scaled down. The year saw a similar pattern as the previous year in terms of spending cuts and deferred FIDs. To mitigate the impact of low oil prices, many offshore oil service providers received client requests to reduce contracted charter rates or even faced termination of their charter contracts.

Several postponed FIDs were restarted over the course of the year. This included six FPSO awards, two of which were in South America, two in Southeast Asia, one in Africa, and another in the United Kingdom. There was also a major shift in regulatory frameworks in some of the countries with Brazil and Indonesia indicating their willingness to relax some of their nationalistic policies and waive some local content rules. India also indicated a willingness to open up its market to new service providers.

One of the **WORLD'S LARGEST** FPSO / FSO owner-operators with **14 ASSETS**

Excellent asset performance with uptime of over **99%**

Owns **50%** of the total floating facilities in Malaysia

Further details on Offshore Business
www.misc.com.my/solutions/offshore-business

MANAGEMENT DISCUSSION & ANALYSIS
OFFSHORE BUSINESS

KEY DEVELOPMENTS

The year saw the FSO Benchamas 2 Project with Chevron Offshore Thailand Ltd. in the Gulf of Thailand making good progress. This project marks MISC's maiden foray into Thailand's offshore Oil & Gas market and opens up opportunities for us to do business with Chevron in other areas where it operates. To date, the project has achieved 1 million manhours without Lost Time Injury (LTI) attesting to our high operational and safety standards.

The FSO Puteri Dulang obtained a three-year extension until 2021 from PETRONAS Carigali Sdn. Bhd. (PCSB) while the FPSO Cendor obtained Petrofac Malaysia Limited (PML) approval for changes in the contract period from 10 firm years with four one-year extension options to 12 firm years with 2 one-year extension options effective 1 January 2017.

An agreement was signed in December 2017 for the novation of the FPSO time charter contract for the Ruby II from PETRONAS Carigali Vietnam Limited (PCVL) to PetroVietnam (PVN). Under this agreement, PVN will assume all rights, liabilities and obligations of the charter with Vietnam Offshore Floating Terminal Limited (VOFT), a joint venture between MISC and Petroleum Technical Services Corporation.

In 2017, Gumusut-Kakap Semi-Floating Production System (L) Ltd. (GKL) was awarded a USD255 million settlement, after obtaining an adjudication decision in its favour in its case against Sabah Shell Petroleum Co. Ltd.

OUTLOOK

With oil prices expected to remain in the USD60 to USD70 range in 2018, the Offshore Business segment expects more FIDs in the coming year with as many as 12 FPSO project awards expected over the next 12 months. Based on Energy Maritime Associates' (EMA) Floating Production Systems Quarterly Report for Q4 2017, there are 142 potential projects (excluding requirements for Tension Leg Platforms (TLPs), spar production platforms (SPARs) and FSRUs) in the appraisal, planning, bidding or final design stages that require either a floating production facility or storage facility. Moreover, potential demand for an additional 29 FLNG platforms, brings the total to 171 potential new projects over the next five years.

The limited FIDs by Oil Majors and national oil companies is expected to lead to stiff competition particularly in the domestic market.

Moving forward, the segment will continue to focus on strategic acquisitions of distressed assets and building strategic partnerships, while at the same time focusing on expansion within the domestic and international arenas. In addition to our expansion in Brazil and India, the Offshore Business segment remains open to opportunities in West Africa and the Americas.

MANAGEMENT DISCUSSION & ANALYSIS
OFFSHORE BUSINESS

BUSINESS RISK & MITIGATING ACTIONS	
Summary of Business Risk	**Mitigating Actions**
• Volatile oil price environment has adversely impacted the offshore industry resulting in the uncertainty of FIDs for new offshore projects.	• Expand global footprint by capitalising on growth in deepwater floater projects. • Pursue organic and inorganic growth opportunities via asset acquisitions worldwide. • Close engagement with potential client for competitive edge thus ensuring business continuity.

MARINE & HEAVY ENGINEERING

The Marine & Heavy Engineering segment operated by MHB offers a wide spectrum of engineering and construction services for offshore and onshore facilities, marine conversion, repair and refurbishment services. MHB owns and operates one of the largest marine and heavy engineering facilities in the region with a fabrication area of 542,380m² and annual fabrication capacity of 129,700 metric tonnes (MT).

REVENUE
RM958.9 million

OPERATING PROFIT
RM15.3 million

MANAGEMENT DISCUSSION & ANALYSIS
MARINE & HEAVY ENGINEERING

MHB's facilities include one of the Southeast Asia's largest dry dock in terms of tonnage capacity, skid tracks and bulkheads for fabrication and loading of structures up to 55,000 MT and two goliath gantry cranes with 600 tonne lifting capacity each. The two yards in Pasir Gudang are well-positioned along one of the busiest shipping lanes of Southeast Asia and are strategically located close to Johor Port.

MARKET REVIEW

Oil Majors continue to take a cautious stance on offshore development projects investment in an environment of high oil price volatility. The offshore fabrication segment had to contend with fewer projects and intense competition as players compete for the same opportunities in a shrinking market.

A depressed tanker market in 2017 posed a challenge to the profitability and affordability of vessel owners and operators. This has led to the scaled back of dry docking activities in the marine repair segment.

KEY DEVELOPMENTS

In 2017, MHB has successfully sailed away several offshore projects, amongst which include Wellhead Platforms (WHP) and turret projects. Both the F12 WHP topside and jacket and the Besar A WHP for PCSB and the Baronia-B Central Processing Platform (CPP) jacket, bridge and piles for Hyundai Heavy Industries Co., Ltd. (HHI) were safely delivered to the customers. MHB also completed two turret projects, PETRONAS FLNG 2 external turret and FSO Benchamas 2 external turret, both of which were for SOFEC Inc. For the offshore services sector, the segment has completed 48 modification and rejuvenation work orders under the Facilities Improvement Project (FIP) for PCSB. As for the onshore sector, MHB has successfully completed two packages for Refinery and Petrochemical Integrated Development (RAPID) projects – Package 3 Area 3 for Petrovietnam Engineering Consultancy JSC and RAPID Package 22 for Punj Lloyd Sdn. Bhd.

Despite the challenging environment, MHB has successfully secured contracts worth RM1.145 billion, of which the most notable projects are the Engineering, Procurement, Construction, Installation and Commissioning (EPCIC) for the Bokor Phase 3 CPP Re-Development Project and for Sepat-A WHP topside and substructure as well as Sepat-A Topside Module Support Frame (MSF). In addition, two 'call-out' basis offshore services contracts were secured, namely Hook-up and Commissioning (HUC) services from CARIGALI-PTTEPI Operating Company Sdn. Bhd. and provision of facilities improvement, rejuvenation and modification from Vestigo Petroleum Sdn. Bhd.

For its Marine segment, MHB has completed the repair and maintenance of 75 vessels of various categories during the year under review. There are also two ongoing conversion projects – the Nautica Bergading FSO for E.A. Technique (M) Berhad and the FSO Benchamas 2 for MISC Berhad. In 2017, MHB has also secured 'en-bloc' contracts for the dry docking repairs of up to six LNG carriers from MISC Berhad.

One of the **LARGEST MARINE AND HEAVY ENGINEERING FACILITIES** in the region with an annual fabrication capacity of 129,700 MT

One of the largest dry dock in **SOUTHEAST ASIA** in terms of cubic capacity

Over **40 YEARS** track record of delivering integrated and complex solutions, including deepwater support services to international Oil & Gas clients

Further details on
Marine & Heavy Engineering
www.misc.com.my/solutions/marine-and-heavy-engineering

MANAGEMENT DISCUSSION & ANALYSIS
MARINE & HEAVY ENGINEERING

Construction of the new Dry Dock No. 3 is on track with operations scheduled to commence in 2020. The strategic investment into a new dry dock will provide MHB additional capacity and the flexibility to take on a variety of diverse dry docking works.

The Joint Venture (JV) company established in August 2016 with Eastern Pacific Industrial Corporation Berhad (EPIC) – MMHE EPIC Marine and Services (MEMS), has commenced its operations in April 2017. MEMS received its maiden vessel, RV Discovery (a research survey vessel) on 27 April 2017.

OUTLOOK

The outlook for Heavy Engineering segment is expected to remain challenging as Oil Majors continue to be cautious on their spending and CAPEX for upstream activities is projected to remain limited.

On the other hand, new investments into the downstream segment as refiners are taking advantage of the lower cost of raw materials will result in more onshore module fabrication and construction projects that MHB can capitalise on. Opportunities for onshore maintenance services are also anticipated to increase over the next three years as RAPID is scheduled to start operation by 2019.

With emerging markets especially in Asia and Middle East showing positive LNG demand growth, there will be more opportunities for MHB in LNG carrier repair business. With the additional capacity from Dry Dock No. 3, which is currently under construction, allows MHB to capitalise on the expanded market.

MANAGEMENT DISCUSSION & ANALYSIS
MARINE & HEAVY ENGINEERING

BUSINESS RISK & MITIGATING ACTIONS	
Summary of Business Risk	**Mitigating Actions**
• Deferment or cancellation of offshore projects due to the prolonged Oil & Gas sector slump.	• MHB has strategies through business diversification into non-offshore construction business and other product expansion while bidding beyond the region and increasing market presence. This is done through developing new collaboration with other partners to leverage on their global presence for full-fledged EPCIC projects. • MHB has also embarked on initiatives to ensure the bidding price is competitive to improve its success rate. • A productivity improvement initiative was also implemented to achieve operational excellence, manage wastages and idling to reduce leakages and ensure optimisation of project profit through material management and cost management efficiency. • Improve asset utilisation and capacity expansion. Construction work of Dry Dock No. 3 has commenced and this will provide additional capacity and overall flexibility of arrangement in various dry docking works.

INTEGRATED MARINE SERVICES

In February 2017, the Integrated Marine Services segment come into being following the phased integration of MISC's Fleet Management Services Division with AET Shipmanagement. Now bearing the name Eaglestar, the segment leverages on both divisions' expertise to provide technical management and operation services to MISC and AET's fleet of vessels.

MANAGEMENT DISCUSSION & ANALYSIS
INTEGRATED MARINE SERVICES

Eaglestar's array of services includes maintenance, repair and the running of vessels; operational performance improvements; as well as compliance with flag state and international operating standards. Its capabilities also encompass engineering and project management for newbuilds, vessel conversion and vessel life extension. Today, the segment offers a wealth of experience in LNG vessels, FSUs as well as crude, clean and product tankers (including specialised Dynamic Positioning (DP) vessels and dual fuel tankers). The segment operates primarily out of five locations, namely Kuala Lumpur, Singapore, London, Houston and Rotterdam and has manning offices in the Philippines and India.

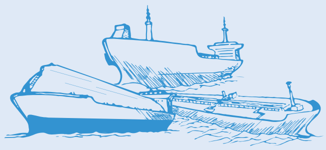
MARKET REVIEW

For the year in review, the MISC Group like other shipowners, experienced depressing charter rates for its LNG Shipping as well as Petroleum and Product Shipping fleets. To maintain the competitive edge of our fleets, we focused our efforts on ensuring operating cost optimisation and efficiency. Today, Eaglestar which has technical responsibility for our fleets, continues to place a top priority on managing our fleet whilst maintaining the highest operating standards.

High overall vessel availability rate of above

99%

for our LNG, Crude and Product fleets



Manages a fleet of over

120 VESSELS

Supported by

5,000

highly skilled seafarers and shore professionals

Further details on Integrated Marine Services
www.misc.com.my/solutions/integrated-marine-services

MANAGEMENT DISCUSSION & ANALYSIS
INTEGRATED MARINE SERVICES

KEY DEVELOPMENTS

To align with the Group's MISC2020 strategy, a five-year master plan named Fleet 2020 is in place. With a focus on optimising operational efficiency and ensuring our operating assets perform in a superior manner, the Fleet 2020 initiatives serve to strengthen MISC's business in the long-run. Fleet 2020 also aims to strengthen the capabilities and skill sets of the Group's Sea and Shore staff in incremental steps to ensure their ability to deliver a superior performance.

The segment's focus on delivering highly efficient and sustainable operations resulted in several notable accolades in 2017. These included MISC being named "Tanker Operator of the Year" 2017 at the Lloyds List Asia Pacific Awards event, underscoring the segment's commitment to operational excellence, high standards of safety and leadership in sustainability.

On top of this, 54 crude vessels received the Chamber of Shipping of America's (CSA) Annual Environmental Achievement Awards while the CSA also accorded 55 of our crude vessels the Jones F. Devlin Awards for Safety Excellence. The award is given to all manned merchant vessels that have operated for two full years or more without a crew member losing a full turn at watch because of an occupational injury. Moreover, AET vessels, Eagle Lyon and Eagle Le Havre, gained recognition for their green performance from the Maritime and Port Authority of Singapore.

MISC was also lauded for maintaining a high overall vessel availability rate of above 99% for our LNG, Crude and Chemical fleets. These rates surpassed the industry benchmark across all segments of the shipping sector.

Today, via its Centre of Excellence, Eaglestar is leveraging upon common synergies as well as the combined resources and experience of some 60 years' in the shipping industry to better serve key vessel segments in various markets. As a multi-discipline shipmanagement arm, Eaglestar is able to operate with more agility and scalability while exercising the wealth of technical and commercial expertise of personnel both on shore and at sea.

By consolidating price agreements, service contracts, volume rebates and bulk purchases for machinery spares, lubricants, ships stores and logistics arrangements under the banner of the Eaglestar Group, the segment continues to derive effective cost savings.

MANAGEMENT DISCUSSION & ANALYSIS
INTEGRATED MARINE SERVICES

While there appear to be some signs pointing towards a recovery, the ongoing depression in shipping charter rates is expected to continue in 2018, exerting pressure on vessel operating costs.

MOVING FORWARD

While there appear to be some signs pointing towards a recovery, the ongoing depression in shipping charter rates is expected to continue in 2018, exerting pressure on vessel operating costs. Come 2019 and 2020 respectively, upcoming regulatory requirements like the Ballast Water Management System (BWMS) as well as IMO's Global Sulphur Cap regulations 2020, take effect.

Involving the installation of BWMS and Sulphur Oxide (SOx) scrubbers on board vessels, these new requirements will impact shipowners financially and affect the way the vessels are managed operationally. Against this challenging backdrop, Eaglestar will set its sights on ensuring further cost optimisation whilst simultaneously maintaining the highest operating standards to ensure the Group's businesses remain competitive and comply with all existing regulations.

As part of its energy efficiency optimisation mandate, Eaglestar continues to focus its efforts on enhancing fuel savings derived from vessel operations.

Eaglestar's fuel saving activities to date are expected to hold it in good stead even as the Group prepares to comply with the International Convention for the Prevention of Pollution from Ships (MARPOL) Annex VI reporting requirements relating to fuel consumption (effective 1 January 2019). The segment also continues to undertake research on SOx scrubbers and explore the viability of tapping hybrid fuels for positive long-term environmental impact.

MARITIME EDUCATION & TRAINING

As the leading maritime and education training facility in the region, Akademi Laut Malaysia (ALAM or the Academy), offers pre-sea and post-sea nautical studies and marine engineering programmes, maritime and offshore safety training courses, simulator-based training courses, maritime management studies programmes as well as research and consultancy services.

MANAGEMENT DISCUSSION & ANALYSIS
MARITIME EDUCATION & TRAINING

MARKET REVIEW

In 2017, ALAM saw the demand for its training and development programmes reduced considerably given the prevalent challenges in the global and shipping industry. Many shipping companies also reduced their participation in the cadet's sponsorship programmes due to the downturn in the industry. On top of this, the International Convention of Standards of Training, Certification and Watchkeeping for Seafarers (STCW) 2010 which took effect in 2012, came to an end in 2017, resulting in a large reduction in enrolments for related modular courses. However, the Academy was successful on other fronts.

KEY DEVELOPMENTS

ALAM secured 40 new clients for training and consultancy projects in 2017 despite the downturn. These projects included consultancy for PETRONAS FLNG (PFLNG) facility, a marine risk assessment simulation study for Tanjung Langsat Port and crew competency management for the MISC Group's LNG carriers. Other projects included a sponsored ratings programme for the Melaka state government's State Economic Planning Unit and a Ship-to-Ship (STS) simulator training project from Fendercare Marine (UK). In addition, Star Cruises appointed ALAM to conduct the International Labour Organisation Maritime Labour Convention (ILO MLC) shipboard catering courses on board six cruises for some 100 of its catering crew. ALAM also made good inroads abroad, securing a marine pollution training contract for the Royal Yacht of Oman with more programmes lined up for 2018.

ALAM is in the process of offering two new homegrown programmes, namely the Advanced Diploma in Nautical Studies and Advanced Diploma in Marine Engineering for the post-sea officers. The specifications for these two courses have been submitted to the Malaysian Qualifications Agency (MQA) and are pending approval. Back in 2016, ALAM had signed an International Collaborative Agreement with Liverpool John Moores University (LJMU) in which the latter had given approval for graduates of ALAM's Advanced Diploma programmes to transfer directly to the final semester of a Bachelor of Science in Nautical Science or a Bachelor of Engineering in Mechanical and Marine Engineering at LJMU in the United Kingdom. ALAM plans to roll out these Advanced Diploma programmes in July 2018 upon approval from the Ministry of Higher Education (MOHE). The Advanced Diploma programmes will create a pathway for post-sea students to obtain a tertiary qualification apart from their Certificates of Competency.

Over
156 COURSES
offered including customised courses

Received Outstanding rating in the
MYQUEST 2016/2017

6 INTERNATIONAL STUDENT SERVICES

5 COLLEGE-BASED CATEGORY CLUSTER-BASED CATEGORY

AWARDED A 5-STAR RATING
(the highest rating) as a Training Provider for the Human Resources Development Fund (HRDF).

Further details on Maritime Education & Training
www.misc.com.my/solutions/maritime-education-training

MANAGEMENT DISCUSSION & ANALYSIS
MARITIME EDUCATION & TRAINING

Following the signing of a Memorandum of Understanding (MOU) with Kolej Yayasan Pelajaran Johor (KYPJ) to provide KYPJ's culinary students career options in the maritime sector, the new culinary modular courses will commence at the Academy's refurbished training galley in 2018.

The year saw an increase in the number of international students attending post-sea programmes especially from Bangladesh and Pakistan. ALAM's training programmes were also given recognition by the government of Timor Leste with a MOU signed between both parties leading to the roll out of port management and safety training courses for Timor Leste's port officials. ALAM also secured a grant from the Technology Depository Agency (TDA) to conduct Preparatory Electro Technical Officer programmes for ship's electrical engineers.

In 2017, the concessionaire for ALAM, Malaysian Maritime Academy Sdn. Bhd. (MMASB), signed an 18-month Interim Agreement and Tenancy Agreement with the Ministry of Transport and Pesuruhjaya Tanah Persekutuan respectively. MMASB and the Government are currently finalising the Concession Agreement and Lease Agreement extensions that will give MMASB the rights to run and operate ALAM for another 30 years.

As a testament to ALAM's position as a key player in the regional maritime education arena, ALAM was named the "Best in Maritime Education & Training" at the prestigious Seatrade Maritime Awards Asia 2017 event. The Academy also received the outstanding 6-Star Rating (for the international student services category) and a 5-Star Rating (for both the college-based category and cluster-based category respectively) at the Quality Evaluation System (MyQUEST) 2016/2017 event. ALAM was also awarded a 5-Star Rating (the highest rating) as a Training Provider for the Human Resources Development Fund (HRDF).

MANAGEMENT DISCUSSION & ANALYSIS
MARITIME EDUCATION & TRAINING

In facing anticipated headwinds, ALAM is aggresively exploring opportunities to diversity into other market segments such as ports, terminals, cruise and logistics training.

MOVING FORWARD

In facing anticipated headwinds, ALAM is aggressively exploring opportunities to diversify into other market segments such as ports, terminals, cruise and logistics training. The Academy will also look to expand its regional market coverage and strengthen international collaboration with countries like Cambodia, Timor Leste, Singapore and Indonesia in the areas of consultancy and maritime courses.

Following its acquisition of an Electrical High Voltage (EHV) simulator, ALAM has been granted approval by the Malaysian Marine Department (MarDep) to conduct this course in-house. The newly renovated and refurbished training galley enables ALAM to meet the training requirements of the ILO MLC 2006 programmes. These will give ALAM the opportunity to strengthen its offerings and boost its revenue streams.

PORTS & TERMINAL SERVICES

The Ports and Terminal Services segment under MISC Maritime Services Sdn. Bhd. (MMS) is principally involved in the areas of marine assurance and compliance as well as port and terminal operations and management. MMS' experienced team provides qualified pilotage and loading master services to ports and terminals located in Kertih, Melaka and East Malaysia as well as marine consultancy and assurance services through accredited inspectors and engineers.

MANAGEMENT DISCUSSION & ANALYSIS
PORTS & TERMINAL SERVICES

MARKET REVIEW

As a substantial part of the business is directly related to the Oil & Gas industry and PETRONAS-related activities, MMS has been quick to adapt to current market trends and low oil prices by continuously reviewing the organisation to ensure resources are optimised so that services are delivered consistently and effectively.

In line with this, MMS supports PETRONAS' Cost Reduction Alliance or CORAL 2.0 industry-wide initiatives through cost efficiency on its service delivery. MMS is also providing support to the Integrated Logistic Tower project that will bring significant changes to the upstream marine sector. This calls for all upstream vessels that are to be utilised to be inspected and vetted exclusively by MMS.

KEY DEVELOPMENTS

In July 2017, the segment completed a rebranding exercise, changing its name from PETRONAS Maritime Services Sdn. Bhd. (PMSSB) to MISC Maritime Services Sdn. Bhd. or MMS. This exercise also involved the restructuring of business segments within MMS with the aim of optimising costs and efficiencies.

MMS also recently received ISO9001:2015 quality management certification. This important achievement underscores the segment's commitment towards providing a better service experience to its clients, particularly on the port and terminal management and inspection services front. The year in review also saw MMS achieving 10.51 million safe man-hours with no LTI.

Received
ISO9001:2015
quality management certification

Achieved
10.51 million
Safe man-hours with no Loss Time Injuries (LTI)

Successfully handled
35,000 VESSELS
of up to 350,000 dwt

Further details on Ports & Terminal Services:
www.misc.com.my/solutions/port-terminal-services

MOVING FORWARD

MMS expects that to some extent 2018 will continue to be a challenging year due to the geopolitical uncertainties affecting the global Oil & Gas industry plus ongoing cost cutting measures by clients. However, on a brighter note, given the planned expansion of PETRONAS' marine facilities and the requirement by the same to ensure vessel integrity for the safe conveyance of petroleum products, MMS expects more opportunities to come its way.

Moving forward, MMS will continue to explore opportunities in new markets as well as with other PAC operators and PETRONAS joint venture partners to boost its performance and deliver value to the Group. The segment also aims to grow its maintenance services to cater to PCSB's requirements for a one-stop maintenance centre for Single Buoy Mooring (SBM) facilities in Peninsular Malaysia, Sabah and Sarawak. The segment will also seek out opportunities to offer piloting and loading master services to other SBM owners such as the Labuan Crude Oil Terminal.

PEOPLE DEVELOPMENT

We know that our business is only as good as our people and that they are key to our continuing success. Today, the MISC Group's close to 9,000-strong workforce remains the Group's most important asset and we are committed to developing our people to ensure our long-term success amidst a highly competitive landscape.

PEOPLE DEVELOPMENT

In line with the Group's Vision to consistently provide better energy related maritime solutions and services, one of our key priorities is to ensure that our employees are equipped with the necessary skills, knowledge and attitude to support the Group's aspirations. In support of this, is one of the key thrusts of our Mission Statements, which calls for the Group to promote individual and team excellence of our employees.

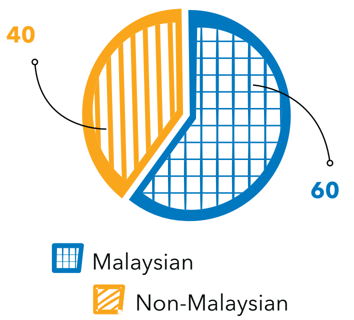
Tasked with nurturing our people, the Human Resources (HR) division and the Eaglestar Group are responsible for the development of our shore and sea staff respectively. Collectively, they look after employee welfare and talent sourcing, as well as facilitate personal development and career progression within MISC. By recruiting, developing and retaining the right talent, the MISC Group aims to create a highly engaging workplace with emphasis on performance and excellence.

MANAGEMENT DISCUSSION & ANALYSIS
PEOPLE DEVELOPMENT

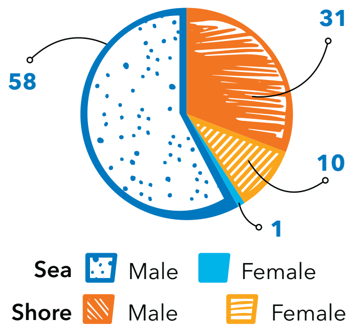
THE MISC WORKFORCE

This is an overview of MISC's workforce as at 31 December 2017 :

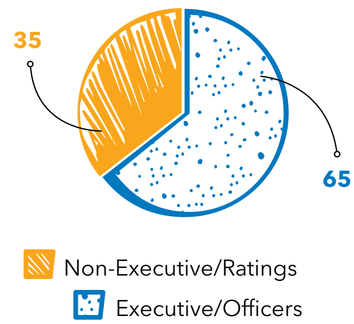
Percentage of Malaysian and non-Malaysian Employees (%)



Percentage of Shore Employees and Sea Staff by Gender (%)



Percentage of Executives / Officers and Non-Executives / Ratings (%)



Main Thrusts of the MISC HR Masterplan		
Focus	**Objective**	**Key Initiatives**
Succession Planning	To have in place a sustainable talent pipeline across the job levels, to ensure seamless leadership and talent pipeline in the organisation.	• Extension of succession planning exercise to all job levels; from Senior General Manager right down to Executive level. • Inclusion of talent pool from subsidiaries. • Introduction of a mid-year succession planning review, on top of the year-end review. • Introduction of potential assessment tools to support the succession planning process.
Employee Competencies Development	To have a competent and capable workforce through a structured and holistic developmental process.	• Undertake development and implementation of career mapping for Executives and above. • Review and customise the existing Skill Group (SKG) programmes to address the learning needs for both technical and non-technical disciplines. • Periodical review of the intervention programmes so as to gauge the effectiveness of the programmes in addressing the competency gap among employees.

MANAGEMENT DISCUSSION & ANALYSIS
PEOPLE DEVELOPMENT

INDUSTRY HR TRENDS

While economic conditions varied in 2017, most markets across the regions experienced at least modest growth, which boosted hiring and led to talent shortages in certain sectors. The most significant change was seen in Europe, as the continent's economy and job market recovered after 10 years of being stagnant. Job growth increased on the back of strengthening business confidence and deregulation in the employment market.

In Southeast Asia, the job market remained active, largely due to new start-up companies entering the market and the expansion of existing businesses. There were several noticeable trends in this region in 2017, which included :

The continuing shift towards digitalisation
This is especially due to a rapidly growing younger population and increasing consumerism. As more businesses moved to online or mobile platforms, there was a rise in demand for professionals with digital expertise. Cloud and cyber security were key growth areas and this is expected to continue in 2018.

The increasing focus on business transformation
This helped to trigger demand for HR professionals with change management experience. These professionals too will be sought after in 2018 as companies undergo further cultural and structural change.

Tighter regulations in the banking/ financial services sector
This resulted in strong demand for regulatory and compliance skill sets as well as risk, audit and legal expertise. Demand for these groups of specialists will be sustained in 2018, along with salary increases for this group.

KEY ACHIEVEMENTS

The year 2017 marked the second year of implementation of MISC's five-year (2016-2020) HR masterplan. This blueprint aims to ensure that a sustainable talent pipeline is in place across the Group, and that the competencies and capabilities of the MISC workforce are strengthened through a structured and holistic developmental process. In rolling out the masterplan, we continued to focus our efforts on succession planning and employee competency development initiatives.

MANAGEMENT DISCUSSION & ANALYSIS
PEOPLE DEVELOPMENT

KEY INITIATIVES FOR OUR SHORE EMPLOYEES

On the succession planning front, HR reviewed the Critical Positions listing, introduced a mid-year succession planning review, and extended the succession planning talent pool to the Group's subsidiaries. Two accelerated programmes for successors were launched. These included the Advanced Leadership Communication Programme and the Accelerated Leadership Programme.

On the employee competency development front, HR continued to roll out a host of leadership and functional skills initiatives. These included the launch of HR Learning Day 2017 whereby new and simplified leadership competencies were introduced via an array of interactive and incentivised activities; as well as the rollout of the Learning Calendar to enable employees to self-register themselves for relevant training programmes throughout the year. On top of this, HR conducted a total of 23 leadership training programmes for employees of all levels and began reviewing its functional competency framework.

Altogether, a total of 397 employees attended functional and technical training sessions racking up a total of 837.5 training man days in 2017. For the year in review, MISC took its people development efforts up several notches by investing some RM7.13 million in training programmes across the Group. This was a 30% increase over 2016's RM5.48 million training budget.

In 2017, follow-on phases of the MISC Cultural Beliefs workshops were rolled out as part of the ongoing initiative to inculcate a high-performing culture, as well as deepen trust and strengthen relationships across the Group. These workshops serve to promote cohesiveness, empowerment and unity amongst employees, whilst complementing existing Shared Values to create a positive, healthy and thriving work culture.

During the year, the office upgrade works at Menara Dayabumi, were completed on schedule and within budget. Incorporating the MISC Cultural Beliefs within the new look, feel and design of the office, this exercise has led to the creation of a more energised and fresher working environment for employees, whilst simultaneously enhancing the Group's brand and corporate image.

With numerous employees travelling across the globe for various tasks, a centralised Travel Desk unit was launched to manage all business-related travel within MISC. The new unit will enhance efficiency in managing employees' end-to-end travel arrangements (air and ground arrangements) including costs. A centralised employee tracking and monitoring system has been implemented, thus making it easier to reach employees globally in the event of an emergency.

The Business Intelligence (BI) module of the enhanced Human Resources Information System (HRIS), went live in November. It provides real-time analysis of MISC's manpower demographic data as well as promotes increased efficiency and accuracy. Through the HRIS, HR is today able to provide more timely and comprehensive manpower reports to Management to facilitate the decision-making process relating to employees.

The year in review also saw MISC recording an attrition rate of 8%, which was much lower than the average market attrition rate of 12%. If involuntary attritions such as contract expiry and retirement are excluded from this calculation, the voluntary attrition i.e. resignation rate in MISC for 2017 effectively stands at 4%. This reflects the success of talent retention initiatives within our organisation, an important factor to sustain the Group's performance and drive business growth.

KEY INITIATIVES FOR OUR SEAFARERS

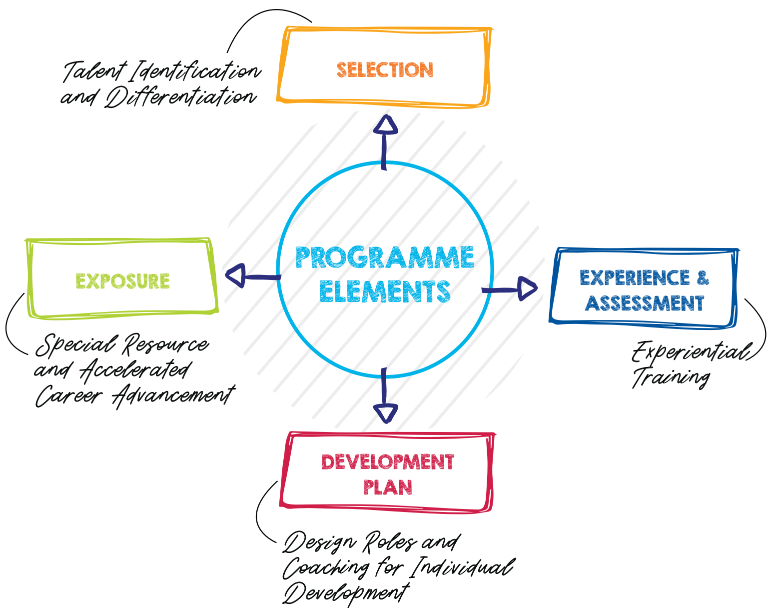
The MISC Group, through our Integrated Marine Services subsidiary, Eaglestar, is committed to ensuring the continuous development of our seafarers at all levels from cadets right up to our leadership team. We are continuously seeking ways to enhance their competencies, proficiency and capabilities in various aspects of the business and operations.

Our training and development programme goes above and beyond the regulatory requirements as we strive to ensure that we adopt the best international industry practices over the years with the following objectives in mind :

- Foster the talents of future seafarers and maritime leaders through our cadetship and foundational training programmes;
- Cultivate resilient and proficient maritime leaders through leadership management and development programmes; and
- Continually enhance the skills and knowledge of our seafarers through various trainings and engagement sessions.

MANAGEMENT DISCUSSION & ANALYSIS
PEOPLE DEVELOPMENT

MISC continues to nurture the talents of future seafarers and maritime leaders through our cadetship and foundational training programmes. To date, we have been sponsoring deck and engine cadets from various nationalities via our in-house maritime academy, ALAM. Our Cadet Sponsorship Programme places high emphasis on technical, technological and hands-on practical training. It is with this in mind that we offer ship-berth training for our sponsored cadets, allowing them to train onboard our vessels and experience the real business and technical environment of a commercial vessel. The programme has been ongoing until today and we have invested more than USD50 million in sponsorship and career development activities.

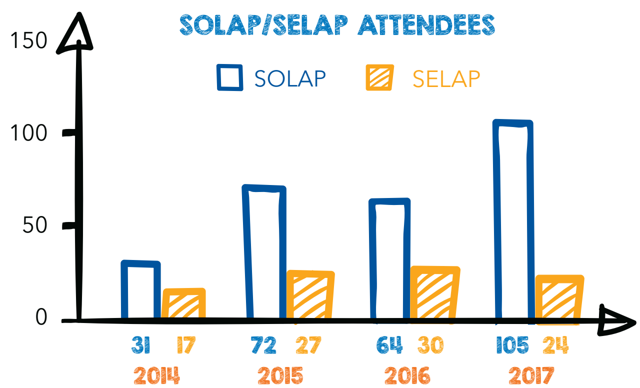


The Accelerated and Enhanced Talent Management Programme (AETMP), serves to identify high achievers amongst our seafaring officers. It accords officers a clear pathway to progress rapidly throughout their careers and ultimately to take up senior leadership positions within the MISC Group and as leaders in the maritime industry. We are one of few tanker owners and operators to offer a programme of this magnitude and scope. It presents an exciting opportunity for those officers who have high hopes and aspirations to move up in their careers with the MISC Group.

As part of our efforts to cultivate resilient and proficient maritime leaders through leadership management and development programmes, we have implemented the Senior Officers Leadership Assessment Programme (SOLAP) and Senior Engineers Leadership Assessment Programme (SELAP). The SOLAP and SELAP initiatives have been specifically designed to assess the suitability of senior officers assuming the positions of Ship Masters or Chief Engineers. A total of 370 Senior Officers and Senior Engineers have attended the programme since 2014.

Developed with in-house expertise in collaboration with industry experts, these programmes focus on the assessment of generic leadership competencies required for higher positions. The programmes are co-conducted by an experienced mariner together with a qualified psychologist who specialises in Organisational Psychology. Upon completion of the programme, officers will undergo structured leadership programmes to address any gaps so that they will have a better understanding of the leadership competencies that are deemed important for effective performance as a Ship Master or Chief Engineer.

We have also developed customised training programmes to address gaps arising from these assessments. These include the Crucial Conversation, Time Management, Positive Thinking and Leadership Behaviour modules. These programmes are intended to ensure that Senior Officers onboard MISC Group vessels are well groomed in both technical and management skills so that they can lead their teams to excel.



MANAGEMENT DISCUSSION & ANALYSIS
PEOPLE DEVELOPMENT

STRENGTHENING SHORE EMPLOYEES AND SEAFARER ENGAGEMENT

The shipping industry is one where the majority of employees are based thousands of miles away on the high seas operating sophisticated assets. These seafaring personnel typically work remotely often under challenging circumstances away from their shore counterparts who typically work out of an office. To bridge the gap between shore employees and seafarers, and to ensure employees from both sides are aligned with organisational goals, we organise conferences for shore staff and seafarers from all ranks so that they see themselves as an invaluable part of the organisation and can serve as catalysts that will contribute to the Group's success.

Engagement sessions not only provide an effective medium for exchanging views but also a platform for celebrating achievements, strengthening the bonds of unity, and building the esprit de corps of employees within the MISC Group.

We also conduct Senior Officers, Junior Officers and Rating seminars and conferences on a quarterly basis in Malaysia, India, and the Philippines. Various subject experts from the oil majors, P&I clubs, maritime industries and government bodies are invited to present at these engagement sessions and make them more meaningful. Key issues and information are also shared to increase awareness on various aspects of the operations and business including HSE, contemporary issues, as well as ideas and strategies aimed at developing our people's competencies. Other sessions include team building activities, Cultural Beliefs workshops as well as Corporate Social Responsibility initiatives. In 2017, there were 181 participants at the Senior Officer Management Conference, 230 at the Focus Seminar and another 238 at the Rating Seminar.

These seminars and conferences help to break the ice between the sea and shore employees as they freely exchange ideas and views. This leads to better working environments, helps our people increase their understanding of the Group's common values, business strategy and direction, as well as inspires them to work as a team to achieve the Group's objectives and aspirations.

MOVING FORWARD

As MISC ventures forth amidst a rapidly evolving playing field, the scarcity of specialised talent continues to be a perennial challenge for the Group. An increasing number of new start-up companies offering more attractive employee value propositions, especially to a growing pool of Gen-Y employees, further intensifies the competition for good talent.

Aside from focusing on succession planning and employee competency development for both leadership and functional skills, our HR folk will set their sights on digitalising more employee learning and development solutions. They will also work on inculcating a stronger sense of ownership among employees regarding self-development, as well as create an active sustainable coaching culture throughout the Group.

For MISC to propel forward and deliver sustainable growth, we must ensure that the best talent is in place and that they see MISC as a great place to work at. To build a high-trust, high-performance culture within MISC, we will continue to invest in effective talent management and development programmes, among other measures, to enable our people to tap their full potential and fulfil their personal aspirations.


eaglestar

SHAPING THE FUTURE OF THE INDUSTRY

Volatile oil prices, strict environmental regulations and challenging economic conditions are among the key factors that have added uncertainty to our industry. Calling for industry-wide collaboration, MISC is taking up the challenge of building more cost-efficient vessels, operating responsibly as well as providing a rewarding and safe career for both our seafarers and shore employees. We pride ourselves on being able to provide our customers with innovative solutions. Our work with customers demonstrates that the future calls for closer collaboration between all industry leaders and stakeholders.

Delivering greener and more cost-effective maritime solutions and services is paramount to our continued success, and we will continue to achieve this goal together with our partners while building a more efficient and sustainable future for the industry.

INVESTOR RELATIONS REPORT

MISC recognises the importance of engaging our valued stakeholders and we are strongly committed to uphold best practices in corporate governance and ensure timely disclosure of material information to stakeholders. Through our Group's Investor Relations (IR) programme, we recognise the importance of fostering and maintaining transparent communication with our shareholders, potential investors and general public to facilitate informed decision making and enhance investors' understanding of the Group.

The Group's Investor Relations (IR) Programme continues to provide a platform for two-way communication between MISC and the investment community, with active participation from the Group's senior management that is supported by a dedicated IR team. Throughout the year, MISC regularly reviews and enhances its IR programme to ensure a consistent flow of quality and timely disclosure of our strategic plans, business activities and performance to our stakeholders.

During the year, we keep our stakeholders informed on our operational and financial performance through the quarterly financial results announcements on Bursa Malaysia as well as keep our shareholders informed on our progress at the Annual General Meeting. The quarterly financial results announcements are accompanied by analysts' briefings, where in-depth explanation on the Group's developments and financials are shared. MISC held its 48th Annual General Meeting (AGM) in April 2017 where minority shareholders were also given the opportunity to interact and receive updates on the operations, financials, business strategies and future prospects of MISC from the President/Group CEO and Board of Directors.

Additionally, active stakeholders' engagement efforts are carried out by means of conference calls, corporate events and one-on-one meetings with investors as well as analysts from both within and outside of Malaysia. As part of our IR and shareholder strategy to increase MISC Group's visibility amongst the investing community abroad, the IR team also participated in an investor conference in Singapore. Engagement with the credit rating agencies are carried out periodically, namely Moody's Investors Service (Moody's), Standard & Poor's (S&P) and Malaysian Rating Corporation Berhad (MARC) to provide stakeholders and the public with additional independent reviews of the Group.

These regular dialogues between MISC and the investment community have been instrumental to facilitate a clear, fair and holistic view of our performance and strategies among research analysts, fund managers, investors and other stakeholders. It is also through these engagements that we gather valuable feedback and recommendation from analysts and shareholders on expectation from the investment community.

INVESTOR RELATIONS REPORT

At MISC, we place strong emphasis on the continued education and awareness of our investors on issues and developments that impact the Group. This broader investor communication takes place via our corporate website which remains up-to-date with latest developments and information for investors' easy access. Monthly industry newsletters pertaining to the shipping and offshore Oil & Gas markets are also disseminated to educate investors on the current trends in our industry.

We are proud to be nominated for the "Best Company for IR" and "Best IR Website" by the Malaysian Investor Relations Association Berhad (MIRA) under Bursa Malaysia, in recognition of our comprehensive IR programme. In addition, as a result of the Group's strong performance across a variety of Environmental, Social and Governance (ESG) practices, MISC has once again secured its position as a constituent of the FTSE4Good Bursa Malaysia Index for the fourth year in a row since inception, with an improved overall score from last year. This recognition is a strong testament of our Group's commitment in adhering to good corporate responsibility practices on our business.

Moving into the new financial year, we will continue to enhance our IR efforts and proactively engage with shareholders and investors to communicate information promptly, clearly and on an equal basis in accordance with best IR practices as required under Bursa Malaysia's Listing Requirements to create sustainable value for shareholders.

The Group's "Corporate Disclosure Guideline" identify the following Management Personnel responsible for IR activities :

PRESIDENT/GROUP CHIEF EXECUTIVE OFFICER

VICE PRESIDENT, FINANCE

GENERAL MANAGER, CORPORATE PLANNING AND DEVELOPMENT

For further enquiries or feedback, stakeholders and interested parties are encouraged to submit their comments to :
investor.relations@miscbhd.com.

Similarly, further information on the Group can be obtained through our corporate website : **www.misc.com.my**.

STATISTICS ON SHAREHOLDINGS

As at 20 February 2018

ANALYSIS OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	% OF SHAREHOLDERS	NO. OF SHARES	% OF ISSUED SHARE CAPITAL
Less than 100	588	10.86	6,942	0.00
100 - 1,000	1,119	20.66	695,885	0.01
1,001 - 10,000	2,250	41.55	9,261,041	0.21
10,001 - 100,000	903	16.68	31,509,036	0.71
100,001 to less than 5% of issued shares	553	10.21	1,364,884,388	30.58
5% and above of issued shares	2	0.04	3,057,435,811	68.49
TOTAL	**5,415**	**100.00**	**4,463,793,103**	**100.00**

DIRECTORS' SHAREHOLDINGS

NO.	NAME OF DIRECTORS	NO. OF SHARES			
		DIRECT INTEREST	%	INDIRECT INTEREST	%
1	Dato' Ab. Halim Mohyiddin	-	-	-	-
2	Yee Yang Chien	-	-	-	-
3	Datuk Manharlal Ratilal	-	-	-	-
4	Datuk Nasarudin Md Idris	-	-	-	-
5	Lim Beng Choon	-	-	-	-
6	Dato' Sekhar Krishnan	-	-	-	-
7	Liza Mustapha	-	-	-	-
8	Mohd Yusri Mohamed Yusof	-	-	-	-

SUBSTANTIAL SHAREHOLDERS

NO.	NAME OF SUBSTANTIAL SHAREHOLDERS	NO. OF SHARES	%
1	Petroliam Nasional Berhad - CIMB Group Nominees (Tempatan) Sdn. Bhd. Exempt An for Petroliam Nasional Berhad	2,797,459,800	62.67
2	Employees Provident Fund Board - Citigroup Nominees (Tempatan) Sdn. Bhd. Employees Provident Fund Board	269,855,611	6.05

STATISTICS ON SHAREHOLDINGS

As at 20 February 2018

30 LARGEST SHAREHOLDERS

NO.	NAME OF SHAREHOLDERS	NO. OF SHARES	%
1	CIMB GROUP NOMINEES (TEMPATAN) SDN. BHD. EXEMPT AN FOR PETROLIAM NASIONAL BERHAD	2,797,459,800	62.67
2	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. EMPLOYEES PROVIDENT FUND BOARD	259,976,011	5.82
3	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	204,636,200	4.58
4	STATE FINANCIAL SECRETARY SARAWAK	67,466,667	1.51
5	LEMBAGA TABUNG HAJI	64,953,000	1.46
6	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	58,228,000	1.30
7	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA	57,271,700	1.28
8	PENANG DEVELOPMENT CORPORATION	50,800,000	1.14
9	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM WAWASAN 2020	50,000,000	1.12
10	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN. BHD. MALAYAN BANKING BERHAD FOR LEMBAGA KEMAJUAN TANAH PERSEKUTUAN (FELDA)	46,610,200	1.04
11	CARTABAN NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	39,808,968	0.89
12	AMANAHRAYA TRUSTEES BERHAD AS 1MALAYSIA	34,295,700	0.77
13	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA 2	29,351,600	0.66
14	HSBC NOMINEES (ASING) SDN. BHD. BBH AND CO BOSTON FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	25,561,891	0.57
15	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN. BHD. MALAYAN BANKING BERHAD FOR LEMBAGA KEMAJUAN TANAH PERSEKUTUAN (FELDA 2)	25,000,000	0.56
16	MAYBANK NOMINEES (TEMPATAN) SDN. BHD. MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND (N14011970240)	22,000,000	0.49
17	HSBC NOMINEES (ASING) SDN. BHD. JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	18,378,630	0.41
18	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND	17,417,560	0.39

STATISTICS ON SHAREHOLDINGS

As at 20 February 2018

30 LARGEST SHAREHOLDERS (CONT'D)

NO.	NAME OF SHAREHOLDERS	NO. OF SHARES	%
19	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM DIDIK	16,421,300	0.37
20	CARTABAN NOMINEES (ASING) SDN. BHD. GIC PRIVATE LIMITED FOR GOVERNMENT OF SINGAPORE (C)	14,697,400	0.33
21	CITIGROUP NOMINEES (ASING) SDN. BHD. CBNY FOR DIMENSIONAL EMERGING MARKETS VALUE FUND	14,588,904	0.33
22	PERMODALAN NASIONAL BERHAD	14,000,000	0.31
23	HSBC NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR BANK JULIUS BAER & CO. LTD. (SINGAPORE BCH)	13,491,980	0.30
24	CARTABAN NOMINEES (TEMPATAN) SDN. BHD. PAMB FOR PRULINK EQUITY FUND	13,386,600	0.30
25	AMSEC NOMINEES (TEMPATAN) SDN. BHD. MTRUSTEE BERHAD FOR CIMB ISLAMIC DALI EQUITY GROWTH FUND (UT-CIMB-DALI)	13,022,100	0.29
26	ABB NOMINEE (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR LEMBAGA KEMAJUAN TANAH PERSEKUTUAN (FELDA)	13,000,000	0.29
27	MINISTER OF FINANCE AKAUN JAMINAN PINJAMAN KERAJAAN PERSEKUTUAN	10,000,000	0.22
28	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. EXEMPT AN FOR AIA BHD.	9,198,226	0.21
29	MAYBANK NOMINEES (TEMPATAN) SDN. BHD. MAYBANK TRUSTEES BERHAD FOR PUBLIC REGULAR SAVINGS FUND (N14011940100)	8,415,700	0.19
30	MAYBANK NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR LEMBAGA KEMAJUAN TANAH PERSEKUTUAN (415321)	8,000,000	0.18
	TOTAL	**4,017,438,137**	**90.00**

CORPORATE GOVERNANCE OVERVIEW STATEMENT

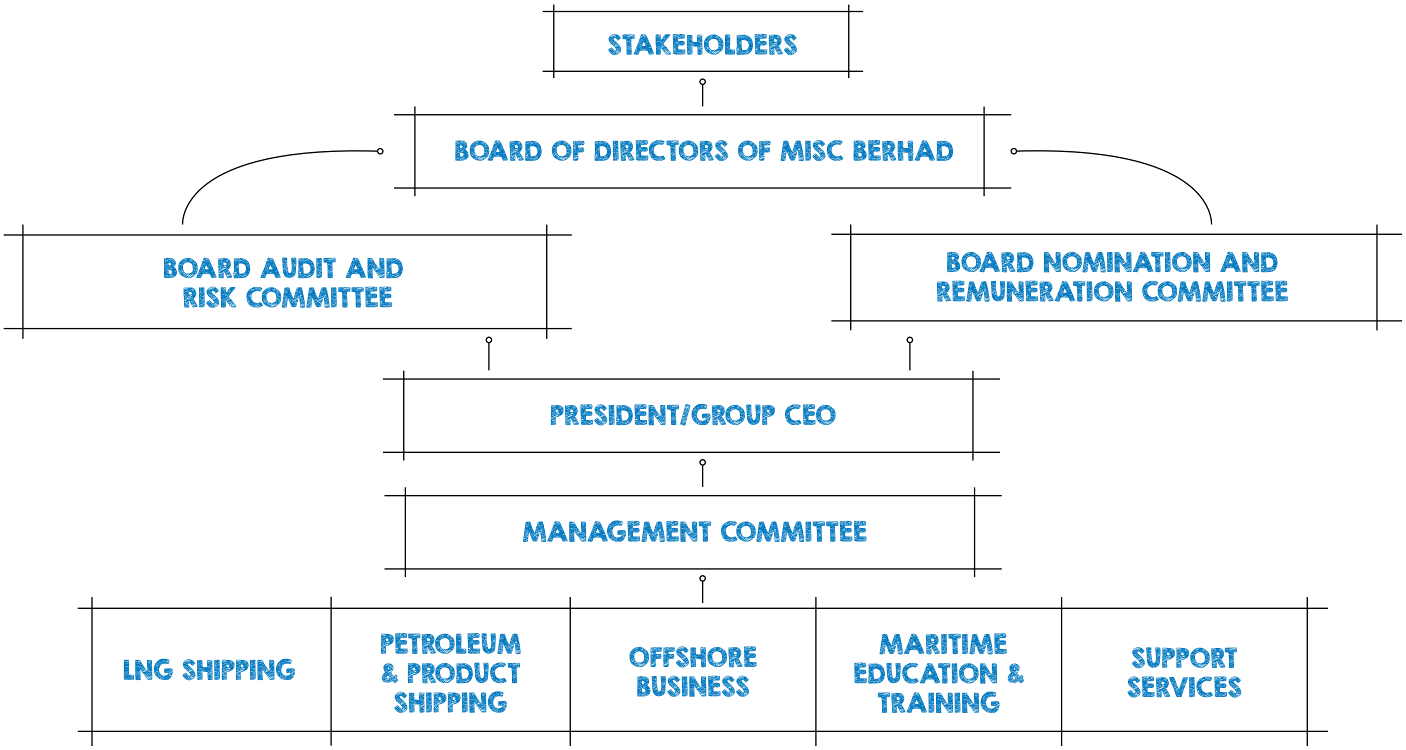
The Board of Directors (the Board), Management and employees of MISC Berhad (MISC or the Company) continue to improve the standard of corporate governance practices throughout the MISC Berhad Group (the Group). MISC believes that sound corporate governance practices are fundamental towards winning investors' confidence and are prerequisites to achieving the Company's ultimate objectives of enhancing long-term shareholders' value and protecting shareholders' interest.

The Board strives to ensure that the Company's corporate governance practices conform to the best practice recommendations as laid down in the Malaysian Code on Corporate Governance 2017 (MCCG 2017). The Company's corporate governance practices also conform to the requirements of Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Securities).

This overview statement shall provide the application of the principles set out in MCCG 2017 and shall be read in conjunction with the Corporate Governance Report, which is made available online at **www.misc.com.my.**

CORPORATE GOVERNANCE FRAMEWORK

The Company's corporate governance framework is reviewed by the Board from time to time to ensure its relevance and ability to support operational requirements. The corporate governance structure of the Company, as shown below, illustrates how the MISC Corporate Governance Framework is structured in terms of responsibility and accountability. Each layer of responsibility, i.e., Board of Directors, Board Committees, Management Committee, Business Units and Service Units, is distinctly different but complements each other in attaining the objectives of the Group.



CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Group's Heavy Engineering Business resides in a separate listed entity within the Group. It has a separate corporate governance framework that is modelled along the lines of MISC's corporate governance framework.

The Board is pleased to disclose the Company's application of the principles as set out in MCCG 2017.

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS

A. Board Charter

The Group continues to be led by a dynamic Board which plays a vital role in the stewardship of the Group's strategic direction and operations. In order for the Board to discharge its roles and responsibilities, the Board is guided by the MISC Board Charter that provides the framework in the performance of the Board's function and duties vis-à-vis the Company and Management.

The MISC Board Charter outlines amongst others, Board Roles and Responsibilities, Board Processes, Board Functions and Board Development in order to ensure efficiency in Board performance.

The review on MISC Board Charter is currently being conducted to enhance the contents in line with the MCCG 2017, latest amendments to Bursa Securities MMLR and the new Corporate Governance Guide (3rd Edition) issued by Bursa Securities.

The MISC Board Charter is available on the Company's website at **www.misc.com.my**

B. Board Roles and Responsibilities

The Board is responsible for providing oversight and stewardship through the following : -

- Establishing a strategic plan and setting of targets in line with the Company's Vision, Mission and objectives;
- Overseeing the conduct and performance of the Company and of the President/ Group CEO against agreed goals and objectives;
- Identifying principal risks and ensuring the implementation of appropriate systems to manage the risks;
- Ensuring a sound succession plan and continuous development of human capital;
- Developing and implementing an investor relations programme;
- Reviewing the adequacy and the integrity of the Company's risk management and internal control systems; and
- Reviewing the strategic, capital or funding transactions and monitoring execution of these transactions.

The Board's responsibilities are clearly provided in the MISC Board Charter and MISC Limits of Authority (MISC LOA) which also outlines the demarcation between Board's and Management's responsibilities.

To facilitate the Board's effectiveness and the efficient discharge of its duties and responsibilities, the Board is assisted by the Board Committees that operate under clearly defined Terms of Reference. Nevertheless, the Board is ultimately accountable and responsible for the affairs and business of the Company.

The Company has 2 Board Committees, namely the Board Audit and Risk Committee (BARC) and the Nomination and Remuneration Committee (NRC). The BARC has the oversight role on governance, financial reporting, risk management and internal control. The BARC is also responsible for the risk appetite setting for the Company in managing the key risks affecting the Company, and also gives attention to anti-bribery and corruption risks, and oversight of measures for an effective whistleblowing management framework and process.

The oversight role on Directors' skills and experience and Board composition, Directors and Senior Management compensation and rewards, succession planning and human resource, amongst others, is within the purview of the NRC.

The composition and summary of activities of these Board Committees are set out on pages 151 to 156 for BARC Report and on pages 137 to 141 for the NRC Report, of this Annual Report.

The Board is also supported by a qualified and competent Company Secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices. Fadzillah Kamaruddin, the Company Secretary, is also the Vice President, Legal, Corporate Secretarial and Compliance, and possesses the requisite legal qualifications to provide legal and corporate governance best practices advice to the Board Members as and when necessary.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

C. Board Composition and Balance

The composition of the Board is in compliance with Paragraph 15.02 of the MMLR which stipulates at least 2 or one-third of the Board members shall be Independent Directors, whichever is higher. It is also in line with the Practice under MCCG 2017 to have at least 50% Independent Directors on the Board. MISC is actively pursuing to achieve a majority of Independent Directors on the Board, as recommended for Large Companies under MCCG 2017.

The Board currently has 8 Directors comprising a Chairman who is an Independent Non-Executive Director, 3 other Independent Non-Executive Directors, 3 Non-Independent Non-Executive Directors and the President/Group CEO who is a Non-Independent Executive Director.

The Non-Independent Non-Executive Directors are Datuk Manharlal Ratilal, Liza Mustapha and Mohd Yusri Mohamed Yusof, who are nominees of Petroliam Nasional Berhad (PETRONAS).

During the year under review, Dato' Sekhar Krishnan was appointed as the Senior Independent Director of the Company. He is currently the Chairman of BARC of MISC, and has also been designated as the Chairman of the Whistleblowing Committee 1 which reviews any whistleblowing cases against Senior Management.

Membership of the Board is drawn from various professional backgrounds, bringing depth and diversity in experience, expertise and perspectives to guide the Group. To ensure a balance of power and authority and clarity in decision making, there is a clear division of responsibilities between the Chairman and the President/Group CEO.

Each individual member of the Board is expected to devote sufficient time to the Company in carrying out their duties and responsibilities. The Chairman will be notified before the Directors accept any new directorship outside the Group. The notification includes an indication of time that will be spent on the new appointment.

The profiles of the Board members are presented on pages 18 to 25 of this Annual Report.

Chairman

Dato' Ab. Halim Mohyiddin, an Independent Non-Executive Director is the Chairman of the Company. As the Chairman, he is primarily responsible to lead the Board for the orderly conduct and effectiveness of the Board in discharging its responsibilities.

This includes setting the agenda, style and tone of Board's discussions so as to promote constructive debate and effective decision-making, and leading all Board meetings and general meetings. He also has the discretion to determine whether additional Board Committees are required to support the Board's role and ensuring the effectiveness of such Committees.

President/Group CEO

Yee Yang Chien, the President/Group CEO, is responsible for the overall operations of the business, organisational effectiveness as well as coordinating the development and implementation of policies and business strategies, as guided and approved by the Board. He is also responsible for developing and translating the policies and business strategies into a set of manageable goals and priorities based on effective risk management controls for business operations, investments and other activities.

The President/Group CEO ensures that financial management practices are performed with the highest level of integrity and transparency in the interest of the Company's stakeholders and that the business and affairs of the Company are carried out in ethical manner and in full compliance with the relevant laws and regulations.

The President/Group CEO is assisted by the Management Committee in managing the Group's business operations on a day-to-day basis. The Management Committee is responsible for the implementation of the Group's policies and procedures as well as all strategic decisions taken by the President/Group CEO and/or the Board. The Management Committee's responsibilities and respective authorities are also specified in the MISC LOA manual.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Independent Non-Executive Directors

The 4 Independent Non-Executive Directors, including the Chairman, are independent of management and free from any business or other relationships that could materially interfere with the exercise of their independent judgement. Besides their skills and experience, the Independent Non-Executive Directors are individuals of strong calibre and standing. The role of Independent Non-Executive Directors is pivotal in providing independent views and advice so that the strategies and initiatives proposed by the Management are open to constructive challenges for the long-term interest of the Group, taking into consideration the interest of stakeholders, including the minority shareholders.

Based on the criteria on Independent Directors as provided under the MMLR, there exists no other elements that would compromise their independence and professionalism. In relation to the tenure of Independent Directors, none of MISC Independent Directors exceed the cumulative limit of 9 years. The Board approved the practice on Independent Directors' tenure of up to 9 years, whereby if the Board intends to retain an Independent Director beyond 9 years, it will provide justification and seek annual shareholders' approval.

Board Diversity

The Board believes a diverse mix of skills, experience and background is essential for good governance and a productive Board. The Board is of the view that each Director should be evaluated and/or appointed based on his or her merits and gives due consideration to diversity in general when conducting such evaluation. The Terms of Reference of the NRC expressly requires the NRC to take into account diversity in addressing Board composition. The diversity component, including gender diversity, is also embedded in the annual Board KPIs for purposes of monitoring Board performance.

The Company is fully committed to meet MCCG 2017 recommendation relating to gender diversity and is actively pursuing to meet the 30% women representation through the NRC succession planning process. During the year under review, Liza Mustapha was appointed as Non-Independent Non-Executive Director which improved the gender diversity ratio of MISC Board.

Board Meetings and Supply of Information

Board of Directors' meetings together with tentative agendas are scheduled in advance of any new financial year to facilitate Directors to plan ahead and fit the year's meetings into their schedules. The Board meets every quarter and additional meetings are held as and when required. The tentative agendas include matters reserved for Board meetings such as the Annual Budget and Business Plan, financial performance review, major investments and financial decisions and other strategic matters including changes or implementation of key policies and procedures and delegation of authority limits. During the financial year ended 31 December 2017, the Company held 9 Board meetings.

All Board members complied with Paragraph 15.05(3)(c) of the MMLR which states that the office of a Director will become vacant if the Director is absent from more than 50% of the total Board meetings held during a financial year.

Records of attendance of each Director at Board meetings held in 2017 are as follows :-

Director	Number of Board Meetings Attended
Dato' Ab. Halim Mohyiddin	9 out of 9
Yee Yang Chien	9 out of 9
Datuk Manharlal Ratilal	9 out of 9
Dato' Sekhar Krishnan	9 out of 9
Dato' Halipah Esa *(retired on 20 April 2017)*	3 out of 3
Dato' Kalsom Abd. Rahman *(retired on 20 April 2017)*	3 out of 3
Datuk Nasarudin Md Idris	9 out of 9
Lim Beng Choon	9 out of 9
Mohamed Firouz Asnan *(resigned on 1 December 2017)*	6 out of 8
Liza Mustapha (appointed on 1 July 2017)	2 out of 3
Mohd Yusri Mohamed Yusof (appointed on 7 December 2017)	Not applicable

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Directors have direct access to the Management and unrestricted access to any information relating to the Company and the Group in discharging their duties. Where necessary, Management presentations and briefings are held before or during Board meetings to provide clarity to the Board before they can deliberate and approve certain matters. Distribution of Board papers and other relevant information are done electronically as it enhances efficiency and enables the Directors to access the information at their convenience.

The deliberations at the Board and Board Committee meetings are properly recorded and communicated to relevant management for necessary action. Minutes of Board meetings, which include records of the decisions of the Board, are properly maintained by the Company Secretary.

Directors' Training and Development

All Board members of the Company are encouraged to attend continuous education programmes in order to ensure they keep abreast with new developments in the business and economic environment, to enhance their skills, as well as ensuring that they possess the necessary knowledge to enable them to discharge their duties and responsibilities more effectively.

All Board members of the Company have attended the Mandatory Accreditation Programme (MAP) as required by the MMLR. Mohd Yusri Mohamed Yusof, who was appointed on 7 December 2017 is scheduled to complete the MAP within the stipulated time pursuant to MMLR.

In compliance with Paragraph 15.08(2) of the MMLR, the main training programmes attended by the Board members in 2017 are as follows :-

Name of Director	Name of Training Attended	Organiser	Date
Dato' Ab. Halim Mohyiddin	1. Global Market Scenario Talk : Sailing Through Turbulent Times	MISC	12 May 2017
	2. Integrity, The Game Changer	MIA	10 April 2017
	3. Malaysian Code on Corporate Governance 2017	Amway (Malaysia) Holdings Berhad	15 November 2017
	4. Appreciating the PETRONAS Cultural Beliefs for Downstream Public Listed Companies	PETRONAS	13 December 2017
Datuk Nasarudin Md Idris	1. Global Market Scenario Talk : Sailing Through Turbulent Times	MISC	12 May 2017
	2. MISC 2017 Annual Directors' Training	MISC	23 November 2017
Datuk Manharlal Ratilal	1. World Economic Forum	PETRONAS	17-20 January 2017
	2. PETRONAS Top Leaders Dialogue	PETRONAS	1-2 March 2017
	3. 19th Asia Oil & Gas Conference, Kuala Lumpur	PETRONAS	7-9 May 2017
	4. Digital Learning Expedition / Workshop	PETRONAS	31 July – 4 August 2017
	5. PETRONAS Leadership Dialogue	PETRONAS	4-5 October 2017

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Name of Director	Name of Training Attended	Organiser	Date
Dato' Sekhar Krishnan	1. Sustainability Forum 2017	Bursa Securities	10 January 2017
	2. Asian Outlook & RMB Forum	HSBC	27 February 2017
	3. Companies Act 2016	MICPA	17 August 2017
	4. Measuring the Fair Value of Financial & Non-Financial Assets	MIA	9-11 November 2017
	5. MISC 2017 Annual Directors' Training	MISC	23 November 2017
	6. Malaysian Code on Corporate Governance 2017	MIA & Securities Commission	27 November 2017
Lim Beng Choon	1. 19th Asia Oil & Gas Conference, Kuala Lumpur	PETRONAS	7-9 May 2017
	2. Fundamentals of Digital Marketing, Social Media and E Commerce	Wharton (Online)	1-15 September 2017
	3. MISC 2017 Annual Directors' Training	MISC	23 November 2017
	4. Leading Change @ The Brain, Breakfast Series for Directors	Bank Negara Malaysia	5 December 2017
Yee Yang Chien	1. Global Market Scenario Talk : Sailing Through Turbulent Times	MISC	12 May 2017
	2. MISC Annual Planning Forum 2017	MISC	13 - 14 July 2017
	3. MISC 2017 Annual Directors' Training	MISC	23 November 2017
Liza Mustapha	1. PETRONAS Board Excellence : Essentials for Directorship Programme	PETRONAS	2 -3 May 2017
	2. Mandatory Accreditation Programme	ICLIF	28 – 29 September 2017
	3. The 15th Women's Global Leadership Conference In Energy (Panel Speaker)	Women Global Leadership Network	1 -2 November 2017
	4. MISC 2017 Annual Directors' Training	MISC	23 November 2017

D. Ethics and Compliance

The Company observes its own Code of Conduct and Business Ethics (CoBE), including the Whistleblowing Policy and the No Gift Policy. The CoBE is applicable to the Company, Directors, employees and third parties performing works or services for and on behalf of the Company. It governs the desired standard of behaviour and ethical conducts expected from each individual to whom the CoBE applies. The MISC Anti-Bribery and Corruption Manual also serves to guide the Company in relation to such matters. MISC's CoBE can be viewed at **www.misc.com.my** under Compliance and Business Ethics.

A new Whistleblowing structure to review and manage any whistleblowing reports is in place, along with an enhanced whistleblowing framework and management process. The Chairman of the BARC, is also the Chairman of Whistleblowing Committee 1 (WBC 1). The WBC 1 reviews reports made against any Senior Management whereas the Whistleblowing Committee 2 (WBC 2) reviews reports made against any other employee of the Company. The Board, through the BARC, reviews whistleblowing reports on a quarterly basis.

The Board places emphasis on fighting bribery and corruption and continuously reviews the Company's Compliance and Ethics Plan and related initiatives. The Board also demonstrated its commitment for fighting bribery and corruption by participating in the Company's Integrity Day in November 2017 and by signing the Corruption Free Pledge (CFP).

CORPORATE GOVERNANCE OVERVIEW STATEMENT

E. Directors' Remuneration

Directors' Remuneration

The Company aims to set remuneration for Directors at levels which are sufficient to attract and retain persons of calibre to guide the Group, taking into consideration the workload and responsibilities involved. The level of remuneration for Non-Executive Directors reflects the level of responsibilities undertaken and contributions made by them. All Non-Executive Directors, excluding PETRONAS nominees, are paid Directors' fees and meetings attendance allowance which are subsequently approved by the shareholders at the Annual General Meeting (AGM).

All payments of Directors' fees and meetings attendance allowance for executives of PETRONAS with the positions of Vice President and above, representing PETRONAS on the boards of PETRONAS' subsidiaries and associated companies are treated as management fees and are paid directly to PETRONAS. The remuneration package for the Executive Director, i.e., the President/Group CEO, comprises fixed and performance-linked elements based on KPIs as outlined in the Balanced Scorecard. As an Executive Director, the President/Group CEO is not entitled to Directors' fees or any meeting attendance allowance.

Details of Directors' remuneration for the financial year ended 31 December 2017 in aggragate are as follows :-

Directors	Directors' Fees		Total (RM)	Range of Remuneration in RM50,000 band (RM)
	By MISC (RM)	By Subsidiaries (RM)		
Non-Executive Director				
Dato' Ab. Halim Mohyiddin	144,000	-	144,000	100,000 to 150,000
Datuk Manharlal Ratilal	Not applicable	Not applicable	Not applicable	Not applicable
Datuk Nasarudin Md Idris	116,000	416,449	532,449	500,000 to 550,000
Dato' Sekhar Krishnan	117,000	-	117,000	100,000 to 150,000
Lim Beng Choon	111,000	-	111,000	100,000 to 150,000
Liza Mustapha *(Appointed on 1 July 2017)*	47,000	-	47,000	45,000 – 50,000
Mohd Yusri Mohamed Yusof *(Appointed on 7 December 2017)*	Not applicable	Not applicable	Not applicable	Not applicable
Dato' Halipah Esa *(Retired on 20 April 2017)*	50,000	228,000	278,000	250,000 to 300,000
Dato' Kalsom Abd. Rahman *(Retired on 20 April 2017)*	45,000	-	45,000	40,000 – 45,000
Mohamed Firouz Asnan *(Resigned on 1 December 2017)*	Not applicable	Not applicable	Not applicable	Not applicable
Executive Director				
Yee Yang Chien	Not applicable	Not applicable	Not applicable	Not applicable
Total	**630,000**	**644,449**	**1,274,449**	**-**

CORPORATE GOVERNANCE OVERVIEW STATEMENT

A total of RM200,839 was paid as management fees to PETRONAS during the financial year ended 31 December 2017 in respect of Directors' fees and meetings attendance allowance for Datuk Manharlal Ratilal, Mohamed Firouz Asnan and Mohd Yusri Mohamed Yusof.

The remuneration structure for Non-Executive Directors of MISC was reviewed based on the Guidelines and Package for PETRONAS Public Listed Companies Non-Executive Directors' Remuneration and the proposed revised remuneration structure was adopted with effect from 1 January 2018. The proposed increase in remuneration pursuant to the revised remuneration structure for MISC's Non-Executive Directors is subject to the approval of the shareholders at the forthcoming AGM of the Company and is as follows :-

No	Description	Chairman	Non-Executive Director
1	Monthly Fixed Fees	RM20,000/month	RM10,000/month
2	Meeting Allowance : • Board Meeting • Board Committee Meeting	RM3,500/meeting RM3,500/meeting	RM3,500/meeting RM3,500/meeting
3	Other Benefits	• Petrol for NEDs • Insurance coverage • Travelling and other claimable benefits.	

PRINCIPLE B : EFFECTIVE RISK MANAGEMENT AND INTERNAL CONTROL

A. Audit and Risk Committee

The BARC of MISC was established with the objective of assisting the Board in fulfilling its responsibilities primarily relating to financial management, financial accounting, risk management framework and process and systems of internal control of the Group. The BARC also monitors compliance with established policies and procedures and assess the suitability, objectivity and independence of both external and internal audit function.

The Board has deliberated on having a separate Board Risk Committee as recommended by MCCG 2017 and concluded that the current structure of combining the audit, internal control oversight and risk management functions should remain with the BARC.

The Terms of Reference of the BARC have been enhanced to reflect the MCCG 2017 best practices.

Further details on BARC's responsibilities and duties implemented are provided in the BARC Report on pages 151 to 156 of this Annual Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

B. Risk Management and Internal Control Framework

The Board acknowledges its overall responsibility for continuous maintenance of a sound risk management framework and internal control to safeguard shareholders' investment and the Group's assets.

Over and above the quarterly review by the Board Audit and Risk Committee on risk events, relevant risk appetite and mitigation measures at the enterprise level, the Board reviews the status of risk management activities and the updated Risk Register. The Board also ensures that all relevant project and investment risks, including the mitigation measures, are deliberated when making such decisions. Such Project Risk Assessments encompass, amongst others, project execution risk, contract management risk, counter-party risk, operations risk, geopolitical risk, and asset integrity risk.

In relation to reviewing the adequacy and the integrity of the Company's internal control systems (conducted via the BARC), the Board reviewed the reports on Related Party Transactions, Conflict of Interest oversight, Whistleblowing cases and enhanced management processes thereof, and certain improvements to internal controls as highlighted by the Group Internal Audit.

The Company's Risk Management and Internal Control practice is further elaborated in the Statement on Risk Management and Internal Control in pages 142 to 148 of this Annual Report and further details on Risk Management and Internal Control oversight are provided in the BARC Report on pages 151 to 156 of this Annual Report.

PRINCIPLE C : INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

A. Communication with Stakeholders

Investor Relations

The Board values its dialogue with the investment community including both the institutional shareholders and private investors to enhance investors' understanding of the Group. MISC aims to continuously build and maintain transparent communication with the shareholders, potential investors and the investing community. Through MISC Group Investor Relations programme, MISC is committed to uphold best practices in corporate governance and ensure timely and equal dissemination of material information to the stakeholders.

Other than the AGM as the principal forum of dialogue with the shareholders, the Company also uses the following forum for communication between the Company and stakeholders: -

- the Company's other general meetings (if any);
- quarterly financial statements and Annual Reports;
- announcements on major developments to Bursa Securities;
- the Company's website at **www.misc.com.my**; and
- quarterly briefing sessions between the Company's Management and analysts/investors.

Further details on the Company's investor relations activities are provided in pages 122 to 123 of this Annual Report.

Integrated Reporting

MISC is moving towards adopting integrated reporting based on a globally recognised framework so as to improve the quality of information available to investors and to promote greater transparency and accountability on the part of the Company, in line with the MCCG 2017.

The adoption of integrated reporting will be implemented on staggered basis starting from 2018 and certain sections of MISC Annual Report 2017 have already been prepared based on the integrated reporting framework.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Conduct of Annual General Meeting

The AGM is the principal forum of dialogue with the shareholders and also an avenue for the Chairman and Board members to respond personally to all relevant questions and provide sufficient clarification on issues and concerns as raised by the shareholders. All Board members continue to attend all the AGMs and Extraordinary General Meetings, if any. The AGM is scheduled in advance of any new financial year to facilitate Board members to plan ahead and fit the year's meetings into their schedules. All Board members are thus available during the AGM to respond to any queries by the shareholders.

The Chairman plays a pivotal role in accommodating constructive dialogue between shareholders and the Board. The shareholders are strongly encouraged to attend, participate, speak and vote at the Company's AGM, and all queries posed to the Board prior to the AGM are responded to accordingly. Below are some measures taken by the Company to encourage attendance and participation from the shareholders :

- shareholders who are unable to attend the AGM may appoint proxy/ies to attend, participate, speak and vote at the meeting on their behalf;
- other than Board Members, Management Committee and External Auditors of the Company are present at the AGM to address any questions or concerns that shareholders may have; and
- the President/Group CEO will present highlights of MISC Group's performance prior to the formal proceedings of the AGM and responds to queries from shareholders.

The Notice of AGM for 2018 is issued 28 days prior to the meeting, as recommended by MCCG 2017 and in compliance with the MMLR, the Company will continue to hold a poll voting at the forthcoming 49th AGM. Polling processes will be explained during the AGM and will be conducted through electronic voting. Poll results are verified by appointed scrutineers and the Chairman will announce the voting decisions at the AGM.

In relation to the recommendation by MCCG 2017 on voting in absentia and remote shareholders' participation at general meetings, MISC will consider the recommendations subject to the availability of the technology and also its practicality to the Company.

This Corporate Governance overview statement is made in accordance with the resolution of the Board of Directors passed on 21 February 2018.

NOMINATION AND REMUNERATION COMMITTEE REPORT

In compliance with Paragraph 15.08A of the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Securities), the Nomination Committee (NC) and Remuneration Committee (RC) were established on 6 May 2011. Effective 1 January 2013, the NC and RC were combined and became the Nomination and Remuneration Committee (NRC).

A. COMPOSITION

The NRC comprises of 3 members, all of whom are Non-Executive Directors, and a majority of them are Independent Directors, which complies with the requirements of the Malaysian Code on Corporate Governance 2017 (MCCG 2017). The members are as follows :

CHAIRPERSON

- **Datuk Nasarudin Md Idris**
  Independent Non-Executive Director
  (Appointed as member on 20 April 2017 and Re-designated as Chairman on 1 September 2017)
- **Dato' Halipah Esa**
  Independent Non-Executive Director
  (Retired on 20 April 2017)

MEMBERS

- **Lim Beng Choon**
  Independent Non-Executive Director
  (Appointed on 1 September 2017)
- **Mohd Yusri Mohamed Yusof**
  Non-Independent Non-Executive Director
  (Appointed on 7 December 2017)
- **Dato' Kalsom Abd. Rahman**
  Independent Non-Executive Director
  (Retired on 20 April 2017)
- **Mohamed Firouz Asnan**
  Non-Independent Non-Executive Director
  (Resigned on 1 December 2017)

B. TERMS OF REFERENCE (TOR)

The NRC is governed by the TOR and the TOR is consistent with the requirements of MMLR and the MCCG 2017. In 2017, the NRC TOR was revised to reflect the new recommended practices in the MCCG 2017.

The functions of the NRC include :

- To assess and recommend to the Board the appointment of new Board members and new Board Committee members;
- To conduct annual review of the Board's required mix of skills and experience and other qualities, including core competencies which non-Executive Directors and President/Group CEO should bring to the Board;
- To implement a formal process for assessing the effectiveness of the Board as a whole, the Board Committees and also the contribution of each individual Director to the effective decision making of the Board, through an evaluation process;
- To make recommendations to the Board on the appointment and extension of President/Group CEO and/or Senior Management's employment; and
- To recommend to the Board the remuneration and compensation to the Non-Executive Directors, the President/Group CEO, Senior Management and the salary increment and bonus quantum for the Company.

The TOR of the NRC is available on the Company's website at **www.misc.com.my**.

NOMINATION AND REMUNERATION COMMITTEE REPORT

C. MEETINGS

The NRC had 8 meetings during the financial year ended 31 December 2017 and details of attendance of each NRC members are as follows :-

NAME OF MEMBER	NUMBER OF MEETINGS ATTENDED
Dato' Halipah Esa (retired on 20 April 2017)	5 out of 5
Datuk Nasarudin Md Idris (appointed on 20 April 2017)	3 out of 3
Dato' Kalsom Abd. Rahman (retired on 20 April 2017)	5 out of 5
Lim Beng Choon (appointed on 1 September 2017)	1 out of 1
Mohamed Firouz Asnan (resigned on 1 December 2017)	8 out of 8
Mohd Yusri Mohamed Yusof (appointed on 7 December 2017)	Not applicable

The President/Group CEO attends the NRC meetings to facilitate the discussion, as well as to provide the appropriate information and advice on relevant matters for the NRC. The Company Secretary, who is also the Vice President of Legal, Corporate Secretarial and Compliance, together with the Vice President of Human Resource act as Joint Secretaries to the NRC.

NRC meetings together with the tentative agendas are scheduled in advance of any new financial year in order to facilitate the Directors to plan ahead and fit the year's meetings into their schedule. All proceedings of the NRC meetings are duly recorded in the minutes and are properly kept by the Company Secretary.

D. SUMMARY OF ACTIVITIES OF THE NRC

i. Succession Planning and Appointment/Re-election of Directors

The NRC has the responsibility for ensuring appropriate succession planning of Directors and for reviewing the Board's required mix of skills and experience, which includes review of the tenure of Independent Directors on the Board and proposals for retirement and/or re-election.

In line with the MCCG 2017, the NRC agreed to recommend to the Board for adoption as a practice, for Independent Directors' tenure of up to 9 years, and for the practice to be reflected in the Board Charter.

With the retirement of Dato' Kalsom Abd Rahman and Dato' Halipah Esa after the conclusion of MISC 48th AGM held on 20 April 2017, the NRC deliberated extensively on the succession planning for its members, in particular its Non-Executive Independent Directors. The NRC also took into account gender diversity in its deliberations on succession planning for its members. The Company is actively sourcing for suitable candidates as Independent Directors to replace Dato' Kalsom Abd. Rahman and Dato' Halipah Esa.

In sourcing for suitable candidates, the Company has used a variety of approaches and sources, including from Directors' registries available under the NAM Institute for the Empowerment of Women, under the MSWG and LEAD Women and recommendations from existing Board members. The NRC has also explored the possible use of an independent search firm.

Various potential candidates, in particular female candidates, to assume the role of Non-Executive Independent Director, were evaluated based on merits and suitability with the Company's objectives and required mix of skills and experience. The NRC has short-listed a few potential candidates, and is undertaking the necessary steps to progress the matter, with intent to finalise the candidacy by May 2018.

During the year under review, the NRC deliberated and recommended the appointment of the following Non-Independent Non-Executive Directors based on the nominations from PETRONAS :-

- Liza Mustapha was appointed on 1 July 2017; and
- Mohd Yusri Mohamed Yusof was appointed on 7 December 2017 in place of Mohamed Firouz Asnan.

The appointment of the said Non-Independent Non-Executive Directors also brings to the Board the requisite skills and experience to the Board in light of Liza Mustapha's background from Accounting/Finance and having held several portfolios within PETRONAS, including as Chief Financial Officer for PETRONAS Gas Berhad, Senior General Manager of PETRONAS Group

NOMINATION AND REMUNERATION COMMITTEE REPORT

Treasury and Chief Financial Officer for PETRONAS' Upstream Business and currently, the Head of Group Financial Controller Department of PETRONAS, and Mohd Yusri's background as an engineer and having held several portfolios within PETRONAS, including as General Manager of Ethylene Malaysia Sdn. Bhd., CEO of PC Derivatives Sdn. Bhd. and Head Manufacturing of PETRONAS Chemicals Group Berhad and currently the Vice President of Refining and Trading, Downstream Business of PETRONAS. With the appointment of Liza Mustapha, the ratio for gender diversity on the Board has also improved.

In accordance with Article 95 of the Company's Constitution, all Directors who are newly appointed to the Board shall hold office until the next AGM subsequent to their appointment and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at that AGM. Article 97 of the Company's Articles also provides that at least one-third (1/3) of the Directors shall retire from office by rotation at least once in every 3 years but shall be eligible for re-election.

The NRC deliberated on, and agreed to recommend to the Board, that at the forthcoming 49th AGM of the Company, Dato' Ab. Halim Mohyiddin, Liza Mustapha and Mohd Yusri Mohamed Yusof are retiring pursuant to Article 95 while Datuk Manharlal Ratilal and Lim Beng Choon are retiring pursuant to Article 97 of the Constitution. These Directors being eligible, have offered themselves for re-election.

In making recommendations for new appointments to the Board, the NRC assesses the suitability of candidates, taking into account the required mix of skills, knowledge, expertise and experience, professionalism, integrity, competencies and other necessary qualities, including diversity in gender, before recommending potential new Directors to the Board for appointment.

ii. Board and Individual Directors' Assessment

The NRC conducted a review of the Board Performance for FY2016, which is done on an annual basis. This included a review of the effective performance of Management responsibilities in supporting the Board to perform its oversight role on risk management and certain aspects of internal control. The Board performance for FY2016 was reviewed against the KPIs agreed by the Board and the NRC identified ways and means to improve certain aspects of Board Structure, Board Operations and Board Roles and Responsibilities.

The performance of the Board and the Board Committees is tracked annually against the Board KPIs, using a Performance Evaluation Sheet (PES) as a tool. The Board KPIs focus on achievements of measurable 'hard targets' based on 3 criteria, i.e., Board Structure (covering for example, Board composition and Directors' Succession Planning), Board Operations (covering for example Timeliness, Adequacy of Information and Access to Management) and Board Roles and Responsibilities (covering for example Strategic Vision and Risk Management oversight). Under each criteria the KPI components are stated consistent with best practice requirements.

Each Director is required to give Rating '1' for Best Practice, Rating '2' for Meets Requirement and Rating '3' for Areas of Improvement. The final ratings are then reviewed by the NRC, the Board and the Management, and consequently Action Plans are implemented by Management for the areas for improvement highlighted.

The NRC also deliberated on, and agreed to, a new set of Board KPIs that reflect the best practices and recommendations of the MCCG 2017 that will track Board performance for FY2018. Hence for the FY2018 Board performance the evaluation will be conducted using new and enhanced KPIs, tracked against the MCCG 2017 best practices.

The main changes to the FY2018 Board KPIs include :-

- That the Board consists of a majority of Independent Directors;
- That the tenure for appointment of Independent Directors shall not be more than 9 years;
- That 30% of the Board membership shall comprise female directors;
- Effective conduct of Board Evaluation, including evaluation of individual Directors' performance;
- Inclusion of a new item on promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness; and
- Inclusion of new item relating to Corporate reporting and meaningful relationship with Stakeholders.

NOMINATION AND REMUNERATION COMMITTEE REPORT

The NRC further deliberated on the appropriate tool to monitor and track Board and individual Directors' performance. The NRC places emphasis on identifying an enhanced tool to assess the Board performance and dynamics as a whole, in a neutral and open manner. In this regard, the NRC has requested Management to explore the use of independent consultants to assist in Board performance evaluation.

In relation to assessment of individual Directors' performance, the NRC also places emphasis on identifying the right tool or mechanism for conducting such assessment to facilitate adequate and sensible feedback. The NRC has similarly requested Management to explore the use of independent consultants to assist in conducting the individual Directors' performance evaluation, targeted to be implemented for the FY2018 Board and Directors performance evaluation.

iii. Succession Planning and Appointment of New Management Committee Members

The NRC deliberated on the Succession Planning efforts and progress in the MISC Group, focusing mainly on the Management Committee Positions of the Company. This included deliberation on the criteria for assessing individuals for succession planning which include leadership and functional capabilities, cultural fit and readiness of individuals to the critical positions identified in the Company.

The NRC gave specific focus to the succession planning of the President/Group CEO position of the Company and the Management Committee members of the Company. The NRC deliberated on the potential successors for the President/Group CEO position, including their level of readiness to assume the positions and certain areas of development to give attention to such individuals. The NRC also deliberated on certain critical positions within the Management Committee which were considered a priority for FY2017. For FY2017, the Management Committee positions which were of priority included the plan for the positions of Vice President, LNG Business and MD/CEO of MISC Maritime Services Sdn. Bhd.

In this regard, the NRC deliberated on the appointment of the new Vice President, LNG Business and MD/CEO of MISC Maritime Services Sdn. Bhd., including their appointment as Management Committee Members, and agreed to make the requisite recommendations to the Board. The new Vice President, LNG Business was appointed in August 2017, whereas the new MD/CEO of MISC Maritime Services Sdn. Bhd. was appointed in April 2017.

iv. Directors' and Senior Management Remuneration

The Company's policy for remuneration of its Directors is based on the PETRONAS Public Listed Companies Non-Executive Directors' Guidelines and Remuneration Package. These Guidelines were updated by PETRONAS in November 2017 and applicable to all the public listed companies within the PETRONAS Group, including MISC Berhad effective 1 January 2018.

The Management Committee Members' remuneration is based on certain salary bands reflective of industry standards and categorised into 2 categories ie. MC 1 (for business heads) and MC 2 (for service unit heads).

v. Company and President/Group CEO Performance Appraisal

The Company's performance against the FY2017 Balance Scorecard was deliberated by the NRC. The performance appraisal covered the following Scorecard dimensions, whereby specific ratings were given to each dimension based on "Minimum", "Base" or "Stretch" achievements :

- Financials
- Strategic Initiatives
- Operations
- Health, Safety and Environment (HSE)
- People Development

Based on the Company's performance against the FY2017 Balanced Scorecard, the NRC also deliberated on the individual Performance of the President/Group CEO of the Company for FY2017, and made the appropriate recommendations to the Board for further deliberation.

NOMINATION AND REMUNERATION COMMITTEE REPORT

E. SUMMARY OF OTHER ACTIVITIES OF THE NRC

The NRC also carried out the following activities in discharging its functions and duties : -

i. Deliberated on the new requirements of the MCCG 2017, the action plans thereof and recommendations to the Board, which included :

- The appointment of Dato' Sekhar Krishnan as the Senior Independent Director (SID) of the Board. In this regard, the NRC deliberated and agreed on the outline of responsibilities of the SID.

- To undertake the requisite amendments to be made to the MISC Board Charter. The amendments to the MISC Board Charter is under progress and will take into account the MCCG 2017, the recent MMLR amendments effective January 2018 and the newly issued Corporate Governance Guide recommendations by Bursa Securities.

- The recommended action plans to enhance Board and Individual Directors' Assessment in 2018.

ii. The NRC also deliberated and recommended to the Board the appointment of the following Board members on the relevant Board Committees due to their mix skills and experience :

- Datuk Nasarudin Md. Idris – Chairman of NRC and member Board Audit and Risk Committee (BARC)
- Lim Beng Choon – member of NRC
- Liza Mustapha – member of BARC
- Mohd Yusri Mohamed Yusof – member of NRC

iii. Deliberated on the MISC proposed salary increment and bonus policy for the FY2017 performance appraisal, taking into account the performance of the Company against the FY2017 Balanced Scorecard.

iv. The proposed Balance Scorecard for FY2018 was also deliberated on by the NRC. Specific performance dimensions in the said Scorecard are monitored by measurable KPIs which are then reviewed by the Board and given ratings as appropriate.

v. Deliberated on the renewal of contracts of employment for certain members of senior management.

vi. With regard to Directors' training and development, a review was undertaken on the training requirements of Directors. This is an annual exercise where the NRC would gauge the Directors' training and development needs through their individual feedback. The NRC deliberated on the requisite training programme for FY2017 and agreed to the following topics for Directors' Training, which included both regulatory/governance aspects and current/emerging issues :

- Malaysian Code on Corporate Governance 2017 – Implication and Challenges to the Board of Directors
- Corporate Financial Reporting - MFRS 9: Financial Instruments
- Understanding and Evaluating Cyber Risk
- PETRONAS Global Scenario 2036 Trends

This NRC report is made in accordance with the resolution of the Board of Directors of MISC duly passed on 21 February 2018.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

The Malaysian Code on Corporate Governance 2017 (MCCG 2017) recommends as best practices that the Board establishes an effective risk management and internal control framework, and disclose in the Company's Annual Report the main features of the risk management and internal control framework.

Pursuant to Paragraph 15.26(b) of the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Securities), the Board is also required to include in the Company's Annual Report, a statement about the state of internal control of the listed issuer as a group.

Accordingly, the Board is pleased to provide the Company's Statement on Risk Management and Internal Control for the financial year ended 31 December 2017 which was prepared in accordance with the 'Statement on Risk Management & Internal Control : Guidelines for Directors of Listed Issuers', endorsed by Bursa Securities.

ACCOUNTABILITY OF THE BOARD

The Board recognises its principal responsibility of establishing an effective risk management and internal control framework, as manifested in MCCG 2017.

Accordingly, the Board has entrusted the responsibility of risk management oversight to the MISC Board Audit & Risk Committee (BARC). In respect of risk management, the BARC is supported by the MISC Risk Management Committee (RMC) that comprises mainly Heads of Divisions. The Company's risk management framework is used to identify, evaluate and manage the principal risks of the Group and appropriate internal control systems are also implemented to manage these risks, details of which are set-out in the following pages.

In respect of risk management, the BARC periodically reviews the efficiency and effectiveness of the Group's internal control system to ensure viability and robustness of the system. Group Internal Audit (GIA) with its risk-based approach supports the BARC in ensuring the said internal control systems are in place and effective in dealing with risks. The BARC is also supported by the Management Committee (MC) to reflect the prominence and focus by management on the control and risks of the organisation.

In dealing with risks, the Board understands that it is not always possible, cost-effective or practical to eliminate risk altogether. Accordingly, these internal control systems can only provide reasonable assurance against material misstatement or loss. Thus, the Board adopts a cost-benefit approach to ensure that the expected returns outweigh the cost of risk mitigation.

RISK MANAGEMENT FRAMEWORK

In 2015, the Board had approved the adoption of the PETRONAS Resiliency Model (PRM) which provides an integrated view for managing risk and is also guided by international best practice as per ISO 31000. The PRM focuses on three frameworks namely:

i. **Enterprise Risk Management (ERM)**

   ERM process is an integral part of managing business that provides a guide to systematically identify, assess, treat, monitor and review risks. It aims to improve the ability to reduce the likelihood and impact of identified risks that may affect the achievement of business objectives.

ii. **Crisis Management (CM)**

   Crisis Management defines the structure and processes for managing emergencies including crises at both domestic and international operations.

iii. **Business Continuity Management (BCM)**

   Business continuity practices ensure a structured recovery of business operations and business continuity in the event of a crisis or prolonged business disruption.

The MISC Risk Policy states that :-

"MISC shall adopt and implement risk management best practices by identifying, assessing, treating and monitoring of risks as well as effectively responding to crisis.

In the event of prolonged disruption, business continuity practices shall be adopted to restore and ensure continuity of MISC's key business activities."

The Group has implemented risk management best practices in the form of ERM framework which ensures all business risks are prudently identified, evaluated, treated and managed accordingly to achieve MISC's strategic objectives.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

The framework of risk management comprises the following key elements :-

- **Risk Management**

  The Group's Risk Management Policy guides the overall best practice of identifying, evaluating, managing, reporting and monitoring the ever changing risks facing the Group and specific measures to mitigate these risks. The emphasis is to effectively reduce the impact of risks, respond to immediate risk events and recover from prolonged business disruption to ensure continuity and sustainability of key business activities as well as delivery of business objectives.

- **Risk Governance Structure**

The Risk Management Committee (RMC) was established to review and monitor the Group's risk management practices. It consists of mainly Vice Presidents and Heads of key service units, and is primarily responsible for driving the implementation of the Risk Management Framework and acts as the central platform for the Group to undertake the following responsibilities :

- Assist the Management in identifying principal risks at Group level and providing assurance that the ERM is implemented group-wide to protect and safeguard MISC interest;
- Review and recommend policies and frameworks specifically to address risk inherent in all business operations and environment pertaining to the Group;
- Review, deliberate and recommend mitigation actions to ensure that the Group's risks are being mitigated effectively; and
- To provide a reasonable assurance to the BARC that the Group's risks are being managed appropriately.

Risk management activities are undertaken at corporate and business units/subsidiaries levels and risk reports are reviewed and monitored by the Corporate Planning Department (CPD) on regular intervals prior to escalation to RMC. Each appointed and dedicated risk focal person has the responsibility for risk management activities in their specific department/unit to ensure consistent implementation of risk management processes across the Group.

The Group continues to monitor and ensure effective and robust execution of financial risk management through the implementation of the PETRONAS Corporate Financial Policy (CFP). The CFP supports the delivery of consistent approach in financial and risk management discipline across the Group. The CFP is supplemented with Guidelines in the areas of Liquidity Management, Cash Repatriation, Financing, Investment, Banking, Asset Liability Management, Foreign Exchange Management, Credit, Tax, Inward Financial Guarantee and Documentary Credit, and Integrated Financial Risk Management.

The Group has established its Financial Risk Appetite Setting (FRAS) in the areas of Foreign Exchange exposure and Financial Institution Credit Counterparty risks, to mitigate the Group's risks arising from operations in non-functional currencies and financial loss arising from failure of counterparty banks. Liquidity risk was managed through the monitoring of the Financial Risk Report and its Key Risk Indicators (KRI). In 2017, the Group FRAS has been extended to cover the Interest Rate risk, Leverage Ratio and Minimum Cash Balance (MCB). The Weighted Average Cost of Debt (WACD) of the Group for the specific year were used to monitor the effect of interest rate fluctuations towards the overall finance cost of debt of the Company. The Leverage Ratio was set to meet the requirement of the rating agency whilst the MCB was established to ensure the Group can meet its operational requirement at all times.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

RISK MANAGEMENT PROCESS

The risk management process in MISC requires management to identify business risks at strategic, operational and tactical levels, and assess these risks in terms of likelihood and magnitude of impact, as well as to identify and evaluate the adequacy of mechanisms in place to manage these risks. The pertinent risks evaluated are financial, operational, regulatory and reputational risks. This process involves assessments at business unit level before being examined on a Group or strategic perspective.

In essence, the risk management processes are as follows :-

RISK PROFILING

- Identify risks and existing controls via risk assessment facilitated in a workshop.
- Established risk rating based on matrix and registered into Risk Registers.
- Selection of appropriate risk treatment option.

RISK MONITORING

- Continous monitoring of risk level using the Risk Registers.
- The performance of key risks is monitored using KRI.
- Any changes or movement in the KRIs, will provide an early warning.

RISK REPORTING

- Presentation of Risk Register to RMC and BARC on a quarterly basis.
- MISC has developed the MISC Common Risk Dashboard, a risk reporting tool to better represent the overall risk health for MISC.

In addition, the following summarises the key risk management activities undertaken during the year under review :

- **Embedding risk management into the annual business plan**

  In sustaining the achievement of business objectives, it is important to manage risks across the Group on an integrated basis with a balanced view of the risks taken against the rewards of business performance. The Business Units (BU), Service Units (SU) and key Subsidiaries (Subs) are required to perform an annual review of their risk profiles with the emphasis in linking risks to MISC's business objectives.

  In addition, KRIs were reviewed and identified to monitor the movement of risks throughout the year, thus enabling the management to act and take necessary measures in managing risks to ensure that strategic initiatives are implemented effectively and business objectives are met.

  For the purpose of risk reporting, the MISC Common Risk Dashboard will be updated and reported to the RMC and BARC on a quarterly basis, complete with the mitigation action plans to mitigate the risks.

- **Project Evaluation**

  The Group continues to use a risk-based pricing framework that is used to ensure that the returns of any capital investment or project, adequately covers the risks assumed from undertaking such investment or project. Amongst the risk elements considered in the Project Risk Assessment (PRA) are counter party credit risk, project tenure, assumed level of debt taken to fund the project and the residual value risk of the asset at the end of the contract period.

  PRA is a stringent tool adopted by the Group in identifying a project's risks prior to embarking on a new capital intensive project. PRA enables the business to identify and implement appropriate controls to mitigate the risk impact to projects. Ultimately, the objective of PRA is ensuring that project returns commensurate with the level of risk taken. During the year, there were nine (9) PRAs and one (1) Project Independent Review (PIR) conducted and deliberated at the RMC.

  In addition, the PRA advocates and ensures a consistent approach to project prioritisation during the overall planning and budget cycle throughout the Group, as well as promoting investment discipline.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

- **Business Continuity Planning**

  Business Continuity Planning (BCP) has been implemented in stages to ensure continuity of critical business functions in the event of disruption.

  During the year under review, BCP simulations were organised for critical units based in Menara Dayabumi to test the resiliency and robustness of the BCP initiative put in place, as well as to familiarise employees with the business continuity plans. The scenario-based simulation was designed to test all roles and responsibilities of the critical business functions, including critical staff who are required to carry out business recovery from the alternate site.

  The purpose of the BCP simulations is to ensure that employees understand their specific roles and responsibilities as laid out in the plans, as well as establishing familiarity with the alternate site.

  The outcome of the simulations identifies the improvement measures that need to be taken, and the lessons learned were employed to enhance and update the plan.

  This strategy allows MISC to recognise benefits from the investment made, taking advantage of knowledge gained and experience attained through the testing of the business continuity plans.

KEY RISK AREAS

MISC risk management process enables the evaluation of all relevant risks that may impact the Group. Further to that, key risks covering financials, asset performance, major health, safety, security and environmental incidents, project management and human resource were monitored closely at the Company's quarterly RMC and BARC meetings. These key risks were selected based on risks that are prevalent and common across the Group, and risks that may have significant and material impact to the Group.

The RMC holds quarterly meetings to review the key risks and to ensure mitigation plans are in place to manage such risks. The adequacy and effectiveness of the controls and the robustness of the mitigation actions are also addressed. These are then deliberated at the BARC on a quarterly basis.

Several reviews and periodic testing were conducted during the year under review as follows :-

- Group Internal Audit provides regular independent audit on the adequacy of MISC's risk management system and governance. The recommendations arising from the review are adopted and corrective action plans are taken for continuous improvement.
- The PETRONAS Group Risk Management conducted three (3) self-assessment reviews on MISC's compliance to the PETRONAS Resiliency Model (PRM), Plant and Facilities, and Project. The purpose of the self-assessment is to ensure MISC complies to requirements established in its frameworks, guidelines and guiding principles.
- An Anti-Bribery and Corruption (ABC) Risk assessment was conducted to preliminarily identify, assess and evaluate bribery exposures within MISC, and identify the areas of operations within MISC that are more exposed to bribery and corruption risk has been presented to the Management. Mitigation plans have thereupon been developed to be implemented in FY2018.

OTHER KEY INTERNAL CONTROL PROCESSES

To further enhance the internal control system, the Group's other internal control processes are as follows :-

1. The Board reviews quarterly reports from Management on key operating performance, legal, environmental and regulatory matters. Financial performance is deliberated monthly by the MC and tabled to the BARC and the Board on a quarterly basis.

2. The Group performs a comprehensive annual planning and budgeting exercise which involves the development of business strategies for the next five years to achieve the Group's Vision. The long-term strategies are supported by initiatives to be pursued in the upcoming year, and for effective implementation, the initiatives are tied to specific measurable indicators which will be evaluated against the relevant business/service units and subsidiaries' deliverables. The Group's strategic direction is then reviewed annually taking into account current progress level and other indicators such as latest developments in the industry, changes in market conditions and significant business risks. In addition to that, the Group's business plan is translated into budgetary numbers for the next five years and financial performance and variance against budget is analysed and reported monthly to the MC and quarterly to the BARC and the Board.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

3. The Limits of Authority (LOA) manual provides a framework of authority and accountability within the organisation and facilitates sound and timely corporate decision making at the appropriate level in the organisation's hierarchy.

4. To enhance the quality of the Group's financial reports, the Group continues the execution of the PETRONAS Financial Control Framework (FCF). FCF is a structured process of ensuring the adequacy and effectiveness of internal controls operating at various levels within the Group at all times. FCF requires documentation of process workflows, control descriptions, testing on control effectiveness as well as remediation of control gaps.

   On a semi-annual basis, the process owner at various management levels and operating entities is required to complete and submit a Letter of Assurance which provides confirmation of compliance to specified controls for the accountable business areas. If ineffective controls exist, the process owner will have to put in place appropriate remediation plans and the control owner will monitor the execution plans to ensure the controls are mitigated by the next FCF's process.

   The FCF process is further enhanced with the implementation of limited controls testing between PETRONAS Group of Companies during the year under review.

5. The Group continues to practice the PETRONAS Debt Compliance Management (DCM) initiative, the objective of which is, to provide assurance that debt covenants of its external borrowings are being observed and complied with on quarterly basis.

6. There is a clear process for evaluation of equity investment or divestment and capital expenditure and the process includes risk assessment, financial appraisal, due diligence and project control and implementation. The investment appraisal are reviewed by RMC before being recommended to the approving authority.

7. MISC's Procurement Manual (MPM) provides the overall procurement principles, scope, functions, governance, operational procurement processes, procedures and exceptions to be adopted in relation to procurement activities within MISC.

   Tender Committees and Quotation Committees are established to ensure procurement activities are conducted in an effective, transparent and fair manner whereas Vendor Performance Review Committee is established to review, deliberate and endorse on overall vendor performance matters including application for suspension, blacklisting, uplifting and reinstatement.

8. Information and Communications Technology (ICT) is extensively employed in MISC to automate work processes and to collect key business information. MISC's information and communication system, which acts as an enabler to improve business processes, work productivity and decision making, are implemented throughout the Group.

   The Information and Communications Technology Steering Committee (ITSC) provides strategic directions and guidance to ICT initiatives. Progress of ICT initiatives is monitored and reported at the ITSC meetings to ensure smooth implementation of ICT initiatives.

   System reviews are initiated and conducted to ensure that adequate controls are in place in order to confirm to the Group's business objectives, policies and procedures.

   The Group adheres to the industry cyber security standards. The Group has invested on processes, tools, skills, services and applications to mitigate the Group's risk in cyber security threats. Reviews are conducted regularly to ensure that the Company's businesses and processes are safeguarded from cyber security threats.

9. The professionalism and competency of employees are enhanced through structured development programmes and potential entrants or candidates are subject to a stringent recruitment process. A Performance Management System (PMS) was established with performance indicators to measure employees' performance and performance reviews are conducted twice annually. Action plans to address employees' developmental requirements are prepared and implemented in a timely manner. This is to ensure that employees are able to deliver the expected performance so that the Group can meet its plans and targets.

   A structured Succession Planning framework was developed and implemented to identify and develop a leadership pipeline in the Group. The Succession Planning framework takes into account the potential successor's performance track record, leadership capability and display of the MISC cultural beliefs. The Succession Planning framework also provides for development plans to be mapped appropriately for each potential successor in order for them to be ready to assume the critical positions as the opportunity arises. A special talent review session by the Management Development Committee (MDC) is conducted annually to assess and gauge the identified talent pool's suitability as well as their readiness level for the proposed Critical Position. The framework signifies the Group's commitment towards developing the future leaders of MISC.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

10. The Group observes the respective Code of Conduct and Business Ethics (CoBE) and the coverage is extended to not only MISC employees and directors within the MISC Group but also to third parties performing works or services for or on behalf of MISC Group of Companies. To support the general policy statements in the CoBE, MISC also observes the principles set out in the Anti-Corruption and Bribery Manual which provides further guidelines on dealing with improper solicitation, bribery and other corrupt activities as well as issues that may arise in the course of doing business.

    A Compliance & Ethics Programme, which is a comprehensive programme and policy on CoBE-related matters which focusses on Anti-Bribery and corruption, including compliance monitoring, review and implementation of sanctions was approved by Board in June 2016 which underpins the role of the Board and Management in combatting bribery, provides for enhanced training and communication programmes, and implementation of appropriate counter-party due diligence. A risk-based approach was adopted in developing the said programme, which was also benchmarked against international standards and best practices. The Board also adopted the Anti-Bribery and Corruption Policy, as reflected in its Board Charter, which also applies throughout the Group.

    The Group continues to monitor any potential conflicts of interest, and the receipts and/or giving of any gifts via the employees' Conflict of Interest Register and employees' Gift Register. The comprehensive Third Party Due Diligence Guidelines rolled out to the Group in 2016 has been rigorously applied for transactions involving third parties and has also been amended to include economic sanctions aspects. A comprehensive refresher training programme for all employees on the CoBE and a CoBE e-learning system was also approved for continuous refresher training moving forward.

    The Whistleblowing Policy provides an avenue for all employees of MISC and members of the public to disclose any suspected unethical and/or unlawful conduct involving MISC and/or any of our employees. The Whistleblowing Policy provides clarity of oversight and responsibilities of the whistleblowing process, the reporting process, protection to whistleblowers and confidentiality afforded to the whistleblower.

    In 2017, the Group developed a whistleblowing Management Procedure and deployed a Whistleblowing Management System. The Group also enhanced the Whistleblowing Reporting structure with the establishment of Whistleblowing Committees (WBC) to deliberate on wrongdoing disclosures involving Board Members or Senior Management and involving non-Senior Management.

    The Whistleblowing Management Platform was further promoted through the CoBE "See Speak Support" Campaign launched throughout the Group.

    The inaugural MISC Integrity Day was held on 24 November 2017 whereby the Board and Senior Management had signed the Malaysian Anti-Corruption Commission (MACC) Corruption Free Pledge. This further re-enforces the commitment from top management on MISC's zero tolerance against bribery and corruption.

11. MISC established its Corporate Disclosure Policy (CDP) and Corporate Disclosure Guidelines (CDG) in 2016. The CDP guides the Board, Management and employees when communicating and making disclosure of information to external parties such as Bursa Securities, investment community, media, government authorities and other relevant stakeholders. It also sets out the parameters to enable timely, adequate and accurate disclosure of such information. The CDG, which is an internal document, provides more definitive guidelines for communication and disclosure of information in the above areas.

12. The Group keeps a register on conflict of interest or potential conflict of interest situation for company directors in the Group which is reviewed on an annual basis. Results of the review and any new recommendations for improvement are tabled to the BARC and Board for information and further action, where necessary.

ASSURANCE FUNCTIONS

Group Health, Safety, Security & Environment (HSSE)

The HSE Management System (HSE MS) which incorporates the HSE Mandatory Framework (HSE MCF) is developed based on PETRONAS HSE Management System and serves as reference in planning and mitigating the risks of Health and Safety of staffs, visitors, contractors and sustainability of the environment are to be kept as low as reasonably possible.

Group HSSE ensures the Group Security Risk exposures are reviewed according to national and international regulatory requirements and best practices; accordingly plan and implement mitigating measures to ensure the security of staffs, visitors, contractors and assets are to be kept as low as reasonably possible.

HSSE assurance is carried out on the respective business units, vessels and floating facilities by Group HSSE with the objective to verify, evaluate and review the HSSE operational activities to ensure business units, the vessels' and floating facilities' operational integrity and reliability are maintained at all times, consistent with international regulations, HSSE controls and internal policies.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

MISC Group vessels are subjected to stringent audits, vetting and inspections to meet various regulatory and commercial requirements. These include vetting by oil majors, audits by the Malaysian Marine Department and ship classification societies to maintain international safety and security management certification under the relevant codes. In addition, MISC is also subjected to periodic management reviews by its customers' risk management units.

The President/Group Chief Executive Officer and Management Committee review Group HSSE performance on monthly basis and periodically review HSSE policies and strategies in line with business objectives. The BARC oversee the HSSE risk and control effectiveness through review of the assurance findings on quarterly basis.

Group Internal Audit

MISC Group Internal Audit (GIA) supports the BARC by providing independent feedback on the adequacy of risk management, governance and the efficiency and effectiveness of the internal control system.

The GIA processes and activities are guided by the approved Internal Audit Charter and aligned with internal audit industry standards (i.e. The International Professional Practices Framework (IPPF).

The GIA adopted the Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework; a comprehensive, structured and widely used auditing approach, in conducting the audit works. Based on COSO framework, all aspects of controls are given emphasis in order to ensure risk is well managed and mitigated.

The annual audit plan including the scope of works and resources are approved by BARC. The audit plan is established primarily using a risk based approach as well as taking into account inputs gathered from various sources (i.e. feedback from Management and BARC) including trends from past audit engagements and their findings. In addition, GIA also performed other reviews upon requests by Management.

Further information on the internal audit functions are set out in BARC report on pages 154 to 155 of this Annual Report.

OTHER MATTERS

With regard to the associated companies and joint ventures, the Board does not regularly review the internal control system as the Board has no direct control over their operations. Nevertheless, MISC's interests in the associated companies and jointly controlled entities are served via representations on the boards as well as review of management accounts and inquiries thereof.

AFFIRMATION BY THE BOARD

The Board has received assurance from the President/Group Chief Executive Officer and Vice President, Finance that the internal control and risk management systems of the Company and its subsidiaries for the year under review up to the date of approval of the statement are, in all material aspects, operating adequately and effectively.

There were no material losses incurred during the financial year under review as a result of weaknesses of internal control.

REVIEW BY EXTERNAL AUDITOR

The external auditor, Messrs. Ernst & Young, have reviewed this Statement on Risk Management and Internal Control for inclusion in the Annual Report for the financial year ended 31 December 2017, in compliance with paragraph 15.23 of the Listing Requirements in accordance with guidelines issued by the Malaysian Institute of Accountants, and reported to the Board that nothing has come to their attention to cause them to believe that the statement intended to be included in the Annual Report is not prepared, in all material respects, in accordance with disclosures required by paragraph 41 and 42 of the Statement on Risk Management and Internal Control : Guidelines for Directors of Listed Issuer, or that the statement is factually inaccurate.

CONCLUSION

For the financial year under review, based on enquiry, information and assurance provided, the Board is satisfied that the system of internal control was generally satisfactory. Measures would continuously be taken to ensure ongoing adequacy and effectiveness of internal controls, and to safeguard the Group's assets and shareholders' investment.

This statement is made in accordance with the resolution of the Board of Directors dated 21 February 2018.

STATEMENT OF DIRECTORS' RESPONSIBILITY

The directors are responsible in ensuring that the annual audited financial statements of the Group and of the Company are drawn up in accordance with the provisions of the Companies Act, 2016, the Main Market Listing Requirements and the requirements of the applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board.

The directors are also responsible to ensure that the annual audited financial statements of the Group and of the Company present a true and fair view of the state of affairs of the Group and of the Company as at the financial year end and of their financial performance and cash flows for the financial year then ended.

In preparing the annual audited financial statements of the Group and of the Company for the financial year ended 31 December 2017, the directors have ensured that, appropriate and relevant accounting policies are adopted and consistently applied, reasonable and prudent estimates are made and going concern basis was adopted.

The directors are responsible to ensure that the Group and the Company keep accounting records which disclose with reasonable accuracy the financial position of the Group and the Company which enable them to ensure that the financial statements comply with the Companies Act, 2016, the Main Market Listing Requirements and the requirements of the applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board.

The directors have the overall responsibilities for taking such steps that are reasonably available to them to safeguard the assets of the Group and the Company to prevent and detect fraud and other irregularities.

ADDITIONAL COMPLIANCE INFORMATION

A. STATUS OF UTILISATION OF PROCEEDS

During the financial year ended 31 December 2017, the Company did not raise any proceeds from corporate proposals.

B. AUDIT AND NON-AUDIT FEES

(i) The amount of audit fees paid or payable to the external auditors, Messrs. Ernst & Young (EY), for services rendered to the Group and the Company for the financial year ended 31 December 2017 amounted to RM3.948 million and RM0.765 million respectively.

(ii) The amount of non-audit fees paid or payable to the external auditors, EY, and their affiliated companies for services rendered to the Group and the Company for the financial year ended 31 December 2017 amounted to RM1.290 million and RM1.060 million respectively. The non-audit services rendered to the Group and the Company includes limited review of quarterly financial results and tax advisory.

C. MATERIAL CONTRACTS

There were no material contracts entered into by the Company and its subsidiaries which were not in the ordinary course of business, involving the Directors' and/or major shareholders' interests, still subsisting at the end of the financial year ended 31 December 2017 or, if not then subsisting, entered into since the end of the previous financial year.

BOARD AUDIT AND RISK COMMITTEE REPORT

CHAIRMAN	MEMBERS	SECRETARY
• Dato' Sekhar Krishnan *Senior Independent Non-Executive Director*	• Datuk Nasarudin Md Idris *Independent Non-Executive Director* *(Appointed on 20 April 2017)*	• Sa'adiah Mohd Salleh *BARC Secretary*
	• Lim Beng Choon *Independent Non-Executive Director*	
	• Liza Mustapha *Non-Independent Non-Executive Director* *(Appointed on 1 September 2017)*	
	• Dato' Halipah Esa *Independent Non-Executive Director* *(Retired on 20 April 2017)*	
	• Dato' Kalsom Abd. Rahman *Independent Non-Executive Director* *(Retired on 20 April 2017)*	

The Board Audit and Risk Committee (BARC) of MISC Berhad (MISC or the Company) was established with the objective of assisting the Board of Directors (the Board) in fulfilling its responsibilities primarily relating to financial management, financial accounting, risk management framework and process and systems of internal control of the Group.

MEMBERSHIP

The BARC comprises of 4 members, the majority of whom are Independent Non-Executive Directors of the Company. The Chairman of the BARC, Dato' Sekhar Krishnan, is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.

The composition of the BARC and qualifications of its members comply with Paragraph 15.09(1) of the Main Market Listing Requirements (MMLR) of Bursa Securities Malaysia Berhad (Bursa Securities).

The BARC had 6 meetings in the financial year ended 31 December 2017 and records of attendance of the Members are as follows :-

MEMBER	DESIGNATION	NUMBER OF MEETINGS ATTENDED
Dato' Sekhar Krishnan	Chairman/Senior Independent Non- Executive Director	6 out of 6
Datuk Nasarudin Md Idris *(appointed on 20 April 2017)*	Independent Non-Executive Director	4 out of 4
Lim Beng Choon	Independent Non-Executive Director	5 out of 6
Liza Mustapha *(appointed on 1 September 2017)*	Non-Independent Non- Executive Director	1 out of 2
Dato' Halipah Esa *(retired on 20 April 2017)*	Independent Non-Executive Director	2 out of 2
Dato' Kalsom Abd. Rahman *(retired on 20 April 2017)*	Independent Non-Executive Director	2 out of 2

BOARD AUDIT AND RISK COMMITTEE REPORT

TERMS OF REFERENCE (TOR)

The BARC is governed by its TOR, which was amended according to the requirements of the MMLR and Malaysian Code on Corporate Governance 2017 (MCCG 2017) and adopted by the Board effective 2 November 2017. The TOR of the BARC is available on the Company's website at **www.misc.com.my**.

SUMMARY OF WORK

The meetings of the BARC and their tentative agendas are scheduled in advance of any new financial year to facilitate the BARC members to plan ahead and fit the year's meetings into their schedules. The BARC meets every quarter to review and deliberate the quarterly and annual financial statements, the Enterprise Risk Management report, Group Internal Audit (GIA) reports, related party transaction matters and other relevant matters within the BARC's Terms of Reference. Additional meetings are held as and when required.

Minutes of BARC meetings which include records of the deliberations, decisions and resolutions of the meetings are properly maintained by the Secretary of the BARC.

The President/Group CEO is invited to the BARC meetings to facilitate the discussion as well as to provide explanation on audit issues, risk management and financial matters as well as other matters within the Terms of Reference of the BARC. The Senior General Manager, Group Internal Audit of PETRONAS or his representative and the Head, GIA of MISC are also invited to the meetings to observe the proceedings and provide clarification on any relevant Internal Audit reports tabled to the BARC, together with relevant management personnel. The External Auditors are also invited to present their Audit Plan and Audit Results, Memorandum of Suggestions, and other relevant matters.

During the financial year ended 31 December 2017, the following work was carried out by the BARC in discharging its functions and duties :-

A. RISK MANAGEMENT

- Reviewed the adequacy and effectiveness of Risk Management Framework and the on-going activities for identifying, evaluating, monitoring and mitigating risks.
- Received and reviewed reports on key strategic and operational risk issues arising from quarterly Risk Management Committee (RMC) meetings, including identification of the risk appetite at the Enterprise level and review of the mitigation plans to address the said risks.
- Discussed insights gained on annual review and periodic testing of internal control/risk management system.
- Reviewed and endorsed the Group's Financial Year 2017 Enterprise Risk Management (ERM) Risk Register emanating from the Annual Planning Cycle and ensured that appropriate systems and processes are in place to effectively monitor and manage the identified risks.
- Reviewed the Statement on Risk Management and Internal Control for inclusion in the Company's 2017 Annual Report pursuant to Paragraph 15.23 and Part II, Practice Note 9 of the MMLR.

B. INTERNAL AUDIT

- Reviewed and approved GIA's long-term audit plan and Annual Internal Audit Plan (AIAP) as guided by the approved Enhanced Risk Based Internal Audit Framework of MISC in order to ensure adequacy of coverage on auditable entities and resources allocated.
- Reviewed internal audit reports issued by GIA based on the approved AIAP and ensured that appropriate agreed corrective actions are taken by the Management on the gaps in controls or procedures as identified by GIA.
- Reviewed the responses and action plans provided by the Management Committee on the deliberated audit reports.
- Reviewed the adequacy and effectiveness of agreed corrective actions taken by management on all significant and secondary issues raised in the audit reports.
- Reviewed the minutes of meetings of the Audit Committee of Malaysia Marine and Heavy Engineering Holdings Berhad and minutes of meetings of the Audit and Risk Management Committee of AET Tanker Holdings Sdn. Bhd. for overview of the state of risk management and internal control systems of the subsidiary companies.
- Reviewed the adequacy of resources and competencies of GIA's staff to execute the audit plan.
- Conducted half-yearly and yearly assessment on the adequacy of GIA's functions and resources, scope of work, service orientation, and its Annual Plan and Strategy.
- Prior to BARC meetings, the Chairman of the BARC held private meetings and discussions with Head and senior staff of GIA on audit reports and any Internal Audit related matters.

BOARD AUDIT AND RISK COMMITTEE REPORT

C. EXTERNAL AUDIT

- Reviewed and approved the External Auditors' terms of engagement, audit plan, nature and scope for the financial year.
- Reviewed the results and issues arising from External Auditors' audit for the financial year and the resolution of issues highlighted in their report to the BARC and Management's response.
- The BARC had 2 private meetings with the External Auditors without the presence of Management during the financial year ended 31 December 2017 (i.e. on 7 February 2017 and 31 October 2017) to discuss any matters the External Auditors may wish to present and to ensure that there were no restrictions in the scope and discharge of their audit activities.
- The BARC also recommended the External Auditors' re-appointment to the Board to be proposed for shareholders' approval at the last AGM.

The Company also engages the External Auditors for other non-audit works as and when required. For the financial year ended 31 December 2017, the amount of non-audit fees incurred for services rendered by the External Auditors or their affiliates to MISC Group is RM1.29 million, which includes limited review of quarterly financial results and tax advisory.

To ensure that the External Auditors' independence is not impaired, the Audit Engagement Partner in charge of the Company is changed every 5 years. Internally, the External Auditors conduct an Independent Partner Review in order to preserve their independence. The External Auditors had also provided written assurance to the BARC that in accordance with the terms of all relevant professional and regulatory requirements, they had been independent throughout the audit engagement.

The Company has also adopted a Policy on the Assessment of External Auditors. With this policy, the BARC had carried out an assessment on the performance, suitability and independence of the External Auditors based on the following criteria, and will continue to do so on an annual basis :-

- quality of engagement team. (including sufficiency of resources)
- quality of communication and interaction.
- independence, objectivity and professional scepticism.

D. FINANCIAL RESULTS AND OTHER FINANCE MATTERS

- Reviewed the quarterly and annual financial statements of the Company and the Group including the relevant announcements to Bursa Securities with focus on compliance with the Financial Reporting Standards and other relevant regulatory requirements or changes in accounting policy.
- Reviewed the adequacy and effectiveness of existing risk policies relating to the financial risk appetite for MISC Group, namely the Foreign Exchange Risk Appetite and Financial Institutions (FIs) Credit Counterparty Risk Appetite, as well as endorsed the adoption of additional risk policies, namely the Interest Rate Risk Appetite, Optimum Debt Level and Minimum Cash Balance.

E. CORPORATE GOVERNANCE AND REGULATORY COMPLIANCE

- Reviewed and deliberated on the Related Party Transactions (RPTs) and Recurrent Related Party Transactions (RRPTs) reports on quarterly basis, including the framework and procedures of RRPTs.
- Reviewed and recommended to the Board the Statement on Risk Management and Internal Control, BARC Report and Additional Compliance Information for inclusion in the 2017 Annual Report.
- Reviewed the Directors' Conflict of Interest report for MISC Group.
- Enhanced the Whistleblowing framework and structure, which includes establishment of the new Whistleblowing Committee 1 (WBC 1) for any whistleblowing reports against senior management members, and the Whistleblowing Committee 2 (WBC 2) for any reports against other employees.
- Reviewed the Whistleblowing quarterly reports of the Company.
- Reviewed and endorsed the following amendments to the BARC Terms of Reference to comply with the MMLR and MCCG 2017 :

  i) inclusion of a policy that any key audit partner shall observe a 2-year cooling-off period before being appointed as BARC member (as per MCCG 2017);

  ii) clarification on establishment of policy and procedures to assess the external auditor which includes suitability, objectivity and independence and assessment to be conducted on annual basis;

  iii) inclusion of decision/recommendation by BARC relating to appointment, transfer and removal of Head of GIA and performance of GIA;

BOARD AUDIT AND RISK COMMITTEE REPORT

iv) enhancement of role relating to risk management and internal control areas; and

v) inclusion of whistleblowing oversight by the BARC.

- Reviewed and endorsed amendments to the RPTs and RRPTs Guidelines for MISC Group to be in line with the Companies Act 2016.
- Reviewed the initiatives by Management in relation to Compliance and Ethics focusing on Anti-Bribery and Corruption.
- The Chairman of the BARC was appointed as a Senior Independent Director of MISC.

F. SHIP MANAGEMENT AUDIT (SMA)

- Reviewed the SMA's semi-annual and annual audit reports focusing on the efficiency and effectiveness of the maintenance of the Group's vessels and floating assets.

STATEMENT ON INTERNAL AUDIT FUNCTION

The internal audit function of the Company was carried out in-house by the GIA Department. GIA undertakes a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes within the MISC Group.

The Head of Internal Audit reports functionally to the BARC and administratively to MISC President/ Group CEO. The Head of Internal Audit of the Company, Mohd Nasiruddin Abdul Razak, is a member of Malaysia Institute of Accountants (MIA), a Fellow of Institute of the Chartered Accountants in England and Wales (ICAEW) and a professional member of Institute of Internal Auditors (IIA) Malaysia. He holds a Bachelor degree in Accounting and Finance from University of Lancaster, United Kingdom.

GIA adopts the Standards and Principles outlined in the Institute of Internal Auditors' International Professional Practices Framework (IPPF) and the Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework; a comprehensive, structured and widely used auditing approach, in conducting the audit activities. The conduct of internal audit work is also governed by the MISC Internal Audit Charter and GIA's established procedures and guidelines.

The annual audit plan and strategy including the scope of works and resources are approved by BARC. The audit plan is established primarily using a risk based approach as well as taking into accounts inputs gathered from various sources (e.g. feedbacks from the Management and BARC) including trends from past audit engagements and their findings GIA conducts scheduled audits independently to ensure there were effective risk monitoring, internal controls, governance processes and compliance procedures to provide the level of assurance required by the Board. GIA also supports and conducts special reviews upon request by the Management or BARC.

GIA submits its audit reports to the Management Committee (MC) for executive review. Subsequently, the reports together with deliberations by the MC were tabled at the BARC Meetings for decisions. At the Board Meetings, Chairman of the BARC highlighted the key audit issues and overall decisions and resolutions made during the BARC Meetings to the Board Members.

The audit reports prepared by GIA provide details of audit findings and corresponding Agreed Corrective Actions (ACAs). The status of implementation of these ACAs are captured through the Quarterly Audit Status Reports, from which, the ACAs were monitored and analysed. The consolidated reports are submitted and presented to the MC and BARC for deliberation and endorsement on a quarterly basis. Such regular monitoring is essential to ensure the integrity and effectiveness of the Group's system of internal control.

During the financial year, GIA had conducted the following audits as per the approved internal audit plan :

1. Audit on Financial Control Framework
2. Audit on Procurement Activities for Group Corporate Communication, Properties and Information Communication Technology
3. Audit on Demobilisation of MOPU Satu and MOPU Dua
4. Audit on Demobilisation of FSO Abu
5. Audit on FSO Benchamas 2 Project Activities
6. Audit on Compensation and Benefits
7. Audit on Management of Project Bid Submission for LNG and Offshore Business Units
8. Audit on LNG's Carriers New Shipbuilding Activities
9. Audit on General Information Technology Control
10. Audit on Procurement Activities of Offshore Business Unit
11. Audit on FPSO Brasil (JV Entities)
12. Audit on FPSO Espirito Santo (JV Entities)
13. Audit on AET's New Shipbuilding Activities
14. Audit on AET's SAP Financial Accounting & Controlling and Material Management
15. Audit on AET's Procurement Activities
16. Audit on AET's Investment Projects' Governance

In addition, GIA had performed 9 special reviews during the financial year as requested by the Management.

BOARD AUDIT AND RISK COMMITTEE REPORT

GIA also conducted a review on the internal control process and records of RPTs and RRPTs to provide assurance to the BARC that its implementations conform to the requirements of Bursa Malaysia. The review was conducted on a quarterly basis.

All internal audit activities for the financial year under review were performed by 19 internal auditors from diverse background, disciplines and operational experiences such as accounting and finance, business administration, information technology and shipping & logistics.

In maintaining independence and objectivity, GIA ensures that the internal auditors are free from any relationship or conflict of interest when performing their duties.

GIA continues its commitment to equip the internal auditors with adequate knowledge and proficiencies to discharge their duties and responsibilities by providing sufficient and relevant functional trainings.

The total cost incurred in discharging the internal audit functions during the financial year ended 31 December 2017 was RM6.61 million.

STATEMENT ON RPTs AND RRPTs

MISC has put in place internal controls, guidelines and procedures to ensure that RPTs and RRPTs are entered into on normal commercial terms and on terms which are not more favourable than those generally available to third parties dealing on arms' length basis and are not detrimental to the minority shareholders of the Company.

In ensuring adequate procedures and processes are in place, the BARC is responsible to ensure the following :-

a) That a framework and appropriate procedures are in place for the purposes of identifying, monitoring, evaluating, reporting and approving RPTs and RRPTs;

b) That a review of any RPTs or RRPTs and conflict of interests that may arise within the Group is conducted; and

c) That the established procedures are adequate in order to ensure that the RPTs and RRPTs are entered into in the best interest of the Company, on fair and reasonable commercial terms and not detrimental to the interest of minority shareholders.

The Group's internal Guidelines on RPTs and RRPTs are summarised as follows :

- Information on related parties and procedures applicable for RPTs and RRPTs which involve interest, direct or indirect, of such related parties shall be disseminated from time to time to all MISC's business and service units as well as subsidiaries, for their reference.

- All Business Units and Service Units shall review their existing information systems on an on-going basis to ensure that relevant features are incorporated in the systems for capturing information on RPTs and RRPTs at source. All Heads of Departments are advised to report on all transactions with related parties.

- RPTs and RRPTs will only be undertaken after it has been ascertained that the transaction prices, terms and conditions, quality of products or services are comparable with those prevailing in the market and will meet industry standards. The transaction prices will be based on the prevailing market rates or prices of the service or product or to otherwise accord with the normal commercial terms and applicable industry norms. The interests of non-interested shareholders will be taken into account when entering into the RPTs and RRPTs to ensure that their rights and interests are upheld as per the MMLR.

- Where possible, other contemporaneous or similar transactions with unrelated third parties for similar products or services and/or quantities will be used as comparison, to determine whether the price and terms offered to or by the related parties are fair and reasonable and comparable to those offered to or by other unrelated third parties for the same or substantially similar type of products or services and/or quantities.

  In the event that quotation or comparative pricing from unrelated third parties cannot be obtained, the transaction price will be based on prevailing market rates or prices that are agreed upon under similar commercial arrangements for transactions with third parties, business practices and policies and on terms which are generally in line with industry norms in order to ensure that the RPTs and RRPTs is not detrimental to the Company or the Group.

- On-going awareness sessions are arranged with employees and stakeholders to ensure sufficient knowledge and familiarity on RPTs and RRPTs in order to comply with the MMLR. Records of all transactions with the related parties are properly maintained by all Business Units, Service Units and the subsidiaries.

BOARD AUDIT AND RISK COMMITTEE REPORT

- GIA shall review the internal control process and records of RPTs and RRPTs within the affected scope to verify that relevant approvals have been obtained and review procedures in respect of such transactions are adhered to. Any divergence will be reported to the BARC.

- The BARC shall review the internal audit reports and will also review from time to time any related party transactions that may arise within the Group. If the BARC is of the view that the procedures are insufficient to ensure that RPTs and RRPTs are undertaken on an arm's length basis and on normal commercial terms and on terms that are not more favourable to the transacting party than those generally available to public during their periodic review of the procedures, the BARC has the discretion to request for additional procedures to be imposed on the RPTs and RRPTs.

- An interested/deemed interested Director in any particular RPTs or RRPTs shall be required to declare his or her interest in the RPTs or RRPTs and will have to refrain from any deliberation and also abstain from voting on the matter at the Board meeting in respect of that RPTs or RRPTs.

- MISC's Limits of Authority also reflect the relevant thresholds for the approval of RPTs or RRPTs. A process flow is also defined to articulate the necessary steps of the process.

The RRPTs entered into by the Group during the financial year ended 31 December 2017 are summarised below :-

NATURE OF TRANSACTION		TRANSACTING PARTY	RELATED PARTY
1.	Purchase of lubricants and other petroleum products including bunker oil from PETRONAS Dagangan Berhad	MISC and/or its subsidiaries	PETRONAS*
2.	Charters of petroleum and product tankers and LNG carriers from MISC by PETRONAS Group	MISC and/or its subsidiaries	PETRONAS*
3.	Marine and consultancy Services**	MISC and/or its subsidiaries	PETRONAS*
4.	Sungai Udang Port management**	MISC and/or its subsidiaries	PETRONAS*

* *PETRONAS is a major shareholder of the Company*

** *RRPTs come into view due to the acquisition of MISC Maritime Services Sdn. Bhd. (formerly known as PETRONAS Maritime Services Sdn. Bhd.) and its wholly-owned subsidiary, Sungai Udang Port Sdn. Bhd., by MISC. However, the amount of transactions did not exceed the threshold of the MMLR.*

The BARC has reviewed the internal guidelines pertaining to the governance of RPTs and RRPTs as outlined above and is of the view that the said guidelines are sufficient to ensure that the RPTs and RRPTs are fair, reasonable and in the best interest of the Group. The BARC was satisfied that the Group has put in place adequate procedures and processes to monitor, track and identify RPTs and RRPTs in a timely and orderly manner to ensure that the RPTs and RRPTs were, at all times, carried out on normal commercial terms and consistent with the Group's practices and were not to the detriment of the minority shareholders. The procedures and processes will be reviewed from time to time based on recommendations from the internal audit team of the Company.

The GIA has also conducted an audit on RPTs and RRPTs as at 31 December 2017 and reviewed the internal control process and records of RPTs and RRPTs within the affected scope to verify the procedures and relevant approvals have been obtained. The BARC is satisfied with the established procedures and the RPTs and RRPTs were fairly concluded on prevailing market rates/prices, normal commercial terms/conditions, applicable industry norms and not detrimental to the interests of MISC and its minority shareholders. The audit report was tabled to the BARC on 8 February 2018.

The BARC also confirmed that the methods or procedures for determining the prices and terms of the RRPTs have not changed since the issuance of the Independent Adviser's opinion by PricewaterhouseCoopers Capital Sdn. Bhd. dated 26 March 2012. The same was published in the Company's Annual Report for the year ended 31 December 2012.

This report is made in accordance with the resolution of the Board of Directors duly passed on 21 February 2018.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Corporation for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Corporation consist of shipowning, ship operating and other activities related to shipping services and operating offshore floating terminals.

The principal activities of the subsidiaries, associates and joint arrangements are described in Notes 39, 40 and 41 to the financial statements respectively.

There have been no significant changes in the nature of the principal activities during the financial year.

HOLDING COMPANY

The immediate and ultimate holding company of the Corporation is Petroliam Nasional Berhad ("PETRONAS"), a company incorporated and domiciled in Malaysia.

SUBSIDIARIES

The details of the Corporation's subsidiaries are disclosed in Note 39 to the financial statements.

RESULTS

	Group RM'000	Corporation RM'000
Profit for the year	1,990,691	1,663,552
Attributable to:		
Equity holders of the Corporation	1,981,509	1,663,552
Non-controlling interests	9,182	-
	1,990,691	1,663,552

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the directors, the results of the operations of the Group and of the Corporation during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIRECTORS' REPORT

DIVIDENDS

The amount of dividends paid by the Corporation since 31 December 2016 were as follows:

In respect of the financial year ended 31 December 2016 as reported in the directors' report of that year:

	RM'000
A second tax exempt dividend of 20.0 sen per share on 4,463,794,000 ordinary shares under single tier system, declared on 10 February 2017 and paid on 16 March 2017	892,759

In respect of the financial year ended 31 December 2017:

	RM'000
A first tax exempt dividend of 7.0 sen per share on 4,463,794,000 ordinary shares under single tier system, declared on 4 May 2017 and paid on 31 May 2017	312,466
A second tax exempt dividend of 7.0 sen per share on 4,463,794,000 ordinary shares under single tier system, declared on 9 August 2017 and paid on 7 September 2017	312,466
A third tax exempt dividend of 7.0 sen per share on 4,463,794,000 ordinary shares under single tier system, declared on 3 November 2017 and paid on 30 November 2017	312,466

A fourth tax exempt dividend, under the single tier system, in respect of the financial year ended 31 December 2017 of 9.0 sen per share amounting to a dividend payable of RM401,741,000 will be paid on 15 March 2018.

The fourth tax exempt dividend is not reflected in the current year's financial statements. The dividend will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2018.

DIRECTORS

The names of the directors of the Corporation in office during the financial year and until the date of this report are:

Dato' Ab. Halim bin Mohyiddin	
Datuk Manharlal Ratilal	
Datuk Nasarudin Md Idris	
Lim Beng Choon	
Dato' Sekhar Krishnan	
Yee Yang Chien	
Mohd Yusri bin Mohamed Yusof	(Appointed on 7 December 2017)
Liza binti Mustapha	(Appointed on 1 July 2017)
Dato' Halipah binti Esa	(Resigned on 20 April 2017)
Dato' Kalsom binti Abd. Rahman	(Resigned on 20 April 2017)
Mohamed Firouz bin Asnan	(Resigned on 1 December 2017)

The information of directors of subsidaries is available at the Corporation's registered office and the said information is deemed incorporated herein by such reference and made a part hereof.

DIRECTORS' REPORT

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Corporation was a party, whereby the directors might acquire benefits by means of acquiring of shares in or debentures of the Corporation or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of remunerations received or due and receivable by the directors or fixed salary of full-time employees of the Corporation and other related corporations as disclosed in Note 7 to the financial statements) by reason of a contract made by the Corporation or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests and deemed interests of directors in office at the end of the financial year in shares in the Corporation and its related corporations during the financial year were as follows:

	Number of ordinary shares			
	1 January 2017	**Bought**	**Sold**	**31 December 2017**
Fellow subsidiary				
- PETRONAS Gas Berhad				
Direct				
Dato' Ab. Halim bin Mohyiddin	5,000	-	-	5,000
Datuk Nasarudin Md Idris	3,000	-	-	3,000

	Number of stapled securities of KLCC Property Holdings Berhad and KLCC Real Estate Investment Trust			
	1 January 2017	**Bought**	**Sold**	**31 December 2017**
Fellow subsidiary				
- KLCC Property Holdings Berhad				
Direct				
Datuk Manharlal Ratilal	5,000	-	-	5,000
Datuk Nasarudin Md Idris	5,000	-	-	5,000

DIRECTORS' REPORT

DIRECTORS' INTERESTS (CONT'D.)

	Number of ordinary shares			
	1 January 2017/Date of appointment	Bought	Sold	31 December 2017
Fellow subsidiary				
- PETRONAS Chemicals Group Berhad				
Direct				
Dato' Ab. Halim bin Mohyiddin	5,000	-	-	5,000
Datuk Manharlal Ratilal	20,000	-	-	20,000
Datuk Nasarudin Md Idris	10,000	-	-	10,000
Mohd Yusri bin Mohamed Yusof	6,000	-	-	6,000

	Number of ordinary shares			
	1 January 2017	Bought	Sold	31 December 2017
Subsidiary				
- Malaysia Marine and Heavy Engineering Holdings Berhad				
Direct				
Dato' Ab. Halim bin Mohyiddin	5,000	-	-	5,000
Datuk Nasarudin Md Idris	10,000	-	-	10,000

Other than as disclosed above, none of the other directors in office at the end of the financial year had any interest and deemed interests in shares in the Corporation or its related corporations during the financial year.

INDEMNITY AND INSURANCE COSTS

During the financial year, the Corporation maintained a Directors' and Officers' Liability Insurance for the purpose of Section 289 of the Companies Act, 2016. The total insured limit for the Directors and Officers Liability Insurance effected for the Directors and Officers of the Corporation was RM142 million per occurrence and in the aggregate. The insurance premium for the Corporation is RM257,000.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Corporation has agreed to indemnify its auditor, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit for an unspecified amount. No payment has been made to indemnify Ernst & Young during or since the financial year.

DIRECTORS' REPORT

OTHER STATUTORY INFORMATION

(a) Before the income statements, statements of comprehensive income, and statements of financial position of the Group and of the Corporation were made out, the directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

(i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Corporation inadequate to any substantial extent; and

(ii) the values attributed to the current assets in the financial statements of the Group and of the Corporation misleading.

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Corporation misleading or inappropriate.

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Corporation which would render any amount stated in the financial statements misleading.

(e) At the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Corporation which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Group or of the Corporation which has arisen since the end of the financial year.

(f) In the opinion of the directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Corporation to meet their obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to substantially affect the results of the operations of the Group or of the Corporation for the financial year in which this report is made.

DIRECTORS' REPORT

SIGNIFICANT EVENTS

Other than as disclosed elsewhere in the financial statements, the significant events during the financial year are disclosed in Note 42 to the financial statements.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

The auditors' remuneration are disclosed in Note 5 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 21 February 2018.

Dato' Ab. Halim bin Mohyiddin **Yee Yang Chien**

STATEMENT BY DIRECTORS

Pursuant to Section 251(2) of the Companies Act, 2016

We, Dato' Ab. Halim bin Mohyiddin and Yee Yang Chien, being two of the directors of MISC Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 165 to 313 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Corporation as at 31 December 2017 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 21 February 2018.

Dato' Ab. Halim bin Mohyiddin

Yee Yang Chien

STATUTORY DECLARATION

Pursuant to Section 251(1) of the Companies Act, 2016

I, Rozainah binti Awang, being the officer primarily responsible for the financial management of MISC Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 165 to 313 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Rozainah binti Awang at
Kuala Lumpur in Wilayah Persekutuan
on 21 February 2018

Rozainah binti Awang

Before me,

INCOME STATEMENTS

For the year ended 31 December 2017

	Note	Group		Corporation	
		2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Revenue	3	10,068,212	9,597,239	1,045,767	1,118,736
Cost of sales		(6,766,495)	(6,758,690)	(648,454)	(855,889)
Gross profit		3,301,717	2,838,549	397,313	262,847
Other operating income	4	507,529	1,292,269	1,941,481	2,165,711
Impairment provisions	5(a)	(687,493)	(358,657)	(359,564)	(9,433)
Net gain on disposal of ships		27,741	-	-	-
Gain on acquisition of subsidiaries	15	-	903,682	-	-
Finance income	8(b)	96,489	50,276	186,228	179,185
General and administrative expenses		(1,172,173)	(1,952,308)	(321,654)	(496,975)
Finance costs	8(a)	(265,013)	(247,900)	(180,252)	(105,243)
Share of profit of associates		1,068	107	-	-
Share of profit of joint ventures		193,715	287,949	-	-
Profit before taxation	5	2,003,580	2,813,967	1,663,552	1,996,092
Taxation	9	(12,889)	(20,691)	-	-
Profit after taxation		1,990,691	2,793,276	1,663,552	1,996,092
Attributable to:					
Equity holders of the Corporation		1,981,509	2,581,550	1,663,552	1,996,092
Non-controlling interests		9,182	211,726	-	-
		1,990,691	2,793,276	1,663,552	1,996,092
Earnings per share attributable to equity holders of the Corporation (sen)					
Basic	10	44.4	57.8		
Diluted	10	44.4	57.8		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Group		Corporation	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Profit after taxation	1,990,691	2,793,276	1,663,552	1,996,092
Other comprehensive (loss)/income:				
Items that may be reclassified subsequently to profit or loss				
(Loss)/gain on currency translation	(3,424,944)	1,612,631	(4,111,231)	1,106,115
Non-current quoted equity investments				
- changes in fair value	(2,973)	(9,557)	(2,973)	(9,557)
Cash flow hedges				
- fair value gain/(loss)	14,258	(8,852)	-	-
Total other comprehensive (loss)/income for the year	(3,413,659)	1,594,222	(4,114,204)	1,096,558
Total comprehensive (loss)/income for the year	(1,422,968)	4,387,498	(2,450,652)	3,092,650
Total comprehensive (loss)/income attributable to:				
Equity holders of the Corporation	(1,407,337)	4,154,947	(2,450,652)	3,092,650
Non-controlling interests	(15,631)	232,551	-	-
	(1,422,968)	4,387,498	(2,450,652)	3,092,650

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000
Non-current assets			
Ships	12	20,902,471	23,858,401
Offshore floating assets	12	322,649	473,486
Other property, plant and equipment	12	1,757,311	1,782,397
Prepaid lease payments on land and buildings	13	220,128	227,752
Intangible assets	14	844,379	938,676
Investments in associates	16	528	2,466
Investments in joint ventures	17	1,127,797	1,602,175
Other non-current financial assets	18(a)	237,747	318,829
Derivative assets	18(b)	3,328	1,472
Finance lease receivables	18(d)	13,862,350	13,454,226
Finance lease assets under construction	19	688,489	1,417,983
Deferred tax assets	28	99,484	85,335
		40,066,661	44,163,198
Current assets			
Inventories	20	198,592	213,468
Trade and other receivables	21	4,161,775	5,040,361
Tax recoverable		14,642	-
Derivative assets	18(b)	4,406	-
Cash, deposits and bank balances	23	5,900,724	6,559,207
		10,280,139	11,813,036
Non-current assets classified as held for sale	24	123,003	175,035
		10,403,142	11,988,071
Current liabilities			
Trade and other payables	25	2,234,627	2,734,042
Derivative liabilities	18(b)	-	6,655
Interest-bearing loans and borrowings	18(c)	7,717,608	7,372,969
Provision for taxation		-	1,445
		9,952,235	10,115,111
Net current assets		450,907	1,872,960
		40,517,568	46,036,158

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000
Equity			
Equity attributable to equity holders of the Corporation			
Share capital	26(a)	8,923,262	4,463,794
Share premium	26(a)	-	4,459,468
Other reserves	27	5,959,545	9,349,016
Retained profits		19,961,391	19,793,388
		34,844,198	38,065,666
Non-controlling interests		1,060,566	1,265,287
		35,904,764	39,330,953
Non-current liabilities			
Interest-bearing loans and borrowings	18(c)	3,946,285	5,228,537
Deferred tax liabilities	28	31,142	37,190
Derivative liabilities	18(b)	-	691
Deferred income	29	635,377	756,961
Provisions	25(c)	-	681,826
		4,612,804	6,705,205
		40,517,568	46,036,158

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017

	Note	Corporation 2017 RM'000	Corporation 2016 RM'000
Non-current assets			
Ships	12	4,917,197	6,046,141
Other property and equipment	12	93,701	95,069
Prepaid lease payments on land and buildings	13	3,775	4,305
Investments in subsidiaries	15	15,858,081	18,915,174
Investments in associates	16	122	135
Investments in joint ventures	17	258,390	305,828
Other non-current financial assets	18(a)	2,031,343	4,877,570
Finance lease assets under construction	19	688,489	1,417,983
		23,851,098	31,662,205
Current assets			
Inventories	20	21,315	25,583
Trade and other receivables	21	3,528,387	2,862,005
Cash, deposits and bank balances	23	2,577,773	3,468,856
		6,127,475	6,356,444
Non-current asset classified as held for sale	24	40,595	-
		6,168,070	6,356,444
Current liabilities			
Trade and other payables	25	1,144,646	1,668,333
Interest-bearing loans and borrowings	18(c)	2,275,362	2,804,497
		3,420,008	4,472,830
Net current assets		2,748,062	1,883,614
		26,599,160	33,545,819
Equity			
Equity attributable to equity holders of the Corporation			
Share capital	26(a)	8,923,262	4,463,794
Share premium	26(a)	-	4,459,468
Other reserves	27	1,981,759	6,095,963
Retained profits		10,744,934	10,911,539
		21,649,955	25,930,764
Non-current liabilities			
Interest-bearing loans and borrowings	18(c)	4,949,205	6,933,229
Provisions	25(c)	-	681,826
		4,949,205	7,615,055
		26,599,160	33,545,819

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Note	Total equity RM'000	Equity attributable to equity holders of the Corporation RM'000	Non Distributable: Share capital* RM'000	Non Distributable: Share premium RM'000	Distributable: Retained profits RM'000	Other reserves, total RM'000
2017							
At 1 January 2017		39,330,953	38,065,666	4,463,794	4,459,468	19,793,388	9,349,016
Total comprehensive (loss)/income		(1,422,968)	(1,407,337)	-	-	1,981,509	(3,388,846)
Transactions with equity holders							
Liquidation of a subsidiary		16,266	16,266	-	-	16,651	(385)
Disposal of an associate		(240)	(240)	-	-	-	(240)
Dividends	11	(2,019,247)	(1,830,157)	-	-	(1,830,157)	-
Transition in accordance with Section 618(2) of the Companies Act, 2016 to no-par value regime effective 31 January 2017	26(a)	-	-	4,459,468	(4,459,468)	-	-
Total transactions with equity holders		(2,003,221)	(1,814,131)	4,459,468	(4,459,468)	(1,813,506)	(625)
At 31 December 2017		35,904,764	34,844,198	8,923,262	-	19,961,391	5,959,545
2016							
At 1 January 2016		36,459,142	35,361,452	4,463,794	4,459,468	18,662,571	7,775,619
Total comprehensive income/(loss)		4,387,498	4,154,947	-	-	2,581,550	1,573,397
Transactions with equity holders							
Additional investment in a subsidiary		(3,518)	-	-	-	-	-
Acquisition of a subsidiary		3,000	-	-	-	-	-
Dividends	11	(1,515,169)	(1,450,733)	-	-	(1,450,733)	-
Total transactions with equity holders		(1,515,687)	(1,450,733)	-	-	(1,450,733)	-
At 31 December 2016		39,330,953	38,065,666	4,463,794	4,459,468	19,793,388	9,349,016

* Included in share capital is one special preference share of RM1.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2017

Attributable to equity holders of the Corporation							
Non Distributable							
Other capital reserve RM'000	Capital reserve RM'000	Revaluation reserve RM'000	Statutory reserve RM'000	Fair value reserve RM'000	Hedging reserve RM'000	Currency translation reserve RM'000	Non-controlling interests RM'000
101,130	435,284	1,357	1,966	56,009	(3,782)	8,757,052	1,265,287
-	-	-	-	(2,973)	12,123	(3,397,996)	(15,631)
-	(85)	-	(300)	-	-	-	-
(1,831)	-	-	1,495	-	-	96	-
-	-	-	-	-	-	-	(189,090)
-	-	-	-	-	-	-	-
(1,831)	(85)	-	1,195	-	-	96	(189,090)
99,299	435,199	1,357	3,161	53,036	8,341	5,359,152	1,060,566

101,130	435,284	1,357	1,966	65,566	1,843	7,168,473	1,097,690
-	-	-	-	(9,557)	(5,625)	1,588,579	232,551
-	-	-	-	-	-	-	(3,518)
-	-	-	-	-	-	-	3,000
-	-	-	-	-	-	-	(64,436)
-	-	-	-	-	-	-	(64,954)
101,130	435,284	1,357	1,966	56,009	(3,782)	8,757,052	1,265,287

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2017

			Non Distributable		Distributable	Non Distributable		
	Note	Total equity RM'000	Share capital* RM'000	Share premium RM'000	Retained profits RM'000	Other reserves, total RM'000	Fair value reserve RM'000	Currency translation reserve RM'000
2017								
At 1 January 2017		25,930,764	4,463,794	4,459,468	10,911,539	6,095,963	56,009	6,039,954
Total comprehensive (loss)/ income		(2,450,652)	-	-	1,663,552	(4,114,204)	(2,973)	(4,111,231)
Transactions with equity holders								
Dividends	11	(1,830,157)	-	-	(1,830,157)	-	-	-
Transition in accordance with Section 618(2) of the Companies Act, 2016 to no-par value regime effective 31 January 2017	26(a)	-	4,459,468	(4,459,468)	-	-	-	-
At 31 December 2017		21,649,955	8,923,262	-	10,744,934	1,981,759	53,036	1,928,723
2016								
At 1 January 2016		24,288,847	4,463,794	4,459,468	10,366,180	4,999,405	65,566	4,933,839
Total comprehensive income/ (loss)		3,092,650	-	-	1,996,092	1,096,558	(9,557)	1,106,115
Transactions with equity holders								
Dividends	11	(1,450,733)	-	-	(1,450,733)	-	-	-
At 31 December 2016		25,930,764	4,463,794	4,459,468	10,911,539	6,095,963	56,009	6,039,954

* Included in share capital is one special preference share of RM1.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		2,003,580	2,813,967
Adjustments for:			
Writeback of impairment loss on trade and other receivables		(67,405)	(2,441)
Impairment loss on trade and other receivables		190,125	269,054
Bad debts written off		17,805	1,491
Write off of finance lease receivables		-	276,593
Ships, offshore floating assets and other property, plant and equipment			
- Depreciation		2,055,653	2,004,945
- Written off		20,519	20,396
- Impairment loss		684,812	358,657
Impairment loss on other investments		2,681	-
Amortisation of prepaid lease payments		7,223	7,518
Amortisation of upfront fees		14,711	20,677
Gain on disposal of other property, plant and equipment		(547)	-
Gain on disposal of ships		(27,741)	-
Net unrealised foreign exchange loss/(gain)		52,051	(20,755)
Dividend income from equity investments		(2,896)	(3,180)
Amortisation of intangibles assets		9,424	17,675
Intangible assets written off		-	54,631
Loss on liquidation of a subsidiary		16,655	-
Gain on disposal of a joint venture		(43,527)	-
Gain on disposal of an associate		(1,593)	-
Gain on disposal of a subsidiary		-	(73,635)
Gain on acquisition of subsidiaries		-	(903,682)
Loss from remeasurement of previously held interest in joint ventures		-	42,534
Interest income		(96,489)	(50,276)
Finance costs		265,013	247,900
Share of profit of associates		(1,068)	(107)
Share of profit of joint ventures		(193,715)	(287,949)
Net movement in provision		(12,445)	(52,486)
Operating profit before working capital changes		4,892,826	4,741,527
Inventories		(5,090)	63,684
Trade and other receivables		790,846	880,778
Trade and other payables		(892,575)	(425,939)
Cash generated from operations		4,786,007	5,260,050
Net tax paid		(46,893)	(37,792)
Net cash generated from operating activities		4,739,114	5,222,258

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash used in investing activities	30	(2,761,097)	(3,339,264)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	31	(2,058,698)	(1,212,637)
Net (decrease)/increase in cash and cash equivalents		(80,681)	670,357
Cash and cash equivalents at beginning of financial year		6,408,971	5,533,813
Currency translation differences		(536,255)	204,801
Cash and cash equivalents at end of financial year		5,792,035	6,408,971
Cash and cash equivalents comprise:			
Cash, deposits and bank balances	23	5,900,724	6,559,207
Less: Cash pledged with bank - restricted		(104,732)	(145,639)
Deposits with maturity more than 90 days		(3,957)	(4,597)
Cash and cash equivalents		5,792,035	6,408,971

The Group and the Corporation have changed the presentation for the Statements of Cash Flows from direct to indirect method in order to provide relevant information for the readers of the financial statements.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2017

	Note	Corporation 2017 RM'000	2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		1,663,552	1,996,092
Adjustments for:			
Ships and other property, plant and equipment			
- Depreciation		400,366	413,333
- Written off		4,224	32,252
- Impairment loss		227,431	9,433
Amortisation of prepaid lease payments		129	108
Amortisation of upfront fees		8,770	14,094
Gain on disposal of other property, plant and equipment		(547)	-
Impairment loss on trade and other receivables		126,643	72,345
Bad debts written off		17,805	-
Writeback of impairment loss on trade and other receivables		(64,893)	(2,441)
Impairment loss on investment in subsidiaries		129,452	-
Impairment loss on investment in other investments		2,681	-
Net unrealised foreign exchange loss/(gain)		26,223	(11,577)
Dividend income from equity investments		(1,462,084)	(1,761,628)
Net movement in provision		(12,445)	(29,384)
Gain on disposal of a subsidiary		-	(29,983)
Gain on disposal of a joint venture		(118,085)	-
Interest income		(186,228)	(179,185)
Finance costs		180,252	105,243
Operating profit before working capital changes		943,246	628,702
Inventories		1,953	197,376
Trade and other receivables		1,871,443	529,426
Trade and other payables		(1,237,263)	(1,156,541)
Net cash generated from operating activities		1,579,379	198,963
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash generated from investing activities	30	1,462,037	1,641,334
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	31	(3,637,190)	(533,930)
Net (decrease)/increase in cash and cash equivalents		(595,774)	1,306,367
Cash and cash equivalents at beginning of financial year		3,468,856	2,070,683
Currency translation differences		(295,309)	91,806
Cash and cash equivalents at end of financial year		2,577,773	3,468,856
Cash and cash equivalents comprise:			
Cash, deposits and bank balances	23	2,577,773	3,468,856

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE INFORMATION

The Corporation is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia"). The registered office of the Corporation is located at Level 25, Menara Dayabumi, Jalan Sultan Hishamuddin, 50050 Kuala Lumpur.

The immediate and ultimate holding company of the Corporation is Petroliam Nasional Berhad ("PETRONAS"), a company incorporated and domiciled in Malaysia.

The principal activities of the Corporation consist of shipowning, ship operating and other activities related to shipping services and operating offshore floating terminals.

The principal activities of the subsidiaries, associates and joint arrangements are described in Notes 39, 40 and 41 respectively.

There have been no significant changes in the nature of the principal activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 21 February 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and of the Corporation comply with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 2016 in Malaysia.

These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The financial statements of the Group and of the Corporation have been prepared on a historical cost basis unless otherwise indicated in the accounting policies below.

The functional currency of the Corporation is United States Dollar ("USD"). The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Group and the Corporation's financial statements are presented in Ringgit Malaysia ("RM").

2.2 Changes in accounting policies and effects arising from the adoption of New and Revised MFRSs

The Group and the Corporation had on 1 January 2017 adopted the following new and amended MFRSs (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standards Board ("MASB"):

- Amendments to MFRS 12: Disclosure of Interests in Other Entities (Annual Improvements 2014-2016 Cycle)
- Amendments to MFRS 107: Statement of Cash Flows: Disclosure Initiative
- Amendments to MFRS 112: Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of the above pronouncements did not have any significant financial impact to the Group and the Corporation.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and, unless otherwise stated, have been applied consistently by the Group and the Corporation.

(a) Subsidiaries and basis of consolidation

(i) Subsidiaries

Subsidiaries are entities including structured entities controlled by the Corporation. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control commences until the date that control ceases.

All inter-company transactions are eliminated on consolidation and hence, revenue and profits relate to external transactions only. Unrealised losses resulting from intercompany transactions are also eliminated, except for instances where cost cannot be recovered.

In the Corporation's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in the income statement.

(ii) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries as at the reporting date. The financial statements of the subsidiaries are prepared for the same reporting date as the Corporation.

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate of the fair value of the consideration transferred and the amount of any non-controlling interests in the acquiree. Non-controlling interests are stated either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

When a business combination is achieved in stages, the Group remeasures its previously held non-controlling equity interest in the acquiree at fair value at the acquisition date, with any resulting gain or loss recognised in the income statement. Increase in the Group's ownership interest in an existing subsidiary is accounted for as equity transactions, with differences between the fair value of consideration paid and the Group's proportionate share of net assets acquired, recognised directly in equity.

Transaction costs, other than those associated with the issuance of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(a) Subsidiaries and basis of consolidation (cont'd.)

(ii) Basis of consolidation (cont'd.)

Non-controlling interests

Non-controlling interests at the end of the reporting period, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Corporation, whether directly, or indirectly through subsidiaries, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the shareholders of the Corporation. Non-controlling interests in the results of the Group are presented in the consolidated income statement and comprehensive income as an allocation of the income statement and other comprehensive income for the year between the non-controlling interests and shareholders of the Corporation.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to the Group's reserves.

Loss of Control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in the income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, depending on the level of influence retained, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset.

(b) Associates

Associates are entities in which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee without having control or joint control over those policies.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(b) Associates (cont'd.)

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in associate is carried in the consolidated statement of financial position at cost, adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in the consolidated income statements. Where there has been a change recognised directly in the equity of the associate, the Group recognises its shares of such changes. In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After the application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the associate's net fair value of identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that in substance form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available audited financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the financial year. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in the income statement. Any retained interest in the former associate at the date when significant influence is lost is re-measured at fair value, and this amount is regarded as the initial carrying amount of a financial asset.

When the Group’s interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not remeasured. Any gain or loss arising from the decrease in interest is recognised in the income statement. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the income statement.

In the Corporation's separate financial statements, investments in associates are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(c) Joint arrangements

Joint arrangements are arrangements in which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

Joint arrangements are classified as either joint operations or joint ventures. A joint arrangement is classified as a joint operation when the Group or the Corporation has rights to the assets and obligations for the liabilities relating to an arrangement. A joint arrangement is classified as a joint venture when the Group has rights only to the net assets of the arrangement.

Investment in a joint venture is accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in joint venture is carried in the consolidated statement of financial position at cost adjusted for post-acquisition changes in the Group's share of net assets of the joint venture. The Group's share of the net profit or loss of the joint venture is recognised in the income statement. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of such changes.

(i) Joint ventures

In applying the equity method, unrealised gains and losses on transactions between the Group and the joint venture are eliminated to the extent of the Group's interest in the joint venture. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the income statement. The joint venture is equity accounted for from the date the Group obtains joint control until the date the Group ceases to have joint control over the joint venture.

Goodwill relating to a joint venture is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the joint venture's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the joint venture's profit or loss in the year in which the investment is acquired.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any long-term interests that, in substance, form part of the Group's net investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

The most recent available audited financial statements of the joint ventures are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting year. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(c) Joint arrangements (cont'd.)

(i) Joint ventures (cont'd.)

In the Corporation's separate financial statements, investments in joint ventures are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in the income statement.

(ii) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group as a joint operator recognises in relation to its interest in a joint operation:

(i) its assets, including its share of any assets held jointly;
(ii) its liabilities, including its share of any liabilities incurred jointly;
(iii) its revenue from the sale of its share of the output arising from the joint operation;
(iv) its share of the revenue from the sale of the output by the joint operation; and
(v) its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the MFRSs applicable to the particular assets, liabilities, revenues and expenses.

Profits and losses resulting from transactions between the Group and its joint operation are recognised in the Group’s financial statements only to the extent of unrelated investors’ interests in the joint operation.

(d) Intangible assets

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is instead reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. Gains or losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(d) Intangible assets (cont'd.)

(ii) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised on a straight-line basis over their estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date.

Intangible assets with indefinite useful lives are not amortised but tested for impairment, annually or more frequently, if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating-unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

(e) Ships, offshore floating assets, other property, plant and equipment ("PPE"), and depreciation

All ships, offshore floating assets and other property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to initial recognition, ships, offshore floating assets, and other property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land has an unlimited useful life and therefore is not depreciated. Ships and offshore floating assets under construction and projects in progress are also not depreciated as these assets are not available for use.

Depreciation of ships and offshore floating assets commences from the date of delivery of such assets. Depreciation of ships and offshore floating assets in operation and other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Ships	3.3% - 5.0%
Offshore floating assets	5.0% - 20.0%
Buildings	2.0% - 7.0%
Drydocks and waste plant	2.0% - 10.0%
Motor vehicles	10.0% - 33.3%
Furniture, fittings and equipment	10.0% - 33.3%
Computer software and hardware	15.0% - 33.3%
Plant and machinery	6.7% - 20.0%

Drydocking expenditure is capitalised and depreciated over a period of 30 months or the period until the next drydocking date, whichever is shorter.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(e) Ships, offshore floating assets, other property, plant and equipment ("PPE"), and depreciation (cont'd.)

The residual values, useful lives and depreciation method are reviewed at each financial period end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the ships, offshore floating assets, and other property, plant and equipment.

Ships, offshore floating assets, and other property, plant and equipment are derecognised upon disposal, or when no future economic benefits are expected from their use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the income statement.

(f) Construction contracts

Where the outcome of a construction contract can be reliably estimated, contract revenue and contract costs are recognised as revenue and expenses respectively by using the stage of completion method. The stage of completion is measured by reference to the proportion of physical completion or based on technical milestones defined under the contracts, and taking into account the nature of activities and its associated risk.

Where the outcome of a construction contract cannot be reliably estimated, contract revenue is recognised to the extent of contract costs incurred that is probable to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue, and can be reliably measured.

(g) Impairment of non-financial assets

The carrying amounts of non-financial assets, other than deferred tax assets, inventories, non-current assets classified as held for sale and amount due from construction contract, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss, if any.

For goodwill, the recoverable amount is estimated at each reporting date, or more frequently when indicators of impairment are identified.

For the purpose of impairment testing of these assets, recoverable amount is usually determined on an individual asset basis. If an asset does not generate cash flows that are largely independent of those from other assets, recoverable amount is determined for the cash-generating-unit ("CGU") to which the asset belongs. Goodwill acquired in a business combination is allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units from the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(g) Impairment of non-financial assets (cont'd.)

An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are firstly allocated to reduce the carrying amount of any associated goodwill to those units or groups of units. Any excess losses thereof, will result in a reduction to the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in the income statement in the period in which it arises.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset, other than goodwill, is reversed if, and only if, there has been a change in the estimates, used to determine the asset's recoverable amount, since the last impairment loss was recognised. The carrying amount of an asset, other than goodwill, is increased to its revised recoverable amount, provided that this amount does not exceed the asset's carrying amount had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset, other than goodwill, is recognised in the income statement.

(h) Inventories

Inventories which comprise bunkers, lubricants, spares, raw materials and consumable stores are held for own consumption and are stated at lower of cost and net realisable value. Cost is arrived at on the weighted average basis and comprises the purchase price and other direct charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to complete the sale.

(i) Financial assets

Initial recognition:

Financial assets within the scope of MFRS 139 are classified as "financial assets at fair value through profit or loss", "loans and receivables", "held-to-maturity investments", "available-for-sale financial assets", or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace concerned (regular way of purchases) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash, deposits and bank balances, trade and other receivables, loans, quoted and unquoted financial instruments, and derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

Subsequent measurement:

The subsequent measurement of financial assets depends on their classification as follows:

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) and financial assets that are specifically designated into this category upon initial recognition.

Financial assets, categorised as fair value through profit or loss are subsequently measured at their fair value, with gains or losses recognised in the income statement.

The Group has not designated any financial assets as at fair value through profit or loss for the years ended 31 December 2017 and 31 December 2016.

(ii) Loans and receivables

Loans and receivables comprise debt instruments that are not quoted in an active market. Subsequent to initial recognition, financial assets categorised as loans and receivables are measured at amortised cost using the effective interest rate method.

(iii) Held-to-maturity investments

Held-to-maturity investments comprise debt instruments that are quoted in an active market and the Group has positive intention and ability to hold the assets to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest rate method.

The Group did not have any held-to-maturity investments as at 31 December 2017 and 31 December 2016.

(iv) Available-for-sale financial assets

Available-for-sale financial assets comprise investment in equity and debt instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at fair value, with unrealised gains and losses recognised directly in other comprehensive income and accumulated under available-for-sale reserve in equity until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is reclassified to the income statement.

The Group and the Corporation have designated their non-current investments as available-for-sale financial assets.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment as described in Note 2.3(m).

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(j) Financial liabilities

Initial recognition:

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transactions costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

Subsequent measurement:

The subsequent measurement of financial liabilities depends on their classification as follows:

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) and financial liabilities that are specifically designated into this category upon initial recognition.

Financial liabilities, categorised as fair value through profit or loss are subsequently measured at their fair value, with gains or losses recognised in the income statement.

The Group has not designated any financial liabilities at fair value through profit or loss for the years ended 31 December 2017 and 31 December 2016.

(ii) Loans and borrowings

Subsequent to initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the income statement when the financial liabilities are derecognised as well as through the amortisation process.

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Financial guarantee contracts are amortised on a straight-line basis over the contractual period of the debt instrument. Where the guarantee does not have a specific period, the guarantee will only be recognised in the income statement upon discharge of the guarantee.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(j) Financial liabilities (cont'd.)

Subsequent measurement (cont'd.):

(iii) Financial guarantee contracts (cont'd.)

When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(k) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(l) Amortised cost of financial instruments

Amortised cost is computed using the effective interest rate method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

(m) Impairment of financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries, investments in associates and investments in joint ventures) are assessed at each reporting date to determine whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the financial asset's recoverable amount is estimated.

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in the income statement and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in the income statement and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to the income statement.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in the income statement and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses are recognised in the income statement for an investment in an equity instrument classified as available-for-sale is not reversed through the income statement.

NOTES TO THE FINANCIAL STATEMENTS

2 . SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(m) Impairment of financial assets (cont'd.)

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement.

(n) Derecognition of financial instruments

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the right to receive cash flows from the asset has expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and

- either (i) the Group has transferred substantially all the risks and rewards of the assets, or (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the assets but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass through" agreement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including cash settled options or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. However, in the case of a written put option (including cash settled options or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

(o) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as interest rate swaps and currency hedge to hedge its interest rate risk and foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at each reporting date. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(o) Derivative financial instruments and hedge accounting (cont'd.)

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk);

- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to:
  - a particular risk associated with a recognised asset; or
  - liability or a highly probable forecast transaction; or
  - the foreign currency risk in an unrecognised firm commitment.

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective of the hedge and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value of cash flows and are assessed on an ongoing basis to determine that they have actually been highly effective throughout the financial reporting years for which they are designated.

The Group has entered into cash flow hedges which meet the criteria for hedge accounting. The hedges are accounted for as follows:

Cash flow hedges

The effective portion of the gains or losses on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged finance income or finance expense is recognised, or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Derivative instruments that are not designated as effective hedging instrument are classified and allocated as current or non-current based on an assessment of the facts and circumstances as follows:

- Where the Group will continue to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(p) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially all the risks and rewards incidental to the Group's ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets, and the land and the buildings elements of a lease are considered separately for the purposes of lease classification. Leases that do not transfer substantially all the risks and rewards are classified as operating leases.

(ii) Operating lease - the Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, to the land and the buildings elements in proportion to their relative fair values at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

(iii) Operating lease - the Group as lessor

Assets leased out under operating leases are presented in the statement of financial position according to the nature of the assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(iv) Finance lease - the Group as lessor

Leases in which substantially all of the risks and rewards of ownership are transferred to the lessee are classified as finance leases. Assets held pursuant to a finance lease are presented in the statement of financial position as receivable at an amount equal to the net investment in the lease. The recognition of finance income on the receivable is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

(v) Prepaid lease payments

Leasehold land which in substance is an operating lease are classified as prepaid lease payments. The payment made on entering into a lease arrangement or acquiring a leasehold land are accounted for as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

Leasehold land is classified into long term lease and short term lease. Long term lease is defined as a lease with an unexpired lease period of fifty years or more. Short term lease is defined as a lease with an unexpired lease period of less than fifty years.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement of the period in which they are incurred.

(r) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the reporting date.

Deferred tax is provided using the liability method on temporary differences between the tax bases and the carrying amounts for financial reporting purposes of assets and liabilities at the reporting date.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill, or of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that is probable that taxable profit will be available and can be utilised, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(r) Income tax (cont'd.)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Deferred tax relating to items recognised outside the income statement is recognised outside the income statement. Deferred tax items are recognised in relation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(s) Provisions

Provisions are recognised when all of the following conditions have been satisfied:

- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount can be made.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the accretion in the provision due to the passage of time is recognised as a finance cost.

Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, not wholly within the control of the Group, are not recognised in the financial statements but are disclosed as contingent liabilities, unless the possibility of an outflow of economic resources is considered remote.

Provision for warranty is made based on service histories to cover the estimated liability that may arise during the warranty period. Any surplus provision will be written back at the end of the warranty period, while additional provision is made as and when necessary.

(t) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(t) Employee benefits (cont'd.)

(ii) Defined contribution plans

Defined contribution plans are post-employment benefit plans, under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current period and preceding financial years. Such contributions are recognised as an expense in the income statement as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF"). Some of the Group's foreign subsidiaries also make contributions to their respective countries' statutory and/or voluntary pension schemes.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits as a liability and an expense when it is demonstrably committed to either terminate the employment of current employees according to a detailed plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after reporting date are discounted to present value.

(u) Foreign currencies

(i) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Corporation is United States Dollar ("USD"). The Group and Corporation's financial statements are presented in Ringgit Malaysia ("RM").

(ii) Foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated to the functional currency at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, or on translating monetary items at the reporting date are included in the income statement, except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to income statement of the Group on disposal of the foreign operation.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(u) Foreign currencies (cont'd.)

(ii) Foreign currency transactions (cont'd.)

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are recognised in the income statement for the year. Exchange differences arising on monetary items that form part of the Corporation's net investment in foreign operation, regardless of the currency of the monetary item, are recognised in the income statement of the Corporation's financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in the income statement for the year, except for the differences arising on the retranslation of available-for-sale equity instruments, which are recognised in equity.

(iii) Foreign operations

The results and financial position of operations that have a functional currency different from the presentation currency ("RM") ("Foreign Operation") are translated into RM as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate prevailing at the reporting date;

- Income and expenses for each income statement are translated at the exchange rate at the date of the transactions or an average rate that approximates those rates; and

- All resulting exchange differences are taken to the currency translation reserve within other comprehensive income.

Goodwill and fair value adjustments arising from the acquisition of foreign operations on or after 1 April 2006 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations, translated at the closing rate at the reporting date. Goodwill and fair value adjustments which arose on the acquisition of foreign subsidiaries before 1 April 2006 are deemed to be assets and liabilities of the parent company and are recorded in RM at the rates prevailing at the date of acquisition.

(v) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Freight income

Freight receivable and the relevant discharge costs of cargoes loaded onto ships up to the reporting date are accrued for in the financial statements, using the percentage of completion method.

(ii) Charter income

The results of ships employed on voyage charter and that of other services rendered are accounted for on a time accrual basis. Certain charter income is recognised on a straight-line basis over the firm period of the contract.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(v) Revenue recognition (cont'd.)

(iii) Lightering income

Income from lightering charges is recognised on percentage of completion of voyages, calculated on a discharge-to-discharge basis. The voyage revenue is recognised evenly over the period from a ship's departure from its previous discharge point to its projected departure from its next discharge point.

(iv) Other shipping related income and non-shipping income

Revenue from services rendered is recognised net of service taxes and discounts as and when the services are performed.

(v) Finance income on lease receivables

Finance income on lease receivables is recognised according to the effective interest rate method so as to provide constant periodic rate of return on the net investment.

(vi) Construction contracts

Revenue from construction contracts is accounted for in accordance with the policy set out in Note 2.3(f).

(vii) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(viii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(w) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, subject only to terms that are usual and customary.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with applicable MFRS. Then, on initial classification as held for sale, non-current assets are measured in accordance with MFRS 5, Non-Current Assets Held for Sale and Discontinued Operations that is, at the lower of carrying amount and fair value less costs to sell. Any differences are included in the income statement.

(x) Repairs and maintenance

Repairs and maintenance costs are recognised in the income statement in the period they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(y) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, being within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(z) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(aa) Fair value measurements

Fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

(i) Financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include:

- using recent arm’s length market transactions;
- reference to the current fair value of another instrument that is substantially the same; and
- discounted cash flow analysis or other valuation models.

Where fair value cannot be reliably estimated, assets are carried at cost less impairment losses, if any.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Summary of significant accounting policies (cont'd.)

(aa) Fair value measurements (cont'd.)

(ii) Non-financial assets

For a non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable input).

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

2.4 Pronouncements not yet in effect

The following pronouncements that have been issued by the MASB will become effective in future financial reporting periods and have not been adopted by the Group and/or the Corporation:

Effective for annual periods beginning on or after 1 January 2018

- Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 2: Shared-based Payment: Classification and Measurement of Share-based Payment Transactions
- MFRS 9: Financial Instruments
- MFRS 15: Revenue from Contracts with Customers
- MFRS 15: Revenue from Contracts with Customers: Clarifications to MFRS 15
- Amendments to MFRS 128: Investments in Associates and Joint Ventures (Annual Improvements 2014–2016 Cycle)
- Amendments to MFRS 140: Investment Property: Transfers of Investment Property
- IC Interpretation 22: Foreign Currency Transactions and Advance Consideration

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Pronouncements not yet in effect (cont'd.)

Effective for annual periods beginning on or after 1 January 2019

- Amendments to MFRS 9: Prepayment Features with Negative Compensation
- MFRS 16: Leases
- Amendments to MFRS 128: Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Amendments to MFRS 3 (Annual Improvements to MFRS Standards 2015–2017 Cycle)
- Amendments to MFRS 11 (Annual Improvements to MFRS Standards 2015–2017 Cycle)
- Amendments to MFRS 112 (Annual Improvements to MFRS Standards 2015–2017 Cycle)
- Amendments to MFRS 123 (Annual Improvements to MFRS Standards 2015–2017 Cycle)
- IC Interpretation 23: Uncertainty over Income Tax Treatments

Effective for annual periods beginning on or after 1 January 2021

- MFRS 17: Insurance Contracts

Effective for a date yet to be confirmed

- Amendments to MFRS 10 and 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group and the Corporation are expected to apply the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The initial application of the abovementioned pronouncements is not expected to have any material impact to the financial statements of the Group and the Corporation except as mentioned below:

(i) MFRS 9: Financial Instruments

MFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. During 2017, the Group has performed a detailed impact assessment of all three aspects of MFRS 9. The assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group adopts MFRS 9.

Based on the analysis of the Group and the Corporation’s financial assets and liabilities as at 31 December 2017 on the basis of facts and circumstances that exist at that date, the directors of the Corporation have assessed the impact of MFRS 9 to the Group’s financial statements as follows:

(i) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of MFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held as available-for-sale ("AFS") with gains and losses recorded in Other Comprehensive Income ("OCI") will, instead be measured at fair value through profit or loss, which will increase volatility in recorded profit or loss. The AFS reserve of RM53,036,000 related to those securities, which is currently presented in OCI will be reclassified to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Pronouncements not yet in effect (cont'd.)

(i) MFRS 9: Financial Instruments (cont'd.)

(i) Classification and measurement (cont'd.)

The equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during prior periods for these investments. The Group will apply the option to present fair value changes in OCI, and therefore, the application of MFRS 9 will not have a significant impact.

Loans and receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement.

(ii) Impairment

The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group is still assessing the impact of impairment based on the expected credit loss model.

(iii) Hedge accounting

The Group determined that all existing hedge relationships that are currently designated as effective will continue to qualify for hedge accounting under MFRS 9. As MFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of MFRS 9 will not have a significant impact on the Group's financial statements.

(ii) MFRS 15: Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111: Construction Contracts, MFRS 118: Revenue, IC Interpretation 13: Customer Loyalty Programmes, IC Interpretation 15: Agreements for Construction of Real Estate, IC Interpretation 18: Transfers of Assets from Customers and IC Interpretation 131: Revenue – Barter Transactions Involving Advertising Services. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

MFRS 15 is effective for annual periods beginning on or after 1 January 2018.

The Group decided to apply MFRS 15 retrospectively with cumulative effect on initially applying this standard as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application. Under this transition method, the Group will apply this standard retrospectively only to contracts that are not completed at the date of initial application (i.e. 1 January 2017).

Based on the preliminary initial assessment, the Group does not expect the application of MFRS 15 to have a significant impact on financial statements except for extensive new disclosure in financial statements, in particular information about the Group's remaining performance obligations.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Pronouncements not yet in effect (cont'd.)

(iii) MFRS 16: Leases

In April 2016, MASB issued MFRS 16 Leases which sets out principles for the recognition, measurement, presentation and disclosure of leases, and replaces the existing MFRS 117: Leases. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Assets and liabilities arising from a lease are initially measured on a present value basis includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise the option to extend the lease period, or not terminating the lease.

Lessor accounting is substantially unchanged from the existing MFRS 117: Leases except for MFRS 16 requires enhanced disclosure to be provided by lessors that will improve information disclosed about lessor's risk exposure, particularly to residual value risk.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective transition approach. MFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early application permitted, but not before an entity applies MFRS 15.

The Group is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

2.5 Significant accounting estimates and judgements

(a) Critical judgements made in applying accounting policies

The following are the judgements made by management in applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements:

(i) Operating lease commitments - the Group as lessor

In its ordinary course of business, the Group enter into lease arrangements with related and third parties on its ships and offshore floating assets. Where the Group has determined that it retains all the significant risks and rewards of ownership of these ships and offshore floating assets, the ships and offshore floating assets are recognised and classified as part of non-current assets of the Group and of the Corporation.

(ii) Construction contracts

The Group recognises revenue and expenses from construction contracts in the income statement by using the stage of completion method. The stage of completion is measured by reference to the completion of physical proportion of the contract work.

Significant judgement is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and costs, as well as the recoverability of the construction costs. In making this judgement, the Group evaluates based on past experience and by relying on the work of internal specialists.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Significant accounting estimates and judgements (cont'd.)

(b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value-in-use of the cash-generating-units ("CGU") to which goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of the impairment losses recognised, carrying amount, the key assumptions applied in the impairment assessment of goodwill and sensitivity analysis to changes in the assumptions are provided in Note 14.

(ii) Provisions

Provisions are recognised in accordance with the accounting policy in Note 2.3(s). To determine whether it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made, the Group takes into consideration factors such as existence of legal/contractual agreements, past historical experience, external advisors' assessments and other available information.

(iii) Impairment of ships, offshore floating assets and other property, plant and equipment

The Group and the Corporation have performed a review of the recoverable amount of their ships, offshore floating assets and other property, plant and equipment during the financial year. The review led to the recognition of impairment losses as disclosed in Note 5(a).

The Group carried out the impairment test based on a variety of estimations, including the value-in-use of the CGU to which ships, offshore floating assets and other property, plant and equipment are allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate to calculate the present value of those cash flows.

Further details of the impairment loss recognised are disclosed in Note 12(b).

(iv) Impairment of trade and other receivables

The Group and the Corporation assess at each reporting date whether there is any objective evidence that their trade and other receivables is impaired. To determine whether there is objective evidence of impairment, factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments are considered. The Group and the Corporation have performed a review of the recoverable amount of their receivable during the financial year. The review led to the recognition of impairment losses as disclosed in Note 21.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Significant accounting estimates and judgements (cont'd.)

(b) Key sources of estimation uncertainty (cont'd.)

(v) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies. The total carrying value of recognised deferred tax assets and the unrecognised tax losses and capital allowances are as disclosed in Note 28.

(vi) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statements of financial position cannot be derived from active markets, they are determined using valuation techniques, including the discounted cash flow method. Where possible, the inputs to these valuation models are taken from observable markets. However, when this is considered unfeasible, a degree of judgement is made in establishing fair values. The judgements made include having considered a host of factors including liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Further disclosure of fair value of financial instruments is provided in Note 36.

3. REVENUE

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Charter and lightering income	6,828,318	6,972,257	967,246	989,427
Freight income	430,391	389,818	26,931	92,769
Construction contracts	1,202,153	932,089	-	-
Other shipping related income	51,840	87,659	40,746	25,709
Finance income on lease receivables	1,318,302	645,104	10,844	10,831
Non-shipping income	237,208	570,312	-	-
	10,068,212	9,597,239	1,045,767	1,118,736

Non-shipping income mainly represents revenue generated from the operation and maintenance of offshore floating assets, management of operation of ports, marine terminals and marine vessels, provision of marine support services and consulting services for marine matters.

NOTES TO THE FINANCIAL STATEMENTS

4. OTHER OPERATING INCOME

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Rental income	197	849	-	-
Exchange gain:				
Realised	36,887	25,691	33,938	6,478
Unrealised	15,297	61,501	26,585	22,316
Management services:				
Subsidiaries	-	-	15,844	20,211
Joint ventures	6,454	8,583	6,454	8,583
Associates	-	185	-	-
Gain on disposal of other property, plant and equipment	547	-	547	-
Gain on disposal of investments in a/an:				
Subsidiary	-	73,635	-	29,983
Joint venture	43,527	-	118,085	-
Associate	1,593	-	-	-
Dividend income on equity investment:				
Subsidiaries	-	-	1,201,313	1,549,251
Joint ventures	-	-	257,875	209,197
Quoted equity investments	2,888	1,937	2,888	1,937
Unquoted equity investments	8	1,243	8	1,243
Writeback of impairment loss for third parties:				
- Trade receivables (Note 21)	6,399	2,441	3,887	2,441
- Other receivables	61,006	-	61,006	-
Compensation on termination of contracts	113,014	665,932	113,014	-
Reversal of provision for litigation claims	-	277,203	-	247,581
Reversal of provision	57,957	1,308	57,957	-
Student course fees	14,266	23,805	-	-
Miscellaneous income from:				
Subsidiaries	-	-	3,100	1,473
Fellow subsidiaries	61,209	69,734	6,676	7,799
Third Parties	86,280	78,222	32,304	57,218
	507,529	1,292,269	1,941,481	2,165,711

NOTES TO THE FINANCIAL STATEMENTS

5. PROFIT BEFORE TAXATION

The following amounts have been included in arriving at profit before taxation:

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Amortisation of intangible assets (Note 14)	9,424	17,675	-	-
Intangible assets written off	-	54,631	-	-
Amortisation of prepaid lease payments on land and buildings (Note 13)	7,223	7,518	129	108
Auditors' remuneration:				
Auditors of the Corporation:				
- Statutory audits	3,948	3,741	765	765
- Other services	1,290	340	1,060	59
Charter hire expenses	884,104	1,075,054	918	60,375
Provisions (Note 25(c))	45,512	226,025	45,512	218,197
Inventories used (Note 20)	932,475	812,854	68,819	119,953
Loss from remeasurement of previously held interest in joint ventures	-	42,534	-	-
Exchange loss:				
- Realised	11,482	90,303	14,666	24,503
- Unrealised	67,348	40,746	52,808	10,739
Impairment loss for:				
- Trade receivables (Note 21)	190,125	201,400	126,643	4,691
- Other receivables	-	67,654	-	67,654
Bad debts written off	17,805	1,491	17,805	-
Write off of finance lease receivables	-	276,593	-	-
Operating lease rental:				
- Equipment	20,671	67,560	2,974	5,230
- Land and buildings	61,077	51,119	24,093	23,943
Ships, offshore floating assets and other property, plant and equipment (Note 12):				
- Depreciation	2,055,653	2,004,945	400,366	413,333
- Written off	20,519	20,396	4,224	32,252
Impairment provisions (Note 5(a))	687,493	358,657	359,564	9,433
Loss on liquidation of a subsidiary	16,655	-	-	-
Staff costs (Note 6)	1,132,963	1,561,381	239,308	316,906
Non-executive directors' remuneration (Note 7)	1,274	1,343	630	719

NOTES TO THE FINANCIAL STATEMENTS

5. PROFIT BEFORE TAXATION (CONT'D.)

(a) Impairment provisions

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Ships and offshore floating assets (Note 12)	642,298	218,402	227,431	9,433
Other property, plant and equipment (Note 12)	-	140,255	-	-
Non-current assets held for sale written down (Note 24)	42,514	-	-	-
Investments in subsidiaries (Note 15)	-	-	129,452	-
Other investments	2,681	-	2,681	-
	687,493	358,657	359,564	9,433

6. STAFF COSTS

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Wages, salaries and bonuses	926,867	1,331,123	185,633	241,869
Contributions to defined contribution plans	64,028	79,875	18,228	28,155
Social security costs	3,828	5,250	370	677
Reversal of provision for termination benefits	-	(1,935)	-	(1,935)
Other staff related expenses	138,240	147,068	35,077	48,140
	1,132,963	1,561,381	239,308	316,906

Included in staff costs of the Group and of the Corporation are executive director's remuneration amounting to RM2,445,000 (2016: RM2,870,000) and RM2,445,000 (2016: RM2,643,000) respectively as further disclosed in Note 7.

NOTES TO THE FINANCIAL STATEMENTS

7. DIRECTORS' REMUNERATION

The details of remuneration receivable by directors of the Corporation during the financial year are as follows:

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Executive:				
Salaries and other emoluments	1,450	1,601	1,450	1,374
Bonus	311	570	311	570
Defined contribution plans	567	579	567	579
Total executive directors' remuneration (excluding benefits-in-kind)	2,328	2,750	2,328	2,523
Estimated money value of benefits-in-kind	117	120	117	120
Total executive directors' remuneration (including benefits-in-kind)	2,445	2,870	2,445	2,643
Non-executive directors' remuneration:				
Fees	630	719	630	719
Fees from subsidiaries	644	624	-	-
Total non-executive directors' remuneration (Note 5)	1,274	1,343	630	719
Total directors' remuneration including benefits-in-kind (Note 32(j))	3,719	4,213	3,075	3,362

The number of directors of the Corporation whose total remuneration during the financial year fell within the following bands is analysed below:

	Number of directors	
	2017	2016
Executive directors:		
RM2,450,001 - RM2,500,000	1	-
RM2,850,001 - RM2,900,000	-	1
Non-executive directors*:		
RM100,001 - RM150,000	4	4
RM250,001 - RM300,000	1	1
RM550,001 - RM600,000	1	1
	6	6

* Excludes the directors of the Corporation who are paid directly by the immediate holding company of the Corporation, PETRONAS.

NOTES TO THE FINANCIAL STATEMENTS

8. (a) FINANCE COSTS

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Interest expense:				
Subsidiaries	-	-	158,914	34,588
Third parties	245,333	177,509	1,658	526
Sukuk Murabahah	-	262	-	-
Unwinding of discount on provisions	19,680	70,129	19,680	70,129
Total finance costs	265,013	247,900	180,252	105,243

(b) FINANCE INCOME

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Interest income:				
Subsidiaries	-	-	148,127	165,238
Joint ventures	1,595	2,734	1,595	2,654
Deposits	94,894	47,542	36,506	11,293
Total finance income	96,489	50,276	186,228	179,185

9. TAXATION

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current income tax:				
Malaysian income tax	38,062	31,490	-	-
Foreign tax	7	8,807	-	-
Overprovision in prior year:				
Malaysian income tax	(7,114)	(30,493)	-	-
Foreign tax	-	(1,690)	-	-
	30,955	8,114	-	-
Deferred tax:				
Relating to origination and reversal of temporary differences	(14,504)	(13,270)	-	-
(Over)/under provision in prior year	(3,562)	25,847	-	-
	(18,066)	12,577	-	-
Taxation for the year	12,889	20,691	-	-

Domestic current income tax is calculated at the statutory tax rate of 24% (2016: 24%) of the estimated assessable profit for the financial year.

NOTES TO THE FINANCIAL STATEMENTS

9. TAXATION (CONT'D.)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Corporation is as follows:

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit before taxation	2,003,580	2,813,967	1,663,552	1,996,092
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	480,859	675,352	399,252	479,062
Effect of different tax rates in other countries/jurisdictions	(320,081)	(114,243)	-	-
Effect of reduction in tax rate on deferred tax recognised	-	144	-	-
Income not subject to tax:				
Tax exempt shipping income	(718,730)	(606,914)	(186,489)	(130,513)
Others	(73,147)	(340,056)	(426,497)	(428,725)
Expenses not deductible for tax purposes	770,703	541,135	265,293	145,499
Effect of share of results of associates and joint ventures	(46,748)	(69,133)	-	-
Utilisation of previously unrecognised tax losses	(51,559)	(65,033)	(51,559)	(65,323)
Utilisation of previously unrecognised unabsorbed capital allowances	-	(23)	-	-
Deferred tax assets recognised on unutilised investment tax allowances	(17,732)	-	-	-
Deferred tax assets not recognised on unutilised investment tax allowances	-	5,798	-	-
Deferred tax (over)/under provided in prior year	(3,562)	25,847	-	-
Income tax over provided in prior year	(7,114)	(32,183)	-	-
Taxation for the year	12,889	20,691	-	-

The Government had proposed to reduce the exemption for the shipping sector provided under Section 54A of the Income Tax Act, 1967 ("the Act") from 100% to 70% of statutory income effective from Year of Assessment ("YA") 2012. Subsequently in December 2015, the Government has decided to defer the implementation of the above proposal to YA2020.

NOTES TO THE FINANCIAL STATEMENTS

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit for the year attributable to ordinary equity holders of the Corporation by the weighted average number of ordinary shares outstanding during the financial year.

The Group does not have any financial instrument which may dilute its basic earnings per share.

	Group	
	2017	**2016**
Profit after taxation attributable to equity holders of the Corporation (RM'000)	1,981,509	2,581,550
Number of ordinary shares in issue ('000)	4,463,794	4,463,794
Weighted average number of ordinary shares in issue ('000)	4,463,794	4,463,794
Basic earnings per share (sen)	44.4	57.8
Diluted earnings per share (sen)	44.4	57.8

11. DIVIDENDS

	2017 RM'000	**2016 RM'000**
Dividend recognised during the year:		
In respect of financial year ended 31 December 2015:		
Second interim tax exempt dividend under the single tier system of 12.5 sen per share	-	557,975
Final tax dividend under the single tier system of 10.0 sen per share	-	446,379
In respect of financial year ended 31 December 2016:		
First interim tax exempt dividend under the single tier system of 10.0 sen per share	-	446,379
Second tax exempt dividend under the single tier system of 20.0 sen per share	892,759	-
In respect of financial year ended 31 December 2017:		
First tax exempt dividend under the single tier system of 7.0 sen per share	312,466	-
Second tax exempt dividend under the single tier system of 7.0 sen per share	312,466	-
Third tax exempt dividend under the single tier system of 7.0 sen per share	312,466	-
	1,830,157	1,450,733

A fourth tax exempt dividend, under the single tier system, in respect of the financial year ended 31 December 2017 of 9.0 sen per share amounting to a dividend payable of RM401,741,000 will be paid on 15 March 2018.

The fourth tax exempt dividend is not reflected in the current year's financial statements. The dividend will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

12. SHIPS, OFFSHORE FLOATING ASSETS AND OTHER PROPERTY, PLANT AND EQUIPMENT

	At 1.1.2017 RM'000	Additions RM'000	Disposals RM'000
Group - 31 December 2017			
Ships			
Ships in operation	45,420,350	1,207,534	(493,692)
Ships under construction	808,297	697,524	-
	46,228,647	1,905,058	(493,692)
Offshore floating assets			
Offshore floating assets in operation	1,661,231	-	-
Other property, plant and equipment			
Freehold land	5,673	-	-
Freehold buildings, drydocks and waste plant	1,618,912	104	(6,993)
Leasehold buildings	75,403	-	-
Motor vehicles	24,530	292	(3,369)
Furniture, fittings and equipment	136,119	4,884	(52)
Computer software and hardware	335,516	8,673	(1,751)
Projects in progress	216,418	81,897	(2,882)
Plant and machinery	670,161	14,084	(787)
	3,082,732	109,934	(15,834)
Total	50,972,610	2,014,992	(509,526)

NOTES TO THE FINANCIAL STATEMENTS

Cost					
Write-offs RM'000	Transfers RM'000	Reclassification (out)/into of PPE RM'000	Reclassified to held for sale RM'000	Currency translation differences RM'000	At 31.12.2017 RM'000
(456,429)	563,366	(143,827)	(1,533,389)	(3,758,684)	40,805,229
-	(563,062)	-	-	(73,957)	868,802
(456,429)	304	(143,827)	(1,533,389)	(3,832,641)	41,674,031
(16,215)	-	-	-	(141,858)	1,503,158
-	-	-	-	(94)	5,579
-	16,340	-	-	(2,081)	1,626,282
(1,924)	-	-	-	531	74,010
(731)	349	-	-	(374)	20,697
(472)	17,908	-	-	(3,686)	154,701
(875)	12,218	(592)	-	(29,812)	323,377
(321)	(104,240)	3,512	-	(18,809)	175,575
(4,486)	57,121	180	-	(21,679)	714,594
(8,809)	(304)	3,100	-	(76,004)	3,094,815
(481,453)	-	(140,727)	(1,533,389)	(4,050,503)	46,272,004

NOTES TO THE FINANCIAL STATEMENTS

12. SHIPS, OFFSHORE FLOATING ASSETS AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	At 1.1.2017 RM'000	Depreciation charge for the year RM'000	Impairment losses RM'000	Disposals RM'000
Group - 31 December 2017				
Ships				
Ships in operation	22,370,246	1,862,180	638,714	(442,497)
Ships under construction	-	-	-	-
	22,370,246	1,862,180	638,714	(442,497)
Offshore floating assets				
Offshore floating assets in operation	1,187,745	88,611	3,584	-
Other property, plant and equipment				
Freehold land	-	-	-	-
Freehold buildings, drydocks and waste plant	535,026	34,795	-	(3,371)
Leasehold buildings	26,435	-	-	-
Motor vehicles	18,330	2,185	-	(2,929)
Furniture, fittings and equipment	93,685	6,024	-	(52)
Computer software and hardware	306,266	16,209	-	(1,752)
Projects in progress	-	-	-	-
Plant and machinery	320,593	45,649	-	(787)
	1,300,335	104,862	-	(8,891)
Total	24,858,326	2,055,653	642,298	(451,388)

NOTES TO THE FINANCIAL STATEMENTS

Accumulated depreciation/impairment						Net book value
Write-offs RM'000	Transfers RM'000	Reclassification (out)/into of PPE RM'000	Reclassified to held for sale RM'000	Currency translation differences RM'000	At 31.12.2017 RM'000	At 31.12.2017 RM'000
(442,126)	-	(84,125)	(1,490,381)	(1,640,451)	20,771,560	20,033,669
-	-	-	-	-	-	868,802
(442,126)	-	(84,125)	(1,490,381)	(1,640,451)	20,771,560	20,902,471
(10,446)	-	-	-	(88,985)	1,180,509	322,649
-	-	-	-	-	-	5,579
-	(32)	-	-	(763)	565,655	1,060,627
(1,924)	-	-	-	130	24,641	49,369
(702)	-	-	-	(293)	16,591	4,106
(463)	-	-	-	(1,910)	97,284	57,417
(875)	1,384	(64)	-	(27,120)	294,048	29,329
-	-	-	-	-	-	175,575
(4,398)	(1,352)	267	-	(20,687)	339,285	375,309
(8,362)	-	203	-	(50,643)	1,337,504	1,757,311
(460,934)	-	(83,922)	(1,490,381)	(1,780,079)	23,289,573	22,982,431

NOTES TO THE FINANCIAL STATEMENTS

12. SHIPS, OFFSHORE FLOATING ASSETS AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	At 1.1.2016 RM'000	Additions RM'000	Disposals RM'000	Write-offs RM'000
Group - 31 December 2016				
Ships				
Ships in operation	43,146,410	509,577	-	(429,645)
Ships under construction	421,500	371,938	-	-
	43,567,910	881,515	-	(429,645)
Offshore floating assets				
Offshore floating assets in operation	1,381,390	1,591	-	-
Offshore floating assets under construction	95,638	96,616	-	-
	1,477,028	98,207	-	-
Other property, plant and equipment				
Freehold land	15,113	-	-	-
Freehold buildings, drydocks and waste plant	1,581,000	913	-	(900)
Leasehold land	44,224	-	-	-
Leasehold buildings	210,913	190	-	-
Motor vehicles	155,281	13,429	-	(166)
Furniture, fittings and equipment	161,393	3,936	-	(21,612)
Computer software and hardware	342,509	5,082	(133)	(2,365)
Projects in progress	222,335	130,050	-	-
Plant and machinery	717,211	34,172	-	(115,522)
	3,449,979	187,772	(133)	(140,565)
Total	48,494,917	1,167,494	(133)	(570,210)

NOTES TO THE FINANCIAL STATEMENTS

Cost						
Acquisition of a subsidiary RM'000	Disposal of a subsidiary RM'000	Transfers RM'000	Reclassification into/(out) of PPE RM'000	Reclassified to held for sale RM'000	Currency translation differences RM'000	At 31.12.2016 RM'000
1,147,703	-	23,057	-	(604,433)	1,627,681	45,420,350
-	-	(268)	-	-	15,127	808,297
1,147,703	-	22,789	-	(604,433)	1,642,808	46,228,647
-	-	92,386	160,795	-	25,069	1,661,231
-	-	(92,386)	(79,911)	-	(19,957)	-
-	-	-	80,884	-	5,112	1,661,231
-	(9,551)	-	-	-	111	5,673
-	(18,330)	55,068	-	-	1,161	1,618,912
-	(44,224)	-	-	-	-	-
-	(135,747)	285	-	-	(238)	75,403
-	(144,265)	-	-	-	251	24,530
-	(8,501)	418	-	-	485	136,119
-	(27,352)	3,797	-	-	13,978	335,516
-	(580)	(139,762)	-	-	4,375	216,418
-	(32,809)	57,405	-	-	9,704	670,161
-	(421,359)	(22,789)	-	-	29,827	3,082,732
1,147,703	(421,359)	-	80,884	(604,433)	1,677,747	50,972,610

NOTES TO THE FINANCIAL STATEMENTS

12. SHIPS, OFFSHORE FLOATING ASSETS AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	At 1.1.2016 RM'000	Depreciation charge for the year RM'000	Impairment losses RM'000	Disposals RM'000	Write-offs RM'000
Group - 31 December 2016					
Ships					
Ships in operation	20,620,525	1,812,993	199,823	-	(411,636)
Ships under construction	-	-	-	-	-
	20,620,525	1,812,993	199,823	-	(411,636)
Offshore floating assets					
Offshore floating assets in operation	1,073,599	68,677	18,579	-	-
Offshore floating assets under construction	-	-	-	-	-
	1,073,599	68,677	18,579	-	-
Other property, plant and equipment					
Freehold land	-	-	-	-	-
Freehold buildings, drydocks and waste plant	358,223	40,472	140,255	-	(790)
Leasehold land	8,203	2,754	-	-	-
Leasehold buildings	57,223	1,342	-	-	-
Motor vehicles	106,958	13,383	-	-	(133)
Furniture, fittings and equipment	113,957	4,870	-	-	(19,387)
Computer software and hardware	300,873	20,939	-	(133)	(2,363)
Projects in progress	-	-	-	-	-
Plant and machinery	411,773	39,515	-	-	(115,505)
	1,357,210	123,275	140,255	(133)	(138,178)
Total	23,051,334	2,004,945	358,657	(133)	(549,814)

NOTES TO THE FINANCIAL STATEMENTS

Accumulated depreciation/impairment							Net book value
Acquisition of a subsidiary RM'000	Disposal of a subsidiary RM'000	Transfers RM'000	Reclassification into/(out) of PPE RM'000	Reclassified to held for sale RM'000	Currency translation differences RM'000	At 31.12.2016 RM'000	At 31.12.2016 RM'000
-	-	-	-	(442,714)	591,255	22,370,246	23,050,104
-	-	-	-	-	-	-	808,297
-	-	-	-	(442,714)	591,255	22,370,246	23,858,401
-	-	-	-	-	26,890	1,187,745	473,486
-	-	-	-	-	-	-	-
-	-	-	-	-	26,890	1,187,745	473,486
-	-	-	-	-	-	-	5,673
-	(3,651)	-	-	-	517	535,026	1,083,886
-	(10,957)	-	-	-	-	-	-
-	(32,071)	-	-	-	(59)	26,435	48,968
-	(102,098)	-	-	-	220	18,330	6,200
-	(5,972)	-	-	-	217	93,685	42,434
-	(26,121)	-	-	-	13,071	306,266	29,250
-	-	-	-	-	-	-	216,418
-	(24,451)	-	-	-	9,261	320,593	349,568
-	(205,321)	-	-	-	23,227	1,300,335	1,782,397
-	(205,321)	-	-	(442,714)	641,372	24,858,326	26,114,284

NOTES TO THE FINANCIAL STATEMENTS

12. SHIPS, OFFSHORE FLOATING ASSETS AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	At 1.1.2017 RM'000	Additions RM'000
Corporation - 31 December 2017		
Ships		
Ships in operation	12,471,759	78,192
Other property and equipment		
Motor vehicles	4,174	-
Furniture, fittings and equipment	11,181	1,505
Computer software and hardware	218,388	1,335
Projects in progress	83,983	13,608
	317,726	16,448
Total	12,789,485	94,640

	At 1.1.2017 RM'000	Depreciation charge for the year RM'000	Impairment losses RM'000
Corporation - 31 December 2017			
Ships			
Ships in operation	6,425,618	393,072	227,431
Other property and equipment			
Motor vehicles	3,273	294	-
Furniture, fittings and equipment	10,635	1,275	-
Computer software and hardware	208,749	5,725	-
Projects in progress	-	-	-
	222,657	7,294	-
Total	6,648,275	400,366	227,431

NOTES TO THE FINANCIAL STATEMENTS

Cost					
Write-offs RM'000	Disposal RM'000	Transfers RM'000	Reclassified to held for sale RM'000	Currency translation differences RM'000	At 31.12.2017 RM'000
(300,787)	-	230	(1,533,389)	(905,894)	9,810,111
-	(3,042)	-	-	(224)	908
(896)	(103)	17,911	-	(1,405)	28,193
-	(1,646)	8,051	-	(21,145)	204,983
(321)	-	(26,192)	-	(7,226)	63,852
(1,217)	(4,791)	(230)	-	(30,000)	297,936
(302,004)	(4,791)	-	(1,533,389)	(935,894)	10,108,047

Accumulated depreciation/impairment						Net book value
Write-offs RM'000	Transfers RM'000	Disposal RM'000	Reclassified to held for sale RM'000	Currency translation differences RM'000	At 31.12.2017 RM'000	At 31.12.2017 RM'000
(296,888)	-	-	(1,490,381)	(365,938)	4,892,914	4,917,197
-	-	(2,602)	-	(181)	784	124
(892)	-	(103)	-	(220)	10,695	17,498
-	-	(1,646)	-	(20,072)	192,756	12,227
-	-	-	-	-	-	63,852
(892)	-	(4,351)	-	(20,473)	204,235	93,701
(297,780)	-	(4,351)	(1,490,381)	(386,411)	5,097,149	5,010,898

NOTES TO THE FINANCIAL STATEMENTS

12. SHIPS, OFFSHORE FLOATING ASSETS AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	At 1.1.2016 RM'000	Additions RM'000
Corporation - 31 December 2016		
Ships		
Ships in operation	11,892,014	162,326
Offshore floating assets		
Offshore floating assets under construction	17,421	63,091
Other property and equipment		
Motor vehicles	3,997	-
Furniture, fittings and equipment	24,200	91
Computer software and hardware	206,052	49
Projects in progress	65,540	39,651
	299,789	39,791
Total	12,209,224	265,208

	At 1.1.2016 RM'000	Depreciation charge for the year RM'000	Impairment losses RM'000
Corporation - 31 December 2016			
Ships			
Ships in operation	5,817,434	404,734	9,433
Other property and equipment			
Motor vehicles	2,336	770	-
Furniture, fittings and equipment	20,096	823	-
Computer software and hardware	192,886	7,006	-
Projects in progress	-	-	-
	215,318	8,599	-
Total	6,032,752	413,333	9,433

NOTES TO THE FINANCIAL STATEMENTS

Cost				
Reclassified to trade and other receivables RM'000	Write-offs RM'000	Transfers RM'000	Currency translation differences RM'000	At 31.12.2016 RM'000
(8,060)	(34,818)	14,947	445,350	12,471,759
(79,911)	-	-	(601)	-
-	-	-	177	4,174
-	(21,242)	-	8,132	11,181
-	(257)	3,460	9,084	218,388
(7,851)	-	(18,407)	5,050	83,983
(7,851)	(21,499)	(14,947)	22,443	317,726
(95,822)	(56,317)	-	467,192	12,789,485

Accumulated depreciation/impairment					Net book value
Reclassified to trade and other receivables RM'000	Write-offs RM'000	Transfers RM'000	Currency translation differences RM'000	At 31.12.2016 RM'000	At 31.12.2016 RM'000
-	(4,791)	-	198,808	6,425,618	6,046,141
-	-	-	167	3,273	901
-	(19,017)	-	8,733	10,635	546
-	(257)	-	9,114	208,749	9,639
-	-	-	-	-	83,983
-	(19,274)	-	18,014	222,657	95,069
-	(24,065)	-	216,822	6,648,275	6,141,210

12. SHIPS, OFFSHORE FLOATING ASSETS AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

(a) The net carrying amounts of ships pledged as security for borrowings (Note 18(c)) are as follows:

	Group	
	2017 RM'000	**2016 RM'000**
Ships	3,290,183	3,560,681

(b) The significant drop in charter hire rates, expiry of existing contracts or future expiry of contracts within next five years of certain ships and offshore floating assets were identified as indications that the carrying amount of certain ships may be impaired.

The Group and the Corporation have performed a review of the recoverable amount of their ships, offshore floating assets and other property, plant and equipment during the financial year. The review led to the recognition of net impairment losses of RM642,298,000 (2016: RM358,657,000) and RM227,431,000 (2016: RM9,433,000) for the Group and the Corporation respectively, as disclosed in Note 5(a).

The recoverable amount was based on the higher of fair value less costs of disposal or value-in-use, and determined at the cash-generating-unit ("CGU") of each asset.

Recoverable amount determined from value-in-use

The Group's recoverable amount for impaired ships, offshore floating assets and other property, plant and equipment of RM119,696,000 (2016: RM2,174,531,000) was determined from the value-in-use calculations using cash flow projections discounted at rates 7.07% to 10.30% (2016: 6.50% to 10.30%). Impairment losses of RM69,997,000 (2016: RM354,564,000) and RMNil (2016: RM9,433,000) for the Group and the Corporation respectively were recognised using this basis.

The key assumptions used in the value-in-use calculations are as follows:

(i) Ships

- The value-in-use for certain ships were calculated using cash flow projections for the remaining lease period and discounted at rates of 7.07% to 7.50% (2016: 6.80% to 7.55%).

(ii) Offshore floating assets

- In the previous financial year, the value-in-use for certain offshore floating assets were calculated using cash flow projections for the remaining lease period and discounted at a rate of 6.50%.

(iii) Other property, plant and equipment

In the previous financial year, the following are the key assumptions used in the value-in-use calculations:

- Revenue are estimated based on existing order book and anticipated future projects.

- Gross margins are estimated based on forecast margins for order book, management's expectation and past experience.

- The discount rate reflects specific risk relating to the CGU. The discount rate used is 10.30%.

- Cash flow beyond the five-year period is extrapolated using a growth rate of 2.50%. The growth rate is based on published industry research and do not exceed the long-term average growth rate for the industries relevant to the CGU.

NOTES TO THE FINANCIAL STATEMENTS

12. SHIPS, OFFSHORE FLOATING ASSETS AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

(b) Recoverable amount determined from fair value less costs of disposal

The fair values of certain ships and offshore floating assets were determined based on valuation performed by an independent valuer based on comparable ships and offshore floating assets adjusted for the current condition of the assets. The fair value measurement was categorised as Level 3 fair value as defined in Note 2.3(aa).

Impairment of RM572,301,000 (2016: RM4,093,000) and RM227,431,000 (2016: RMNil) for the Group and the Corporation respectively were recognised using this basis.

13. PREPAID LEASE PAYMENTS ON LAND AND BUILDINGS

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At 1 January	227,752	238,208	4,305	4,234
Amortisation for the year (Note 5)	(7,223)	(7,518)	(129)	(108)
Disposal of a subsidiary	-	(3,117)	-	-
Currency translation differences	(401)	179	(401)	179
At 31 December	220,128	227,752	3,775	4,305
Analysed as:				
Leasehold land	216,353	223,447	-	-
Leasehold buildings	3,775	4,305	3,775	4,305
	220,128	227,752	3,775	4,305

Included in leasehold land of the Group is the carrying value of a long term leasehold and foreshore land of a subsidiary of RM216,353,000 (2016: RM223,447,000) which cannot be disposed off, charged or subleased without the prior consent of the Johor State Government.

NOTES TO THE FINANCIAL STATEMENTS

14. INTANGIBLE ASSETS

	Goodwill RM'000	Group Other intangible assets RM'000	Total RM'000
Cost			
At 1 January 2016	1,021,115	504,463	1,525,578
Addition	-	47,453	47,453
Disposal of a subsidiary	(149)	-	(149)
Write-off	-	(339,359)	(339,359)
Currency translation differences	38,043	-	38,043
At 31 December 2016/1 January 2017	1,059,009	212,557	1,271,566
Currency translation differences	(84,873)	-	(84,873)
At 31 December 2017	974,136	212,557	1,186,693
Accumulated amortisation and impairment			
At 1 January 2016	162,501	437,442	599,943
Amortisation for the year (Note 5)	-	17,675	17,675
Write-off	-	(284,728)	(284,728)
At 31 December 2016/1 January 2017	162,501	170,389	332,890
Amortisation for the year (Note 5)	-	9,424	9,424
At 31 December 2017	162,501	179,813	342,314
Net carrying amount			
At 31 December 2016	896,508	42,168	938,676
At 31 December 2017	811,635	32,744	844,379

The other intangible assets relate to the fair value at the date of acquisition of time charter hire contracts arising from acquisition of subsidiaries, and are amortised over the remaining charter period. As a result of the early termination of certain time charter contracts, the other intangible assets amounting to RM54,631,000 has been written off in the previous financial year.

The addition in the other intangible assets amounting to RM47,453,000 in the previous financial year relates to the fair value, at the date of acquisition, of long term customer contracts from acquisition of MISC Maritime Services Sdn. Bhd. (formerly known as PETRONAS Maritime Services Sdn. Bhd.).

NOTES TO THE FINANCIAL STATEMENTS

14. INTANGIBLE ASSETS (CONT'D.)

Impairment test for goodwill

(a) Goodwill has been allocated to the Group's CGUs identified according to business segment as follows:

	Group	
	2017 RM'000	2016 RM'000
Petroleum	810,689	895,563
Offshore	225	225
Others	721	720
	811,635	896,508

(b) The Group performed a review on the recoverable amount of goodwill during the financial year. Generally, the recoverable amounts are based on the higher of fair value less costs to sell or value-in-use for the CGUs to which the goodwill is allocated.

The recoverable amount of a CGU is determined using the value-in-use method, based on cash flow projections derived from financial projections approved by the management covering a five-year period. The discount rate used is based on the pre-tax weighted average cost of capital determined by the management.

Goodwill for the Petroleum segment represents goodwill arising from acquisition of American Eagle Tanker Inc. ("AET"). An impairment review of the carrying amount of the goodwill at the reporting date was undertaken by comparing to the recoverable amount of the CGU, which was derived based on value-in-use calculations. The value-in-use is most sensitive to the following key assumptions:

(i) Risk adjusted discount rate used is 7.50% (2016: 7.55%). The discount rate reflects the current market assessment of the risks specific to the Petroleum segment. This is the benchmark used by the management to assess operating performance and to evaluate future investments. In determining the discount rate for the Petroleum segment, reference has been made to the yield of a 10 years (2016: 10 years) US Treasury Bills as at reporting date.

An increase of 1.18% (2016: 0.31%) or 118 (2016: 31) basis points in discount rate would result in recoverable amount that equates to the carrying amount of the CGU.

(ii) Terminal value and growth rate - The terminal value is based on expected cash flows for year 2022 into perpetuity with terminal year growth rate of 2.5% (2016: 2.0%). Terminal year charter rates are based on ten-year average historical market rates.

A decrease of 5.91% (2016: 1.51%) or 591 (2016: 151) basis points in the charter rates in deriving at the terminal value would result in recoverable amount that equates to the carrying amount of the CGU.

A decrease to 1.5% (2016: 0.39%) or 150 (2016: 39) basis points in terminal growth rate would result in recoverable amount that equates to the carrying amount of the CGU.

(iii) Expenses are estimated to increase by an annual average rate of 2.5% (2016: 2.0%).

(iv) Spot charter rates are estimated based on forecasts by industry research publications.

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENTS IN SUBSIDIARIES

	Corporation	
	2017 RM'000	2016 RM'000
At 1 January	18,915,174	11,280,489
Additional investments in subsidiaries (Note a)	568,376	5,518,646
Disposal of a subsidiary (Note b)	-	(312,921)
Impairment of investment in unquoted subsidiaries (Note 5(a))	(129,452)	-
Currency translation differences	(3,496,017)	2,428,960
At 31 December	15,858,081	18,915,174
Quoted shares	262,463	289,941
Unquoted shares	15,595,618	18,625,233
	15,858,081	18,915,174

Included in unquoted shares are preference shares of RM11,952,712,000 (2016: RM12,966,392,000) which bear interest ranging from 3.00% to 6.00% (2016: 3.00% to 6.00%) per annum.

(a) Additional investments in subsidiaries

(i) During the current financial year:

(a) The Corporation increased its investment in MISC Tankers Sdn. Bhd. ("MTSB"), a wholly owned subsidiary by RM566,346,000, in support of the subsidiary's debt capitalisation exercise and as a consideration for transfer of ships via issuance of ordinary shares and Cumulative Redeemable Preferences Shares ("CRPS").

(b) The Corporation had incorporated Eaglestar Marine Holdings (L) Pte. Ltd. ("EMH") with a total paid up share capital of USD1,000,000 divided into 1,000,000 ordinary shares. The principal activities of EMH are the provision of marine services and investment holdings. Subsequent to the incorporation of EMH, the Corporation disposed 50% of its shares in EMH to AET Inc. The details of subsidiaries of EMH is disclosed in Note 39.

(ii) In the previous financial year:

(a) The Corporation increased its investment in MTSB by RM3,791,157,000, in support of the subsidiary's debt capitalisation exercise and as consideration for the transfer of ships via issuance of shares.

(b) The Corporation had on 13 May 2016 completed the equity buyback of the remaining 50% equity interest in a joint venture, Gumusut-Kakap Semi-Floating Production System (L) Limited ("GKL"), for a cash consideration of USD445,000,000 (RM1,727,489,000) from, E&P Venture Solutions Co Sdn. Bhd., a wholly-owned subsidiary of PETRONAS Carigali Sdn. Bhd.. Upon completion, GKL became a wholly-owned subsidiary of the Corporation.

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

(a) Additional investments in subsidiaries (cont'd.)

(ii) In the previous financial year (cont'd.)

(b) The carrying amount and the fair values of the identifiable assets and liabilities of GKL as at the date of acquisition were as follows:

	At carrying amount RM'000	At fair value RM'000
Non-current finance lease receivables	8,183,332	8,146,865
Current assets	1,502,954	1,502,954
Current liabilities	(4,547,757)	(4,547,757)
Net identifiable assets and liabilities	5,138,529	5,102,062
Less: Negative goodwill on acquisition		(805,308)
Less: Interest previously held and classified as joint venture		(2,569,265)
Purchase consideration		1,727,489

The effect of the acquisition on the Group's cash flows is as follows:

	RM'000
Purchase consideration satisfied in cash	1,727,489
Less: Cash and cash equivalents of subsidiary acquired	(386,571)
Net cash outflow on acquisition	1,340,918

Loss from remeasurement of previously held interest in the joint venture on the date of acquisition

	RM'000
Carrying amount of equity interests previously owned at the date of acquisition	2,569,265
Less: Fair value of equity interests previously owned at the date of acquisition	(2,551,031)
Loss from remeasurement of previously held interest in the joint venture	18,234

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

(a) Additional investments in subsidiaries (cont'd.)

(ii) In the previous financial year (cont'd.)

(b) Gain on acquisition of subsidiary

	RM'000
Purchase consideration satisfied in cash	1,727,489
Fair value of equity interests previously owned at the date of acquisition, net of intra-group elimination	2,551,031
	4,278,520
Less: Fair value of net identifiable assets	(5,102,062)
Gain on acquisition of subsidiary	(823,542)

(c) The Group had on 7 July 2015 acquired the entire equity interest in MISC Maritime Services Sdn. Bhd. (formerly known as PETRONAS Maritime Services Sdn. Bhd. ("PMSSB")) from its immediate holding company, Petroliam Nasional Berhad ("PETRONAS") for a cash consideration of RM54,111,000. However, the Group did not complete the initial accounting for business combination in the year of acquisition, pending determination of the fair value of the net assets acquired.

The carrying amount and the fair values of the identifiable assets and liabilities of PMSSB as at the date of acquisition were as follows:

	At carrying amount RM'000	At fair value RM'000
Non-current assets	1,626	49,079
Current assets	71,074	71,074
Current liabilities	(18,589)	(18,589)
Net identifiable assets and liabilities	54,111	101,564
Less: Negative goodwill on acquisition		(47,453)
Purchase consideration		54,111

15. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

(a) Additional investments in subsidiaries (cont'd.)

(ii) In the previous financial year (cont'd.)

(c) Gain on acquisition of subsidiary (cont'd.)

The effect of the acquisition on cash flows in previous year is as follows:

	RM'000
Purchase consideration satisfied in cash	54,111
Less: Cash and cash equivalents of subsidiary acquired	(56,008)
Net cash inflow on acquisition	(1,897)

Gain on acquisition of subsidiary

	RM'000
Purchase consideration satisfied in cash	54,111
Less: Fair value of net identifiable assets	(101,564)
Gain on acquisition of subsidiary	(47,453)

(d) The Group had on 21 April 2016 via AET Inc. Limited, a wholly-owned subsidiary of the Group, completed the acquisition of the remaining 50% equity interest in a joint venture, Paramount Tankers Corp., for a cash consideration of USD59,293,000 (RM238,565,000) from Golden Energy Tankers Holdings Corp.. Upon completion, Paramount Tankers Corp. became a wholly-owned subsidiary of the Group.

The carrying amount and the fair values of the identifiable assets and liabilities of Paramount Tankers Corp. as at the date of acquisition were as follows:

	At carrying amount RM'000	At fair value RM'000
Ships	1,196,304	1,147,703
Current assets	92,194	92,194
Current liabilities	(84,346)	(84,346)
Non-current liabilities	(657,150)	(657,150)
Net identifiable assets and liabilities	547,002	498,401

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

(a) Additional investments in subsidiaries (cont'd.)

(ii) In the previous financial year (cont'd.)

(d) Gain on acquisition of subsidiary (cont'd.)

The effect of the acquisition on cash flows is as follows:

	RM'000
Purchase consideration satisfied in cash	238,565
Less: Cash and cash equivalents of subsidiary acquired	(37,779)
Net cash outflow on acquisition	200,786

Loss from remeasurement of previously held interest in the joint venture on the date of acquisition

	RM'000
Carrying amount of equity interests previously owned at the date of acquisition	273,501
Less: Fair value of equity interests previously owned at the date of acquisition	(249,201)
Loss from remeasurement of previously held interest in the joint venture	24,300

Gain on acquisition of subsidiary

	RM'000
Purchase consideration satisfied in cash	238,565
Fair value of equity interests previously owned at the date of acquisition, net of intra-group elimination	227,149
	465,714
Less: Fair value of net identifiable assets	(498,401)
Gain on acquisition of subsidiary	(32,687)

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

(b) Disposal of a subsidiary

The Corporation had on 24 October 2016 completed the disposal of its entire equity interest in MISC Integrated Logistics Sdn. Bhd. ("MILS"), a wholly-owned subsidiary of the Group, to Swift Haulage Sdn. Bhd. ("SWIFT") for a total consideration of RM357,989,000. As a result, the Group and the Corporation recognised a gain on disposal of RM73,635,000 and RM29,983,000 respectively in the previous financial year. Accordingly, MILS ceased to be a subsidiary of the Corporation from the said date.

The net profit contributed by MILS from 1 January 2016 to the date of disposal was not material to the consolidated net profit of the Group in the previous financial year.

The net effect of the above disposal to the Group's cash flows and carrying amount of assets and liabilities disposed are as follows:

	Carrying amount at disposal date RM'000
Property, plant and equipment	222,272
Non-current assets	74,967
Current assets	230,622
Current liabilities	(223,778)
Non-current liabilities	(19,729)
Net assets disposed	284,354

<u>Gain on disposal of subsidiary</u>

	RM'000
Sale consideration	357,989
Net assets disposed	(284,354)
Gain on disposal of subsidiary	73,635

The effect of the disposal on cash flows is as follows:

	RM'000
Sale consideration received	324,000
Less: Cash and cash equivalents disposed	(32,494)
Net cash flow on disposal	291,506

Details of the subsidiaries are disclosed in Note 39.

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

Non-controlling interests in subsidiaries

The Group's subsidiaries that have material non-controlling interests ("NCI") are Malaysia Marine and Heavy Engineering Holdings Berhad ("MHB"), Asia LNG Transport Sdn. Bhd. ("ALT") and Asia LNG Transport Dua Sdn. Bhd. ("ALT 2") are as follows:

	MHB RM'000	ALT RM'000	ALT 2 RM'000	Others* RM'000	Total RM'000
2017					
NCI percentage of ownership interest and voting interest	33.5%	49.0%	49.0%		
Carrying amount of NCI as at 31 December	834,867	127,372	44,724	53,603	1,060,566
Profit/(loss) allocated to NCI for the year ended 31 December	4,915	(5,324)	(5,342)	14,933	9,182

	MHB RM'000	ALT RM'000	ALT 2 RM'000	Others* RM'000	Total RM'000
2016					
NCI percentage of ownership interest and voting interest	33.5%	49.0%	49.0%		
Carrying amount of NCI as at 31 December	827,625	241,237	143,507	52,918	1,265,287
(Loss)/profit allocated to NCI for the year ended 31 December	(45,722)	114,451	123,401	19,596	211,726

* Other individually immaterial subsidiaries

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

Non-controlling interests in subsidiaries (cont'd.)

Summarised financial information before intra-group elimination

	MHB RM'000	ALT RM'000	ALT 2 RM'000
As at 31 December 2017			
Non-current assets	1,839,901	119,696	99,458
Current assets	1,524,574	143,557	56,246
Current liabilities	(787,554)	(80,432)	(14,129)
Net assets	2,576,921	182,821	141,575
Year ended 31 December 2017			
Revenue	956,415	85,210	36,479
Profit for the year	31,742	16,775	11,101
Total comprehensive income/(loss)	38,303	(11,666)	(11,375)
Cash inflows from operating activities	69,984	28,768	27,788
Cash (outflows)/inflows from investing activities	(46,144)	68,033	(4,468)
Cash outflows from financing activities	(20,000)	(193,070)	(168,219)
Net increase/(decrease) in cash and cash equivalents	3,840	(96,269)	(144,899)
Dividends paid to NCI	-	94,604	82,427
As at 31 December 2016			
Non-current assets	1,857,528	124,916	133,521
Current assets	1,744,993	306,668	210,269
Current liabilities	(1,063,904)	(2,582)	(619)
Net assets	2,538,617	429,002	343,171
Year ended 31 December 2016			
Revenue	1,191,298	100,490	9,544
(Loss)/profit for the year	(134,563)	204,664	238,665
Total comprehensive (loss)/income	(141,480)	228,232	257,848
Cash (outflows)/inflows from operating activities	(107,321)	232,197	250,080
Cash (outflows)/inflows from investing activities	(101,494)	43	563
Cash inflows/(outflows) from financing activities	44,738	(40,062)	(67,000)
Net (decrease)/increase in cash and cash equivalents	(164,077)	192,178	183,643
Dividends paid to NCI	-	19,630	32,830

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN ASSOCIATES

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Unquoted shares outside Malaysia, at cost	328	3,293	122	135
Share of post-acquisition profit	455	99	-	-
Share of other post-acquisition reserves	(255)	288	-	-
	528	3,680	122	135
Less: Accumulated impairment losses	-	(1,214)	-	-
Carrying amount of the investment	528	2,466	122	135

The summarised financial information of the associates are as follows:

	2017 RM'000	2016 RM'000
Assets and liabilities		
Non-current assets	19,700	19,204
Current assets	475	13,387
Total assets	20,175	32,591
Current liabilities	16,689	18,661
Non-current liabilities	300	981
Total liabilities	16,989	19,642
Results		
Revenue	1,027	644
Profit for the year/Total comprehensive income	4,081	328

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN ASSOCIATES (CONT'D.)

(a) The Group, together with Keppel Logistics Pte. Ltd. had on 31 October 2017 entered into a Share Purchase Agreement ("SPA") with John Keells Holdings PLC ("JKH") for the joint disposal of the 25% equity interest each held in Trans-ware Logistics (Private) Limited ("TWL") for a cash consideration of approximately RM4,042,000.

The disposal was completed on 30 November 2017 and TWL ceased to be an associate of the Group. The Group recognised a gain on disposal of investment in an associate amounting to RM1,593,000 in the financial year as disclosed in Note 4.

Reconciliation of net assets to carrying amount as at 31 December:

	2017 RM'000	2016 RM'000
Group's share of net assets	528	3,680
Impairment loss	-	(1,214)
Carrying amount in the statement of financial position	528	2,466

Details of the associates are disclosed in Note 40.

17. INVESTMENTS IN JOINT VENTURES

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Unquoted shares in Malaysia, at cost	171,476	212,562	169,057	207,142
Unquoted shares outside Malaysia, at cost	223,145	246,507	89,333	98,686
	394,621	459,069	258,390	305,828
Share of post-acquisition profits	616,531	936,282	-	-
Share of other post-acquisition reserves	194,907	289,748	-	-
	1,206,059	1,685,099	258,390	305,828
Less: Accumulated impairment loss	(78,262)	(82,924)	-	-
Carrying amount of the investment	1,127,797	1,602,175	258,390	305,828

(a) The Group had on 25 September 2017 entered into a Share Purchase Agreement ("SPA") with Dialog Group Berhad for the disposal of the 45% equity interest held by the Group in Centralised Terminal Sdn. Bhd. ("CTSB") for a cash consideration of RM193,000,000.

The disposal was completed on 29 September 2017 and CTSB ceased to be a joint venture of the Group. The Group and the Corporation recognised a gain on disposal of investment in a joint venture amounting to RM43,527,000 and RM118,085,000 respectively in the financial year as disclosed in Note 4.

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENTS IN JOINT VENTURES (CONT'D.)

(b) During the current financial year, the Group discontinued the recognition of its share of losses of certain joint ventures as the share of losses of these joint ventures has exceeded the Group's interest in these joint ventures. As such, the Group did not recognise its share of the current year losses of these joint ventures and the Group's cumulative share of unrecognised losses of these joint ventures amounted to RM24,534,000 (2016: RMNil).

The following tables summarise the financial information of the Group's material joint ventures, as adjusted for any differences in accounting policies and reconciles the information to the carrying amount of the Group's interest in joint ventures.

The material joint ventures for the current financial year are Malaysia Deepwater Floating Terminal (Kikeh) Limited ("MDFT") and Malaysian Vietnam Offshore Terminal (L) Limited ("MVOT") (2016: MDFT and Gumusut-Kakap Semi-Floating Production System (L) Limited ("GKL")).

The summarised financial information of the material joint ventures are as follows:

	MDFT RM'000	MVOT RM'000
As at 31 December 2017		
Non-current assets	1,412,749	260,500
Current assets	750	52,594
Cash and cash equivalents	2,628	137,816
Current liabilities	(5,520)	(94,162)
Net assets	1,410,607	356,748
Year ended 31 December 2017		
Profit after taxation/Total comprehensive income	244,747	65,078
Included in the total comprehensive income is:		
Revenue	449,670	205,416
Depreciation and amortisation	(205,787)	(59,102)
Interest income	5	1,155
Interest expense	-	(4,311)
Income tax expense	(20)	(923)

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENTS IN JOINT VENTURES (CONT'D.)

	GKL RM'000	MDFT RM'000
As at 31 December 2016		
Non-current assets	-	1,775,234
Current assets	-	2,209
Cash and cash equivalents	-	11,136
Current liabilities	-	(15,297)
Net assets	-	1,773,282
Year ended 31 December 2016		
Profit after taxation/Total comprehensive income	137,783	259,113
Included in the total comprehensive income is:		
Revenue	176,450	474,878
Depreciation and amortisation	-	(199,733)
Interest income	50	6
Interest expense	-	(961)
Income tax expense	(5)	(21)

Group		**2017**		
	MDFT RM'000	**MVOT RM'000**	**Others* RM'000**	**Total RM'000**
Reconciliation of net assets to carrying amount				
As at 31 December				
Group's share of net assets	719,410	181,941	350,171	1,251,522
Elimination of unrealised profits	(31,922)	(31)	(91,772)	(123,725)
Carrying amount in the statement of financial position	687,488	181,910	258,399	1,127,797
Group's share of results				
Year ended 31 December				
Group's share of profit after taxation	124,821	33,190	35,704	193,715
Group's share of other comprehensive income	-	-	464	464
Group's share of total comprehensive income	124,821	33,190	36,168	194,179

* Other individually immaterial joint ventures.

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENTS IN JOINT VENTURES (CONT'D.)

Group	2016			
	GKL RM'000	MDFT RM'000	Others* RM'000	Total RM'000
Reconciliation of net assets to carrying amount				
As at 31 December				
Group's share of net assets	-	904,374	746,613	1,650,987
Elimination of unrealised profits	-	(31,448)	(17,364)	(48,812)
Carrying amount in the statement of financial position	-	872,926	729,249	1,602,175
Group's share of results				
Year ended 31 December				
Group's share of profit after taxation	68,892	132,148	86,909	287,949
Group's share of other comprehensive income	-	-	23,541	23,541
Group's share of total comprehensive income	68,892	132,148	110,450	311,490

* Other individually immaterial joint ventures

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Other non-current financial assets

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Available-for-sale:				
Non-current unquoted equity investments (Note 36)	45,552	53,269	45,538	53,101
Non-current quoted equity investment (Note 36)	63,714	66,687	63,714	66,687
Total available-for-sale	109,266	119,956	109,252	119,788
Loans and receivables:				
Long term receivables (Note 36)	128,481	150,812	-	-
Loans and advances to:				
Subsidiaries	-	-	1,922,091	4,709,895
Joint venture	-	47,887	-	47,887
Associates	2,436	2,865	2,436	2,691
	2,436	50,752	1,924,527	4,760,473
Less:				
Impairment on loans to associates	(2,436)	(2,691)	(2,436)	(2,691)
	(2,436)	(2,691)	(2,436)	(2,691)
Net loans and advances (Note 21)	-	48,061	1,922,091	4,757,782
Total other non-current financial assets	237,747	318,829	2,031,343	4,877,570

Non-current quoted equity instruments are held as long-term strategic investments.

Long term receivables relate to a subsidiary's lease income during the ships construction period which is payable by the lessee progressively over a 20-year time charter period.

The loans and advances to subsidiaries are unsecured and bear interest ranging from 1.50% to 4.25% (2016: 1.55% to 4.25%) per annum.

The loans and advances to a joint venture in the previous financial year were unsecured and bear interest ranging from 4.50% to 4.87% per annum. The said loan and advances have been fully paid during the current financial year.

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

(b) Derivative assets/liabilities

	Group	
	2017 RM'000	**2016 RM'000**
Derivative assets		
Current:		
Interest rate swaps ("IRS") - effective hedges (i)	4,406	-
Non-current:		
IRS - effective hedges (ii)	3,328	1,472
Derivative liabilities		
Current:		
Currency hedge - effective hedges (iii)	-	6,655
Non-current:		
IRS - effective hedges (ii)	-	691

(i) On 22 June 2015, the Group entered into a USD300.0 million interest rate swap arrangement to hedge 50% of its subsidiary's outstanding USD term loan facility. Under this arrangement, the Group pays fixed interest rate of 1.31% per annum and receives cash flows at floating rates. The notional amount of the interest rate swap arrangement as at 31 December 2017 was RM1,217,850,000 (2016: RM1,345,350,000) and will mature on 20 September 2018.

(ii) (a) On 6 August 2015, the Group entered into a USD52.5 million interest rate swap arrangement to hedge 25% of its subsidiary's USD term loan facility. Under this arrangement, the Group pays fixed interest rate of 1.90% per annum and receives cash flows at floating rates. The notional amount of the interest rate swap as at 31 December 2017 was RM168,298,000 (2016: RM241,693,000) and will mature on 6 May 2022.

On 4 January 2016, the Group entered into an interest rate swap arrangement to hedge 23% of its subsidiary's USD term loan facility. Under this arrangement, the Group pays fixed interest rate of 1.96% per annum and receives cash flows at floating rates. The notional amount of the interest rate swap as at 31 December 2017 was RM160,838,000 (2016: RM217,797,000) and will mature on 4 July 2022.

(b) In the current financial year, the Group entered into an interest rate swap arrangement to hedge 50% of its subsidiary's USD term loan facility. Under this arrangement, the Group pays fixed interest rate of 2.29% per annum and receives cash flows at floating rates. The notional amount of the interest rate swap as at 31 December 2017 was RM598,447,000 and will mature on 27 June 2029.

(iii) As at previous financial year, the Group held forward currency contracts designated as hedges of expected future receipts and payments denominated in United States Dollars. The net notional amount of the currency hedging arrangement as at 31 December 2016 was RM63,550,000. The forward currency contracts matured in current year.

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

(c) Interest-bearing loans and borrowings

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Short term borrowings				
Secured:				
Term loans (i)				
Fixed rate	87,457	-	-	-
Floating rate	219,603	241,410	-	-
	307,060	241,410	-	-
Unsecured:				
Term loans (i)				
Fixed rate	1,211,691	-	-	-
Floating rate	5,261,112	5,362,604	-	-
Revolving credits (ii)	937,745	1,748,955	121,785	807,209
Sukuk Murabahah (iii)	-	20,000	-	-
Loans from subsidiaries				
Fixed rate	-	-	704,816	-
Floating rate	-	-	1,448,761	1,997,288
	7,410,548	7,131,559	2,275,362	2,804,497
	7,717,608	7,372,969	2,275,362	2,804,497
Long term borrowings				
Secured:				
Term loans (i)				
Fixed rate	840,125	411,310	-	-
Floating rate	1,946,049	1,691,396	-	-
	2,786,174	2,102,706	-	-
Unsecured:				
Term loans (i)				
Fixed rate	-	1,329,474	-	-
Floating rate	1,160,111	1,796,357	-	-
Loans from subsidiaries				
Fixed rate	-	-	-	769,533
Floating rate	-	-	4,949,205	6,163,696
	1,160,111	3,125,831	4,949,205	6,933,229
	3,946,285	5,228,537	4,949,205	6,933,229

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

(c) Interest-bearing loans and borrowings (cont'd.)

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Total borrowings				
Term loans	10,726,148	10,832,551	-	-
Revolving credits	937,745	1,748,955	121,785	807,209
Sukuk Murabahah	-	20,000	-	-
Loans from subsidiaries	-	-	7,102,782	8,930,517
	11,663,893	12,601,506	7,224,567	9,737,726

(i) (a) The Group raised USD212.8 million Term Loan Facility on 25 March 2015. In the previous financial year, the Group had entered into interest rate swap hedging arrangements as disclosed in Note 18 (b)(ii)(a).

(b) In the previous financial year, the Group raised USD1.0 billion Term Loan Facility. This facility matured on 26 July 2017. However, the Group has extended its maturity to 26 July 2018.

(c) Included in the net assets and liabilities of Paramount Tankers, acquired in the previous financial year, is a term loan of RM657,150,000 (USD163,328,000). This facility matures on 15 December 2020. The outstanding balance of the related term loan is amounting to RM579,812,000 as at 31 December 2017.

(d) On 27 July 2017, the Group raised USD152.5 million and USD153.0 million Term Loan Facility for its subsidiaries. Both facilities mature on 27 June 2029. The Group had entered into interest rate swap hedging arrangements as disclosed in Note 18 (b)(ii)(b).

(e) On 31 July 2017, the Group raised USD180.0 million of Term Loan. This facility matures on 3 February 2018.

(ii) In the current financial year, the Group and the Corporation had extended the revolving credit facilities of USD376,000,000 to 28 August 2018.

(iii) The Group had in September 2016 issued RM20.0 million Sukuk Murabahah which is subject to fixed interest rate of 4.60% per annum. The said Sukuk loan has been fully paid during the current financial year.

The secured term loans are secured by mortgages over certain ships, together with charter agreements and insurance of the relevant assets. The carrying values of the ships pledged are stated in Note 12(a).

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

(c) Interest-bearing loans and borrowings (cont'd.)

The range of interest rates as at the reporting date of the above interest-bearing loans and borrowings are as follows:

	Group		Corporation	
	2017 %	2016 %	2017 %	2016 %
Fixed rate				
Term loans	2.03-2.96	2.36-2.96	-	-
Sukuk Murabahah	-	4.60	-	-
Loans from subsidiaries	-	-	2.36	2.36
Floating rate				
Revolving credits	1.44-2.15	1.35-1.50	1.44-2.13	1.35-1.50
Term loans	1.38-2.96	1.35-2.50	-	-
Loans from subsidiaries	-	-	1.43-3.05	1.35-2.38

Changes in liabilities to arising from financing activities:

	Group			
	Term Loan RM'000	Sukuk Murabahah RM'000	Revolving Credits RM'000	Total RM'000
At 1 January 2017	10,832,551	20,000	1,748,955	12,601,506
Net drawdown/(repayment)	957,886	(20,000)	(683,816)	254,070
Amortisation of upfront fees	14,711	-	-	14,711
The effect of changes in foreign exchange rates	(1,079,000)	-	(127,394)	(1,206,394)
At 31 December 2017	10,726,148	-	937,745	11,663,893

	Corporation		
	Loans from subsidiaries RM'000	Revolving Credits RM'000	Total RM'000
At 1 January 2017	8,930,517	807,209	9,737,726
Net repayment	(1,050,366)	(645,109)	(1,695,475)
Amortisation of upfront fees	8,770	-	8,770
The effect of changes in foreign exchange rates	(786,139)	(40,315)	(826,454)
At 31 December 2017	7,102,782	121,785	7,224,567

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

(c) Interest-bearing loans and borrowings (cont'd.)

The following tables set out the carrying amounts of liabilities as at the reporting date and the remaining maturities of the Group and the Corporation's financial instruments.

	Within 1 year RM'000	More than 1 year and within 2 years RM'000	More than 2 years and within 3 years RM'000	More than 3 years and within 4 years RM'000	More than 4 years and within 5 years RM'000	More than 5 years RM'000	Total RM'000
At 31 December 2017							
Group							
Fixed rate							
Term loans	1,299,148	88,801	90,184	91,611	93,080	476,449	2,139,273
Floating rate							
Term loans	5,480,715	686,950	688,334	451,859	476,217	802,800	8,586,875
Revolving credits	937,745	-	-	-	-	-	937,745
	6,418,460	686,950	688,334	451,859	476,217	802,800	9,524,620
Total borrowings	7,717,608	775,751	778,518	543,470	569,297	1,279,249	11,663,893
Corporation							
Fixed rate							
Loans from subsidiaries	704,816	-	-	-	-	-	704,816
Floating rate							
Revolving credit	121,785	-	-	-	-	-	121,785
Loans from subsidiaries	1,448,761	4,000,863	631,478	315,739	1,125	-	6,397,966
	1,570,546	4,000,863	631,478	315,739	1,125	-	6,519,751
Total borrowings	2,275,362	4,000,863	631,478	315,739	1,125	-	7,224,567

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

(c) Interest-bearing loans and borrowings (cont'd.)

	Within 1 year RM'000	More than 1 year and within 2 years RM'000	More than 2 years and within 3 years RM'000	More than 3 years and within 4 years RM'000	More than 4 years and within 5 years RM'000	More than 5 years RM'000	Total RM'000
At 31 December 2016							
Group							
Fixed rate							
Term loans	-	1,329,474	-	-	65,841	345,469	1,740,784
Sukuk Murabahah	20,000	-	-	-	-	-	20,000
	20,000	1,329,474	-	-	65,841	345,469	1,760,784
Floating rate							
Term loans	5,604,014	756,201	756,200	756,200	785,304	433,848	9,091,767
Revolving credits	1,748,955	-	-	-	-	-	1,748,955
	7,352,969	756,201	756,200	756,200	785,304	433,848	10,840,722
Total borrowings	7,372,969	2,085,675	756,200	756,200	851,145	779,317	12,601,506
Corporation							
Fixed rate							
Loans from subsidiaries	-	769,533	-	-	-	-	769,533
Floating rate							
Revolving credits	807,209	-	-	-	-	-	807,209
Loans from subsidiaries	1,997,288	4,419,724	697,589	697,589	348,794	-	8,160,984
	2,804,497	4,419,724	697,589	697,589	348,794	-	8,968,193
Total borrowings	2,804,497	5,189,257	697,589	697,589	348,794	-	9,737,726

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

(d) Finance lease receivables

Finance lease receivables represent lease rental and interest receivable due from customers in relation to the lease of ships and offshore floating assets by the Group.

	Group	
	2017 RM'000	**2016 RM'000**
Minimum lease receivables:		
Not later than 1 year	1,866,938	1,858,956
Later than 1 year and not later than 5 years	7,001,150	6,651,833
Later than 5 years	12,334,024	12,370,860
	21,202,112	20,881,649
Less: Future finance income	(6,348,921)	(6,417,135)
Present value of finance lease assets	14,853,191	14,464,514
Present value of finance lease receivables:		
Not later than 1 year	990,841	1,010,288
Later than 1 year and not later than 5 years	4,195,431	3,950,497
Later than 5 years	9,666,919	9,503,729
	14,853,191	14,464,514
Analysed as:		
Due within 12 months (Note 21)	990,841	1,010,288
Due after 12 months (Note 21)	13,862,350	13,454,226
	14,853,191	14,464,514

The effective interest rate of the Group's finance lease receivables is between 4.75% to 6.52% (2016: 4.75% to 6.52%). Included in minimum lease receivables are the estimated unguaranteed residual values of the leased assets of RM341,217,000 (2016: RM264,122,000).

In the current financial year, the Group took delivery of two (2016: one) liquefied natural gas ("LNG") carriers. Upon commencement of the finance lease of the ships on 27 January 2017 and 5 August 2017 (2016: 7 October 2016) respectively, total finance receivables of RM1,885,440,000 (2016: RM908,220,000) was recognised.

NOTES TO THE FINANCIAL STATEMENTS

19. FINANCE LEASE ASSETS UNDER CONSTRUCTION

The finance lease assets under construction relates to progress payments made in respect of ships under construction for which charter contracts classified as finance leases have been entered into with a lessee.

The movement of the finance lease assets under constructions are as follows:

	Group and Corporation	
	2017 RM'000	**2016 RM'000**
At 1 January	1,417,983	1,256,005
Additions	1,254,966	1,006,393
Transfer to finance lease receivables (Note 18(d))	(1,885,440)	(908,220)
Currency translation differences	(99,020)	63,805
At 31 December	688,489	1,417,983

Included in additions to the finance lease assets under constructions of the Group and the Corporation is finance costs capitalised during the year of RM9,689,000 (2016: RM8,501,000).

20. INVENTORIES

	Group		Corporation	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
At cost				
Bunkers, lubricants and consumable stores	149,844	141,830	210	3,220
Spares	46,349	59,566	1,259	17,544
Raw materials	2,399	12,072	-	-
Work-in-progress *	-	-	19,846	4,819
	198,592	213,468	21,315	25,583

The cost of inventories recognised as cost of sales during the financial year of the Group and the Corporation were RM932,475,000 (2016: RM812,854,000) and RM68,819,000 (2016: RM119,953,000) respectively.

* Work-in-progress relates to cost incurred to-date for an asset under construction that will be disposed to a subsidiary upon its completion.

NOTES TO THE FINANCIAL STATEMENTS

21. TRADE AND OTHER RECEIVABLES

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Trade receivables				
Third parties	2,252,491	2,429,726	374,922	233,029
Subsidiaries	-	-	419,638	505,906
Holding company	-	6,149	-	5,183
Fellow subsidiaries	44,873	61,956	12,630	21,143
Associates	43	48	43	133
Joint ventures	47,307	44,768	41,980	36,765
	2,344,714	2,542,647	849,213	802,159
Finance lease receivables (Note 18(d))	990,841	1,010,288	-	-
Due from customers on contracts (Note 22)	905,214	606,504	-	-
	4,240,769	4,159,439	849,213	802,159
Less: Impairment loss on trade receivables:				
Third parties	(435,884)	(288,335)	(178,629)	(69,329)
Joint ventures	(21,938)	(24,235)	(21,938)	(24,235)
	(457,822)	(312,570)	(200,567)	(93,564)
Trade receivables, net	3,782,947	3,846,869	648,646	708,595

NOTES TO THE FINANCIAL STATEMENTS

21. TRADE AND OTHER RECEIVABLES (CONT'D.)

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Other receivables				
Amount due from related parties:				
Holding company	3,193	830	216	239
Subsidiaries	-	-	2,732,038	1,201,173
Fellow subsidiaries	148	2,000	-	-
Joint ventures	49,354	38,400	16,234	18,358
	52,695	41,230	2,748,488	1,219,770
Deposits	9,685	8,699	2,875	2,518
Prepayments	46,415	97,133	2,512	7,098
Unbilled reimbursable expenses due from third parties	5,570	812,993	5,570	812,993
Others	264,463	301,091	120,296	178,685
	378,828	1,261,146	2,879,741	2,221,064
Less: Impairment loss on other receivables:				
Third parties	-	(67,654)	-	(67,654)
Other receivables, net	378,828	1,193,492	2,879,741	2,153,410
Total trade and other receivables	4,161,775	5,040,361	3,528,387	2,862,005
Add: Cash, deposits and bank balances (Note 23)	5,900,724	6,559,207	2,577,773	3,468,856
Add: Net loans and advances (Note 18(a))	-	48,061	1,922,091	4,757,782
Add: Long term receivables (Note 18(a))	128,481	150,812	-	-
Add: Finance lease receivables (Note 18(d))	13,862,350	13,454,226	-	-
Less: Prepayments	(46,415)	(97,133)	(2,512)	(7,098)
Less: Due from customers on contracts (Note 22)	(905,214)	(606,504)	-	-
Total loans and receivables	23,101,701	24,549,030	8,025,739	11,081,545

NOTES TO THE FINANCIAL STATEMENTS

21. TRADE AND OTHER RECEIVABLES (CONT'D.)

The analysis of trade receivables as at the reporting date is as follows:

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Neither past due nor impaired	832,335	926,475	405,973	175,677
Past due but not impaired				
1-30 days	161,091	244,856	19,029	64,385
31-60 days	93,253	48,469	12,085	46,270
61-90 days	28,658	36,292	128,693	19,468
more than 90 days	771,555	973,985	82,866	402,795
	1,886,892	2,230,077	648,646	708,595
Impaired	457,822	312,570	200,567	93,564
	2,344,714	2,542,647	849,213	802,159

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are credit worthy debtors with good payment records with the Group and the Corporation.

Receivables that are past due but not impaired

The Group and the Corporation have trade receivables that are past due at the reporting date but not impaired amounting to RM1,054,557,000 (2016: RM1,303,602,000) and RM242,673,000 (2016: RM532,918,000) respectively. These balances relate mainly to customers who have never defaulted on payments but are slow paymasters and hence, are periodically monitored.

Significant financial difficulties of the debtors, probability that the debtors will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days ageing of trade receivable balances) are considered indicators that the trade receivable is impaired. Individual debtor balance is written off when management deemed the amount to be not collectible.

Trade receivables that were impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At 1 January	312,570	194,761	93,564	91,947
Impairment loss recognised (Note 5)	190,125	201,400	126,643	4,691
Write-back of impairment loss	(6,399)	(2,441)	(3,887)	(2,441)
Bad debts written off	-	(7,857)	-	-
Disposal of a subsidiary	-	(35,214)	-	-
Currency translation differences	(38,474)	(38,079)	(15,753)	(633)
At 31 December	457,822	312,570	200,567	93,564

NOTES TO THE FINANCIAL STATEMENTS

21. TRADE AND OTHER RECEIVABLES (CONT'D.)

(a) Trade receivables

The Group's normal trade credit terms with its customers range from 7 to 90 days (2016: 7 to 90 days). Other credit terms are assessed and approved on a case-by-case basis and each customer is assigned a maximum credit limit.

(b) Other receivables and amounts due from related parties

The non-trade balances due from holding company, subsidiaries, associates and joint ventures are repayable on demand and are non-interest bearing.

22. DUE FROM/(TO) CUSTOMERS ON CONTRACTS

	Group	
	2017 RM'000	2016 RM'000
Construction contract costs incurred and recognised profits to date	14,012,721	14,602,106
Less: Progress billings	(13,116,424)	(14,014,075)
	896,297	588,031
Due from customers on contracts (Note 21)	905,214	606,504
Due to customers on contracts (Note 25)	(8,917)	(18,473)
	896,297	588,031

23. CASH, DEPOSITS AND BANK BALANCES

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash with PETRONAS Integrated Financial Shared Services Centre	4,539,414	5,401,275	2,565,719	3,468,220
Cash and bank balances	393,122	929,919	12,054	235
Deposits with licensed banks	968,188	228,013	-	401
	5,900,724	6,559,207	2,577,773	3,468,856

To allow more efficient cash management for the Group and the Corporation, the Group and the Corporation's cash and bank balances have, since 1 July 2013, been held in the In-House Account ("IHA") managed by PETRONAS Integrated Financial Shared Services Centre ("IFSSC").

NOTES TO THE FINANCIAL STATEMENTS

23. CASH, DEPOSITS AND BANK BALANCES (CONT'D.)

Included in cash and bank balances is the retention account of RM104,732,000 (2016: RM145,639,000) which is restricted for use because it is pledged to the bank for the purpose of acquisition of ships.

Cash at banks earn interest at floating rates based on daily bank deposit rates. Deposits with licensed banks are made for varying periods between 1 to 365 days (2016: 1 to 365 days) depending on the immediate cash requirements of the Group and of the Corporation and earn interest rates ranging from 0.04% to 6.10% (2016: 0.04% to 7.00%) per annum and 0.04% to 3.60% (2016: 0.04% to 3.50%) per annum respectively.

Other information on financial risks of cash and cash equivalents are disclosed in Note 37.

24. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Non-current assets held for sale				
Ships	123,003	175,035	40,595	-

The movement during the financial year relating to non-current assets held for sale are as follows:

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At 1 January	175,035	-	-	923,210
Additions	15,420	-	-	-
Write down (Note 5(a))	(42,514)	-	-	-
Transfer from ships in operation (Note 12)	43,008	161,719	43,008	-
Disposals	(53,463)	-	-	(890,818)
Currency translation differences	(14,483)	13,316	(2,413)	(32,392)
At 31 December	123,003	175,035	40,595	-

In the current financial year, the Group and the Corporation have classified certain ships as held for sale with the intention of disposal in the immediate future. The Group is continuously seeking for buyer for certain ships as held for sale. Accordingly, the ships continue to be classified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

25. TRADE AND OTHER PAYABLES

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Trade payables				
Third parties	327,685	203,519	9,421	25,662
Subsidiaries	-	-	20,823	201,908
Holding company	4,327	2,379	3,512	-
Fellow subsidiaries	736	878	9	265
Accruals	1,019,709	1,278,230	314,141	427,690
Deferred income (Note 29)	88,748	89,309	-	-
Due to customers on contracts (Note 22)	8,917	18,473	-	-
	1,450,122	1,592,788	347,906	655,525
Other payables				
Amount due to related parties:				
Subsidiaries	-	-	643,496	555,791
Holding company	60	62	-	-
Fellow subsidiaries	3,746	1,055	-	-
Associates	950	965	-	-
Joint ventures	102,214	108,054	89	-
Accruals	496,500	545,277	28,888	79,755
Provisions (Note 25(c))	82,509	342,987	74,057	315,284
Others	98,526	142,854	50,210	61,978
	784,505	1,141,254	796,740	1,012,808
Total trade and other payables	2,234,627	2,734,042	1,144,646	1,668,333
Add: Total borrowings (Note 18(c))	11,663,893	12,601,506	7,224,567	9,737,726
Less: Due to customers on contracts (Note 22)	(8,917)	(18,473)	-	-
Less: Provisions (Note 25(c))	(82,509)	(342,987)	(74,057)	(315,284)
Total financial liabilities carried at amortised cost	13,807,094	14,974,088	8,295,156	11,090,775

NOTES TO THE FINANCIAL STATEMENTS

25. TRADE AND OTHER PAYABLES (CONT'D.)

(a) Trade payables

Trade payables are non-interest bearing and the normal trade credit terms granted to the Group ranges from 14 to 90 days (2016: 14 to 90 days).

(b) Other payables and amounts due to related parties

The non-trade balances due to holding company, subsidiaries, fellow subsidiaries, associates and joint ventures are repayable on demand and are non-interest bearing.

(c) Provisions

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At 1 January	1,024,813	1,277,024	997,110	1,184,363
Arose during the year (Note 5)	45,512	226,025	45,512	218,197
Utilised	(903,994)	(301,698)	(886,528)	(262,297)
Reversal of provision	(57,957)	(278,511)	(57,957)	(247,581)
Unwinding of discount	19,680	70,129	19,680	70,129
Currency translation differences	(45,545)	31,844	(43,760)	34,299
At 31 December	82,509	1,024,813	74,057	997,110
Current	82,509	342,987	74,057	315,284
Non-current:				
Later than 1 year but not later than 2 years	-	256,085	-	256,085
Later than 2 years but not later than 5 years	-	425,741	-	425,741
	-	681,826	-	681,826
	82,509	1,024,813	74,057	997,110

The previous financial year provision balance includes the contract for in-chartered ships where the unavoidable cost of meeting the obligations under the contracts exceed the economic benefits expected to be derived from the assets ("contract for in-chartered ships"), termination benefits provided to employees and provision for litigation claims. During the current financial year, the Group has terminated the contract for in-chartered ships. Hence, a reversal of provision related to the contract for in-chartered ships was recognised amounting to RM57,832,000.

NOTES TO THE FINANCIAL STATEMENTS

26. SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital

	Group and Corporation			
	Number of shares		Amount	
	2017 '000	2016 '000	2017 RM'000	2016 RM'000
Issued and fully paid				
Ordinary shares				
At 1 January	4,463,794	4,463,794	4,463,794	4,463,794
Add: Transitioning to non-par value regime (i)	4,459,468	-	4,459,468	-
At 31 December	8,923,262	4,463,794	8,923,262	4,463,794
Special preference share	- (ii)	- (ii)	- (ii)	- (ii)

(i) The new Companies Act, 2016 (the "Act"), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amounts outstanding in the share premium account become part of the Corporation share capital pursuant to the transitional provisions set out in Section 618(2) of the Act. Notwithstanding this provision, the Corporation may within 24 months from the commencement of the Act, use the amount outstanding in the share premium account of RM4,459,468,000 for purposes as set out in Sections 618(3) of the Act. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

(ii) The Group has one authorised and issued special preference share of RM1.

The special preference share, which may only be held by the Ministry of Finance ("MoF") or its successors or any Minister, representative, or any person acting on behalf of the Government of Malaysia, carries rights as provided by Article 3B of the Corporation's Articles of Association. Certain matters, in particular the alterations of specified Articles of Association, require the prior approval of the holder of the special preference share.

The holder of the special preference share is not entitled to any dividend nor to participate in the capital distribution upon dissolution of the Corporation but shall rank for repayment in priority to all other shares. The share does not carry any right to vote at General Meetings but the holder is entitled to attend and speak at such meetings.

NOTES TO THE FINANCIAL STATEMENTS

27. OTHER RESERVES

	Revaluation reserve RM'000 27(a)	Capital reserve RM'000 27(b)
Group		
At 1 January 2017	1,357	435,284
Currency translation differences:		
Group	-	-
Associates	-	-
Joint ventures	-	-
Fair value loss on non-current investments	-	-
Fair value gain on cash flow hedges:		
Group	-	-
Joint ventures	-	-
Reclassification to income statement on disposal of an associate	-	-
Reclassification to income statement on liquidation of a subsidiary	-	(85)
At 31 December 2017	1,357	435,199
At 1 January 2016	1,357	435,284
Currency translation differences:		
Group	-	-
Associates	-	-
Joint ventures	-	-
Fair value loss on non-current investments	-	-
Fair value (loss)/gain on cash flow hedges:		
Group	-	-
Joint ventures	-	-
Reclassification to income statement on deemed disposal of joint ventures	-	-
Reclassification to income statement on disposal of associates	-	-
At 31 December 2016	1,357	435,284

NOTES TO THE FINANCIAL STATEMENTS

Other capital reserve RM'000 27(c)	Statutory reserve RM'000 27(d)	Fair value reserve RM'000 27(e)	Hedging reserve RM'000 27(f)	Currency translation reserve RM'000 27(g)	Total RM'000
101,130	1,966	56,009	(3,782)	8,757,052	9,349,016
-	-	-	-	(3,302,388)	(3,302,388)
-	-	-	-	(303)	(303)
-	-	-	-	(95,305)	(95,305)
-	-	(2,973)	-	-	(2,973)
-	-	-	11,679	-	11,679
-	-	-	444	-	444
(1,831)	1,495	-	-	96	(240)
-	(300)	-	-	-	(385)
99,299	3,161	53,036	8,341	5,359,152	5,959,545
101,130	1,966	65,566	1,843	7,168,473	7,775,619
-	-	-	-	1,909,693	1,909,693
-	-	-	-	13	13
-	-	-	-	(128,055)	(128,055)
-	-	(9,557)	-	-	(9,557)
-	-	-	(6,626)	-	(6,626)
-	-	-	1,001	-	1,001
-	-	-	-	(192,949)	(192,949)
-	-	-	-	(123)	(123)
101,130	1,966	56,009	(3,782)	8,757,052	9,349,016

NOTES TO THE FINANCIAL STATEMENTS

27. OTHER RESERVES (CONT'D.)

	Fair value reserve RM'000	Currency translation reserve RM'000	Total RM'000
Corporation			
At 1 January 2017	56,009	6,039,954	6,095,963
Currency translation differences	-	(4,111,231)	(4,111,231)
Fair value loss on non-current investments	(2,973)	-	(2,973)
At 31 December 2017	53,036	1,928,723	1,981,759
At 1 January 2016	65,566	4,933,839	4,999,405
Currency translation differences	-	1,106,115	1,106,115
Fair value loss on non-current investments	(9,557)	-	(9,557)
At 31 December 2016	56,009	6,039,954	6,095,963

The nature and purpose of each category of reserves are as follows:

(a) Revaluation reserve

Revaluation reserve represents surplus arising from revaluation of certain freehold land.

(b) Capital reserve

Capital reserve represents reserve arising from bonus issue by subsidiaries.

(c) Other capital reserve

Other capital reserve represents the Group's share of its subsidiaries' reserve.

(d) Statutory reserve

Statutory reserve is maintained by overseas subsidiaries and joint ventures in accordance with the laws of the host countries.

(e) Fair value reserve

This reserve records changes in available-for-sale financial assets until they are disposed off or impaired.

(f) Hedging reserve

Hedging reserve represents the effective portion of the gain or loss on hedging instruments in the Group's cash flow hedges and includes the Group's share of hedging reserve of joint ventures.

NOTES TO THE FINANCIAL STATEMENTS

27. OTHER RESERVES (CONT'D.)

(g) Currency translation reserve

Currency translation reserve comprises all foreign exchange differences arising from translation of the financial statements of the Corporation and foreign operations with different functional currencies from that of the Group's presentation currency.

28. DEFFERED TAX

	Group 2017 RM'000	Group 2016 RM'000
At 1 January	(48,145)	(61,817)
Recognised in income statement:		
In Malaysia	(15,296)	9,159
Outside Malaysia	(2,770)	3,418
	(18,066)	12,577
Currency translation differences	(2,131)	1,095
At 31 December	(68,342)	(48,145)
Presented after appropriate offsetting as follows:		
Deferred tax assets	(99,484)	(85,335)
Deferred tax liabilities	31,142	37,190
	(68,342)	(48,145)

The components and movements of deferred tax liabilities and assets during the financial year, prior to offsetting are as follows:

Deferred tax liabilities of the Group:

	Accelerated capital allowances RM'000	Others RM'000	Total RM'000
At 1 January 2017	53,457	23,381	76,838
Recognised in income statement:			
In Malaysia	28,447	-	28,447
Outside Malaysia	-	(2,288)	(2,288)
At 31 December 2017	81,904	21,093	102,997
At 1 January 2016	70,667	19,245	89,912
Recognised in income statement:			
In Malaysia	(17,210)	-	(17,210)
Outside Malaysia	-	4,136	4,136
At 31 December 2016	53,457	23,381	76,838

NOTES TO THE FINANCIAL STATEMENTS

28. DEFFERED TAX (CONT'D.)

Deferred tax assets of the Group:

	Other payables RM'000	Tax losses, investment tax allowance and unabsorbed capital allowances RM'000	Others RM'000	Total RM'000
At 1 January 2017	(7,938)	(104,133)	(12,912)	(124,983)
Recognised in income statement:				
In Malaysia	8,786	(47,931)	(4,598)	(43,743)
Outside Malaysia	(482)	-	-	(482)
Currency translation differences	(2,131)	-	-	(2,131)
At 31 December 2017	(1,765)	(152,064)	(17,510)	(171,339)
At 1 January 2016	(7,988)	(129,508)	(14,233)	(151,729)
Recognised in income statement:				
In Malaysia	(415)	25,375	1,321	26,281
Outside Malaysia	(630)	-	-	(630)
Currency translation differences	1,095	-	-	1,095
At 31 December 2016	(7,938)	(104,133)	(12,912)	(124,983)

Deferred tax assets have not been recognised in respect of the following items:

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Unused tax losses	6,386,927	6,601,758	6,343,915	6,558,746
Unabsorbed capital allowances	29,773	29,773	-	-
Unutilised investment tax allowances	-	73,883	-	-
Others	13,680	13,680	-	-
	6,430,380	6,719,094	6,343,915	6,558,746

NOTES TO THE FINANCIAL STATEMENTS

28. DEFFERED TAX (CONT'D.)

Deferred tax assets of the Group: (cont'd.)

The unused tax losses and unabsorbed capital allowances of the Group, amounting to RM6,386,927,000 (2016: RM6,601,758,000) and RM29,773,000 (2016: RM29,773,000) respectively, are available indefinitely for offsetting against future taxable profits of the respective entities within the Group, subject to no substantial change in shareholdings of those entities under the Income Tax Act, 1967 and guidelines issued by the tax authority.

The unused tax losses of the Corporation relate to the loss making non-resident ships and can be utilised to offset against future taxable profits.

Deferred tax assets have not been recognised for certain subsidiaries with recent history of losses.

29. DEFERRED INCOME

	Group	
	2017 RM'000	2016 RM'000
At 1 January	846,270	67,201
Recognised during the year in income statement	(138,963)	-
Advances received during the year	94,141	717,047
Currency translation differences	(77,323)	62,022
At 31 December	724,125	846,270
Current (Note 25)	88,748	89,309
Non-current	635,377	756,961
	724,125	846,270

Deferred income relates to time charter income paid in advance by customers.

NOTES TO THE FINANCIAL STATEMENTS

30. CASH FLOWS FROM INVESTING ACTIVITIES

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Purchase of ships, offshore floating assets and other property, plant and equipment	(2,451,405)	(1,396,590)	(95,332)	(189,543)
Progress payments for finance lease under construction	(1,166,771)	(1,006,393)	(1,166,771)	(1,006,393)
Purchase consideration on acquisition of subsidiaries (Note 15)	-	(1,966,054)	-	(1,727,489)
Cash acquired on acquisition of subsidiaries (Note 15)	-	424,350	-	-
Cash disposed on disposal of a subsidiary (Note 15)	-	(32,494)	-	-
Issuance of loans to subsidiaries net of repayment	-	-	883,680	2,293,891
Dividend received from:				
Quoted equity investments	3,511	2,565	3,511	2,565
Subsidiaries	-	-	1,201,313	1,549,251
Joint ventures	439,368	227,565	257,875	200,761
Repayment of loans due from associates and joint ventures	-	49,554	-	31,856
Proceeds from disposal of ships, other property, plant and equipment and held for sale assets	139,889	-	987	-
Proceeds from disposal of a/an:				
- subsidiary (Note 15)	-	324,000	-	324,000
- joint venture (Note 17)	193,000	-	193,000	-
- associate (Note 16)	4,042	-	-	-
Interest received	76,629	34,233	183,774	162,435
Net fixed deposit withdrawal	640	-	-	-
Net cash (used in)/generated from investing activities	(2,761,097)	(3,339,264)	1,462,037	1,641,334

NOTES TO THE FINANCIAL STATEMENTS

31. CASH FLOWS FROM FINANCING ACTIVITIES

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Drawdown of term loans	2,086,065	4,151,432	-	-
Drawdown of Sukuk Murabahah	-	20,000	-	-
Drawdown of revolving credits	584,899	1,615,903	-	745,801
Drawdown of loans from a subsidiary	-	-	584,899	870,101
Repayment of term loans	(1,128,179)	(1,100,834)	-	-
Repayment of Sukuk Murabahah	(20,000)	-	-	-
Repayment of revolving credits	(1,268,715)	-	(645,109)	-
Repayment of loan from holding company	-	(4,114,920)	-	-
Repayment of loan due to a subsidiary	-	-	(1,635,265)	(662,934)
Dividends (Note 11)	(1,830,157)	(1,450,733)	(1,830,157)	(1,450,733)
Dividend paid to minority shareholders of subsidiaries	(189,090)	(64,436)	-	-
Interest paid	(334,428)	(239,026)	(111,558)	(36,165)
Receipt/(placement) of cash pledged with bank - restricted	40,907	(30,023)	-	-
Net cash used in financing activities	(2,058,698)	(1,212,637)	(3,637,190)	(533,930)

32. RELATED PARTY DISCLOSURES

In addition to related party disclosures elsewhere in the financial statements, set out below are other significant related party transactions. The directors are of the opinion that, unless otherwise stated, the transactions below have been entered into in the normal course of business at terms agreed between the parties during the financial year.

As the holding company is wholly owned by the Ministry of Finance ("MoF"), the Group is deemed to be related to entities that are controlled, jointly controlled or significantly influenced by the Government of Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

32. RELATED PARTY DISCLOSURES (CONT'D.)

	Group		Corporation	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
(a) Income from fellow subsidiaries				
Freight and charter hire revenue	2,463,667	3,135,565	702,578	765,884
Forwarding charges	-	8,458	-	-
Warehouse service	-	26,840	-	-
Haulage service	-	53,575	-	-
Fabrication service	263,648	230,118	-	-
Offshore, maintenance and manpower service	114,128	99,075	46,466	8,393
Marine and consultancy services	15,006	20,584	-	-
Sungai Udang Port management	16,910	23,443	-	-
(b) Purchase from fellow subsidiaries				
Purchase of bunkers, lubricants, spare parts and other materials	(72,593)	(109,234)	(14,194)	(38,990)
Purchase of service for rental of premises	(24,978)	(27,066)	(23,634)	(25,824)
Fees for representation in the Board of Directors*	(202)	(208)	(202)	(208)
(c) Management fee from subsidiaries				
Fees for representation in the Board of Directors**	-	-	499	182

* Fees paid directly to PETRONAS in respect of directors who are appointees of the holding company.

** Fees received from subsidiaries in respect of directors who are appointees of the Corporation.

NOTES TO THE FINANCIAL STATEMENTS

32. RELATED PARTY DISCLOSURES (CONT'D.)

	Group		Corporation	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
(d) Purchase of service for repairs, conversion of ships, drydocking and fabrication from a subsidiary	-	-	(82,689)	(348,108)
(e) Finance lease income from fellow subsidiaries	249,880	127,882	10,844	10,831
(f) Finance lease income from a joint venture of fellow subsidiary	-	86,780	-	-
(g) Compensation received on termination of contract from a fellow subsidiary	144,978	665,932	144,978	-
(h) Acquisition of a subsidiary from fellow subsidiary				
Purchase consideration	-	1,727,489	-	1,727,489
(i) Government of Malaysia's related entities				
(i) Provision of shipping and shipping related services				
Freight revenue	23,848	2,449	-	-
(ii) Purchase of goods and services				
Utilities	(36,999)	(27,053)	(4,543)	(1,529)

NOTES TO THE FINANCIAL STATEMENTS

32. RELATED PARTY DISCLOSURES (CONT'D.)

(j) Compensation of key management personnel

Key management personnel are defined as persons having authority and responsibility for planning, directing and controlling the activities of the Group and of the Corporation, directly or indirectly, including any director of the Group and of the Corporation.

The remuneration of directors and other members of key management during the financial year were as follows:

	Group		Corporation	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Directors				
Directors' remuneration (Note 7)	3,719	4,213	3,075	3,362
Other key management personnel				
Short-term employee benefits	25,028	28,068	7,629	5,697
Defined contribution plans	2,434	1,955	1,683	1,331
	27,462	30,023	9,312	7,028
	31,181	34,236	12,387	10,390

33. COMMITMENTS

(a) Capital commitments

	Group		Corporation	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Capital expenditure				
Approved and contracted for:				
Ships, offshore floating assets and other property, plant and equipment	3,128,691	3,956,625	1,129,195	2,487,269
Information and communication technology	13,390	18,492	8,839	16,173
	3,142,081	3,975,117	1,138,034	2,503,442

NOTES TO THE FINANCIAL STATEMENTS

33. COMMITMENTS (CONT'D.)

(a) Capital commitments (cont'd.)

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Approved but not contracted for:				
Ships, offshore floating assets and other property, plant and equipment	661,820	369,233	432,855	359,475
Information and communication technology	27,756	1,792	24,221	1,721
	689,576	371,025	457,076	361,196

(b) Non-cancellable operating lease commitments - Group and Corporation as lessee

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Future minimum rentals payable:				
Not later than 1 year	646,562	909,711	-	-
Later than 1 year and not later than 5 years	1,466,711	2,184,945	-	-
Later than 5 years	1,258,555	1,388,046	-	-
	3,371,828	4,482,702	-	-

NOTES TO THE FINANCIAL STATEMENTS

33. COMMITMENTS (CONT'D.)

(c) Non-cancellable operating lease commitments - Group and Corporation as lessor

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Future minimum rentals receivable:				
Not later than 1 year	2,830,213	3,657,628	890,427	836,174
Later than 1 year and not later than 5 years	9,291,568	12,052,315	3,527,791	4,369,407
Later than 5 years	11,919,258	15,839,885	7,452,467	9,239,748
	24,041,039	31,549,828	11,870,685	14,445,329

34. CONTINGENT LIABILITIES

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Secured				
Bank guarantee extended to a third party	565	362	-	-
Unsecured				
Performance bond on contract extended to third parties	293,799	435,533	5,329	10,852
Corporate guarantees given to banks for credit facilities granted to subsidiaries	-	-	7,741,467	8,488,436

NOTES TO THE FINANCIAL STATEMENTS

35. SEGMENT INFORMATION

(a) Business segments

The operating segments of the Group are as follows:

(i) LNG - provision of liquefied natural gas ("LNG") carrier services;

(ii) Petroleum - provision of petroleum tanker and chemical tanker services;

(iii) Offshore - own, lease, operation and maintenance of offshore, floating, production and offloading terminals;

(iv) Heavy Engineering - marine repair, marine conversion and engineering and construction works; and

(v) Others - management of operation of ports and marine terminals, provision of marine support services and consulting services relating to marine matters, provision of ship management services, marine education and training, and other diversified businesses.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

35. SEGMENT INFORMATION (CONT'D.)

(a) Business segments (cont'd.)

	LNG RM'000	Petroleum RM'000
31 December 2017		
REVENUE		
External sales	2,890,337	4,508,332
Inter-segment	36,748	3,418
	2,927,085	4,511,750
RESULTS		
Segment results	1,216,638	14,620
Other operating income	183,221	31,129
Impairment provisions	(352,371)	(328,857)
Gain/(loss) on disposal of ships	29,771	(2,030)
Finance income	22,789	1,591
Finance costs	(81,056)	(113,341)
Share of profit of associates	-	-
Share of profit/(loss) of joint ventures	-	17,158
Profit before taxation		
Taxation		
Profit after taxation		
Non-controlling interests		
Net profit attributable to equity holders of the Corporation		
ASSETS		
Ships	8,468,215	12,426,836
Offshore floating assets	-	-
Non-current assets classified as held for sale	40,595	82,408
Intangible assets	720	810,689
Investments in joint ventures	-	49,903
Other assets (unallocated)		
LIABILITIES		
Interest-bearing loans and borrowings	2,711,812	4,230,432
Other liabilities (unallocated)		

* Net book value of Navy Auxiliary ship owned by the Corporation, Bunga Mas 6.

NOTES TO THE FINANCIAL STATEMENTS

Offshore RM'000	Heavy Engineering RM'000	Others RM'000	Total RM'000	Eliminations and adjustments RM'000		Consolidated RM'000
1,772,550	761,223	150,036	10,082,478	(14,266)		10,068,212
82,855	197,663	680,875	1,001,559	(1,001,559)	A	-
1,855,405	958,886	830,911	11,084,037	(1,015,825)		10,068,212
1,079,612	(3,199)	(120,015)	2,187,656	(58,112)	A	2,129,544
33,514	2,383	1,965,293	2,215,540	(1,708,011)	A	507,529
(3,585)	-	(132,133)	(816,946)	129,453		(687,493)
-	-	-	27,741	-		27,741
16,595	16,147	482,218	539,340	(442,851)	A	96,489
(100,789)	-	(412,332)	(707,518)	442,505	A	(265,013)
-	-	1,068	1,068	-		1,068
165,154	(3,892)	11,506	189,926	3,789		193,715
						2,003,580
						(12,889)
						1,990,691
						(9,182)
						1,981,509
-	-	7,420 *	20,902,471	-		20,902,471
322,649	-	-	322,649	-		322,649
-	-	-	123,003	-		123,003
225	-	32,745	844,379	-		844,379
1,073,225	4,274	395	1,127,797	-		1,127,797
					B	27,149,504
						50,469,803
669,766	-	16,628,445	24,240,455	(12,576,562)		11,663,893
					C	2,901,146
						14,565,039

NOTES TO THE FINANCIAL STATEMENTS

35. SEGMENT INFORMATION (CONT'D.)

(a) Business segments (cont'd.)

	LNG RM'000	Petroleum RM'000
31 December 2016		
REVENUE		
External sales	2,460,513	4,741,328
Inter-segment	21,116	13,525
	2,481,629	4,754,853
RESULTS		
Segment results	954,008	198,777
Other operating income	477,865	113,277
Gain on acquisition of subsidiaries	-	32,688
Impairment provisions	(186,297)	(14,791)
Finance income	6,442	1,383
Finance costs	(49,126)	(197,759)
Share of profit of associates	-	-
Share of profit/(loss) of joint ventures	-	46,044
Profit before taxation		
Taxation		
Profit after taxation		
Non-controlling interests		
Net profit attributable to equity holders of the Corporation		
ASSETS		
Ships	10,313,222	13,537,759
Offshore floating assets	-	-
Non-current assets classified as held for sale	55,747	119,288
Intangible assets	3,540	895,563
Investments in joint ventures	-	50,675
Other assets (unallocated)		
LIABILITIES		
Interest-bearing loans and borrowings	1,747,496	4,115,360
Other liabilities (unallocated)		

* Net book value of Navy Auxiliary ship owned by the Corporation, Bunga Mas 6.

NOTES TO THE FINANCIAL STATEMENTS

Offshore RM'000	Heavy Engineering RM'000	Others RM'000	Total RM'000	Eliminations and adjustments RM'000		Consolidated RM'000
1,071,743	843,190	502,753	9,619,527	(22,288)		9,597,239
87,867	348,108	42,555	513,171	(513,171)	A	-
1,159,610	1,191,298	545,308	10,132,698	(535,459)		9,597,239
70,204	(22,039)	(284,614)	916,336	(30,095)	A	886,241
362,391	14,868	2,122,491	3,090,892	(1,798,623)	A	1,292,269
-	-	-	32,688	870,994		903,682
(18,579)	(140,255)	(9,433)	(369,355)	10,698		(358,657)
3,662	20,214	401,797	433,498	(383,222)	A	50,276
(88,132)	(262)	(294,877)	(630,156)	382,256	A	(247,900)
-	-	107	107	-		107
237,761	(8,367)	12,511	287,949	-		287,949
						2,813,967
						(20,691)
						2,793,276
						(211,726)
						2,581,550
-	-	7,420 *	23,858,401	-		23,858,401
473,486	-	-	473,486	-		473,486
-	-	-	175,035	-		175,035
225	-	39,348	938,676	-		938,676
1,482,754	8,166	60,580	1,602,175	-		1,602,175
					B	29,103,496
						56,151,269
945,092	20,000	21,192,032	28,019,980	(15,418,474)		12,601,506
					C	4,218,810
						16,820,316

NOTES TO THE FINANCIAL STATEMENTS

35. SEGMENT INFORMATION (CONT'D.)

(a) Business segments (cont'd.)

Note

A Inter-segment revenues and transactions are eliminated on consolidation.

B Other assets comprise the following items:

	2017 RM'000	2016 RM'000
Other property, plant and equipment	1,757,311	1,782,397
Prepaid lease payments on land and buildings	220,128	227,752
Investment in associates	528	2,466
Other non-current financial assets	237,747	318,829
Finance lease receivables	13,862,350	13,454,226
Deferred tax assets	99,484	85,335
Inventories	198,592	213,468
Trade and other receivables	4,161,775	5,040,361
Cash, deposits and bank balances	5,900,724	6,559,207
Derivative assets	7,734	1,472
Finance lease assets under construction	688,489	1,417,983
Tax recoverable	14,642	-
	27,149,504	29,103,496

C Other liabilities comprise the following items:

	2017 RM'000	2016 RM'000
Trade and other payables	2,234,627	2,734,042
Provision for taxation	-	1,445
Deferred tax liabilities	31,142	37,190
Derivative liabilities	-	7,346
Deferred income	635,377	756,961
Provisions	-	681,826
	2,901,146	4,218,810

NOTES TO THE FINANCIAL STATEMENTS

35. SEGMENT INFORMATION (CONT'D.)

(b) Geographical segments

Although the Group's four major business segments are managed on a worldwide basis, they operate in five principal geographical areas of the world. In Malaysia, its home country, the Group's areas of operation comprise LNG, Petroleum, Offshore, Heavy Engineering and others.

The following table provides an analysis of the Group's revenue and carrying amount of assets by geographical segments:

	Malaysia	The Americas	Asia, Africa and Europe	Consolidated
	RM'000	RM'000	RM'000	RM'000
31 December 2017				
Revenue	5,562,342	4,505,254	616	10,068,212
Assets	42,885,005	7,584,164	634	50,469,803
31 December 2016				
Revenue	4,942,947	4,653,694	598	9,597,239
Assets	47,440,835	8,709,323	1,111	56,151,269

(c) Information about major customers

Breakdown of revenue from major customers are as follows:

	2017	2016
	RM'000	RM'000
Fellow subsidiaries:		
- Malaysia LNG Sdn. Bhd.	1,301,225	1,623,047
- Petronas Carigali Sdn. Bhd.	798,109	441,675
- PETRONAS LNG Sdn. Bhd.	620,958	202,837
- Petronas LNG Ltd.	367,806	660,980
	3,088,098	2,928,539

NOTES TO THE FINANCIAL STATEMENTS

35. SEGMENT INFORMATION (CONT'D.)

(c) Information about major customers (cont'd.)

	2017 RM'000	2016 RM'000
Third Parties:		
- Sabah Shell Petroleum Company Limited	898,817	384,366
- British Petroleum	265,884	329,317
- CITGO Petroleum Corporation	252,788	272,715
- Royal Dutch Shell PLC	246,428	359,459
- Marine Well Containment Company	234,708	261,132
- VALERO Group	216,305	54,170
- Petrofac (Malaysia) Limited	188,776	137,211
- Saudi Petroleum	187,047	185,796
- Yemen LNG	172,977	156,646
	2,663,730	2,140,812

36. FAIR VALUE DISCLOSURES

Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

It was not practicable to estimate the fair value of the Group's investments in unquoted shares due to the lack of comparable quoted prices in an active market and the fair value cannot be reliably measured.

The following table analyses financial instruments carried at fair value and those not carried at fair value, together with their fair values and carrying amounts shown in the statements of financial position.

NOTES TO THE FINANCIAL STATEMENTS

36. FAIR VALUE DISCLOSURES (CONT'D.)

Fair value information (cont'd.)

The different levels have been defined as follows:

(a) Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

(b) Level 2 - Input other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

(c) Level 3 - Input for the asset or liability that are not based on observable market data (unobservable input).

		Fair value of assets and liabilities carried at fair value			
	Note	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Group					
At 31 December 2017					
Financial assets:					
Non-current quoted equity investment	18(a)	63,714	-	-	63,714
Interest rate swaps designated as hedging instruments	18(b)	-	7,734	-	7,734
		63,714	7,734	-	71,448
Non-financial asset:					
Non-current assets classified as held for sale	24	-	-	123,003	123,003
Financial liability:					
Term loans		-	(3,106,160)	-	(3,106,160)

NOTES TO THE FINANCIAL STATEMENTS

36. FAIR VALUE DISCLOSURES (CONT'D.)

Fair value information (cont'd.)

	Note	Fair value of assets and liabilities carried at fair value			
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Group					
At 31 December 2016					
Financial assets:					
Non-current quoted equity investment	18(a)	66,687	-	-	66,687
Interest rate swaps designated as hedging instruments	18(b)	-	1,472	-	1,472
		66,687	1,472	-	68,159
Non-financial asset:					
Non-current assets classified as held for sale	24	-	-	175,035	175,035
Financial liabilities:					
Interest rate swaps designated as hedging instruments	18(b)	-	(691)	-	(691)
Forward exchange contract	18(b)	-	(6,655)	-	(6,655)
Term loans		-	(3,487,753)	-	(3,487,753)
		-	(3,495,099)	-	(3,495,099)

NOTES TO THE FINANCIAL STATEMENTS

36. FAIR VALUE DISCLOSURES (CONT'D.)

Fair value information (cont'd.)

	Note	Fair value of financial instruments not carried at fair value				
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Carrying amount RM'000
Group						
At 31 December 2017						
Financial assets:						
Non-current unquoted						
equity investments	18(a)	-	-	*	*	45,552
Long term receivables	18(a)	-	-	104,182	104,182	128,481
Finance lease receivables	18(d)	-	-	13,470,279	13,470,279	13,862,350
		-	-	13,574,461	13,574,461	14,036,383
Financial liabilities:						
Term loans	18(c)	-	(475,795)	-	(475,795)	(840,125)
At 31 December 2016						
Financial assets:						
Loans to a joint venture	18(a)	-	47,729	-	47,729	47,887
Non-current unquoted						
equity investments	18(a)	-	-	*	*	53,269
Long term receivables	18(a)	-	-	118,798	118,798	150,812
Finance lease receivables	18(d)	-	-	12,769,803	12,769,803	13,454,226
		-	47,729	12,888,601	12,936,330	13,706,194
Financial liabilities:						
Term loans	18(c)	-	(1,630,687)	-	(1,630,687)	(1,740,784)

* The unquoted equity investments are measured at cost since they do not have a quoted market price in an active market and the fair value cannot be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS

36. FAIR VALUE DISCLOSURES (CONT'D.)

Fair value information (cont'd.)

	Note	Fair value of assets and liabilities carried at fair value			
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Corporation					
At 31 December 2017					
Financial asset:					
Non-current quoted equity investment	18(a)	63,714	-	-	63,714
Non-financial asset:					
Non-current assets classified as held for sale	24	-	-	40,595	40,595
Financial liabilities:					
Loans from subsidiaries	18(c)	-	4,949,205	-	4,949,205
At 31 December 2016					
Financial asset:					
Non-current quoted equity investment	18(a)	66,687	-	-	66,687
Financial liabilities:					
Loans from subsidiaries	18(c)	-	6,163,696	-	6,163,696

NOTES TO THE FINANCIAL STATEMENTS

36. FAIR VALUE DISCLOSURES (CONT'D.)

Fair value information (cont'd.)

	Note	Fair value of financial instruments not carried at fair value				
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Carrying amount RM'000
Corporation						
At 31 December 2017						
Financial assets:						
Non-current unquoted equity investments	18(a)	-	-	*	*	45,538
Loans to subsidiaries	18(a)	-	1,879,148	-	1,879,148	1,922,091
		-	1,879,148	*	1,879,148	1,967,629
At 31 December 2016						
Financial assets:						
Non-current unquoted equity investments	18(a)	-	-	*	*	53,101
Loans to subsidiaries	18(a)	-	4,536,559	-	4,536,559	4,709,895
Loans to a joint venture	18(a)	-	47,729	-	47,729	47,887
		-	4,584,288	*	4,584,288	4,810,883
Financial liabilities:						
Loans from subsidiaries	18(c)	-	(711,925)	-	(711,925)	(769,533)

* The unquoted equity investments are measured at cost since they do not have a quoted market price in an active market and the fair value cannot be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS

36. FAIR VALUE DISCLOSURES (CONT'D.)

Fair value information (cont'd.)

Transfers between Level 1 and Level 2 fair values

There has been no transfers between Level 1 and Level 2 fair values during the financial year.

Level 1 fair value measurements

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical assets that the entity can assess at the measurement date.

Level 2 fair value measurements

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the asset either directly or indirectly.

The following are descriptions of the valuation techniques and inputs used in the fair value measurement for assets and liabilities that are categorised within Level 2 of the fair value hierarchy:

Derivatives

Interest rate swap contracts and forward exchange contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves.

Non-derivative financial liabilities

The fair value of the loan and borrowings which is determined for disclosure purposes is calculated by discounting expected future cash flows at the market rate of interest at the end of the reporting period.

Level 3 fair value measurements

Level 3 fair value is estimated using unobservable inputs that are not based on observable market data.

NOTES TO THE FINANCIAL STATEMENTS

36. FAIR VALUE DISCLOSURES (CONT'D.)

Fair value information (cont'd.)

Level 3 fair value measurements (cont'd.)

The following table shows the information about fair value measurements using significant unobservable inputs within Level 3 of the fair value hierarchy:

	Group		Corporation			
	Fair value at 31 December 2017 RM'000	Fair value at 31 December 2016 RM'000	Fair value at 31 December 2017 RM'000	Fair value at 31 December 2016 RM'000	Valuation techniques	Unobservable inputs
Assets measured at fair value						
Non-current assets held for sale						
- Ships	123,003	175,035	40,595	-	Market comparable approach	Transacted comparable ships adjusted for the current condition of the assets/Sales price offered by potential buyers.
Financial assets not measured at fair value						
Long term receivables	104,182	118,798	-	-	Discounted cash flow method	Discounting expected future cash flows applying market rate of interest at the end of the reporting period.
Finance lease receivables	13,470,279	12,769,803	-	-	Discounted cash flow method	Discounting expected future cash flows applying latest estimated borrowing rate of the charterers.
	13,574,461	12,888,601	-	-		

An increase in market values of comparable assets used in the above valuation would result in an increase in the fair values and vice versa.

NOTES TO THE FINANCIAL STATEMENTS

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to various risks that are related to its core business of shipowning, ship operating, other shipping related activities and services, owning and operating of offshore facilities and marine repair, marine conversion and engineering and construction works. These risks arise in the normal course of the Group’s business.

The Group's Financial Risk Management Framework and Guidelines set the foundation for the establishment of effective risk management practices across the Group.

The Group's Financial Risk Management Policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate risk (both fair value and cash flow), foreign currency risk, liquidity risk, credit risk and equity price risk. The Board of Directors reviews and agrees policies for managing each of these risks as summarised below. It is, and has been throughout the period under review, the Group's policy that no speculative trading in derivative financial instruments shall be undertaken.

The following sections provide details regarding the Group and the Corporation's exposure to the above-mentioned financial risks and the objectives, policies and processes in place to manage these risks.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group’s financial instruments will fluctuate because of changes in market interest rates. As the Group has no significant long term interest-bearing financial assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-bearing financial assets are mainly short term in nature and have been placed mostly in time deposits and overnight placements. The Group's interest rate risk arises primarily from interest-bearing loans and borrowings.

Borrowings at floating rates expose the Group to cash flow interest rate risk. The Group's interest rate risks arise from the volatility of the benchmark interest rates in United States Dollar ("USD"), which is the Group's main borrowing currency.

The Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings. As at 31 December 2017, 18.3% (2016: 14.0%) and 9.8% (2016: 7.9%) of the Group's and the Corporation's total borrowings were fixed rate in nature. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps in which the Group agrees to exchange at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed upon notional principal amount.

As at reporting date, the total notional principal amount of interest rate swaps of the Group is RM2,145,433,000 (2016: RM1,804,840,000). The fixed interest rates relating to interest rate swaps at the reporting date ranges from 1.31% - 2.29% (2016: 1.31% - 1.96%) per annum.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Corporation's profit before taxation and equity via floating rate borrowings and interest rate swaps respectively.

NOTES TO THE FINANCIAL STATEMENTS

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(a) Interest rate risk (cont'd.)

	Increase/(Decrease) in LIBOR basis point	Effect on profit before taxation (Decrease)/Increase RM'000	Effect on other comprehensive income Increase/(Decrease) RM'000
As at 31 December 2017			
Group			
USD - 3 Months LIBOR	+50	(48,907)	2,316
USD - 3 Months LIBOR	-50	48,907	(2,316)
Corporation			
USD - 3 Months LIBOR	+50	(34,530)	-
USD - 3 Months LIBOR	-50	34,530	-
As at 31 December 2016			
Group			
USD - 3 Months LIBOR	+50	(50,080)	1,323
USD - 3 Months LIBOR	-50	50,080	(1,323)
Corporation			
USD - 3 Months LIBOR	+50	(41,429)	-
USD - 3 Months LIBOR	-50	41,429	-

NOTES TO THE FINANCIAL STATEMENTS

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(a) Interest rate risk (cont'd.)

As at 31 December 2017, the Group's and the Corporation's exposure to the risk of changes in market interest rate relates primarily to the Group and the Corporation's placement of deposits with licensed banks, cash and bank balances, loans to subsidiaries and joint ventures, interest-bearing loans and borrowings and loans from subsidiaries and joint ventures.

The interest-bearing financial instruments of the Group and of the Corporation's interest-bearing financial instruments based on carrying amount, as at reporting date were as follows:

	Group		Corporation	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Fixed rate instruments				
Financial assets				
Deposits with licensed banks	968,188	228,013	-	401
Deposits with IFSSC	4,539,414	5,401,275	2,565,719	3,468,220
Loans to:				
Subsidiaries	-	-	1,221,886	1,714,960
Joint ventures	-	47,887	-	47,887
Financial liabilities				
Fixed rate borrowings	-	20,000	-	-
Floating rate borrowings (swapped to fixed rate)	2,139,273	1,740,784	-	-
Loans from subsidiaries	-	-	704,816	769,533
Floating rate instruments				
Financial assets				
Cash and bank balances	393,122	929,919	12,054	235
Loans to subsidiaries	-	-	2,648,513	2,994,935
Financial liabilities				
Floating rate borrowings	9,524,620	10,840,722	121,785	807,209
Loans from subsidiaries	-	-	6,397,966	8,160,984

NOTES TO THE FINANCIAL STATEMENTS

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(b) Foreign currency risk

The currencies giving rise to this risk are primarily RM and USD.

Approximately 2% (2016: 3%) and 8% (2016: 2%) of the Group and the Corporation's revenue are denominated in currency other than the currency of the primary economic environment which entities operate.

Approximately 4% (2016: 10%) and 8% (2016: 4%) of the Group and the Corporation's cost of sales are denominated in currency other than the currency of the primary economic environment which the entities operate.

The Group maintains a natural hedge, wherever possible, by borrowing in currencies that matches the future revenue streams to be generated from its investments, except for the following:

At 31 December 2016, the Group held forward currency contracts designated as hedges of expected future receipts and payments denominated in United States Dollar, Singapore Dollar, Euro and Great Britain Pound. The forward currency contracts are being used to hedge the foreign currency risk of the highly probable forecasted transactions. The cash flow hedges of the expected future receipts which are expected to occur within the next 12 months, were assessed to be highly effective and a net unrealised gain of RM6,561,000, which represents the effective portion of the hedging relationship, is included in other comprehensive income in previous financial year. At 31 December 2017, the said forward currency contract has matured.

With all other variables held constant, the following table demonstrates the sensitivity of the Group and the Corporation's profit before taxation to a reasonably possible change in the USD and RM exchange rates.

	2017		2016	
	Change in currency rate %	Effect on profit before taxation (Decrease)/ Increase RM'000	Change in currency rate %	Effect on profit before taxation (Decrease)/ Increase RM'000
Group				
USD/RM	+5%	(129)	+5%	(860)
	-5%	129	-5%	860
Corporation				
USD/RM	+5%	11,723	+5%	3,511
	-5%	(11,723)	-5%	(3,511)

NOTES TO THE FINANCIAL STATEMENTS

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(b) Foreign currency risk (cont'd.)

The net unhedged financial receivables and payables and cash and bank balances of the Group and of the Corporation that are not denominated in their functional currencies are as follows:

	Net financial receivables/(payables) and cash and bank balances held in non-functional currencies					
	Ringgit Malaysia RM'000	United States Dollar RM'000	Great Britain Pound RM'000	Euro RM'000	Singapore Dollar RM'000	Total RM'000
Functional currency of Group entities						
At 31 December 2017						
Ringgit Malaysia	-	29,083	1	9	8,143	37,236
United States Dollar	31,382	-	14	9,378	(2,674)	38,100
	31,382	29,083	15	9,387	5,469	75,336
At 31 December 2016						
Ringgit Malaysia	-	(4,697)	(1,008)	-	-	(5,705)
United States Dollar	17,208	-	(4,696)	5,555	15,224	33,291
	17,208	(4,697)	(5,704)	5,555	15,224	27,586
Functional currency of Corporation						
At 31 December 2017						
United States Dollar	(232,377)	-	1,689	58,881	3,379	(168,428)
At 31 December 2016						
United States Dollar	(70,223)	-	1,287	61,353	25,536	17,953

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(c) Liquidity risk

Liquidity risk is the risk that the Group and the Corporation will encounter difficulty in meeting their financial obligations due to shortage of funds. The Group and the Corporation's exposure to liquidity risk arise primarily from mismatches of the maturities of financial assets and liabilities. The Group and the Corporation's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and various other sources of funding.

The Group and the Corporation have at their disposal cash and short term deposits amounting to RM5,795,992,000 (2016: RM6,413,568,000) and RM2,577,773,000 (2016: RM3,468,856,000) respectively. As at 31 December 2017, the Group and the Corporation have unutilised credit lines of RM2.8 billion (2016: RM3.7 billion) and RM2.8 billion (2016: RM2.7 billion) respectively, which could be used for working capital purposes.

NOTES TO THE FINANCIAL STATEMENTS

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(c) Liquidity risk (cont'd.)

The table below summarises the maturity profile of the Group and Corporation's financial liabilities as at the reporting date based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual cash flows RM'000	Within 1 year RM'000
At 31 December 2017			
Group			
Interest-bearing loans and borrowings	11,663,893	12,388,410	7,941,716
Trade and other payables	2,143,201	2,143,201	2,143,201
	13,807,094	14,531,611	10,084,917
Corporation			
Interest-bearing loans and borrowings	7,224,567	7,458,934	2,433,256
Trade and other payables	1,070,589	1,070,589	1,070,589
	8,295,156	8,529,523	3,503,845
At 31 December 2016			
Group			
Interest-bearing loans and borrowings	12,601,506	13,084,811	7,543,101
Trade and other payables	2,372,582	2,372,582	2,372,582
	14,974,088	15,457,393	9,915,683
Corporation			
Interest-bearing loans and borrowings	9,737,726	10,078,641	2,949,727
Trade and other payables	1,353,049	1,353,049	1,353,049
	11,090,775	11,431,690	4,302,776

NOTES TO THE FINANCIAL STATEMENTS

More than 1 - 2 years RM'000	More than 2 - 3 years RM'000	More than 3 - 4 years RM'000	More than 4 - 5 years RM'000	More than 5 years RM'000
898,951	884,027	622,147	631,053	1,410,516
-	-	-	-	-
898,951	884,027	622,147	631,053	1,410,516
4,046,798	658,573	320,307	-	-
-	-	-	-	-
4,046,798	658,573	320,307	-	-
2,190,798	827,497	815,595	892,214	815,606
-	-	-	-	-
2,190,798	827,497	815,595	892,214	815,606
5,312,309	737,927	724,750	353,928	-
-	-	-	-	-
5,312,309	737,927	724,750	353,928	-

NOTES TO THE FINANCIAL STATEMENTS

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(c) Liquidity risk (cont'd.)

Group

Hedging activities

The Group entered into interest rate swaps to hedge the cash flow risk of floating interest rate on the term loans. The notional amount swapped as at 31 December 2017 was RM2,145,433,000 (2016: RM1,804,840,000). The swaps are settled quarterly, consistent with the interest payment schedule of the loan.

The following table indicates the periods in which the cash flows are expected to occur for cash flow hedges as at 31 December 2017 and 31 December 2016:

	Carrying amount RM'000	Contractual cash flows RM'000	Within 1 year RM'000	More than 1 - 2 years RM'000	More than 2 - 3 years RM'000	More than 3 - 4 years RM'000	More than 4 - 5 years RM'000	More than 5 years RM'000
At 31 December 2017								
Net cash outflows	3,328	(47,061)	(2,608)	(5,415)	(5,430)	(5,415)	(4,390)	(23,803)
At 31 December 2016								
Net cash outflows	781	(27,659)	(8,010)	(6,820)	(3,753)	(3,763)	(3,707)	(1,606)

The Group's hedging activities on the interest rate swaps are tested to be effective. During the year, the Group recognised in other comprehensive income a gain of RM7,697,000 (2016: loss of RM221,000) on the interest rate swaps of its subsidiaries.

The Group's share of its joint ventures' unrealised gain on interest rate swap during the year was RM444,000 (2016: RM1,001,000).

NOTES TO THE FINANCIAL STATEMENTS

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(d) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group’s exposure to credit risk arises primarily from its operating activities (mainly for trade receivables) and from its finance activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Credit risk from balances with banks and financial institutions is managed by Group Treasury in accordance with the Group's policy. The Group Treasury Investment Guideline defines the parameters within which the investment activities shall operate to achieve the Group's investment objective of preserving capital and generating optimal returns. In accordance with the guideline, investment of surplus funds are made only with highly credit rated counterparties.

Effective from 1 July 2013, cash and bank balances were held in the In-House Account ("IHA") managed by PETRONAS Integrated Financial Shared Services Centre (“IFSSC”). The centralisation of fund management allows more effective cash visibility and fund management of the Group, as well as minimise exposure to counterparty credit risk. The beneficiary of these financial assets remains with the Corporation. PETRONAS IFSSC, which functions as a treasury management platform, in turn, places all funds under management in licensed financial institutions with strong credit ratings globally and in Malaysia. In addition, a majority of the Group's deposits are placed with licensed banks with strong credit ratings in Malaysia.

At the reporting date, the Group’s maximum exposure to credit risk is represented by the carrying amount of each class of financial assets mentioned in Notes 18(a) and 21, and is recognised in the statements of financial position.

The Group does not hold any collateral as security.

Trade receivables

The Group and the Corporation determine concentrations of credit risk by monitoring the industry sector profile of their receivables on an ongoing basis. The credit risk concentration profile of the Group's and the Corporation's trade receivables due from third parties at the reporting date are as follows:

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(d) Credit risk (cont'd.)

	Group		Corporation	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
LNG	201,568	17,938	193,826	150,111
Petroleum	367,956	428,947	-	-
Offshore	1,017,533	1,482,297	2,467	13,589
Heavy Engineering	217,453	193,280	-	-
Others	12,097	18,929	-	-
	1,816,607	2,141,391	196,293	163,700

At reporting date, approximately 3.0% (2016: 2.6%) and 90.7% (2016: 61.7%) of the Group’s and the Corporation's trade and other receivables were due from related parties.

Other financial assets

With respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure represented by the carrying amount of these instruments.

NOTES TO THE FINANCIAL STATEMENTS

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(e) Equity price risk

Equity price risk arises from the Group's investment in quoted equity shares listed on Bursa Malaysia. At the reporting date, the exposure security at fair value was RM63,714,000 (2016: RM66,687,000).

The following table demonstrates the indicative effects on the Group and the Corporation's investment in quoted equity shares applying reasonably foreseeable market movements in the following index rates:

	Carrying value RM'000	Weighted average change in index rate %	Effect on equity Increase / (Decrease) RM'000
Group and Corporation			
2017			
Malaysian quoted equity shares	63,714	+15	9,557
Malaysian quoted equity shares	63,714	-15	(9,557)
2016			
Malaysian quoted equity shares	66,687	+15	10,003
Malaysian quoted equity shares	66,687	-15	(10,003)

This analysis assumes all other variables remain constant and that the price of the Group's quoted equity investment is perfectly correlated to the market index.

NOTES TO THE FINANCIAL STATEMENTS

38. CAPITAL MANAGEMENT

Capital management is defined as the process of managing the composition of the Group's debt and equity to ensure it maintains a strong credit rating and healthy capital ratios that support its businesses and maximise its shareholder value. The Group's approach in managing capital is set out in the Group Corporate Financial Policy.

The Group and the Corporation monitor and maintain a prudent level of total debt to total asset ratio to optimise shareholder value and to ensure compliance with covenants under debt agreements.

The debt to equity ratios of the Group and of the Corporation as at 31 December 2017 and 31 December 2016 are as follows:

		Group		Corporation	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Short term borrowings	18(c)	7,717,608	7,372,969	2,275,362	2,804,497
Long term borrowings	18(c)	3,946,285	5,228,537	4,949,205	6,933,229
Gross debts		11,663,893	12,601,506	7,224,567	9,737,726
Cash, deposits and bank balances	23	5,900,724	6,559,207	2,577,773	3,468,856
Net debts		5,763,169	6,042,299	4,646,794	6,268,870
Total equity		35,904,764	39,330,953	21,649,955	25,930,764
Gross debt equity ratio		0.32	0.32	0.33	0.38
Net debt equity ratio		0.16	0.15	0.21	0.24

NOTES TO THE FINANCIAL STATEMENTS

39. SUBSIDIARIES AND ACTIVITIES

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
MISC Tankers Sdn. Bhd.	Malaysia	Investment holding and provision of management services	100	100
Puteri Intan Sdn. Bhd.	Malaysia	Shipping	100	100
Puteri Delima Sdn. Bhd.	Malaysia	Shipping	100	100
Puteri Nilam Sdn. Bhd.	Malaysia	Shipping	100	100
Puteri Zamrud Sdn. Bhd.	Malaysia	Shipping	100	100
Puteri Firus Sdn. Bhd.	Malaysia	Shipping	100	100
Seri Camellia (L) Private Limited	Malaysia	Shipping	100	100
Seri Cempaka (L) Private Limited	Malaysia	Shipping	100	100
Seri Cenderawasih (L) Private Limited	Malaysia	Shipping	100	100
Seri Cemara (L) Private Limited	Malaysia	Shipping	100	100
Seri Camar (L) Private Limited	Malaysia	Shipping	100	100
MISC Ship Management Sdn. Bhd.	Malaysia	Investment holding	100	100
MISC Enterprises Holdings Sdn. Bhd.	Malaysia	In liquidation	100	100

NOTES TO THE FINANCIAL STATEMENTS

39. SUBSIDIARIES AND ACTIVITIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
Malaysia Marine and Heavy Engineering Holdings Berhad ^	Malaysia	Investment holding	66.5	66.5
Malaysia Marine and Heavy Engineering Sdn. Bhd.	Malaysia	Provision of oil and gas engineering and construction works, and marine conversion and repair services	66.5	66.5
MMHE LNG Sdn. Bhd.	Malaysia	Dormant	66.5	66.5
Techno Indah Sdn. Bhd.	Malaysia	Sludge disposal management	66.5	66.5
MMHE International Sdn. Bhd.	Malaysia	Dormant	66.5	66.5
MMHE EPIC Marine & Services Sdn. Bhd.	Malaysia	Repair and maintenance of vessel	46.6	46.6
MISC Agencies Sdn. Bhd.	Malaysia	Dormant	100	100
MISC Agencies (Netherlands) B.V.*	Netherlands	Property owning	100	100
MISC Berhad (UK) Limited *	United Kingdom	Commercial operation	100	100

NOTES TO THE FINANCIAL STATEMENTS

39. SUBSIDIARIES AND ACTIVITIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%)	
			2017	2016
MISC Agencies India Private Limited *	India	In liquidation	60	60
MISC Agencies (Japan) Ltd.	Japan	Liquidated	-	100
MISC Ferry Services Sdn. Bhd.	Malaysia	Dormant	100	100
Asia LNG Transport Sdn. Bhd.	Malaysia	Shipowning and ship management	51	51
Asia LNG Transport Dua Sdn. Bhd.	Malaysia	Shipowning and ship management	51	51
Malaysian Maritime Academy Sdn. Bhd.	Malaysia	Education and training for seamen and maritime personnel	100	100
Puteri Intan Satu (L) Private Limited	Malaysia	Shipping	100	100
Puteri Delima Satu (L) Private Limited	Malaysia	Shipping	100	100
Puteri Nilam Satu (L) Private Limited	Malaysia	Shipping	100	100
Puteri Zamrud Satu (L) Private Limited	Malaysia	Shipping	100	100

NOTES TO THE FINANCIAL STATEMENTS

39. SUBSIDIARIES AND ACTIVITIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
Puteri Firus Satu (L) Private Limited	Malaysia	Shipping	100	100
Puteri Mutiara Satu (L) Private Limited	Malaysia	Shipping	100	100
MISC Tanker Holdings Sdn. Bhd.	Malaysia	Investment holding	100	100
MISC Tanker Holdings (Bermuda) Limited	Bermuda	Investment holding	100	100
AET Tanker Holdings Sdn. Bhd.	Malaysia	Investment holding	100	100
AET Product Tankers Sdn. Bhd.	Malaysia	Shipowning, ship chartering and operating of ships	100	100
AET Petroleum Tanker (M) Sdn. Bhd.	Malaysia	Shipowning	100	100
AET Shipmanagement (Malaysia) Sdn. Bhd.	Malaysia	Shipping management	100	100
Eaglestar Shipmanagement (S) Pte. Ltd (formerly known as AET Shipmanagement (Singapore) Pte. Ltd.) #	Singapore	Ship management	100	100
AET Holdings (L) Pte. Ltd.	Malaysia	Investment holding	100	100
AET Inc. Limited	Bermuda	Shipowning and operations	100	100

NOTES TO THE FINANCIAL STATEMENTS

39. SUBSIDIARIES AND ACTIVITIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
AMI Manning Services Private Limited #	India	Ship management and manning activities	100	100
AET Lightering Services LLC	The United States of America	Lightering	100	100
AET STS Limited Inc. *	Panama	Lightering operations	100	100
AET Bermuda One Ltd. ^^	Bermuda	Owning, chartering and operating of vessel	100	-
AET Tankers Pte. Ltd. #	Singapore	Commercial operation and chartering	100	100
AET UK Limited #	United Kingdom	Commercial operation and chartering	100	100
AET Offshore Services Inc.	The United States of America	Lightering	100	100
AET Agencies Inc.	The United States of America	Property owning	100	100

NOTES TO THE FINANCIAL STATEMENTS

39. SUBSIDIARIES AND ACTIVITIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
AET Tankers India Private Limited #	India	Shipowning	100	100
AET Azerbaijan Limited	Azerbaijan	Dormant	100	100
AET Singapore One Pte. Ltd. ^^	Singapore	Owning, chartering and operating of vessel	100	-
AET Tankers Kazakhstan LLP	Kazakhstan	Dormant	100	100
AET Shipmanagement (USA) LLC #	The United States of America	Ship management	100	100
AET Tankers (Suezmax) Pte. Ltd.	Singapore	Own, manage and operate ships	100	100
AET Shuttle Tankers Sdn. Bhd.	Malaysia	Shipowning, ship chartering and operating of ships	100	100
AET MCV Delta Sdn. Bhd.	Malaysia	Investment holding	100	100
AET MCV Alpha LLC	Republic of Marshall Islands	Shipowning	100	100

NOTES TO THE FINANCIAL STATEMENTS

39. SUBSIDIARIES AND ACTIVITIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
AET MCV Beta LLC	Republic of Marshall Islands	Shipowning	100	100
AET MCV Gamma LLC	Republic of Marshall Islands	Chartering and operations	100	100
AET MCV Alpha Pte. Ltd.	Singapore	Dissolved	-	100
AET MCV Beta Pte. Ltd.	Singapore	Dissolved	-	100
AET Brasil Servicos Maritimos Ltda.	Brazil	Manning, crewing agent and technical office	100	100
AET Brasil Servicos STS Ltda.	Brazil	Lightering support services	100	100
AET Sea Shuttle AS	Norway	Owning and operating DP shuttle tankers	95	95
MISC International (L) Ltd.	Malaysia	Investment holding	100	100
MISC Offshore Floating Terminals (L) Ltd.	Malaysia	Owning offshore floating terminals	100	100

NOTES TO THE FINANCIAL STATEMENTS

39. SUBSIDIARIES AND ACTIVITIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
MISC Capital (L) Ltd.	Malaysia	Special purpose vehicle for financing arrangement	100	100
MISC Offshore Holdings (Brazil) Sdn. Bhd.	Malaysia	Investment holding	100	100
MISC do Brasil Services de Energia Ltd ^^	Brazil	Dormant	100	-
M.I.S.C. Nigeria Ltd. *	Nigeria	Dormant	60	60
FPSO Ventures Sdn. Bhd.	Malaysia	Operating and maintaining FPSO terminals	51	51
Malaysia Offshore Mobile Production (Labuan) Ltd.	Malaysia	Mobile offshore production unit owner	100	100
MTTI Sdn. Bhd.	Malaysia	Dormant	100	100
MISC PNG Shipping Limited	Malaysia	Investment holding	100	100
Gas Asia Terminal (L) Pte. Ltd.	Malaysia	Development and ownership of LNG floating storage units	100	100

NOTES TO THE FINANCIAL STATEMENTS

39. SUBSIDIARIES AND ACTIVITIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
MISC Offshore Floating Terminals Dua (L) Ltd.	Malaysia	Owning offshore floating terminals	100	100
GK O&M (L) Limited	Malaysia	Dormant	100	100
MISC Maritime Services Sdn Bhd (formerly known as PETRONAS Maritime Services Sdn. Bhd.)	Malaysia	Provision of maritime services and consultancy and maritime audit	100	100
Sungai Udang Port Sdn. Bhd.	Malaysia	Operation and management of Sungai Udang Port	100	100
Gumusut-Kakap Semi-Floating Production System (L) Limited	Malaysia	Asset ownership and leasing of semi-submersible floating production system	100	100
Thailand Offshore Floating Terminals (L) Ltd ^^*	Malaysia	Owning, operation and maintenance of FSO vessels	100	-
Eaglestar Marine Holdings (L) Pte. Ltd. ^^	Malaysia	Provision of marine services and investment holding	100	-

NOTES TO THE FINANCIAL STATEMENTS

39. SUBSIDIARIES AND ACTIVITIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
Eaglestar Shipmanagement (L) Pte. Ltd. ^^	Malaysia	Provision of ship management services	100	-
Eaglestar Marine (S) Pte. Ltd. ^^#	Singapore	Hiring of personnel	100	-
Eaglestar Marine B.V ^^	Netherlands	Provision of marine and procurement services	100	-
Paramount Tankers Corporation	Republic of the Marshall Islands	Shipowning and operations	100	100
Atenea Services S.A.	British Virgin Islands	Shipowning	100	100
Hendham Enterprises Ltd.	British Virgin Islands	Shipowning	100	100
Odley Worldwide Inc.	British Virgin Islands	Shipowning	100	100
Oldson Ventures Ltd.	British Virgin Islands	Shipowning	100	100
Twyford International Business Corp.	British Virgin Islands	Shipowning	100	100

NOTES TO THE FINANCIAL STATEMENTS

39. SUBSIDIARIES AND ACTIVITIES (CONT'D.)

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
Zangwill Business Corp.	British Virgin Islands	Shipowning	100	100

* Audited by firms of auditors other than Ernst & Young
# Audited by affiliates of Ernst & Young Malaysia
^ Listed on the Main Board of Bursa Malaysia Securities Berhad
^^ Newly incorporated during the year

40. ASSOCIATES AND ACTIVITIES

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
MISC Agencies Lanka Pte. Ltd.	Sri Lanka	In-liquidation	40	40
Trans-ware Logistics (Pvt) Ltd.	Sri Lanka	Disposed	-	25
Nikorma Transport Limited	Nigeria	LNG transportation	30	30
Eagle Star Management Corp.	Philippines	Recruitment and provision of manpower for maritime vessels	24	24

NOTES TO THE FINANCIAL STATEMENTS

41. JOINT ARRANGEMENTS AND ACTIVITIES

(a) Joint ventures and activities

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
Malaysia Vietnam Offshore Terminal (L) Ltd. ****	Malaysia	FSO owner	51	51
Vietnam Offshore Floating Terminal (Ruby) Ltd. ***	Malaysia	FPSO owner	40	40
MMHE-TPGM Sdn. Bhd. ***	Malaysia	Provision of engineering, procurement, construction installation, and commissioning services	40	40
MMHE-ATB Sdn. Bhd. ***	Malaysia	Manufacturing work of pressure vessels and tube heat exchangers	27	27
Technip MHB Hull Engineering Sdn. Bhd. ***	Malaysia	Build and develop hull engineering and engineering project management capacities	33	33

NOTES TO THE FINANCIAL STATEMENTS

41. JOINT ARRANGEMENTS AND ACTIVITIES (CONT'D.)

(a) Joint ventures and activities (cont'd.)

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
SL-MISC International Line Co. Ltd. ***	Sudan	In-liquidation	49	49
SBM Systems Inc.***	Switzerland	FPSO owner	49	49
FPSO Brasil Venture S.A.***	Switzerland	Investment and offshore activities	49	49
SBM Operacoes Ltda. ***	Brazil	Operating and maintaining FPSO terminals	49	49
Operacoes Maritamas em Mar Profundo Brasileiro Ltda. ***	Brazil	Operation and maintenance of FPSO	49	49
Brazilian Deepwater Floating Terminals Ltd. ***	Bermuda	Construction of FPSO	49	49
Brazilian Deepwater Production Ltd. ***	Bermuda	Chartering of FPSO	49	49
Brazilian Deepwater Production Contractors Ltd. ***	Bermuda	Operation and maintenance of FPSO	49	49
Centralised Terminals Sdn. Bhd.	Malaysia	Disposed	-	45

NOTES TO THE FINANCIAL STATEMENTS

41. JOINT ARRANGEMENTS AND ACTIVITIES (CONT'D.)

(a) Joint ventures and activities (cont'd.)

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
Langsat Terminal (Three) Sdn. Bhd. ***	Malaysia	Disposed	-	45
Langsat Terminal (Two) Sdn. Bhd. ***	Malaysia	Disposed	-	36
Langsat Terminal (One) Sdn. Bhd. ***	Malaysia	Disposed	-	36
MISC Shipping Services (UAE) LLC ***	United Arab Emirates	Dormant	49	49
Western Pacific Shipping Ltd. ****	Bermuda	Providing shipping solutions for LNG project requirements and other general shipping requirements of Papua New Guinea	60	60
ELS Lightering Services S.A	Uruguay	Lightering activity	50	50
Malaysia Deepwater Floating Terminal (Kikeh) Ltd. ****	Malaysia	FPSO owner	51	51

NOTES TO THE FINANCIAL STATEMENTS

41. JOINT ARRANGEMENTS AND ACTIVITIES (CONT'D.)

(a) Joint ventures and activities (cont'd.)

Name of company	Country of incorporation	Principal activities	Ownership interest and voting interest (%) 2017	2016
Malaysia Deepwater Production Contractors Sdn. Bhd. ****	Malaysia	Operating and maintaining FPSO terminal	51	51

*** Even though the Group holds less than 50% equity interest in these companies, all material operational and financial matters require unanimous consent of the joint venture parties.

**** Even though the Group holds more than 50% equity interest in these companies, all material operational and financial matters require unanimous consent of the joint venture parties.

(b) Joint operations

Details of the Group's joint operations are as follows:

Name	% of Ownership interest held by the Group 2017	2016
Technip MMHE (Malikai) Joint Venture	50%	50%
Technip MMHE (SK316) Joint Venture	50%	50%

Technip MMHE (Malikai) Joint Venture and Technip MMHE (SK316) Joint Venture are unincorporated joint venture between the subsidiary, MMHE and Technip Geoproduction (M) Sdn. Bhd. to undertake specific engineering, procurement and construction, installation and commissioning projects.

NOTES TO THE FINANCIAL STATEMENTS

42. SIGNIFICANT EVENTS

Material litigation

(i) Gumusut-Kakap Semi-Floating Production System (L) Limited ("GKL") and Sabah Shell Petroleum Limited ("SSPC")

On 9 November 2012, MISC's wholly-owned subsidiary, GKL entered into a Semi FPS Lease Agreement with SSPC, a wholly-owned subsidiary of Shell, for the construction and lease of Gumusut-Kakap Semi-Floating Production System ("Semi-FPS") for the purposes of the production of crude oil ("the Contract").

On 2 September 2016, GKL filed a Notice of Arbitration dated 2 September 2016 with the Kuala Lumpur Regional Centre for Arbitration to commence arbitration proceedings against SSPC and on 23 September 2016, GKL filed a Notice of Adjudication against SSPC under Construction Industry Payment and Adjudication Act ("CIPAA") 2012 ("Legal Proceedings").

The Legal Proceedings were commenced to seek resolution on contractual disputes covering claims for outstanding additional lease rates, payment for completed variation works and other associated costs under the Contract.

Among others, GKL claimed the following from SSPC:

i. The total sum of approximately USD245.0 million and applicable interest at any rate deemed fit by the tribunal/adjudicator;
ii. Declaratory relief;
iii. The costs of the arbitration/adjudication; and
iv. Any further or other awards as the tribunal/adjudicator deems fit.

Adjudication Proceedings:

Following the Adjudication Proceedings, an Adjudication Decision has been issued in GKL's favour on 10 February 2017 and GKL was awarded, amongst others, the total sum of USD254,447,464.00 being the amount due for variation works undertaken by GKL ("First Adjudication Decision"). SSPC has paid a lump sum of USD69.3 million on 27 February 2017, being the outstanding amount of increased Day Rates due since April 2014 until end February 2017 (together with interest). The balance amounts are payable by SSPC as increased Day Rates for the relevant lease period.

Subsequently, GKL issued a second Notice of Adjudication against SSPC on 25 April 2017 for USD12.4 million (later revised to USD10.9 million) for further completed variation works. On 29 August 2017, the Adjudicator awarded GKL for payment of further completed variation works amounting to approximately USD10.9 million, whereby a total of approximately USD3.8 million of outstanding increased Day Rates have been paid by SSPC as lump sum payments ("Second Adjudication Decision"). The balance amounts are payable by SSPC as increased Day Rates for the relevant lease period.

The Adjudication Proceedings have now closed. Nevertheless in the Arbitration Proceedings, SSPC has claimed for repayment of the full amount paid to GKL under the First Adjudication Decision and the Second Adjudication Decision. GKL continues to preserve/defend the Adjudication decisions rendered, throughout the Arbitration Proceedings.

NOTES TO THE FINANCIAL STATEMENTS

42. SIGNIFICANT EVENTS (CONT'D.)

Material litigation (cont'd.)

(i) Gumusut-Kakap Semi-Floating Production System (L) Limited ("GKL") and Sabah Shell Petroleum Limited ("SSPC") (cont'd.)

Arbitration Proceedings:

On 30 May 2017, SSPC filed its Statement of Defence and Counterclaim ("SDCC"). In its SDCC, SSPC refuted GKL's claims and is counterclaiming against GKL for alleged defective work, alleged limited functionality of the Semi-FPS, liquidated damages and a refund of the full amount paid to GKL under the First Adjudication Decision. SSPC's claims cover, among others, the following:

i The sum of approximately USD583 million together with any applicable interest;
ii Repayment to SSPC for the full amount paid to GKL under the First Adjudication Decision; and
iii The costs and expenses of the Adjudication and Arbitration Proceedings.

GKL filed its Reply and Defence to Counterclaim on 29 August 2017, which was followed by SSPC's filing of its Statement of Rejoinder and Reply to Defence to Counterclaim ("RRDC") on 24 November 2017. In SSPC's RRDC, the amount of approximately USD583 million included in SSPC's original counterclaim was revised to approximately USD588 million. SSPC's revision also claimed repayment of the full amount paid to GKL under the Second Adjudication Decision. Thereafter GKL filed its Statement of Rejoinder to Counterclaim ("RCC") on 22 December 2017.

Pleadings have now closed with the filing of GKL's RCC on 22 December 2017. Parties are now in the process of carrying out procedural directions given by the Tribunal such as the production of documents, finalisation of expert witnesses and drafting of witness statements in preparation for the Arbitration hearing due to be held from 25 February 2019 to 16 March 2019.

GKL maintains its view on the strength of its claims against SSPC and is of the view that GKL has a good legal position to resist and defend against SSPC's counterclaims.

The Legal Proceedings initiated to resolve the contractual disputes will not have any impact on the operation of the Semi-FPS or the performance of the Contract, including the lease payments which continue to be paid by SSPC since October 2014. The lease period pursuant to the Contract remains intact and GKL continues to receive payment from SSPC for the relevant lease period.

Injunction:

On 20 February 2017, GKL was ordered by the High Court to release the Bank Guarantee sum of USD20 million together with interest. GKL has filed an appeal at the Court of Appeal against the High Court's judgment.

The hearing date for the appeal has been set for 10 April 2018.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MISC BERHAD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of MISC Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Corporation, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Corporation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 165 to 313.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Corporation as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Corporation in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Corporation for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Corporation as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MISC BERHAD

Key audit matters (cont'd.)

KEY AUDIT MATTERS	HOW WE ADDRESSED THE KEY AUDIT MATTERS
Impairment of goodwill - (Refer to Note 14 - Intangible assets, to the financial statements) The Group is required to perform annual impairment test of cash generating units ("CGUs") or groups of CGUs to which goodwill has been allocated. The Group estimated the recoverable amount of its CGUs or groups of CGUs to which the goodwill is allocated based on value-in-use ("VIU"). Estimating the VIU of CGUs or groups of CGUs involves estimating the future cash inflows and outflows and discounting them at an appropriate rate. Included in the Group's goodwill as at 31 December 2017 of RM810.7 million is goodwill relating to the Petroleum segment. We focused on the impairment review of the goodwill relating to this segment as it represents more than 99% of the Group's goodwill as at 31 December 2017 and significant judgements were involved in the terminal value and growth rate of the expected cash flows as well as the determination of an appropriate discount rate, which may cause possible variations in the recoverable amount of the CGU to which the goodwill has been allocated.	Our audit procedures included, among others evaluating the assumptions and methodologies used by the Group, in particular the assumptions to which the recoverable amount of the CGUs are most sensitive such as the terminal value of the expected cash flows, the growth rate as well as the discount rate used. We have assessed and tested the key assumptions used by management to estimate the projected cash flows for the CGUs as follows: (a) evaluated the discount rate used to determine the present value of the cash flows and whether the rate used reflects the current market assessments of the time value of money and the risks specific to the asset; (b) evaluated the terminal value and growth rate of the expected cash flows; and (c) assessed the sensitivity of the goodwill balance to changes in the discount rate, terminal value and growth rate of cash flows In addition, we also evaluated the adequacy of the disclosures of each key assumption on which the Group has based its cash flow projections and to which the recoverable amount is most sensitive, as disclosed in Note 14 to the financial statements.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MISC BERHAD

Key audit matters (cont'd.)

KEY AUDIT MATTERS	HOW WE ADDRESSED THE KEY AUDIT MATTERS
Impairment of non-current assets – (Refer to Note 12 - Ships, offshore floating assets and other property, plant and equipment, to the financial statements) The Group is required to perform impairment test of CGU whenever there is an indication that the CGU may be impaired by comparing the carrying amount with its recoverable amount. (i) Other property, plant and equipment The carrying amount of the Malaysia Marine and Heavy Engineering Holdings Berhad ("MHB") Group's net assets exceeds its market capitalisation, thereby indicating potential impairment of MHB Group's non-current assets. Accordingly, the Group estimated the recoverable amount of the property, plant and equipment and land use rights of MHB Group using VIU based on cash flow projections covering a five year period including terminal value. Estimating the VIU involves estimating the future cash inflows and outflows that will be derived from the CGU, and discounting them at an appropriate discount rate. This impairment review was significant to our audit because the assessment process is complex and is based on assumptions that are highly judgemental.	Our audit procedures included, among others evaluating the assumptions and methodologies used by the Group, in particular those relating to the discount rate and projected cash flows for the CGU. The areas that involved significant audit effort and judgement were the assessment of the probability of securing the future revenue contracts, possible variations in the amount and timing of cash flows and the determination of an appropriate discount rate. Our procedures to assess management's impairment testing included the following: (a) enquired with business development teams to obtain an understanding of the status of negotiations and the likelihood of securing the revenue contracts for contracts above our testing threshold, including timing of commencement and expected value of revenue contracts; (b) evaluated the estimated profits to be derived from those revenue contracts above our testing threshold by comparing the estimated profits with the actual margins achieved by MHB Group in previous years; and (c) evaluated the discount rate used to determine the present value of the cash flows and whether the rate used reflects the current market assessments of the time value of money and the risks specific to the asset.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MISC BERHAD

Key audit matters (cont'd.)

KEY AUDIT MATTERS	HOW WE ADDRESSED THE KEY AUDIT MATTERS
Impairment of non-current assets – (cont'd.) (Refer to Note 12 - Ships, offshore floating assets and other property, plant and equipment, to the financial statements) (cont'd.) (ii) Ships In addition, the significant drop in charter hire rates, certain ships' contract which have expired or approaching expiry within the next 5 years were also identified by management as indicators that the carrying amount owing of certain ships may be impaired. Accordingly, the Group and the Corporation estimated the recoverable amount of the ships using the higher of fair value less costs of disposal ("FVLCS") and VIU. For recoverable amount that is based on FVLCS, the Group engaged independent valuers to assess the fair value of the ships. The Group and the Corporation recorded a total impairment loss of RM684.8 million and RM227.4 million respectively during the current financial year. This impairment review was significant to our audit because the assessment process is based on assumptions that are highly judgemental.	Our audit procedures to assess management's impairment testing based on VIU included the following: (a) assessed the assumptions of future charter hire rates by comparing to the terms and conditions stipulated in the time charter party agreements entered into with the lessee, in particular the daily charter hire rates; (b) assessed whether the assumptions on the operating costs are supportable when compared to the past trends; and (c) evaluated the discount rate used to determine the present value of the cash flows and whether the rate used reflects the current market assessments of the time value of money and the risks specific to the asset. Our audit procedures to assess management's impairment testing based on FVLCS are as follows: (a) Considered the independence, competence, capabilities and objectivity of the external valuers; and (b) Obtained an understanding of the methodology adopted by the independent valuers in estimating the fair value of the ships and assessed whether such methodology is consistent with those used in the industry. In addition, we also evaluated the adequacy of the Group's disclosures of each key assumption on which the Group has based its cash flow projections and to which the CGU's recoverable amount is most sensitive, as disclosed in Note 12 to the financial statements.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MISC BERHAD

Key audit matters (cont'd.)

KEY AUDIT MATTERS	HOW WE ADDRESSED THE KEY AUDIT MATTERS
Recognition of revenue and cost of construction and marine projects – (Refer to Note 3 - Revenue and Note 22 - Due from/(to) customers on contracts, to the financial statements) A significant proportion of the Group's revenues and profits are derived from long-term construction and marine projects which span more than one accounting period. The Group uses the percentage-of-completion method in accounting for these long-term contracts. The stage of completion is measured by reference to the physical completion of the contracts. We focused on this area because management applies significant judgement and estimation uncertainties in determining the stage of physical completion in respect of marine projects and in estimating total estimated project costs.	In addressing this area of audit focus, we obtained an understanding of the relevant internal controls over the accuracy and timing of revenue and cost recognised in the financial statements, including controls performed by the management in estimating total project costs, profit margin and percentage-of-completion of projects. In addition, we also performed the following: (a) read all key contracts to obtain an understanding of the specific terms and conditions; (b) agreed contract revenue to the original signed customer contracts and/or approved change orders; (c) reviewed management meeting minutes to obtain an understanding of the performance and status of the key projects; (d) evaluated the assumptions applied in the determination of percentage-of-completion in light of supporting evidence such as engineers' reports in relation to marine projects; and (e) considered the historical accuracy of management's budgeted project margins in assessing the estimated margins of similar projects.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MISC BERHAD

Key audit matters (cont'd.)

KEY AUDIT MATTERS	HOW WE ADDRESSED THE KEY AUDIT MATTERS
Contingent liability – (Refer to Note 42 – Significant Events -Material litigation, to the financial statements) We focused on this area as the eventual outcome of claims is uncertain and the positions taken by the Directors are based on the application of material judgement and estimation. Accordingly, unexpected adverse outcomes could significantly impact the Group's reported profit and statement of financial position.	In addressing this area of audit focus, we considered whether an obligation exists, the appropriateness of provisioning and/or disclosure based on the facts and circumstances available. We have performed the following: (i) Obtained and reviewed the relevant correspondences in relation to Arbitration and Litigation cases; (ii) Compared the opinion provided by the Group's external legal counsel against management's assessment on the measurement and/or disclosures for the contingent liability; (iii) Considered the independence, reputation and capabilities of the external legal counsels; (iv) Obtained legal confirmations from the Group's external legal counsels; and (v) Considered whether the Group's disclosures of the application of judgement in estimating provisions and contingent liabilities adequately reflected the uncertainties associated with legal and regulatory matters.

Information other than the financial statements and auditor's report

The directors of the Corporation are responsible for the other information. The other information comprises the information included in the Group's 2017 Annual Report, but does not include the financial statements of the Group and of the Corporation and our auditors' report thereon. The Group's 2017 Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Corporation, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MISC BERHAD

Responsibilities of the directors for the financial statements

The directors of the Corporation are responsible for the preparation of financial statements of the Group and of the Corporation that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Corporation that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Corporation, the directors are responsible for assessing the Group's and the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Corporation or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Corporation as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Corporation, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Corporation's internal control.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MISC BERHAD

Auditors' responsibilities for the audit of the financial statements (cont'd.)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Corporation or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Corporation, including the disclosures, and whether the financial statements of the Group and of the Corporation represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Corporation for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Ismed Darwis Bin Bahatiar
No. 2921/04/18 (J)
Chartered Accountant

Kuala Lumpur, Malaysia
21 February 2018

PROPERTIES OWNED BY MISC AND ITS SUBSIDIARIES

AS OF 31 DECEMBER 2017

NO	LOCATION	DESCRIPTION	TENURE & YEAR LEASE EXPIRES	AREA IN SQ. FT .	EXISTING USE	AGE OF BUILDING/ LAND (YEARS)	APPROX NBV (RM'000)
1	PTD 22805 Mukim Plentong Johor Bahru	Land, Shipyard	Leasehold/ 2072	13,115,306	Marine Repair, Marine Conversion, Heavy Engineering fabrication yard, ancillary facilities and office buildings	38	21,159
2	PTD 11549 Mukim Plentong Johor Bahru	Land, Shipyard	Leasehold/ 2075	522,720		42	37
3	PTD 101363 Mukim Plentong Johor Bahru	Land	Leasehold/ 2039	2,567,862	Storage Area	8	16,563
4	PTD 65615 Mukim Plentong Johor Bahru	Land	Leasehold/ 2044	698,266	Staff Quarters	34	31,541
5	PTD 65618 Mukim Plentong Johor Bahru	Land	Leasehold/ 2044	587,624	Staff Quarters	34	1,819
6	PTD 65619 Mukim Plentong Johor Bahru	Land	Leasehold/ 2044	128,502	Staff Quarters	34	398
7	PTD 65616 Mukim Plentong Johor Bahru	Land	Leasehold/ 2044	169,884	Vacant	34	526
8	PTD 65617 Mukim Plentong Johor Bahru	Land	Leasehold/ 2044	374,180	Vacant	34	1,158

PROPERTIES OWNED BY MISC AND ITS SUBSIDIARIES

AS OF 31 DECEMBER 2017

NO	LOCATION	DESCRIPTION	TENURE & YEAR LEASE EXPIRES	AREA IN SQ. FT .	EXISTING USE	AGE OF BUILDING/ LAND (YEARS)	APPROX NBV (RM'000)
9	Pasir Gudang Industrial Estate 81707 Pasir Gudang Johor (erected on land 1 & 2 above)	Warehouse, workshops and office buildings	Leasehold/ 2072/ 2075	1,956,881	Marine Repair, Marine Conversion, Heavy engineering fabrication yard, ancillary facilities and office buildings	40	1,086,473
10	Rumah Pangsa MMHE 81700 Pasir Gudang (erected on land 4 to 6 above)	4-storey residential flats	Leasehold/ 2044	383,559	Staff Quarters	39	3,432
11	PTD 71056 Mukim Plentong Johor Bahru	Land, Yard	Leasehold/ 2045	1,524,600	Heavy Engineering fabrication yard, ancillary facilities and office buildings	32	41,915
12	PTD 109040 Mukim Plentong Johor Bahru	Land	Leasehold/ 2053	217,800	Workshop, ancillary facilities and site office	24	6,461
13	PTD 200290 Mukim Plentong Johor Bahru	Land, Yard	Leasehold/ 2052	2,424,158	Workshop, ancillary facilities and office buildings	9	74,624
14	PTD 22768 Mukim Plentong Johor Bahru	Land	Leasehold/ 2040	435,600	Storage Area	37	16,294
15	LOT 51611 Mukim Plentong Johor Bahru	Land	Leasehold/ 2045	173,514	Ancillary facilities and storage area	21	4,770
16	PTD 110760 Mukim Plentong Johor Bahru	Land	Leasehold/ 2052	205,603	Workshop, ancillary facilities and office buildings	24	5,954

PROPERTIES OWNED BY MISC AND ITS SUBSIDIARIES

AS OF 31 DECEMBER 2017

NO	LOCATION	DESCRIPTION	TENURE & YEAR LEASE EXPIRES	AREA IN SQ. FT.	EXISTING USE	AGE OF BUILDING/ LAND (YEARS)	APPROX NBV (RM'000)
17	PTD 110758 Mukim Plentong Johor Bahru	Land	Leasehold/ 2052	59,242	Cabin office and warehouse	24	1,806
18	Lot 76, Mukim Kuala Sungai Baru, Alor Gajah Melaka	Villas & Boathouse	Leasehold/ 2016	13,474	Akademi Laut Malaysia, Melaka Campus	9	-
19	Lot 1516, Mukim Kuala Sungai Baru (Kampus ALAM, Batu 31 Kampung Tanjung Dahan Kuala Sungai Baru Melaka)	New Post Sea Hostel	Leasehold/ 2018	24,210	Student accomodation	7	-
20	305, The Collonades Porchester Square Bayswater, London W2 6AS.	Apartment	Leasehold/ 2073	1,200	For Management	26	3,775
21	Galveston, Texas, USA	Land & Office	Freehold	290,415	Workboats, Dockage & Lightering Support Operation	49	10,401
22	Rivium 1e straat 42, 2909 LE, Capelle ann den IJssel, Netherlands.	Land and Office	Freehold	21,140	Office	20	6,014

LIST OF VESSELS AND ASSETS

AS OF 31 DECEMBER 2017

LNG CARRIERS (OWNED)

CLASS	TOTAL	VESSEL	BUILT	AGE	YARD	CARGO CAPACITY (CBM)	DWT	FLAG
AMAN CLASS	2	AMAN SENDAI	1997	20	NKK, Tsu, Japan	18,928	10,957	Malaysia
		AMAN HAKATA	1998	19	NKK, Tsu, Japan	18,942	10,951	Malaysia
TENAGA CLASS	1	TENAGA LIMA	1981	36	Chantiers De Nord Industrielle Marseile, France	130,021	71,585	Malaysia
PUTERI CLASS	5	PUTERI INTAN	1994	23	Chantiers de l'Atlantique, France	130,000	73,519	Malaysia
		PUTERI DELIMA	1995	22	Chantiers de l'Atlantique, France	130,000	73,519	Malaysia
		PUTERI NILAM	1995	22	Chantiers de l'Atlantique, France	130,000	73,519	Malaysia
		PUTERI ZAMRUD	1996	21	Chantiers de l'Atlantique, France	130,000	73,519	Malaysia
		PUTERI FIRUS	1997	20	Chantiers de l'Atlantique, France	130,000	73,519	Malaysia
PUTERI SATU CLASS	6	PUTERI INTAN SATU	2002	15	Mitsubishi Heavy Industries, Japan	137,489	75,849	Malaysia
		PUTERI DELIMA SATU	2002	15	Mitsui Engineering & Shipbuilding Co., Japan	137,601	76,190	Malaysia
		PUTERI NILAM SATU	2003	14	Mitsubishi Heavy Industries, Japan	137,585	76,124	Malaysia
		PUTERI ZAMRUD SATU	2004	13	Mitsui Engineering & Shipbuilding Co., Japan	137,590	76,144	Malaysia
		PUTERI FIRUS SATU	2004	13	Mitsubishi Heavy Industries, Japan	137,617	76,197	Malaysia
		PUTERI MUTIARA SATU	2005	12	Mitsui Engineering & Shipbuilding Co., Japan	137,595	76,144	Malaysia

LIST OF VESSELS AND ASSETS

AS OF 31 DECEMBER 2017

LNG CARRIERS (OWNED) (cont'd.)								
CLASS	**TOTAL**	**VESSEL**	**BUILT**	**AGE**	**YARD**	**CARGO CAPACITY (CBM)**	**DWT**	**FLAG**
SERI A CLASS	5	SERI ALAM	2005	12	Samsung Heavy Industries Co. Ltd., Korea	145,572	83,824	Malaysia
		SERI AMANAH	2006	11	Samsung Heavy Industries Co. Ltd., Korea	145,709	83,400	Malaysia
		SERI ANGGUN	2006	11	Samsung Heavy Industries Co. Ltd., Korea	145,731	83,395	Malaysia
		SERI ANGKASA	2006	11	Samsung Heavy Industries Co. Ltd., Korea	145,700	83,403	Malaysia
		SERI AYU	2007	10	Samsung Heavy Industries Co. Ltd., Korea	145,659	83,366	Malaysia
SERI B CLASS	5	SERI BAKTI	2007	10	Mitsubishi Heavy Industries, Japan	152,944	90,065	Malaysia
		SERI BEGAWAN	2007	10	Mitsubishi Heavy Industries, Japan	153,023	89,902	Malaysia
		SERI BIJAKSANA	2008	9	Mitsubishi Heavy Industries, Japan	153,023	89,953	Malaysia
		SERI BALHAF	2008	9	Mitsubishi Heavy Industries, Japan	157,720	91,201	Malaysia
		SERI BALQIS	2009	8	Mitsubishi Heavy Industries, Japan	157,720	91,198	Malaysia
SERI C CLASS	3	SERI CAMELLIA	2016	1	Hyundai Heavy Industries, Korea	150,200	72,880	Malaysia
		SERI CENDERAWASIH	2017	0	Hyundai Heavy Industries, Korea	150,200	72,880	Malaysia
		SERI CEMPAKA	2017	0	Hyundai Heavy Industries, Korea	150,200	72,880	Malaysia
TOTAL OWNED	**27**					**3,596,769**	**2,006,083**	

LIST OF VESSELS AND ASSETS

AS OF 31 DECEMBER 2017

LNG FLOATERS								
CLASS	TOTAL	VESSEL	BUILT	AGE	YARD	CARGO CAPACITY (CBM)	DWT	FLAG
FLOATING STORAGE UNIT (FSU)	2	FSU TENAGA SATU	2012	5	Malaysia Marine and Heavy Engineering, Malaysia	130,000	-	Malaysia
		FSU TENAGA EMPAT	2012	5	Keppel Shipyard, Singapore	130,000	-	Malaysia
TOTAL	2				-	260,000	-	-

NEWBUILDINGS							
CLASS	TOTAL	VESSEL	DELIVERY	YARD	CARGO CAPACITY (CBM)	DWT	FLAG
	2	HN 2732	2018	Hyundai Heavy Industries, Korea	150,200	72,880	Malaysia
		HN 2735	2018	Hyundai Heavy Industries, Korea	150,200	72,880	Malaysia
TOTAL NEWBUILDINGS	2				300,400	145,760	

LIST OF VESSELS AND ASSETS

AS OF 31 DECEMBER 2017

PETROLEUM AND PRODUCT VESSELS

TYPE	TOTAL	VESSEL	BUILT	AGE	YARD	DWT	FLAG
VLCC	12	BUNGA KASTURI	2003	14	Universal Shipbuilding Corp	299,999	Malaysia
		BUNGA KASTURI DUA	2005	12	Universal Shipbuilding Corp	300,542	Malaysia
		BUNGA KASTURI TIGA	2006	11	Universal Shipbuilding Corp	300,398	Malaysia
		BUNGA KASTURI EMPAT	2007	10	Universal Shipbuilding Corp	300,325	Malaysia
		BUNGA KASTURI LIMA	2007	10	Universal Shipbuilding Corp	300,246	Malaysia
		BUNGA KASTURI ENAM	2008	9	Universal Shipbuilding Corp	299,319	Malaysia
		EAGLE VANCOUVER	2013	4	Daewoo Shipbuilding and Marine Engineering	311,922	Singapore
		EAGLE VARNA	2013	4	Daewoo Shipbuilding and Marine Engineering	311,922	Singapore
		EAGLE VERONA (RENAMED BRITISH VENTURE)	2013	4	Daewoo Shipbuilding and Marine Engineering	320,122	Isle of Man
		EAGLE VERSAILLES (RENAMED BRITISH VANTAGE)	2013	4	Daewoo Shipbuilding and Marine Engineering	320,122	Isle of Man
		EAGLE VICTORIA	2016	1	Hyundai Heavy Industries	299,392	Singapore
		EAGLE VENICE	2016	1	Hyundai Heavy Industries	300,342	Singapore
						3,664,651	
SUEZMAX	4	EAGLE SAN ANTONIO	2012	5	Samsung Heavy Industries Co. Ltd., Korea	157,850	Singapore
		EAGLE SAN DIEGO	2012	5	Samsung Heavy Industries Co. Ltd., Korea	157,850	Singapore
		EAGLE SAN JUAN	2012	5	Samsung Heavy Industries Co. Ltd., Korea	157,850	Singapore
		EAGLE SAN PEDRO	2012	5	Samsung Heavy Industries Co. Ltd., Korea	157,850	Singapore
						631,400	

LIST OF VESSELS AND ASSETS

AS OF 31 DECEMBER 2017

PETROLEUM AND PRODUCT VESSELS (cont'd.)

TYPE	TOTAL	VESSEL	BUILT	AGE	YARD	DWT	FLAG
AFRAMAX	33	BUNGA KELANA 3	1998	19	Hyundai Heavy Industries	105,784	Malaysia
		EAGLE AUSTIN	1998	19	Samsung Heavy Industries	105,426	Singapore
		EAGLE PHOENIX	1998	19	Namura	106,127	Singapore
		BUNGA KELANA 4	1999	18	Hyundai Heavy Industries	105,815	Malaysia
		BUNGA KELANA 6	1999	18	Hyundai Heavy Industries	105,815	Malaysia
		EAGLE ANAHEIM	1999	18	Koyo	107,160	Singapore
		EAGLE ATLANTA	1999	18	Koyo	107,160	Singapore
		EAGLE AUGUSTA	1999	18	Samsung Heavy Industries	105,345	Singapore
		EAGLE TACOMA	2002	15	Imabari	107,123	Singapore
		EAGLE TAMPA	2003	14	Imabari	107,123	Singapore
		EAGLE TOLEDO	2003	14	Imabari	107,092	Singapore
		EAGLE TRENTON	2003	14	Imabari	107,123	Singapore
		EAGLE TUCSON	2003	14	Imabari	107,123	Singapore
		BUNGA KELANA 7	2004	13	Samsung Heavy Industries	105,194	Malaysia
		BUNGA KELANA 8	2004	13	Samsung Heavy Industries	105,174	Malaysia
		BUNGA KELANA 9	2004	13	Samsung Heavy Industries	105,200	Malaysia
		BUNGA KELANA 10	2004	13	Samsung Heavy Industries	105,274	Malaysia
		EAGLE TORRANCE	2007	10	Imabari	107,123	Singapore
		EAGLE TURIN	2008	9	Imabari	107,123	Singapore
		EAGLE KUCHING	2009	8	Tsuneishi Shipbuilding	107,481	Singapore
		EAGLE KANGAR	2010	7	Tsuneishi Shipbuilding	107,481	Singapore
		EAGLE KLANG	2010	7	Tsuneishi Shipbuilding	107,481	Singapore
		EAGLE KUANTAN	2010	7	Tsuneishi Shipbuilding	107,481	Singapore
		PARAMOUNT HELSINKI	2010	7	Sungdong	114,164	Isle of Man
		PARAMOUNT HALIFAX	2010	7	Sungdong	114,164	Isle of Man
		PARAMOUNT HANOVER	2010	7	Sungdong	114,014	Isle of Man
		PARAMOUNT HAMILTON	2010	7	Sungdong	114,022	Isle of Man
		PARAMOUNT HATTERAS	2010	7	Sungdong	114,164	Isle of Man
		EAGLE KINABALU	2011	6	Tsuneishi Shipbuilding	107,481	Singapore
		EAGLE KINARUT	2011	6	Tsuneishi Shipbuilding	107,481	Singapore
		EAGLE LOUISIANA	2011	6	Tsuneishi Shipbuilding	107,481	Marshall Islands
		EAGLE TEXAS	2011	6	Tsuneishi Shipbuilding	107,481	Marshall Islands
		PARAMOUNT HYDRA	2011	6	Sungdong	114,164	Isle of Man
						3,563,844	

LIST OF VESSELS AND ASSETS

AS OF 31 DECEMBER 2017

PETROLEUM AND PRODUCT VESSELS (cont'd.)							
TYPE	**TOTAL**	**VESSEL**	**BUILT**	**AGE**	**YARD**	**DWT**	**FLAG**
DP SHUTTLE	4	EAGLE PARAIBA	2012	5	Samsung Heavy Industries	105,153	Malaysia
		EAGLE PARANA	2012	5	Samsung Heavy Industries	105,153	Malaysia
		EAGLE BERGEN	2015	2	Samsung Heavy Industries (SHI)	120,657	Bahamas
		EAGLE BARENTS	2015	2	Samsung Heavy Industries (SHI)	119,690	Bahamas
						450,653	
CHEMICAL PRODUCTS	7	BUNGA AKASIA	2009	7	STX Offshore & Shipbuilding Co. Ltd., Korea	37,961	Malaysia
		BUNGA ALAMANDA	2009	7	STX Offshore & Shipbuilding Co. Ltd., Korea	38,005	Malaysia
		BUNGA ALLIUM	2010	6	STX Offshore & Shipbuilding Co. Ltd., Korea	38,016	Malaysia
		BUNGA ANGSANA	2010	6	STX Offshore & Shipbuilding Co. Ltd., Korea	37,986	Malaysia
		BUNGA ANGELICA	2010	6	STX Offshore & Shipbuilding Co. Ltd., Korea	38,001	Malaysia
		BUNGA AZALEA	2010	6	STX Offshore & Shipbuilding Co. Ltd., Korea	37,959	Malaysia
		BUNGA ASTER	2010	6	STX Offshore & Shipbuilding Co. Ltd., Korea	37,934	Malaysia
						265,862	
PANAMAX	1	BUNGA KENANGA	2000	17	Samsung Heavy Industries Co. Ltd., Korea	**73,096**	Malaysia
LR2	2	EAGLE LE HAVRE	**2017**	**0**	Hyundai Heavy Industries Co Ltd (HHI)	113,905	France
		EAGLE LYON	**2017**	**0**	Hyundai Heavy Industries Co Ltd (HHI)	113,808	Singapore
						227,713	
WORKBOATS	4	AET INNOVATOR	2011	5	Leevac Industries, LLC	1,475	USA
		AET EXCELLENCE	2012	4	Leevac Industries, LLC	1,475	USA
		AET PARTNERSHIP	2012	4	Leevac Industries, LLC	1,475	USA
		AET RESPONSIBILITY	2012	4	Leevac Industries, LLC	1,475	USA
						5,900	
TOTAL OWNED	**67**					**8,883,119**	

LIST OF VESSELS AND ASSETS

AS OF 31 DECEMBER 2017

PETROLEUM AND PRODUCT VESSELS (JV)							
TYPE	TOTAL	VESSEL	BUILT	AGE	YARD	DWT	FLAG
WORKBOAT	3	ELS MAITE	1975	42	Zigler Shipyard, Louisiana	1,023	USA
		OLIVIA	2008	9	Candies Shipbuilding LLC.	1,227	Uruguay
		DIDI K	2008	9	Guangzhou Hangtong Shipbuilding & Shipping Co.	1,371	Uruguay
TOTAL JV OWNED	**3**					**3,621**	

PETROLEUM AND PRODUCT VESSELS (IN-CHARTERED)							
TYPE	TOTAL	VESSEL	BUILT	AGE	YARD	DWT	FLAG
VLCC	2	EAGLE VIRGINIA	2002	15	Hyundai Heavy Industries	306,999	Singapore
		EAGLE VERMONT	2002	15	Hyundai Heavy Industries	299,999	Singapore
						606,998	
AFRAMAX	9	EAGLE SIBU	1999	18	Samsung Heavy Industries	105,419	Singapore
		EAGLE SEVILLE	1999	18	Samsung Heavy Industries	104,556	Singapore
		AL HABIBAH	2004	12	Hyundai Heavy Industries	105,946	Saudi Arabia
		MITERA MARIGO	2007	10	Sumitomo Heavy Industries	105,495	Liberia
		YASA GOLDEN MARMARA	2008	9	Mitsui Engineering & Shipbuilding Co. Ltd	110,769	Marshall Islands
		YASA GOLDEN DARDANELLES	2008	9	Mitsui Engineering & Shipbuilding Co. Ltd	110,828	Marshall Islands
		EAGLE SAPPORO	2008	9	MES	110,448	Singapore
		EAGLE STAVANGER	2009	8	Sumitomo Heavy Industries	105,355	Panama
		EAGLE SYDNEY	2009	8	Sumitomo Heavy Industries	105,419	Panama
						964,235	
CHEMICAL PRODUCTS	6	BUNGA LAUREL	2010	7	Fukuoka Shipyard, Japan	19,992	Panama
		BUNGA LAVENDER	2010	7	Fukuoka Shipyard, Japan	19,997	Panama
		BUNGA LILAC	2011	6	Fukuoka Shipyard, Japan	19,992	Panama
		BUNGA LILY	2011	6	Fukuoka Shipyard, Japan	19,991	Panama
		BUNGA LOTUS	2012	5	Fukuoka Shipyard, Japan	19,992	Singapore
		BUNGA LUCERNE	2012	5	Fukuoka Shipyard, Japan	19,991	Singapore
						119,955	

LIST OF VESSELS AND ASSETS

AS OF 31 DECEMBER 2017

PETROLEUM AND PRODUCT VESSELS (IN-CHARTERED) (cont'd.)							
TYPE	**TOTAL**	**VESSEL**	**BUILT**	**AGE**	**YARD**	**DWT**	**FLAG**
LR2 CLEAN PRODUCT	3	TELLEVIKEN	2005	12	Samsung Heavy Industries	115,341	Bahamas
		TOFTEVIKEN	2005	12	Samsung Heavy Industries	99,999	Bahamas
		TROVIKEN	2006	11	Samsung Heavy Industries	99,999	Bahamas
						315,339	
MR2 CLEAN PRODUCT	3	EAGLE MILAN	2010	7	Nikai Zosen Corporation, Setoda Shipyard	46,549	Panama
		EAGLE MATSUYAMA	2010	7	Shin Kurushima Dockyard Co., Ltd	45,942	Panama
		EAGLE MELBOURNE	2011	6	Onomichi Dockyard Co., Ltd.	50,079	Singapore
						142,570	
LPG	1	BUNGA KEMBOJA	1998	18	Mitsubishi heavy Industries	**20,613**	Marshall Islands
WORKBOATS	2	MILLER	1997	19	Lockport, Louisiana	551	USA
		JOSEPHINE K MILLER	2009	7	Houma, Louisiana	675	USA
						1,226	
TOTAL IN-CHARTERED	**26**					**4,321,259**	
TOTAL	**96**						

LIST OF VESSELS AND ASSETS
AS OF 31 DECEMBER 2017

PETROLEUM AND PRODUCT VESSELS (ORDERBOOK)						
TYPE	**TOTAL**	**VESSEL**	**BUILT**	**YARD**	**DWT**	**FLAG**
SUEZMAX	6	HN2901	2018	Hyundai Heavy Industries Co Ltd (HHI)	158,000	Singapore
SUEZMAX		HN2902	2018	Hyundai Heavy Industries Co Ltd (HHI)	158,000	Singapore
AFRAMAX		HN2195	2018	Samsung Heavy Industries Co Ltd (SHI)	113,400	Singapore
AFRAMAX		HN2196	2018	Samsung Heavy Industries Co Ltd (SHI)	113,400	Singapore
AFRAMAX		HN2197	2018	Samsung Heavy Industries Co Ltd (SHI)	113,400	Singapore
AFRAMAX		HN2198	2018	Samsung Heavy Industries Co Ltd (SHI)	113,400	Singapore
DP2 SHUTTLE		HN2236	2019	Samsung Heavy Industries Co Ltd (SHI)	125,000	TBC
DP2 SHUTTLE		HN2237	2019	Samsung Heavy Industries Co Ltd (SHI)	125,000	TBC
TOTAL NEWBUILDINGS	**6**				**1,019,600**	

LIST OF VESSELS AND ASSETS

AS OF 31 DECEMBER 2017

OFFSHORE FLOATING ASSETS

TYPE	TOTAL	FACILITY	BUILT	YARD	DESIGN PRODUCTION CAPACITY (BPD)	STORAGE CAPACITY (BBLS)
FLOATING PRODUCTION STORAGE AND OFFLOADING (FPSO)		FPSO Bunga Kertas	2004	Malaysia Marine and Heavy Engineering, Malaysia	30,000	619,000
		FPSO Kikeh*	2007	Malaysia Marine and Heavy Engineering, Malaysia	120,000	2,000,000
		FPSO Espirito Santo*	2009	Keppel Shipyard, Singapore	100,000	2,020,000
		FPSO Ruby II**	2010	Malaysia Marine and Heavy Engineering, Malaysia	39,000	745,000
		FPSO Cendor	2014	Malaysia Marine and Heavy Engineering, Malaysia	35,000	745,000
		MAMPU 1	2015	Malaysia Marine and Heavy Engineering, Malaysia	10,000	350,000
TOTAL	**6**				**334,000**	**6,479,000**
Floating Storage and Offloading (FSO)		FSO Puteri Dulang	1991	Mitsubishi Heavy Industries, Japan	-	873,847
		FSO Angsi	2005	Malaysia Marine and Heavy Engineering, Malaysia	-	472,631
		"FSO Cendor *Contract expired"	2006	Malaysia Marine and Heavy Engineering, Malaysia		590,000
		"FSO Abu *Contract expired"	2007	Malaysia Marine and Heavy Engineering, Malaysia	-	617,200
		FSO Orkid**	2009	Malaysia Marine and Heavy Engineering, Malaysia	-	777,504
TOTAL	**5**				**-**	**2,741,182**
Mobile Offshore Production Unit (MOPU)		"MOPU SATU *Contract expired"	2010	Malaysia Marine and Heavy Engineering, Malaysia	20,000	-
		"MOPU DUA *Contract expired"	2011	Malaysia Marine and Heavy Engineering, Malaysia	20,000	-
TOTAL	**2**				**40,000**	**-**

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LIST OF VESSELS AND ASSETS

AS OF 31 DECEMBER 2017

OFFSHORE FLOATING ASSETS (cont'd.)						
TYPE	TOTAL	FACILITY	BUILT	YARD	DESIGN PRODUCTION CAPACITY (BPD)	STORAGE CAPACITY (BBLS)
SEMI SUBMERSIBLE FLOATING PRODUCTION SYSTEM		GUMUSUT-KAKAP	2013	Malaysia Marine and Heavy Engineering, Malaysia	150,000	-
TOTAL	**1**				**150,000**	**-**

TOTAL OFFSHORE FLOATING FACILITIES	**14**

* Jointly owned with Single Buoy Mooring (SBM)
**Jointly owned with Petroleum Technical Services Corporation (PTSC)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Forty-Ninth (49th) Annual General Meeting of MISC Berhad ("MISC" or "the Company") will be held at Ballroom 1 & 2, InterContinental Kuala Lumpur, 165, Jalan Ampang, 50450 Kuala Lumpur, Malaysia on Friday, 27 April 2018 at 10.00 a.m. for the following purposes:-

AGENDA

AS ORDINARY BUSINESS		
1.	To receive the Audited Financial Statements for the financial year ended 31 December 2017 together with the Reports of the Directors and Auditors thereon.	
2.	To re-elect the following Directors who retire pursuant to Article 95 of the Company's Articles of Association and, being eligible, offer themselves for re-election:-	
	i) Dato' Ab. Halim bin Mohyiddin	**Ordinary Resolution 1**
	ii) En. Mohd Yusri bin Mohamed Yusof	**Ordinary Resolution 2**
	iii) Pn. Liza binti Mustapha	**Ordinary Resolution 3**
3.	To re-elect the following Directors who retire by rotation pursuant to Article 97 of the Company's Articles of Association and, being eligible, offer themselves for re-election:-	
	i) Datuk Manharlal Ratilal	**Ordinary Resolution 4**
	ii) Mr. Lim Beng Choon	**Ordinary Resolution 5**
4.	To approve the payment of Directors' fees of RM1,274,449.00 for the financial year ended 31 December 2017.	**Ordinary Resolution 6**
5.	To approve the payment of Directors' fees (inclusive of benefits-in-kind) up to an amount of RM2,035,289.00 from 1 January 2018 until the conclusion of the next Annual General Meeting of the Company.	**Ordinary Resolution 7**
6.	To re-appoint Messrs. Ernst & Young as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration.	**Ordinary Resolution 8**
AS SPECIAL BUSINESS		
To consider and, if thought fit, to pass the following resolutions, with or without modifications:-		
7.	**Proposed Share Buy Back Renewal**	**Ordinary Resolution 9**

"**THAT** subject to compliance with the Companies Act 2016 ("Act"), MISC's Articles of Association, and all prevailing laws, rules, regulations, orders, guidelines and requirements which may be applicable from time to time by Bursa Malaysia Securities Berhad ("Bursa Securities") and/or any other relevant regulatory authority, approval and authority be and are hereby given to the Directors of the Company, to the extent permitted by law, to purchase such number of ordinary shares in MISC ("MISC Shares") as may be determined by the Directors from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit, necessary and expedient in the best interest of the Company, provided that the maximum aggregate number of MISC Shares which may be purchased and/or held by the Company shall not exceed 10% of its prevailing total number of issued shares at any time, and the maximum funds to be allocated by the Company for the purpose of purchasing its own shares shall not exceed the amount of the retained earnings of the Company for the time being;

THAT the Directors be and are hereby authorised to deal with the MISC Shares so purchased, at their discretion, in the following manner:

(i) cancel the MISC Shares so purchased; or

NOTICE OF ANNUAL GENERAL MEETING

(ii)	retain the MISC Shares so purchased as treasury shares which may be dealt with in accordance with Section 127(7) of the Act; or
(iii)	retain part of the MISC Shares so purchased as treasury shares and cancel the remainder of the MISC Shares,

or in any other manner as may be prescribed by the Act, all applicable laws, regulations and guidelines applied from time to time by Bursa Securities and/or any other relevant authority for the time being in force and that the authority to deal with the purchased MISC Shares shall continue to be valid until all the purchased MISC Shares have been dealt with by the Directors of the Company;

THAT the authority conferred by this resolution shall be effective immediately upon the passing of this resolution and shall continue to be in force until the earlier of:

(i)	the conclusion of the Fiftieth Annual General Meeting of MISC ("50th AGM"); or
(ii)	the expiration of the period within which the 50th AGM is required by law to be held; or
(iii)	revoked or varied by ordinary resolution passed by the shareholders of MISC in a general meeting.

AND THAT the Directors of the Company be and are hereby authorised and empowered to do all acts and things and to take all such steps as necessary or expedient (including opening and maintaining a Central Depository System account) and to enter into and execute, on behalf of the Company, any instrument, agreement and/or arrangement with any person, and with full power to assent to any condition, modification, variation and/or amendment as may be imposed by Bursa Securities or any relevant regulatory authority, and/or as may be required in the best interest of the Company and to take all such steps as the Directors may deem fit, necessary and expedient in the best interest of the Company in order to implement, finalise and give full effect to the purchase by the Company of its own shares."

8. **Proposed Adoption of new Constitution of the Company ("Proposed Adoption")** — **Special Resolution**

"THAT the Company's existing Memorandum and Articles of Association be deleted in its entirety and that the new Constitution as set out in the Company's Circular to Shareholders dated 29 March 2018 be and is hereby adopted as the new Constitution of the Company.

AND THAT the Directors of the Company be and are hereby authorised to do such acts, deeds and things as are necessary and/or expedient in order to give full effect to the Proposed Adoption with full powers to assent to any conditions, modifications and/or amendments as may be required by any relevant authorities."

9. To transact any other business for which due notice has been given.

By Order of the Board

Fadzillah binti Kamaruddin (LS 0008989)
Company Secretary
29 March 2018
Kuala Lumpur

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes on Ordinary Businesses

1. Audited Financial Statements for the financial year ended 31 December 2017

This Agenda item is meant for discussion only as Section 340(1) of the Companies Act, 2016 does not require the Audited Financial Statements to be formally approved by the shareholders. As such, this Agenda item is not put forward for voting.

2. Payment of Directors' Fees (inclusive of Benefits-in-kind)

Please refer to pages 127 to 136 of the Corporate Governance Overview Statement in the Company's Annual Report 2017 for details of the Directors' Fees and Benefits-in-kind.

Explanatory Notes on Special Business

1. Proposed Share Buy-Back Renewal

Ordinary Resolution 9, as proposed under item 7, if passed, will renew the authority granted by the shareholders at the last Annual General Meeting. The renewed authority will allow the Company to purchase its own shares of up to 10% of its prevailing total number of issued shares at any time. The renewed authority, unless revoked or varied by ordinary resolution passed by the shareholders of the Company in a general meeting, will expire at the conclusion of the 50th AGM of the Company or the expiration of the period within which the 50th AGM is required by law to be held, whichever occurs first.

Further information on the Proposed Share Buy-Back Renewal is set out in the statement dated 29 March 2018 which is despatched together with the Company's 2017 Annual Report.

2. Proposed Adoption of new Constitution of the Company

The Special Resolution, if passed, shall streamline the Constitution of the Company to be aligned with the new Companies Act 2016 which came into force on 31 January 2017, the updated provisions of the Main Market Listing Requirements of Bursa Securities, and prevailing statutory and regulatory requirements as well as to render clarity and consistency throughout, details of which are as set out in the Circular to Shareholders dated 29 March 2018.

Notes:

1. Only depositors whose names appear in the Record of Depositors as at 20 April 2018 shall be entitled to attend, speak and vote at the meeting.

2. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to exercise all or any of his rights to attend, participate, speak and vote at the meeting.

3. A member may appoint not more than two (2) proxies to attend the same meeting. Where a member appoints two (2) proxies the appointment shall be invalid unless he specifies the proportion of his holding to be represented by each proxy. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation. There shall be no restriction as to the qualification of the proxy.

4. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA"), it may appoint up to two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account and the number of shares to be represented by each proxy must be clearly indicated.

NOTICE OF ANNUAL GENERAL MEETING

5. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds. Where an exempt authorised nominee appoints more than one (1) proxy in respect of each Omnibus Account, the appointment shall not be valid unless the exempt authorised nominee specifies the proportion of the shareholding to be represented by each proxy.

   An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.

6. Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the Proxy Form.

7. The Proxy Form must be signed by the appointer of the proxy, or its attorney duly authorised in writing. In the case of a corporation, the Proxy Form shall be executed under its common seal, or signed by its attorney duly authorised in writing or by a duly authorised officer on behalf of the corporation.

8. The Proxy Form must be deposited at the Company's Share Registrar, Symphony Share Registrars Sdn. Bhd. (378993-D) at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia, not less than forty-eight (48) hours before the time appointed for the holding of the meeting or any adjournment thereof.

9. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the resolutions set out in the Notice of AGM will be put to vote by poll.

Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company: (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"); (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes; and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

ADMINISTRATIVE NOTES RELATING TO THE 49TH ANNUAL GENERAL MEETING (AGM)

Date	:	Friday, 27 April 2018
Time	:	10.00 a.m.
Venue	:	Ballroom 1 & 2, Level 2, InterContinental Kuala Lumpur 165, Jalan Ampang, 50450 Kuala Lumpur

Registration

1. Registration will start at 7.45 a.m. on 27 April 2018 in front of Ballroom 1 & 2, Level 2, InterContinental Kuala Lumpur, 165, Jalan Ampang, 50450 Kuala Lumpur.

2. Please read the signage to ascertain where you should register yourself for the meeting and join the queue accordingly.

3. Please produce your original Identity Card (IC) at the registration counter for verification. Please make sure your IC is returned to you thereafter.

4. Upon verification, you are required to write your name and sign on the Attendance List placed on the registration table.

5. You will be given an identification wristband and only be allowed to enter the meeting hall if you are wearing the identification wristband. There will be no replacement in the event you lose or misplace the identification wristband.

6. No person will be allowed to register on behalf of another person, even with the original IC of that person.

7. The registration counter will handle only verification of identity and registration. If you have any enquiry, please proceed to the Help Desk located next to the registration counters.

Help Desk

8. Please proceed to the Help Desk for any clarification or enquiry.

9. The Help Desk will also handle revocation of proxy's appointment.

Parking

10. You are advised to park at Level B2 of InterContinental Kuala Lumpur, on a first come first served basis. Please bring along your parking ticket for validation at the Secretariat Desk near Ballroom 1 & 2.

11. By validating the parking ticket, you will not be charged for parking when you leave. Please be advised that the parking ticket will expire by 6.00 p.m. on 27 April 2018. Any additional costs incurred for parking after 6.00 p.m. will not be borne by MISC.

Voting Procedure

12. The voting at the 49th AGM will be conducted by poll in accordance with Paragraph 8.29A of the Bursa Malaysia Securities Berhad Main Market Listing Requirements.

13. MISC has appointed Symphony Share Registrar Sdn. Bhd. as Poll Administrator to conduct the poll by way of electronic polling (e-Polling) and Symphony Corporate House Sdn. Bhd. as scrutineers to verify the poll results.

14. E-Polling for each of the resolutions as set out in the Notice of 49th AGM will take place only upon conclusion of the deliberations of all businesses transacted at the 49th AGM. The registration for attendance will be closed to facilitate commencement of the poll.

Annual Report 2017 and Corporate Governance Report

15. The Annual Report 2017 and Corporate Governance Report are available on Bursa Malaysia Berhad's website at www.bursamalaysia.com under Company Announcements of MISC Berhad and also at MISC Berhad's website at www.misc.com.my.

16. Printed copies of the Annual Report 2017 are also available for collection at the Secretariat Desk during the 49th AGM on a first come first served basis.

(Company No. 8178-H)
(Incorporated in Malaysia)

CDS Account No. :	
No. of Shares Held:	

PROXY FORM

I/We .... (Full name in block letters)
NRIC/Passport/Company No. : .... of ....
.... (Full address)
being a member / members of **MISC BERHAD** (Company No. 8178-H), do hereby appoint ....
....
.... (Full name of proxy in block letters as per identity card/passport)
NRIC/Passport No. : .... of ....
....
.... (Full address)
and/or failing him/her ....
.... (Full name in block letters as per identity card/passport)
NRIC/Passport No. : .... of ....
....
.... (Full address)
and failing the abovenamed proxies, the Chairman of the Meeting, *as my/our proxy/proxies to attend and vote for me/us on my/our behalf at the Forty-Ninth (49th) Annual General Meeting of the Company to be held at Ballroom 1 & 2, Level 2, InterContinental Kuala Lumpur, 165, Jalan Ampang, 50450 Kuala Lumpur, Malaysia on Friday, 27 April 2018 at 10.00 a.m. and at any adjournment thereof. My/our proxy is to vote as indicated below:

RESOLUTIONS	NO.	FOR	AGAINST
Re-election of Dato' Ab. Halim bin Mohyiddin as Director pursuant to Article 95 of the Company's Articles of Association.	Ordinary Resolution 1		
Re-election of Mohd Yusri bin Mohamed Yusof as Director pursuant to Article 95 of the Company's Articles of Association.	Ordinary Resolution 2		
Re-election of Liza binti Mustapha as Director pursuant to Article 95 of the Company's Articles of Association.	Ordinary Resolution 3		
Re-election of Datuk Manharlal Ratilal as Director pursuant to Article 97 of the Company's Articles of Association.	Ordinary Resolution 4		
Re-election of Lim Beng Choon as Director pursuant to Article 97 of the Company's Articles of Association.	Ordinary Resolution 5		
To approve the payment of Directors' fees of RM1,274,449.00 for the financial year ended 31 December 2017.	Ordinary Resolution 6		
To approve the payment of Directors' fees (inclusive of benefits-in-kind) up to an amount of RM2,035,289.00 from 1 January 2018 until the conclusion of the next Annual General Meeting of the Company.	Ordinary Resolution 7		
Re-appointment of Messrs. Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration.	Ordinary Resolution 8		
Proposed Share Buy Back Renewal.	Ordinary Resolution 9		
Proposed adoption of new Constitution of the Company.	Special Resolution		

Please indicate with an "X" in the space whether you wish your votes to be cast for or against the resolutions. In the absence of such specific directions, your proxy will vote or abstain as he thinks fit.

Dated this ____ day of ______________ 2018.

____
Signature(s)/Common Seal of Member(s)

The proportions of my/our shareholding to be represented by my/our proxies are as follows :		
	NO. OF SHARES	PERCENTAGE
First Proxy		
Second Proxy		
Total		100%

Notes:

1. Only depositors whose names appear in the Record of Depositors as at 20 April 2018 shall be entitled to attend, speak and vote at the meeting.
2. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to exercise all or any of his rights to attend, participate, speak and vote at the meeting.
3. A member may appoint not more than two (2) proxies to attend the same meeting. Where a member appoints two (2) proxies the appointment shall be invalid unless he specifies the proportion of his holding to be represented by each proxy. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation. There shall be no restriction as to the qualification of the proxy.
4. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA"), it may appoint up to two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account and the number of shares to be represented by each proxy must be clearly indicated.
5. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds. Where an exempt authorised nominee appoints more than one (1) proxy in respect of each Omnibus Account, the appointment shall not be valid unless the exempt authorised nominee specifies the proportion of the shareholding to be represented by each proxy. An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
6. Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the Proxy Form.
7. The Proxy Form must be signed by the appointer of the proxy, or its attorney duly authorised in writing. In the case of a corporation, the Proxy Form shall be executed under its common seal, or signed by its attorney duly authorised in writing or by a duly authorised officer on behalf of the corporation.
8. The Proxy Form must be deposited at the Company's Share Registrar, Symphony Share Registrars Sdn. Bhd. (378993-D) at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia, **not less than forty-eight (48) hours** before the time appointed for the holding of the meeting or any adjournment thereof.
9. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the resolutions set out in the Notice of AGM will be put to vote by poll.

MISC Berhad
Annual General Meeting
27 April 2018

STAMP

Symphony Share Registrars Sdn Bhd
Level 6, Symphony House, Pusat Dagangan Dana 1
Jalan PJU 1A/46, 47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia

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