# MISC BERHAD

(Company No. 8178 H)

## Unaudited Condensed Consolidated Income Statement

For The Period Ended 30 June 2019

| | Quarter Ended 30 June | | Cumulative 6 Months Ended 30 June | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | RM million | RM million | RM million | RM million |
| Revenue | 2,161.7 | 2,141.8 | 4,439.4 | 4,162.6 |
| Cost of sales | (1,511.3) | (1,623.4) | (3,029.1) | (3,080.0) |
| **GROSS PROFIT** | **650.4** | **518.4** | **1,410.3** | **1,082.6** |
| Other operating income | 57.5 | 51.2 | 144.7 | 117.0 |
| General and administrative expenses | (223.6) | (222.6) | (478.8) | (469.2) |
| **OPERATING PROFIT** | **484.3** | **347.0** | **1,076.2** | **730.4** |
| Impairment loss on ships, offshore floating asset and other investments | (51.1) | - | (51.1) | (1.1) |
| Gain on acquisition of a business | - | - | 23.7 | - |
| Gain on disposal of ships, property, plant and equipment | - | 1.0 | 17.5 | 1.0 |
| Finance costs | (115.6) | (99.5) | (249.8) | (175.2) |
| Share of profit of joint ventures | 101.5 | 70.0 | 144.6 | 82.6 |
| **PROFIT BEFORE TAX** | **419.1** | **318.5** | **961.1** | **637.7** |
| Taxation | (17.2) | (9.3) | (43.2) | (19.5) |
| **PROFIT AFTER TAX** | **401.9** | **309.2** | **917.9** | **618.2** |
| **PROFIT ATTRIBUTABLE TO:** | | | | |
| Equity holders of the Corporation | 399.8 | 321.2 | 910.3 | 631.8 |
| Non-controlling interests | 2.1 | (12.0) | 7.6 | (13.6) |
| **PROFIT AFTER TAX** | **401.9** | **309.2** | **917.9** | **618.2** |
| **BASIC EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE CORPORATION (SEN)** | 9.0 | 7.2 | 20.4 | 14.2 |

The Condensed Consolidated Income Statement should be read in conjunction with the Annual Financial Statements for the year ended 31 December 2018.

# MISC BERHAD
(Company No. 8178 H)

## Unaudited Condensed Consolidated Statement of Comprehensive Income
For The Period Ended 30 June 2019

| | Quarter Ended 30 June | | Cumulative 6 Months Ended 30 June | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM million** | **RM million** | **RM million** | **RM million** |
| **PROFIT AFTER TAX** | **401.9** | **309.2** | **917.9** | **618.2** |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | | | |
| *Items that may be reclassified to profit or loss in subsequent periods:* | | | | |
| Cash flow hedges: | | | | |
| Fair value (loss)/gain | | | | |
| Group | (78.0) | 8.4 | (136.9) | 26.2 |
| Gain/(loss) on currency translation * | 502.4 | 1,492.6 | (21.7) | (101.5) |
| **Total other comprehensive income/(loss)** | **424.4** | **1,501.0** | **(158.6)** | **(75.3)** |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **826.3** | **1,810.2** | **759.3** | **542.9** |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:** | | | | |
| Equity holders of the Corporation | 821.3 | 1,814.1 | 751.9 | 557.1 |
| Non-controlling interests | 5.0 | (3.9) | 7.4 | (14.2) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **826.3** | **1,810.2** | **759.3** | **542.9** |

* The following USD:RM exchange rates were used in the calculation of loss on currency translation:

| | **2019** | **2018** | **2017** |
|---|---|---|---|
| As at 30 June | 4.14150 | 4.04550 | - |
| As at 31 March | 4.07950 | 3.86200 | - |
| As at 31 December | - | 4.14450 | 4.05950 |

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Annual Financial Statements for the year ended 31 December 2018.

# MISC BERHAD
(Company No. 8178 H)

## Unaudited Condensed Consolidated Statement of Financial Position
As at 30 June 2019

| | 30 June 2019 RM million | 31 December 2018 RM million |
|---|---|---|
| **NON CURRENT ASSETS** | | |
| Ships | 21,968.8 | 21,224.8 |
| Offshore floating assets | 157.0 | 222.2 |
| Property, plant and equipment | 1,966.0 | 1,888.9 |
| Prepaid lease payments on land and buildings | 209.4 | 213.0 |
| Finance lease receivables | 15,854.7 | 16,377.4 |
| Investments in associates | 0.5 | 0.5 |
| Investments in joint ventures | 992.4 | 955.1 |
| Other non-current financial assets | 241.4 | 244.6 |
| Derivative assets | 2.4 | 8.2 |
| Intangible assets | 852.8 | 856.9 |
| Deferred tax assets | 105.3 | 104.4 |
| | **42,350.7** | **42,096.0** |
| **CURRENT ASSETS** | | |
| Inventories | 212.9 | 250.0 |
| Finance lease receivables | 1,321.4 | 1,247.2 |
| Trade and other receivables | 2,430.4 | 2,555.9 |
| Cash, deposits and bank balances | 6,751.4 | 5,755.6 |
| Amounts due from related companies | 95.9 | 102.5 |
| Amounts due from joint ventures | 25.2 | 43.7 |
| Asset held for sale | 16.3 | - |
| Tax recoverable | 6.7 | 14.5 |
| | **10,860.2** | **9,969.4** |
| **TOTAL ASSETS** | **53,210.9** | **52,065.4** |
| **EQUITY** | | |
| Share capital | 8,923.3 | 8,923.3 |
| Treasury shares | (0.3) | (0.3) |
| Reserves | 6,425.6 | 6,584.0 |
| Retained profits | 19,946.0 | 19,844.2 |
| **Equity attributable to equity holders of the Corporation** | **35,294.6** | **35,351.2** |
| Non-controlling interests | 1,020.1 | 1,013.0 |
| **TOTAL EQUITY** | **36,314.7** | **36,364.2** |
| **NON-CURRENT LIABILITIES** | | |
| Interest bearing loans and borrowings | 8,725.2 | 7,271.4 |
| Deferred income | 589.1 | 612.4 |
| Deferred tax liabilities | 31.6 | 32.5 |
| Derivative liabilities | 137.7 | 5.8 |
| | **9,483.6** | **7,922.1** |
| **CURRENT LIABILITIES** | | |
| Interest bearing loans and borrowings | 5,462.9 | 5,778.5 |
| Trade and other payables | 1,854.3 | 1,890.2 |
| Amounts due to related companies | 9.7 | 17.7 |
| Amounts due to associates | 0.9 | 0.9 |
| Amounts due to joint ventures | 84.8 | 91.8 |
| | **7,412.6** | **7,779.1** |
| **TOTAL LIABILITIES** | **16,896.2** | **15,701.2** |
| **TOTAL EQUITY AND LIABILITIES** | **53,210.9** | **52,065.4** |

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Annual Financial Statements for the year ended 31 December 2018.

# MISC BERHAD

(Company No. 8178 H)

## Unaudited Condensed Consolidated Statement of Cash Flows

For the Period Ended 30 June 2019

| | 30 June 2019 RM million | 30 June 2018 RM million |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Profit before tax | 961.1 | 637.7 |
| Impairment loss on receivables | 11.1 | 52.1 |
| Bad debts written back | (0.9) | (4.0) |
| Depreciation of ships, offshore floating assets, other property, plant and equipment and right-of-use assets | 1,082.0 | 919.5 |
| Impairment loss on ships, offshore floating asset and other investments | 51.1 | 1.1 |
| Amortisation of prepaid lease payments | 3.6 | 3.6 |
| Write off of ships, property, plant and equipment | 2.5 | 3.4 |
| Gain on disposal of ships, property, plant and equipment | (17.5) | (1.0) |
| Net unrealised foreign exchange gain | (3.6) | (17.3) |
| Dividend income from equity investments | (0.7) | (1.1) |
| Finance costs | 249.8 | 175.2 |
| Finance income | (84.1) | (57.2) |
| Gain on acquisition of a business | (23.7) | - |
| Fair value movement in other investments | (4.3) | (3.0) |
| Amortisation of intangibles | 3.4 | 2.9 |
| Amortisation of upfront fees for borrowings | 2.5 | 6.4 |
| Share of profit of joint ventures | (144.6) | (82.6) |
| Operating profit before working capital changes | 2,087.7 | 1,635.7 |
| Inventories | 36.7 | 18.1 |
| Trade and other receivables | 773.7 | 719.1 |
| Trade and other payables | (170.8) | (492.7) |
| Cash generated from operations | 2,727.3 | 1,880.2 |
| Net tax paid | (36.0) | (23.0) |
| **Net cash flows generated from operating activities** | **2,691.3** | **1,857.2** |

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Annual Financial Statements for the year ended 31 December 2018.

| | 30 June 2019<br>RM million | 30 June 2018<br>RM million |
|---|---|---|
| **Cash Flows from Investing Activities:** | | |
| Purchase of ships, offshore floating assets and other property, plant and equipment | (1,135.5) | (1,089.6) |
| Proceeds from disposal of ships | 101.4 | 26.5 |
| Progress payments for finance lease assets under construction | - | (978.4) |
| Dividend income from: | | |
| Quoted investments | 0.7 | 1.1 |
| Associates and joint ventures | 107.4 | 176.6 |
| Acquisition of a business | (146.6) | - |
| Interest income received | 62.9 | 26.7 |
| Net fixed deposit withdrawal | (2.8) | (0.8) |
| **Net cash flows used in investing activities** | **(1,012.5)** | **(1,837.9)** |
| **Cash Flows from Financing Activities:** | | |
| Drawdown of term loans and revolving credit | 5,014.8 | 2,192.6 |
| Repayment of term loans and revolving credit | (4,598.6) | (1,753.4) |
| Repayment of lease liabilities | (174.2) | - |
| Dividends paid to the equity holders of the Corporation | (714.2) | (714.2) |
| Dividends paid to non-controlling interest of subsidiaries | - | (23.4) |
| Interest expense paid | (213.3) | (243.3) |
| Placement of cash pledged with bank - restricted | (714.1) | (5.4) |
| **Net cash flows used in financing activities** | **(1,399.6)** | **(547.1)** |
| Net Change in Cash & Cash Equivalents | 279.2 | (527.8) |
| Cash & Cash Equivalents at the beginning of the year | 5,537.2 | 5,792.0 |
| Currency translation difference | 2.5 | (26.9) |
| Cash & Cash Equivalents at the end of the period | **5,818.9** | **5,237.3** |
| Cash pledged with bank - restricted | 932.5 | 115.2 |
| **Cash, deposits and bank balances** | **6,751.4** | **5,352.5** |

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Annual Financial Statements for the year ended 31 December 2018.

**MISC BERHAD**
(Company No. 8178 H)

## Unaudited Condensed Consolidated Statement of Changes in Equity
For the Year Ended 30 June 2019

| | ← Attributable to equity holders of the Corporation → | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total equity | Equity attributable to equity holders of the Corporation | Share capital* Ordinary shares | Treasury shares | Retained profits | Other reserves, total | Other capital reserve | Capital reserve | Revaluation reserve | Statutory reserve | Fair value reserve | Hedging reserve | Currency translation reserve | Non-controlling Interests |
| | RM million | RM million | RM million | RM million | RM million | RM million | RM million | RM million | RM million | RM million | RM million | RM million | RM million | RM million |
| **6 MONTHS ENDED 30 JUNE 2019** | | | | | | | | | | | | | | |
| **At 1 January 2019** | **36,364.2** | **35,351.2** | **8,923.3** | **(0.3)** | **19,844.2** | **6,584.0** | **99.3** | **435.2** | **1.4** | **3.2** | **-** | **2.9** | **6,042.0** | **1,013.0** |
| Adjustment on initial application of MFRS 16 | (94.6) | (94.3) | - | - | (94.3) | - | - | - | - | - | - | - | - | (0.3) |
| **At 1 January 2019 (Restated)** | **36,269.6** | **35,256.9** | **8,923.3** | **(0.3)** | **19,749.9** | **6,584.0** | **99.3** | **435.2** | **1.4** | **3.2** | **-** | **2.9** | **6,042.0** | **1,012.7** |
| Total comprehensive income/(loss) | 759.3 | 751.9 | - | - | 910.3 | (158.4) | - | - | - | - | - | (136.9) | (21.5) | 7.4 |
| **Transactions with owners** | | | | | | | | | | | | | | |
| Dividends | (714.2) | (714.2) | - | - | (714.2) | - | - | - | - | - | - | - | - | - |
| **Total transactions with owners** | (714.2) | (714.2) | - | - | (714.2) | - | - | - | - | - | - | - | - | - |
| **At 30 June 2019** | **36,314.7** | **35,294.6** | **8,923.3** | **(0.3)** | **19,946.0** | **6,425.6** | **99.3** | **435.2** | **1.4** | **3.2** | **-** | **(134.0)** | **6,020.5** | **1,020.1** |
| **6 MONTHS ENDED 30 JUNE 2018** | | | | | | | | | | | | | | |
| **At 1 January 2018** | **35,904.7** | **34,844.1** | **8,923.3** | **-** | **19,961.3** | **5,959.5** | **99.3** | **435.2** | **1.4** | **3.2** | **53.0** | **8.3** | **5,359.1** | **1,060.6** |
| Adjustment on initial application of MFRS 9 | (113.0) | (113.0) | - | - | (60.0) | (53.0) | - | - | - | - | (53.0) | - | - | - |
| **At 1 January 2018 (Restated)** | **35,791.7** | **34,731.1** | **8,923.3** | **-** | **19,901.3** | **5,906.5** | **99.3** | **435.2** | **1.4** | **3.2** | **-** | **8.3** | **5,359.1** | **1,060.6** |
| Total comprehensive income/(loss) | 542.9 | 557.1 | - | - | 631.8 | (74.7) | - | - | - | - | - | 26.2 | (100.9) | (14.2) |
| **Transactions with owners** | | | | | | | | | | | | | | |
| Dividends | (737.6) | (714.2) | - | - | (714.2) | - | - | - | - | - | - | - | - | (23.4) |
| **Total transactions with owners** | (737.6) | (714.2) | - | - | (714.2) | - | - | - | - | - | - | - | - | (23.4) |
| **At 30 June 2018** | **35,597.0** | **34,574.0** | **8,923.3** | **-** | **19,818.9** | **5,831.8** | **99.3** | **435.2** | **1.4** | **3.2** | **-** | **34.5** | **5,258.2** | **1,023.0** |

* Included in share capital is one preference share of RM1.

# MISC BERHAD

(Company No. 8178 H)

## Notes to the Unaudited Condensed Financial Statements

### A1. CORPORATE INFORMATION

MISC Berhad is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on Bursa Malaysia Securities Berhad.

These unaudited condensed consolidated interim financial statements were authorised for issue by the Board of Directors on 14 August 2019.

### A2. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements for the quarter ended 30 June 2019 have been prepared in accordance with MFRS 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. The results for this interim period are unaudited and should be read in conjunction with the Group's audited consolidated financial statements and the accompanying notes for the year ended 31 December 2018.

The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to understand the changes in the financial position and performance of the Group since the year ended 31 December 2018.

The audited consolidated financial statements of the Group for the year ended 31 December 2018 are available upon request from the Corporation's registered office located at Level 25, Menara Dayabumi, Jalan Sultan Hishamuddin, 50050 Kuala Lumpur.

The main functional currency of the Group is United States Dollar (“USD”) while these interim financial statements are presented in Ringgit Malaysia (“RM”).

### A3. SIGNIFICANT ACCOUNTING POLICIES

The financial information presented herein has been prepared in accordance with the accounting policies to be used in preparing the annual consolidated financial statements for 31 December 2019 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2018 except as disclosed below:

As of 1 January 2019, the Group and the Corporation have adopted the following revised MFRSs and Amendments to MFRSs that have been issued by the MASB:

**MFRS and amendments effective for annual periods beginning on or after 1 January 2019:**

- MFRS 16: Leases
- Annual Improvements to MFRS Standards 2015 – 2017 Cycle
- IC Interpretation: 23 Uncertainty over Income Tax Treatments

The adoption of the above pronouncements has no material financial impact to the Group and the Corporation other than as set out below:

i. MFRS 16: Leases

The Group adopted MFRS 16: Leases on 1 January 2019. MFRS 16 replaces the guidance in MFRS 117: Leases, IC Interpretation 4: Determining whether an Arrangement contains a Lease, IC Interpretation 115: Operating Leases – Incentives and IC Interpretation 127: Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

MFRS 16 introduces a single, on-balance sheet lease accounting for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The lessee shall choose to measure the right-of-use asset at either its carrying amount as if MFRS 16 has been applied since inception or an amount equal to the lease liability. There are recognition exemptions for short-term leases, leases of low-value items and variable lease payments. Lessor accounting remains similar i.e. lessor continues to classify leases as finance or operating leases.

The Group has elected modified retrospective approach with no restatement of comparative.

Effects arising from the initial application of MFRS 16 in retained earnings and balance sheet as at 1 January 2019 are as disclosed below:

| | **Impact of adoption of MFRS 16 to opening balance as at 1 January 2019 RM million** |
|---|---|
| Decrease in retained earnings | 94.3 |
| Decrease in non-controlling interests | 0.3 |
| Increase in right-of-use assets | 851.9 |
| Increase in lease liabilities | 946.2 |

The current period to date impact on depreciation of right-of-use assets is RM164.2 million and interest on lease liabilities is RM21.4 million.

## A4. CHANGES IN ESTIMATES

There were no material changes in estimates reported in the current financial period.

## A5. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors issued an unqualified audit opinion on the financial statements for the year ended 31 December 2018.

## A6. CHANGES IN COMPOSITION OF THE GROUP

(a) The Corporation had, on 11 June 2019, incorporated a new subsidiary, MISC Offshore (USA) LLC ("MISC Offshore USA"), under the Texas Business Organizations Code, USA for the purpose of providing support services to the MISC Group in the bidding and execution of offshore deepwater floating production, storage and offloading ("FPSO") projects. MISC Offshore USA is a wholly-owned subsidiary of MISC Offshore Holdings (Brazil) Sdn. Bhd., a wholly-owned subsidiary of the Corporation.

(b) The Corporation had, on 27 June 2019, incorporated a new subsidiary, AET Pte. Ltd. ("AETPL"), under the Singapore Companies Act (Chapter 50) for the purpose of investment holding. AETPL is a wholly-owned subsidiary of AET Tanker Holdings Sdn. Bhd., a wholly-owned subsidiary of the Corporation.

(c) The Corporation had, on 27 June 2019, incorporated a new subsidiary, AET Singapore Holdings Pte. Ltd. ("AETSH"), under the Singapore Companies Act (Chapter 50) for the purpose of investment holding. AETSH is a wholly-owned subsidiary of AET Tanker Holdings Sdn. Bhd., a wholly-owned subsidiary of the Corporation.

(d) The Corporation had, on 27 June 2019, incorporated a new subsidiary, AET Shuttle Tankers II Pte. Ltd. ("AETST2"), under the Singapore Companies Act (Chapter 50) for the purpose of owning, chartering and operating vessels. AETST2 is a wholly-owned subsidiary of AET Tanker Holdings Sdn. Bhd., a wholly-owned subsidiary of the Corporation.

(e) The Corporation had, on 1 July 2019, incorporated a new subsidiary, AET Labuan Pte. Ltd. ("AETL"), under the Labuan Companies Act 1990 for the purpose of investment holding. AETL is a wholly-owned subsidiary of AET Tanker Holdings Sdn. Bhd., a wholly-owned subsidiary of the Corporation.

(f) The Corporation had, on 3 July 2019, incorporated a new subsidiary, AET Bermuda Holdings Limited ("ABHL"), under the Bermuda Companies Act 1981 for the purpose of investment holding. ABHL is a wholly-owned subsidiary of AET Tanker Holdings Sdn. Bhd., a wholly-owned subsidiary of the Corporation.

(g) The Corporation had, on 4 July 2019, incorporated a new subsidiary, AET Sea Shuttle II AS ("AETSS2"), under the Norwegian Companies Act for the purpose of owning, chartering and operating vessels. AETSS2 is a subsidiary of AET UK Ltd., an indirect wholly-owned subsidiary of the Corporation.

## A7. SEGMENT REPORT

Segmental analysis for the current financial period is as follows:

| | **LNG** | **Petroleum** | **Offshore** | **Heavy Engineering** | **Others, eliminations and adjustments** | | **Total** |
|---|---|---|---|---|---|---|---|
| | **RM million** | **RM million** | **RM million** | **RM million** | **RM million** | | **RM million** |
| Revenue | | | | | | | |
| External sales | 1,283.3 | 2,165.7 | 476.3 | 435.9 | 78.2 | | 4,439.4 |
| Inter-segment | - | 0.5 | 52.4 | 43.9 | (96.8) | | - |
| | **1,283.3** | **2,166.2** | **528.7** | **479.8** | **(18.6)** | * | **4,439.4** |
| Operating profit/(loss) | 643.1 | 168.0 | 281.9 | (37.7) | 20.9 | ** | 1,076.2 |

* Comprises inter-segment eliminations.

** Comprises net foreign exchange differences, interest income, dividend income from quoted investments, eliminations and adjustments.

## A8. SEASONALITY OF OPERATIONS

The businesses of the Group are subject to market fluctuations.

**A9. PROFIT FOR THE PERIOD**

Included in the profit for the period are the following items:

| | Quarter Ended 30 June | | Cumulative 6 Months Ended 30 June | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM million** | **RM million** | **RM million** | **RM million** |
| Finance income | 41.7 | 31.9 | 84.1 | 57.2 |
| Other income | 16.3 | 29.0 | 50.0 | 39.2 |
| Finance costs | (115.6) | (99.5) | (249.8) | (175.2) |
| Depreciation of ships, offshore floating assets, other property, plant and equipment and right-of-use assets | (543.7) | (464.3) | (1,082.0) | (919.5) |
| Amortisation of prepaid lease payments | (1.8) | (1.9) | (3.6) | (3.6) |
| Amortisation of intangibles | (1.4) | (1.4) | (3.4) | (2.9) |
| Write off of ships, property, plant and equipment | (2.5) | (2.0) | (2.5) | (3.4) |
| Gain on acquisition of a business | - | - | 23.7 | - |
| Gain on disposal of ships, property, plant and equipment | - | 1.0 | 17.5 | 1.0 |
| Impairment loss on ships, offshore floating asset and other investments | (51.1) | - | (51.1) | (1.1) |
| Impairment loss on receivables | (2.1) | (33.6) | (11.1) | (52.1) |
| Bad debts written back | 0.9 | 5.4 | 0.9 | 4.0 |
| Fair value gain on other investments | 1.3 | 3.0 | 4.3 | 3.0 |
| Net realised foreign exchange loss | (4.3) | (24.0) | (5.7) | (16.6) |
| Net unrealised foreign exchange gain | 3.5 | 22.2 | 3.6 | 17.3 |

**A10. SHIPS, OFFSHORE FLOATING ASSETS, OTHER PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS**

Included in ships, offshore floating assets and property, plant and equipment are construction work-in-progress, mainly for the construction of ships totalling RM2,079.0 million (31 December 2018: RM1,664.6 million) and right-of-use assets amounting to RM688.9 million.

**A11. INTANGIBLE ASSETS**

| | Goodwill | Other Intangible Assets | Total |
|---|---|---|---|
| | RM million | RM million | RM million |
| **Cost** | | | |
| **At 1 January 2018** | **974.0** | **212.7** | **1,186.7** |
| Write-off | (0.7) | - | (0.7) |
| Currency translation differences | 18.6 | - | 18.6 |
| **At 31 December 2018** | **991.9** | **212.7** | **1,204.6** |
| Currency translation differences | (0.7) | - | (0.7) |
| **At 30 June 2019** | **991.2** | **212.7** | **1,203.9** |
| | | | |
| **Accumulated amortisation and impairment** | | | |
| **At 1 January 2018** | **162.5** | **179.8** | **342.3** |
| Amortisation | - | 5.4 | 5.4 |
| **At 31 December 2018** | **162.5** | **185.2** | **347.7** |
| Amortisation | - | 3.4 | 3.4 |
| **At 30 June 2019** | **162.5** | **188.6** | **351.1** |
| | | | |
| **Net carrying amount** | | | |
| **At 1 January 2018** | **811.5** | **32.9** | **844.4** |
| **At 31 December 2018** | **829.4** | **27.5** | **856.9** |
| **At 30 June 2019** | **828.7** | **24.1** | **852.8** |

Goodwill is tested for impairment annually (31 December), or when circumstances indicate that the carrying value may be impaired. The Group's goodwill impairment test is a comparison of the goodwill's carrying value against its recoverable amount. The recoverable amounts are based on value-in-use for cash generating units ("CGU"), calculated using cash flow projections. The key assumptions used to determine the value-in-use of CGUs are disclosed in the annual consolidated financial statements for the year ended 31 December 2018.

**A12. INVENTORIES**

The Group did not recognise any write-down of inventories and reversal of inventories during the quarter ended 30 June 2019.

## A13. CASH, DEPOSITS AND BANK BALANCES

Breakdown of cash, deposits and bank balances is as follows:

| | 30 June 2019 RM million | 31 December 2018 RM million |
|---|---|---|
| Cash with PETRONAS Integrated Financial Shared Service Centre * | 4,093.3 | 4,204.4 |
| Cash and bank balances | 1,689.0 | 1,214.8 |
| Deposits with licensed banks | 969.1 | 336.4 |
| **Total cash, deposits and bank balances** | **6,751.4** | **5,755.6** |

* To allow for more efficient cash management by the Group, the Corporation's and a few subsidiaries in the Group's cash and bank balances have, since 1 July 2013, been held in the In-House Account ("IHA") managed by PETRONAS Integrated Financial Shared Service Centre ("IFSSC").

Included in cash and bank balances is the retention account of RM932.5 million (31 December 2018: RM218.4 million) which is restricted for use because it is pledged to the bank for the purpose of loan covenants.

## A14. FAIR VALUE HIERARCHY

The Group uses the following hierarchy to determine the fair value of all financial instruments carried at fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2 - Inputs that are based on observable market data, either directly or indirectly
Level 3 - Inputs that are not based on observable market data

As at the reporting date, the Group held the following financial assets that are measured at fair value:

| | Level 1 RM million | Level 2 RM million | Level 3 RM million | Total RM million |
|---|---|---|---|---|
| **At 30 June 2019** | | | | |
| **Financial Assets** | | | | |
| **Fair value through profit or loss** | | | | |
| Quoted investments | 52.0 | - | - | 52.0 |
| Unquoted investments | - | - | 70.6 | 70.6 |
| **Derivatives** | | | | |
| Interest rate swaps designated as hedging instruments | - | 2.4 | - | 2.4 |
| | **52.0** | **2.4** | **70.6** | **125.0** |
| **Financial Liabilities** | | | | |
| **Derivatives** | | | | |
| Interest rate swaps designated as hedging instruments | - | (137.7) | - | (137.7) |
| | **-** | **(137.7)** | **-** | **(137.7)** |

| | Level 1 RM million | Level 2 RM million | Level 3 RM million | Total RM million |
|---|---|---|---|---|
| **At 31 December 2018** | | | | |
| **Financial Assets** | | | | |
| **Fair value through profit or loss** | | | | |
| Quoted investments | 47.8 | - | - | 47.8 |
| Unquoted investments | - | - | 73.9 | 73.9 |
| **Derivatives** | | | | |
| Interest rate swaps designated as hedging instruments | - | 8.2 | - | 8.2 |
| | **47.8** | **8.2** | **73.9** | **129.9** |
| **Financial Liabilities** | | | | |
| **Derivatives** | | | | |
| Interest rate swaps designated as hedging instruments | - | (5.8) | - | (5.8) |
| | **-** | **(5.8)** | **-** | **(5.8)** |

No transfers between any levels of the fair value hierarchy took place during the current period and the comparative period. There were also no changes in the purpose of any financial instruments that subsequently caused a change in classification of those instruments.

## A15. ISSUANCE OR REPAYMENT OF DEBT AND EQUITY SECURITIES

There were no issuance or repayment of debt and equity securities made by the Group during the quarter ended 30 June 2019.

## A16. INTEREST BEARING LOANS AND BORROWINGS

i) The tenure of Group borrowings, classified as short and long term as well as secured and unsecured, are as follows:

| | 30 June 2019 RM million | 31 December 2018 RM million |
|---|---|---|
| Short Term Borrowings | | |
| Secured | 3,210.1 | 389.8 |
| Unsecured | 1,915.9 | 5,388.7 |
| Lease liabilities | 336.9 | - |
| | 5,462.9 | 5,778.5 |
| Long Term Borrowings | | |
| Secured | 7,745.7 | 6,512.8 |
| Unsecured | 545.5 | 758.6 |
| Lease liabilities | 434.0 | - |
| | 8,725.2 | 7,271.4 |
| **Total** | **14,188.1** | **13,049.9** |

ii) Foreign borrowings in United States Dollar equivalent as at 30 June 2019 is as follows:

| | RM million |
|---|---|
| United States Dollar Borrowings | 14,028.6 |

**A17. DIVIDENDS PAID**

The Corporation paid the following dividends in the period ended 30 June 2019 and 31 December 2018:

| | 30 June 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | **Sen/Share** | **RM million** | **Sen/Share** | **RM million** |
| First tax exempt dividend in respect of: | | | | |
| - Financial year ending 31 December 2019 on 25 June 2019 | 7.0 | 312.5 | - | - |
| - Financial year ended 31 December 2018 on 12 June 2018 | - | - | 7.0 | 312.5 |
| Fourth tax exempt dividend in respect of: | | | | |
| - Financial year ended 31 December 2018 on 26 March 2019 | 9.0 | 401.7 | - | - |
| - Financial year ended 31 December 2017 on 15 March 2018 | - | - | 9.0 | 401.7 |
| Third tax exempt dividend in respect of: | | | | |
| - Financial year ended 31 December 2018 on 18 December 2018 | - | - | 7.0 | 312.5 |
| Second tax exempt dividend in respect of: | | | | |
| - Financial year ended 31 December 2018 on 14 September 2018 | - | - | 7.0 | 312.5 |

**A18. CAPITAL COMMITMENTS**

| | 30 June 2019 RM million | 31 December 2018 RM million |
|---|---|---|
| Approved and contracted for: | | |
| Group | 1,745.4 | 2,792.3 |
| Share of capital commitments in a joint venture | 115.3 | - |
| | 1,860.7 | 2,792.3 |
| Approved but not contracted for: | | |
| Group | 962.2 | 939.9 |
| Share of capital commitments in a joint venture | 82.0 | - |
| | 1,044.2 | 939.9 |
| **Total** | **2,904.9** | **3,732.2** |

**A19. CONTINGENT LIABILITIES**

Contingent liabilities of the Group as at 30 June 2019 comprise the following:

| | RM million |
|---|---|
| **Secured** | |
| Bank guarantees extended to third parties | 0.4 |
| **Unsecured** | |
| Performance bonds on contract and bank guarantees extended to third parties | 190.6 |

**A20. SUBSEQUENT MATERIAL EVENT**

There were no material events subsequent to the quarter end date.

## B1. REVIEW OF GROUP PERFORMANCE

| | Quarter Ended 30 June | | Cumulative 6 Months Ended 30 June | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM million** | **RM million** | **RM million** | **RM million** |
| **Revenue** | | | | |
| LNG | 657.9 | 595.9 | 1,283.3 | 1,180.5 |
| Petroleum | 992.5 | 1,008.2 | 2,166.2 | 1,984.5 |
| Offshore | 258.8 | 289.1 | 528.7 | 584.0 |
| Heavy Engineering | 277.0 | 232.4 | 479.8 | 412.3 |
| Others, Eliminations and Adjustments | (24.5) | 16.2 | (18.6) | 1.3 |
| **Total Revenue** | **2,161.7** | **2,141.8** | **4,439.4** | **4,162.6** |
| **Operating Profit/(Loss)** | | | | |
| LNG | 318.9 | 274.6 | 643.1 | 549.8 |
| Petroleum | 33.1 | (54.4) | 168.0 | (93.6) |
| Offshore | 139.6 | 146.6 | 281.9 | 296.5 |
| Heavy Engineering | (8.6) | (46.0) | (37.7) | (71.5) |
| Others, Eliminations and Adjustments | 1.3 | 26.2 | 20.9 | 49.2 |
| **Total Operating Profit** | **484.3** | **347.0** | **1,076.2** | **730.4** |
| Impairment loss on ships, offshore floating asset and other investments | (51.1) | - | (51.1) | (1.1) |
| Gain on acquisition of a business | - | - | 23.7 | - |
| Gain on disposal of ships, property, plant and equipment | - | 1.0 | 17.5 | 1.0 |
| Finance costs | (115.6) | (99.5) | (249.8) | (175.2) |
| Share of profit of joint ventures | 101.5 | 70.0 | 144.6 | 82.6 |
| **Profit Before Tax** | **419.1** | **318.5** | **961.1** | **637.7** |

**Current quarter's performance against the quarter ended 30 June 2018**

Group revenue of RM2,161.7 million was 0.9% higher than the quarter ended 30 June 2018 ("corresponding quarter") revenue of RM2,141.8 million, while Group operating profit of RM484.3 million was RM137.3 million higher than the corresponding quarter's profit of RM347.0 million. The variances in Group performance by segment are further explained below.

**LNG**

Revenue of RM657.9 million was RM62.0 million or 10.4% higher than the corresponding quarter's revenue of RM595.9 million, mainly from higher number of operating vessels in the current quarter following acquisition of two (2) LNG carriers, in December 2018 and January 2019 respectively, and full quarter revenue contribution from one (1) Seri C vessel delivered in May 2018 .

Operating profit of RM318.9 million was RM44.3 million or 16.1% higher than the corresponding quarter's profit of RM274.6 million, mainly from higher revenue as explained above.

**Petroleum**

Revenue of RM992.5 million was RM15.7 million or 1.6% lower than the corresponding quarter's revenue of RM1,008.2 million mainly due to lower number of operating vessels from disposal of seven (7) Aframax vessels and redelivery of two (2) in-chartered Aframax vessels since June 2018. However, the reduction in revenue was cushioned by higher freight rates achieved in the current quarter.

Operating profit of RM33.1 million was RM87.5 million higher than corresponding quarter's loss of RM54.4 million, from higher freight rates achieved especially for the Aframax vessels.

**Offshore**

Revenue of RM258.8 million was RM30.3 million or 10.5% lower than the corresponding quarter's revenue of RM289.1 million as the corresponding quarter's revenue included construction revenue of Floating, Storage and Offloading ("FSO") Benchamas 2 which was completed in May 2018.

Operating profit of RM139.6 million was RM7.0 million lower than corresponding quarter's profit of RM146.6 million, mainly due to the inclusion of construction gain from FSO Benchamas 2 in the corresponding quarter's results.

**Heavy Engineering**

Revenue of RM277.0 million was RM44.6 million or 19.2% higher than the corresponding quarter's revenue of RM232.4 million, mainly from LNG dry-dockings, higher progress of ongoing projects and approved change order in the current quarter.

Heavy Engineering segment recorded lower operating loss of RM8.6 million compared to corresponding quarter's loss of RM46.0 million, mainly from improvement in the progress of ongoing projects and LNG dry-dockings in the current quarter.

**Others, Eliminations and Adjustments**

Other segment operating profit of RM1.3 million was RM24.9 million lower compared to corresponding quarter's profit of RM26.2 million mainly due to lower contribution from port and terminal services and lower net foreign exchange gain in the current quarter.

**Current 6 months period performance against the 6 months period ended 30 June 2018**

Group revenue of RM4,439.4 million was RM276.8 million or 6.6% higher than RM4,162.6 million revenue for the 6-month period ended 30 June 2018 ("corresponding period"). Group operating profit of RM1,076.2 million was RM345.8 million or 47.3% higher than the corresponding period's profit of RM730.4 million. The variances in Group performance by segments are further explained below.

**LNG**

LNG revenue of RM1,283.3 million was 8.7% higher than the corresponding period's revenue of RM1,180.5 million, mainly from higher number of operating vessels following the acquisition of two (2) LNG carriers, each in December 2018 and January 2019 coupled with full 6 months revenue contribution from two (2) Seri C vessels delivered in March 2018 and May 2018 respectively.

LNG operating profit of RM643.1 million was 17.0% higher than the corresponding period's profit of RM549.8 million, mainly due to higher revenue as explained above coupled with additional charter rate for Floating Storage Units ("FSU").

**Petroleum**

Petroleum revenue of RM2,166.2 million was 9.2% higher than the corresponding period's revenue of RM1,984.5 million, mainly from higher freight rates.

Petroleum segment recorded an operating profit of RM168.0 million compared to the corresponding period's loss of RM93.6 million, mainly due to the higher revenue as mentioned above, lower bunker and vessel depreciation costs from lower number of vessels in operation in the current period.

**Offshore**

Revenue of RM528.7 million was 9.5% lower than the corresponding period's revenue of RM584.0 million as corresponding period included construction revenue of Floating, Storage and Offloading ("FSO") Benchamas 2 which was completed in May 2018.

The abovementioned lower revenue has caused the decrease in Offshore operating profit by RM14.6 million.

**Heavy Engineering**

Heavy Engineering revenue of RM479.8 million was 16.4% higher than the corresponding period's revenue of RM412.3 million mainly from LNG dry-dockings, higher progress of ongoing projects and approved change order in the current period.

Heavy Engineering operating loss of RM37.7 million was lower than the corresponding period's loss of RM71.5 million mainly due to corresponding period's results included additional cost recognised for conversion works.

**Others, Eliminations and Adjustments**

Other segment's operating profit for the period of RM20.9 million is RM28.3 million lower compared to corresponding period's profit of RM49.2 million mainly due to lower contribution from port and terminal services and lower net foreign exchange gain.

## B2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

| GROUP | Quarter Ended 30 June 2019 RM million | Quarter Ended 31 March 2019 RM million |
|---|---|---|
| **Revenue** | **2,161.7** | **2,277.7** |
| **Operating Profit** | **484.3** | **591.9** |
| Impairment loss on ships and offshore floating asset | (51.1) | - |
| Gain on acquisition of a business | - | 23.7 |
| Gain on disposal of a ship | - | 17.5 |
| Finance costs | (115.6) | (134.2) |
| Share of profit of joint ventures | 101.5 | 43.1 |
| **Profit Before Tax** | **419.1** | **542.0** |

Group revenue of RM2,161.7 million was RM116.0 million or 5.1% lower than the preceding quarter's revenue of RM2,277.7 million, mainly from lower freight rates in Petroleum especially for the Aframax vessels.

Group operating profit of RM484.3 million was RM107.6 million or 18.2% lower than the preceding quarter's profit of RM591.9 million, mainly from lower revenue as explained above coupled with preceding quarter's profit included gain from additional charter rate for Floating Storage Units ("FSU").

## B3. GROUP CURRENT YEAR PROSPECTS

In the first half of the year, petroleum tanker earnings were considerably better than in previous year, due to market rebalancing after a high level of scrapping in 2018, supported by long-haul crude trade growth. However, continued OPEC-led oil production cuts, geopolitical risk in Iran and the recent tanker attacks in the Straits of Hormuz may affect shipping volumes in the shorter term. Nonetheless, the latter half of 2019 is expected to pick up for the tanker market as ship supply will be crimped by vessels taken out of service for scrubber retrofitting, and tanker markets would be boosted by increasing US oil exports and increase in tonne-mile demand.

The LNG shipping spot market has been experiencing a seasonal decline in the first half of 2019. Rates have firmed up in recent months and are expected to pick up gradually on the back of peak summer demand in Asia and Europe and vessels are expected to be in short supply in the later part of 2019. Nevertheless, the operating income of MISC's LNG business unit continues to be underwritten by the existing portfolio of long term charters that are in place.

The outlook for the offshore segment continues to be positive, supported by healthy activities in oil and gas exploration and production. As there are increasing opportunities in the global offshore exploration and production space, especially for developments within the Atlantic Basin and South East Asia, MISC's Offshore business unit will continue to assess the merit of pursuing these opportunities in the current year. The unit's core operating income remains underpinned by a portfolio of assets on long term charter contracts which will support the stable financial performance of the Offshore business segment.

The overall outlook for the Heavy Engineering segment remains uncertain amidst prolonged trade and geopolitical tensions, as well as slowing economic growth. Despite the uncertainties, offshore oil and gas production activities continue to improve albeit moderately. Meanwhile, the outlook for marine business continues to improve, supported by higher volume for upgrading and retrofitting work due to the implementation of IMO 2020 sulphur cap regulation. Additionally, the recent contract award from PETRONAS Carigali Sdn Bhd for the Kasawari Gas Development project demonstrates the segment's commitment to ensure the sustainability of its order book. As the industry outlook continues to be challenging in the current financial year, the Heavy Engineering segment remains cautious and will focus on replenishing order book in various geographical areas as well as diversifying into other businesses.

**B4. VARIANCE OF ACTUAL RESULTS COMPARED WITH FORECAST AND SHORTFALL IN PROFIT GUARANTEE**

The Corporation did not provide any profit forecast or profit guarantee in any public document.

**B5. TAXATION**

| | **Quarter Ended 30 June 2019 RM million** | **Cumulative 6 Months Ended 30 June 2019 RM million** |
|---|---|---|
| Taxation for the period comprises the following charge: | | |
| Income tax charge | | |
| - current period | (24.5) | (49.5) |
| - prior year | 7.0 | 5.6 |
| Deferred taxation | 0.3 | 0.7 |
| | (17.2) | (43.2) |

The Government had proposed to reduce the exemption for the shipping sector provided under Section 54A of the Income Tax Act, 1967 from 100% to 70% of statutory income effective from Year of Assessment 2012. Subsequently in December 2015, the Government decided to defer the implementation of the above proposal to Year of Assessment 2021.

The taxation charge is attributable to tax in respect of other activities of the Group.

**B6. STATUS OF CORPORATE PROPOSALS ANNOUNCED BUT NOT COMPLETED**

There were no outstanding corporate proposals submitted by the Group for the quarter ended 30 June 2019.

**B7. CHANGES IN MATERIAL LITIGATION**

**i) <u>Gumusut-Kakap Semi-Floating Production System (L) Limited (“GKL”) and Sabah Shell Petroleum Limited (“SSPC”)</u>**

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 (now known as Asian International Arbitration Centre) to commence arbitration proceedings against SSPC (“Arbitration”) whereby GKL is claiming for outstanding additional lease rates, payment for completed variation works and other associated costs under the Contract from SSPC, which covers the following:

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.

In addition, GKL filed Notices of Adjudication against SSPC under the Construction Industry Payment and Adjudication Act 2012, resulting with GKL being successful under the First and Second Adjudication Decisions for payment of completed variation works amounting to approximately USD255 million and USD10.9 million respectively. A total of approximately USD73 million of outstanding increased Day Rates has been paid by SSPC as lump sum payments, with the balance amounts payable by SSPC as increased Day Rates for the relevant lease period.

SSPC refuted GKL's claims and filed a counterclaim against GKL in the Arbitration 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 Adjudication Decisions. SSPC's claims cover, among others, the following:

i. The sum of approximately USD588 million together with any applicable interest;
ii. Repayment to SSPC for the full amount paid to GKL under the First and Second Adjudication Decisions; and
iii. The costs and expenses of the Adjudication and Arbitration Proceedings.

The hearing for the Arbitration from 25 February 2019 to 16 March 2019 has been concluded and parties have filed their respective closing submissions. The decision is expected to be delivered in 2020.

GKL is of the view that GKL has a good legal position to succeed in its claims against SSPC and has a good legal position to defend SSPC's counterclaims.

The Arbitration and Adjudication 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.

**ii) <u>Malaysia Offshore Mobile Production (Labuan) Ltd ("MOMPL") and PCPP Operating Company Sdn Bhd ("PCPP")</u>**

Malaysia Offshore Mobile Production (Labuan) Ltd ("MOMPL"), MISC Berhad's wholly owned subsidiary, and PCPP Operating Company Sdn Bhd ("PCPP") are parties to an Agreement for the Leasing, Operation and Maintenance of Two (2) Plain Mobile Offshore Production Unit Facilities for D30 and Dana Fields Development Project dated 28 November 2008 ("the Contract").

PCPP is a joint operating company with shareholders comprising PETRONAS Carigali Sdn Bhd (40%) ("PCSB"), PT Pertamina Hulu Energi (30%) ("PPHE") and PetroVietnam Exploration Production Corporation Ltd (30%) ("PVEP").

A dispute has arisen between the parties in relation to the Contract and there are substantial sums due and owing to MOMPL. Attempts to resolve the matter by means of a commercial settlement agreement failed to materialise and MOMPL was constrained to proceed with legal proceedings against PCPP to seek to recover the sums outstanding to MOMPL for the lease rates, payment for completed variation works, early termination fees, reimbursement of demobilisation costs and associated costs under the Contract totalling to approximately USD99,784,000 and service rates totalling approximately RM22,618,000. In this respect, the following actions have been filed:

**<u>Arbitration</u>**

1. The first arbitration proceedings seek to claim for part of the outstanding sums amounting to approximately USD18,829,000 and RM17,944,000. MOMPL's Statement of Claim was filed on 21 December 2016.

2. The second arbitration proceedings seek to claim for the disputed portion of the early termination fees and demobilisation costs and the remaining lease and service rates amounting to approximately USD38,646,000 and RM4,674,000. MOMPL's Notice of Arbitration was filed on 7 August 2018.

**<u>Adjudication</u>**

3. Adjudication proceedings under the Construction Industry Payment and Adjudication Act 2012 ("CIPAA") was first commenced to recover MOMPL's claim for the completed variation works amounting to approximately USD9,949,000.00. On 9 January 2019, MOMPL was awarded its entire claim of USD USD9,949,734.00 plus interest and costs. PCPP has since filed an application in the High Court to set aside the Adjudication decision, which MOMPL is contesting.

4. The second adjudication proceedings under CIPAA was commenced to recover the disputed demobilisation costs amounting to approximately USD4,796,000. MOMPL filed its Payment Claim on 14 August 2018 and Notice of Adjudication on 25 January 2019.

**Proceedings in Court**

5. An Originating Summons in the High Court was filed on 7 August 2018 to recover the undisputed portion of the early termination fees and demobilisation costs amounting to approximately USD42,307,000. The High Court had, on 30 May 2019, allowed PCPP's application to stay the Originating Summons pending the disposal of the arbitration proceedings. MOMPL has filed an appeal to the Court of Appeal against this decision.

6. A writ action in the High Court was also filed on 13 August 2018 against PCSB, PPHE and PVEP (being the shareholders of PCPP) seeking for a declaration that the shareholders be liable for the amounts due and owing by PCPP to MOMPL under the Contract. PCSB and PCPP filed applications in the High Court to strike out and stay the proceedings pending the disposal of the arbitration proceedings which were allowed on 26 October 2018 and 11 December 2018 respectively. MOMPL is now appealing against both decisions to the Court of Appeal. The hearing for the appeal against PCSB's striking out application is fixed on 26 September 2019.

(collectively referred to as the "Legal Proceedings")

If successful, the Legal Proceedings are expected to contribute positively to the earnings per share, gearing and net assets per share of MISC in the future.

**iii) Malaysia Marine and Heavy Engineering Sdn Bhd ("MMHE") and E.A. Technique (M) Berhad ("EAT")**

MMHE, a wholly owned subsidiary of the Company, received, on 27 September 2018, a Notice of Arbitration from EAT for a number of claims in relation to the contract entered between MMHE and EAT in June 2015 for the Provision of Demolition, Refurbishment and Conversion of Donor Vessel into a Floating, Storage and Offloading Facility for Full Development Project, North Malay Basin, hereinafter referred to as the "Contract".

Disputes and differences have arisen between parties, amongst others, in relation to MMHE's entitlement to payment for additional works completed under the Contract pursuant to the Additional Work Orders ("AWOs"), as well as in relation to certain terms recorded in a document known to parties as Letter of Undertaking dated 22 June 2018 ("LOU").

In the Arbitration, EAT claims, amongst others, the sum of USD21,656,198 on account of (a) alleged over-payment; (b) refund of sums paid by EAT to MMHE under the LOU; (c) certain costs incurred under the Contract as well as (d) a declaration that MMHE is not entitled to payment for the AWOs.

MMHE disputed EAT's claims and filed in a counter claims, amongst others, for the sum USD49,095,096 being payment for the AWOs, prolongation costs and additional costs incurred due to variations to the original scope of work.

The Group will continue to rigorously defend the claims made by EAT and pursue its counterclaims.

As at the date of this announcement, proceedings are ongoing, with the Arbitration scheduled to be heard in October and November 2019.

It may also be noted that through a related Adjudication Decision dated 27 May 2019, an Adjudicator appointed pursuant to Construction Industry Payment and Adjudication Act 2012 ("CIPAA"), amongst others, allowed MMHE's claim against EAT in the sum of USD21,607,206 in respect of the AWOs. EAT has since filed an application to the High Court of Malaya at Kuala Lumpur to set aside the Adjudication Decision pursuant to CIPAA. The application will be heard on 30 August 2019.

In addition to the above, on 29 May 2019, MMHE had served another Payment Claim under CIPAA on EAT for a further claim of USD6,096,792 including goods and services tax of 6% for additional works, also in respect of the AWOs. Proceedings in relation to this claim is still at a very preliminary stage.

**iv) <u>Malaysia Marine and Heavy Engineering Sdn Bhd (“MMHE”) and Kebabangan Petroleum Operating Company Sdn Bhd (“KPOC”)</u>**

MMHE, a wholly owned subsidiary of the Company, received on 14 March 2019, via its solicitors, a Notice of Arbitration dated 13 March 2019 from KPOC in relation to claims arising from the contracts known to parties as (a) Fabrication of KBB Topsides dated 20 September 2011 (Contract No. KPOC/COC/2009/015); and (b) Novation Agreement dated 30 March 2012, collectively hereinafter referred as the “Contracts”.

KPOC, in its Notice of Arbitration, claims that MMHE was and is in breach of the express and/or implied terms of the Contracts in respect of the supply of certain valves. KPOC has included an indicative amount of its alleged loss in the sum of approximately RM125.1 million in the Notice of Arbitration, and claims that it continues, allegedly, to suffer losses.

On 11 April 2019, MMHE, through its solicitors, filed its Response to the Notice of Arbitration dated 11 April 2019 (“Response”). In the Response, MMHE has denied owing any liability whatsoever to KPOC. MMHE will vigorously defend itself from the claims made by KPOC.

An arbitral tribunal consisting of Three (3) arbitrators was formally constituted on 8 July 2019.

Apart from the Arbitration, MMHE reserves its right to pursue any other legal actions as may be permitted under the Malaysian laws, including, if appropriate, to seek indemnity from the ultimate supplier of the said valves.

## B8. DIVIDENDS

The Board of Directors has approved a second tax exempt dividend of 7.0 sen per share in respect of financial year 2019 amounting to RM312.5 million. The proposed dividend will be paid on 18 September 2019 to shareholders registered at the close of business on 28 August 2019.

A second tax exempt dividend of 7.0 sen per share was declared on 7 August 2018 in respect of financial year 2018 amounting to RM312.5 million and paid on 14 September 2018.

A depositor shall qualify for entitlement to the dividend only in respect of:
i) Shares transferred into the Depositor's Securities Account before 4.30 pm on 28 August 2019 in respect of Ordinary Transfers; and
ii) Shares bought on the BMSB on a cum entitlement basis according to the rules of BMSB.

## B9. DERIVATIVES

As part of the Group's efforts to hedge its interest rate risks, the Group entered into interest rate swap ("IRS") arrangements, a form of derivative to convert its interest exposure from floating rate into fixed rate. The maturity of the IRS arrangements coincides with the maturity of the original floating rate loans.

Details of the Group's derivative financial instruments outstanding as at 30 June 2019 are as follows:

| **Contract/Tenure** | **Notional Value RM million** | **Fair Value Loss RM million** |
|---|---|---|
| **<u>Interest rate swaps</u>** | | |
| 1 year to 3 years | 717.8 | (5.9) |
| More than 3 years | 2,907.8 | (131.0) |
| | 3,625.6 | (136.9) |

During the quarter ended 30 June 2019, the Group had entered into an IRS arrangement to hedge against adverse movements in interest rates in compliance with the facility agreement.

There is no significant change for the financial derivatives in respect of the following since the last financial year ended 31 December 2018:

(a) the credit risk, market risk and liquidity risk associated with these financial derivatives;

(b) the cash requirements of the financial derivatives; and

(c) the policy in place for mitigating or controlling the risks associated with these financial derivatives.

**B10. FAIR VALUE CHANGES OF FINANCIAL LIABILITIES**

As at 30 June 2019, the Group does not have any financial liabilities measured at fair value through profit or loss.

**B11. EARNINGS PER SHARE**

| | **Quarter Ended 30 June** | | **Cumulative 6 Months Ended 30 June** | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Basic earnings per share are computed as follows: | | | | |
| Profit for the period attributable to equity holders of the Corporation (RM million): | 399.8 | 321.2 | 910.3 | 631.8 |
| Weighted average number of ordinary shares in issue (million) | **4,463.8** | **4,463.8** | **4,463.8** | **4,463.8** |
| Basic earnings per share (sen) | 9.0 | 7.2 | 20.4 | 14.2 |

The Group does not have any financial instrument which may dilute its basic earnings per share.

By Order of the Board