MISC BERHAD

55th Annual General Meeting

Wednesday, 8 May 2024

Questions & Answers

Note: Some questions have been edited for brevity and clarity.

FINANCIALS

No.	Shareholder's Name	Question
1.	Koh Chooi Peng	The Gazette Order for the extension of 100% shipping tax exemption will be enjoyed by MISC Group up to Year of Assessment ("**YA**") 2023. (Note 9 - Page 63 of the Financial Report) (a) Can the Management confirm that tax exemption on shipping profits will be reduced from 100% to 70% starting from YA2024? (b) Has the Group engaged the IRB/Government to extend the tax exemption at 100%?
Answer:		
MISC has been informed by the Malaysia Shipowners' Association ("**MASA**") that the Ministry of Finance ("**MOF**") issued a letter to the Ministry of Transport ("**MOT**") on 3 November 2023 granting a further extension to the 100% shipping tax exemption covering YAs 2024 to 2026. The Gazette Order for this latest extension period is expected to be issued in due course. Based on the above letter, the Group should be able to continue enjoying the 100% shipping tax exemption up to YA 2026 and also on the basis that the substance requirements as per the Gazette Order, Income Tax Exemption (No.7) Order 2022 [P.U.(A) 312/2022] are duly met.		

No.	Shareholder's Name	Question
2.	Koh Chooi Peng	The aging of the trade receivables which are past due more than 90 days have increased further to RM2.703 billion (FY2022: RM2.59 billion). (a) Which business segment carries the majority of these past-due trade receivables? (b) Has there been an improvement in the collection of these past-due trade receivables as of 31 March 2024?
Answer:		
The increase in the past due receivables in 2023 was mainly due to translational impacts following the weakening of RM against USD. Majority of the receivables relates to charter payments due to MISC but was unilaterally offset by the client in Offshore Business Segment (i.e. Sabah Shell Petroleum Company Limited (SSPC)) against the amount awarded to them by the arbitration tribunal in 2020. Since April 2022, the asset already received its revenue through the ongoing charter contract. The receivables are still due as at 31 March 2024 as the court proceedings are still ongoing. (Note 41(a)(i) - Pages 163-165 of the Financial Report).		

No.	Shareholder's Name	Question
3.	Koh Chooi Peng	Staff costs for the Group have increased 16.3% in FY2023 vs FY2022 (Note 6 - Page 59 of the Financial Report) (a) What are the reasons for wages, salaries, and bonuses in FY2023? (b) Will the Staff Cost be contained in FY2024 and not increase further based on current levels of operations?
Answer:		
The increase in staff costs in FY2023 was mainly due to an increase in headcount, primarily within the Heavy and Engineering Segment, in tandem with new and ongoing project requirements. The Group continuously monitors the optimum workforce level to ensure efficient execution of operations and ongoing projects. Talent development and retention are core to our organizational growth. The short-term reduction of our financial capital to sustain our human capital enables us to strengthen the capabilities of our workforce to respond to clients' needs and exceed customer expectations, thus building our social and relationship capital in the long run.		

No.	Shareholder's Name	Question
4.	Chua Song Yun	The Offshore Segment recorded a 41% lower revenue due to lower recognition of revenue from the conversion of a Floating Production Storage and Offloading ("**FPSO**") following lower project progress in the current year. Please explain what causes lower project progress. Are any of the FPSO projects experiencing delays in schedule?
Answer:		
The lower project progress is in line with the tail end of the construction. The FPSO project successfully sets sail from Yantai, China to the Mero Field of the Santos Basin offshore in Brazil on 24 February 2024, depicting our commitment to ensuring the timely completion of the project.		

PERFORMANCE & OUTLOOK

No.	Shareholder's Name	Question
1.	Azhar Khamaruzaman	How is MISC Berhad addressing sustainability in its operations? What initiatives are in place to reduce environmental impact and promote social responsibility?

Answer:

MISC as a company surpasses IMO's stringent shipping regulations. We aim higher than statutory requirements, as shown by our leadership in LNG dual-fuel assets. We incorporate an internal carbon pricing matrix in our Final Investment Decision ("**FID**") assumptions to determine optimal CAPEX. Our operational assets focus on maximising sustainability, achieving a 24% improvement from the 2008 baseline and a 7% annual improvement, with a goal to reduce GHG emissions by 50% by 2030.

Recently, we initiated a Zero Emission Vessel project with PETRONAS, including the first dual-fuel ammonia Aframax to be delivered in 2027. This significant project which involves extensive collaborations, developed over 18 months, demonstrates our serious commitment to ESG responsibilities. Despite challenges in design, safety, and operations, we have a strong internal team and maritime academy preparing crews to manage these assets by 2026-2027.

Socially, we spend about RM30 million annually on our seafarer development. Of our 4,300 mariners, nearly 8% are trainees, benefiting both our company and the industry. Our social responsibilities include reef and turtle conservation, reflecting our environmental commitments. Our awards and recognition attest to our dedication and achievements.

No.	Shareholder's Name	Question
2.	Azhar Khamaruzaman	Could you provide an update on the Company's current performance and future outlook? What are the key challenges and opportunities that MISC is facing?
3.	Lee Suan Bee	May I know what the future outlook and prospects of the Company are?

Answer:

<u>Company's Current Performance</u>

The current performance is generally in line, if not better, in keeping the momentum from previous years. However, due to the sensitivity of the information, we are unable to divulge specific results until the official announcement is disseminated.

<u>Outlook and Challenges</u>

Gas Market

The gas market is projected to peak between 2037 and 2040, while LNG demand is expected to nearly double before plateauing around 2045. This strong LNG demand indicates the continued need for conventional LNG shipping in the coming decades, driven primarily by the pace of renewables growth. Gas is anticipated to complement intermittent renewables, along with moderate development of hydrogen, batteries, and Carbon Capture Utilisation and Storage.

Geopolitical events significantly influence the LNG market, prompting changes in trade patterns and increasing demand for LNG carriers. Our strong foundation acts as a natural hedge against these risks. Most of our assets operate under long-term charters, and we engage with high-quality counterparties, further mitigating the risk.

Oil Tanker
The near-term outlook for the oil tanker market remains firm amidst an increase in tonne-mile demand, driven by growing Atlantic exports and favourable tanker supply demand fundamentals.

However, factors such as a transition to renewable energy or economic downturns could lead to a decline in tanker demand, while alterations in shipping routes may also impact demand and freight costs.

Offshore
Global spending on oil & gas projects remains resilient in the first quarter of 2024. The demand for FPSO is expected to stay robust, driven by rising global oil demand and upcoming projects in Brazil, Africa, and Asia-Pacific.

Energy Transition
It is forecasted that 80% of the annual global investment in 2030 will be related to the renewable energy sector. New forms of clean fuel such as hydrogen, ammonia and methanol are expected to be widely used by the end of this decade, presenting MISC with opportunities in the clean energy segment.

No.	Shareholder's Name	Question
4.	Koh Chooi Peng	The Group has entered into multiple Shareholders' Agreements to construct 12 LNG Tankers in FY2022 (Note 16 - Page 95 of the Financial Report). (a) What is the total investment of MISC Group in these 12 associate companies? (b) When will the LNG Tankers expected to be commissioned? (c) What are the tenures of the LNG Tankers once commissioned?

Answer:

(a) Total investment is around USD74 million up to 31 December 2023.

(b) The 12 LNG Tankers are expected to be commissioned between 2025-2026.

(c) Once commissioned, the tenures for the LNG Tankers are on 12 to 15 years charters with further options.

No.	Shareholder's Name	Question
5.	Law Kung Hoo	Referring to the floating asset uptime at above 90% on Page 33 of the Integrated Annual Report 2023. (a) What are these floating assets referring to? (b) An uptime of 90% implies downtime of around 10%. This seems to be not good. What is the industry standard for these assets?
Answer:		
(a) The above 90% uptime refers to the annual uptime calculation of our portfolio of floating assets which are under direct MISC operational control and excludes floating assets that are under full client operation & maintenance control. (b) The overall average reduction to above 90% in 2023 was directly related to the 13 March 2023 incident involving FSO Benchamas 2 resulting in downtime and subsequent remediation efforts before resuming operations in October 2023. Without this incident, the assets uptime would be above 98% and in line with industry standards.		

No.	Shareholder's Name	Question
6.	Chua Song Yun	Understand that vessels like Seri Damai, Seri Daya, and LNG dual-fuel Very Large Crude Carriers use alternative fuel to reduce GHG emissions. What is the charter rate and the operation cost of these ships if compared to conventional ships? Are they able to get a higher charter rate, but at a higher fuel cost? Which one is more profitable in terms of the Return of Investment?
Answer:		
MISC invest in dual-fuel assets and eco-efficient technologies to reduce emissions from our operations. By design, these assets are more efficient, reducing the carbon footprint of our shipping activities. Dual-fuel and eco-efficient assets are considered a premium solution in the shipping market, with the opportunity to command competitive charter rates. Our investment decisions undergo a thorough process and pass through various stages to ensure alignment with our business aspirations and sustainable growth targets. Recognising the importance of sustainability, we have expanded our services to support the global energy transition. We remain dedicated to delivering solutions that not only meet the needs of our stakeholders but also contribute to a sustainable and efficient future. The requested information is considered commercially sensitive where we are bound to confidentiality obligations.		

No.	Shareholder's Name	Question
7.	Chua Song Yun	The Marine & Heavy Engineering segment ("**MHB**") has been a big drag to the group over the past few years. It seems too often to face project execution issues, such as cost or schedule overrun, even before COVID-19. MHB is still reporting big losses despite other regional yards reporting improved profitability. After multiple CEOs, none also seems to be able to turn it around. What are the main problems of MHB? Are there Corporate Governance issues in MHB, or a lack of competitive capabilities?

Answer:

- The revised schedule and price escalation impact were mainly related to their ongoing projects awarded pre-pandemic on a lumpsum basis.
- The additional costs recognised so far for those projects were event-driven and to cover the risks that were foreseeable at that point of time.
- The revised schedule impact was mainly contributed by the global supply chain disruption resulting in some materials/equipment not meeting the expected delivery dates.
- MHB is putting its efforts to recover cost overruns from the clients within the provisions of the contract.
- MHB has improved its contracting strategies with clients through an alliance concept, reimbursable or cost-plus basis to mitigate cost overrun and price escalation issues. A significant portion of their current order book are secured based on these new contracting strategies.

No.	Shareholder's Name	Question
8.	Ong Poh Geok	How does rising oil prices affect MISC business?

Answer:

- High oil price does not have a direct impact on MISC's business performance.
- Rising oil price could boost spending in oil and gas projects, accelerate the sanctioning of new projects, and potentially increasing oil supply.

No.	Shareholder's Name	Question
9.	Sharifah Nur Asmidar Binti Sayed Zainal Abidin	Can you elaborate on any potential risks or uncertainties that may impact the dividend payout for shareholders?

Answer:

MISC does not have a specific dividend payout policy. However, the Board considers the need to provide healthy dividend income to shareholders whilst ensuring that future funding requirements of the Group are adequately met to support the Group's growth objectives.

Fundamentally, MISC's long-term charters and other sources of secured revenue with strong counterparties have enabled us to generate sustainable and recurring income over the years. Additionally, the Group's diversified portfolio of businesses protects us against market volatility.

Throughout the year, MISC prioritised the efficient execution of existing projects while being selective in pursuing investment opportunities. This involved a deliberate focus on pursuing long-term contracts with strategic and reputable clients.

Although risks remain, MISC is well-positioned for growth based on the visibility of our cash flows from operations. This allows us to plan our growth to meet our strategic goals, even in challenging economic circumstances.

No.	Shareholder's Name	Question
10.	Ho Yook Chin @ Ho Yoke Chin	When is the Company going to launch the Dividend Reinvestment program?

Answer:

MISC does not have a Dividend Reinvestment programme currently and we do not intend to introduce one in the near term. We understand that majority of our shareholders have been quite happy with cash-based dividends.

In this regard, we have been able to provide a healthy dividend yield of 4-5% annually.

No.	Shareholder's Name	Question
11.	Ahmad Fariz Bin Hamzah	How does the dividend forecast align with the company's long-term growth strategy and financial performance?

Answer:

The Board considers the need to provide healthy dividend income to shareholders whilst ensuring that future funding requirements of the Group are adequately met to support the Group's growth objectives.

MISC may retain, increase, or decrease the frequency of dividend payments depending on the affordability and liquidity of the Group.

No.	Shareholder's Name	Question
12.	Koh Chooi Peng	One of the geopolitical conflict impacts is in the increase in protection and indemnity ("**P&I**") insurance premiums (Refer to Page 55 of Integrated Annual Report under Strategic Review). (a) How much has the P&I insurance premium increased in FY2023 versus FY2022. (b) Does the Management see a further increase in insurance premiums and other related cost in FY2024?

Answer:

(a) The overall premium increase in MISC Group P&I Insurance between FY2022 and FY2023 was +4.92% (approximately an increase of USD542,000).

(b) Due to increase in severity of major claims in the maritime sector in Q1 2024 (e.g. Dali – container ship collided with Baltimore's bridge) it would be prudent to expect further increases in overall marine insurance premiums, particularly the P&I premiums. Insurers would be affected by the increase cost of reinsurance and performance/profitability in investment markets. This impact will likely be modest in FY2024, but increasing more materially in FY2025 as the full impact of the major claims crystallize.

No.	Shareholder's Name	Question
13.	Fuad Akmal Bin Mohamad Zahir	As a GLC with good revenue in the past couple of years, does MISC have any plans to leverage contracts toward Bumiputera companies? Is MISC considering the introduction of a progressive wage system to maintain high-quality staff and attract skilled professionals from other organizations?

Answer:

MISC adheres to strict procurement guidelines to ensure transparency and fairness in selecting our suppliers. Bumiputera suppliers that are qualified and meet the requirements will be considered.

MISC adopts a similar approach to Performance-Based Reward. Employee compensation at MISC is directly linked to their performance and productivity. By evaluating achievements, goals, and performance metrics, MISC recognises and rewards its employees. This system ensures that high-quality employees are developed and retained within the organisation.

No.	Shareholder's Name	Question
14.	Sing Chaw @ Seng Kong Choo	How does the weak Ringgit affect MISC business?

Answer:

More than 89% of the Group's revenue and costs of sales are denominated in USD. As such, the weakening of the Ringgit does not significantly affect business and has resulted in translational gain in the other comprehensive income of the audited financial statements of RM1.54 billion. The Group maintains a natural hedge, wherever possible, by borrowing in currencies that matches the future revenue streams to be generated from its investments.

No.	Shareholder's Name	Question
15.	Mohd Helmy Rizal Bin Abdullah	What steps are being taken by the top management of our company, given the global security and economic challenges, to ensure the continued future of our company?
Answer:		
Geopolitical tensions have heightened risks in the shipping industry, affecting both operational safety and security. Rerouting of vessels has led to increased tonne-miles. However, our Group's stability is bolstered by long-term charters and secure revenue streams from reliable partners, ensuring sustained income. Furthermore, our diverse business portfolio shields us from market fluctuations. MISC has monitored these developments closely and took necessary measures to ensure the sustainability of our business and operations, and the safety of our people. The global economy is challenged by high interest rates and elevated borrowing costs. We implemented various strategic financial management strategies, including maintaining a high fixed-to-floating rate borrowings ratio, which has been instrumental in navigating the market volatility. Additionally, the Group tactically deployed excess cash to support projects under construction, thereby optimising financing costs while maintaining our liquidity position.		

No.	Shareholder's Name	Question
16.	Mohd Adam Bin Ismail	How does MISC see current businesses contributing to our country's economy in the future and does MISC try to join other businesses?
Answer:		
MISC reassessed its business strategy for a successful transition to a low-carbon future, establishing the MISC 2030 Aspiration. We are committed to building a lower carbon future through collaboration with like-minded stakeholders, including financial institutions. In line with our strategy, we will collaborate with industry partners to combine our strengths and accelerate the development of a sustainable energy portfolio to support the nation's National Energy Transition Roadmap (NETR). MISC's business strategy for 2024 is formulated according to three strategic priorities that serve as the foundation for MISC's 2030 Aspiration. One of the strategic priorities includes business model transformation. It involves a strategic shift towards clean energy, expanding our service offerings, capital reallocation, and selective investments for optimal returns. It includes investment in transitional assets like dual-fuel technology and exploration of innovative solutions such as CCS, ammonia carriers, and zero-carbon emission vessels.		

No.	Shareholder's Name	Question
17.	Teoh Kensen	(a) How much the Group is investing in technologies like data analytics and automation can improve operational efficiency and potentially reduce costs. What is the expected cost savings from these initiatives for the next 3 years? (b) How is the Group optimising fuel consumption and adhering to stricter environmental regulations, with the elevated fuel prices and ongoing concerns for shipping companies.

Answer:

(a) The total investment on the projects is around USD30 million inclusive of the SAP Technology Refresh.

(b) MISC Group deploys several strategies to optimise fuel consumption and meet environmental regulations, including operational efficiency, vessel deployment, and strategic bunker procurement. Operational efficiency measures involve continuously monitoring the emissions performance of fleet vessels to ensure compliance with the International Maritime Organization ("**IMO**") Carbon Intensity Indicator ("**CII**"), conducting regular hull maintenance to reduce drag, polishing propellers, and optimising engine performance through tune-ups and repairs.

We also use vessel deployment strategies that involve route optimisation using software and analytics to plan the most fuel-efficient routes and avoid adverse weather conditions. We regularly engage with charterers to minimise waiting times at ports and improve fuel efficiency. Where possible, for our LNG fleet, we maximise the use of LNG Boil-Off Gas in agreement with the charterers.

As a Group, we strive to reduce bunker costs and improve Time Charter Equivalent ("**TCE**") earnings by monitoring vessel bunker inventories, securing opportunistic bunker purchases, and leveraging lower carbon fuel mixes such as biofuel and LNG on selected vessels to reduce emissions. Ship staff also receives efficiency-focused training to encourage optimal operational practices on board.

BOARD GOVERNANCE

No.	Shareholder's Name	Question
1.	Azhar Bin Khamaruzaman	Could you elaborate on the strategy behind the proposed share buy-back? How will this impact the company's financial health and shareholder value in the long term?
2.	Mohd Syazwan Bin Mohd Sedek	Do you need the share buyback mandate? The last buyback was more than 5 years ago. Don't see it as something you actively do.

Answer:

The Proposed Share Buy-Back Renewal would provide MISC with an option to purchase its own shares at a future date when MISC's Board deems it appropriate after taking into account the availability of funds, business considerations, relevant cost factors, and market conditions and sentiment.

The Proposed Share Buy-Back Renewal, if implemented, will provide MISC Group with an additional avenue to utilise its financial resources which are not immediately required for use. In addition, the Proposed Share Buy-Back Renewal, if implemented, will allow MISC the flexibility to achieve the desired capital structure in terms of debt and equity composition and size of equity. All things being equal, the consolidated EPS of MISC is expected to increase as the consolidated earnings of MISC would be divided by a reduced number of MISC Shares. Further details are also contained in Statement on Proposed Share Buy-Back Renewal.

No.	Shareholder's Name	Question
3.	Azhar Bin Khamaruzaman	How is the proposed Directors' fee of up to RM2,150,000.00 determined? How does it compare to the industry standard or similar companies?

Answer:

The remuneration structure for the Non-Executive Directors of MISC is based on the PETRONAS Public Listed Companies' NED's Remuneration Guidelines and Package ("**PETRONAS Guidelines**"). The proposed Directors' fees of up to RM2.15 million is based on Directors' fees, meeting allowance fees and benefits-in-kind, the quantum are set out on page 170 of the Integrated Annual Report 2023.

In addition, the Executive Director is not entitled to receive Directors' fees or meeting allowance.

No.	Shareholder's Name	Question
4.	Azhar Bin Khamaruzaman	In respect of the Directors' Re-election: Could you share more about the contributions of Datuk Abu Huraira Abu Yazid, Dato' Tengku Marina Tunku Annuar, and Mr. Chew Liong Kim during their tenure? What unique skills or perspectives do they bring to the Board?

Answer:

The MISC Board, through the Board Nomination & Remuneration Committee, conducts an annual review of the Board composition to ensure continuity and sustainability. The MISC Board endeavours to ensure that the Board composition is robust, with sufficient diversity in terms of skills and experience to drive MISC's business strategy.

Briefly, Datuk Abu Huraira Abu Yazid provides leadership to the Board enabling the Board to perform their duties effectively. Dato' Tengku Marina Tunku Annuar brings with her knowledge in sustainability matters whilst Mr Chew has a wealth of experience in finance and audit as well as corporate planning putting them in a good position to lead the Board, Board Nomination & Remuneration Committee (BNRC) and Board Audit Committee (BAC).

Detailed profiles of each of the directors are also available on the MISC website as well as the Integrated Annual Report.

ANNUAL GENERAL MEETING PROCEEDINGS

No.	Shareholder's Name	Question
1.	Teh Peng Tin	How much does the Company spend on this virtual Annual General Meeting?
Answer:		
The cost incurred by MISC to host the Annual General Meeting virtually is significantly lower than the cost of hosting a physical meeting.		

No.	Shareholder's Name	Question
2.	Choy Yau Kee	When the company is going to hold an AGM where shareholders can physically present?
3.	Lim Jit Thin	When would the company be holding a physical AGM since Bursa Malaysia held its physical AGM this year among many other companies too, for better human interactions between shareholders with the board?
Answer:		
The timing and format of an AGM, including whether shareholders can physically attend, are determined by the Company's Board of Directors in compliance with legal requirements and prevailing circumstances such as public health concerns. This will, however, be continuously reviewed and re-evaluated with a view to maximising the reach and accessibility of our AGM to our shareholders and other stakeholders.		

No.	Question	Answer
4.	In relation to the request for hard copies of the Integrated Annual Report 2023 and door gift.	These have been dispatched to the Shareholders.