

CHAIRMAN'S MESSAGE



Dear Valued Shareholders,
On behalf of the Board of Directors, it is my honour to present to you the Integrated Annual Report and Audited Financial Statements of MISC Berhad and its subsidiaries for the financial year ended 31 December 2020. This is my inaugural year as the Chairman of MISC Berhad and I look forward to an exciting journey together with my fellow Board members to steer MISC's value creation in the years to come."

VOLATILE EXTERNAL ENVIRONMENT

The year 2020 certainly proved to be one of the most challenging years in recent history as the global community reeled from the fallout of the COVID-19 pandemic. This ongoing crisis is different from anything the world has experienced in over a century. While the road ahead will still be bumpy, there is reason for optimism in 2021.

Worldwide lockdowns that were imposed to contain the spread of the virus has caused a sharp global economic downturn, arguably the worst since the Second World War. With demand for oil facing a slump, oil prices plunged. This in turn led to large cuts in oil exploration and production CAPEX, and in many instances, cancellation or deferment of new projects by major oil companies.

Petroleum tanker rates were extremely volatile in 2020, surging in the first half of the year, but then tumbling around the middle of the year and remaining depressed thereafter as the seasonal peak winter demand for oil and tankers did not materialise as in the past. With LNG however, carrier spot rates initially declined, but recovered with the return of seasonal winter peak demand towards the end of the year.



COMMENDABLE PERFORMANCE IN A CHALLENGING YEAR

Faced with the unstable market conditions, the Group's strategy of focusing on long-term charters for most of its assets shielded it from the market volatility and improved its resilience. MISC's revenue rose by 4.9% to RM9,401.2 million for the financial year ended 31 December 2020 (FY2020) as compared to the previous financial year.

However, the Group reported a loss before tax of RM123.6 million compared to a profit before tax of RM1,512.3 million in FY2019. This was mainly due to the unfavourable decision on arbitration proceedings by Gumusut-Kakap Semi-Floating Production System (L) Limited (GKL) against Sabah Shell Petroleum Company Limited (SSPC). This prompted the provision for litigation claims amounting to RM1,049.2 million, as well as a write-off of trade receivables and loss on re-measurement of finance lease receivables of RM846.2 million. Excluding the impact from GKL's arbitration decision, the Group would have recorded a profit before tax of RM1,771.8 million which is 17.2% higher than FY2019's profit before tax of RM1,512.3 million.

Notwithstanding the loss, MISC's cash flow generated from operating activities for FY2020 of RM5,587.9 million was in line with RM5,579.1 million recorded in the corresponding year. This was mainly due to the steady cash flow generated from the Group's portfolio of long-term contracts. The Group's balance sheet remains healthy.

In line with our commitment to provide sustainable distributions to shareholders, the Board has approved and declared a total tax-exempt dividend of 33.0 sen per share in respect of FY2020 which was consistent with the total dividend declared and paid in the previous year.

The Group has made notable strides in expanding its footprint into new markets, developing new solutions and diversifying its portfolio. During the year, the Group secured USD2.8 billion worth of CAPEX in long-term projects. With international oil majors as a part of MISC's portfolio of long-term clients, the projects that have been secured are testament to MISC's reputation as a competitive global energy and maritime solutions provider that conducts itself according to the highest industry leading standards.

PEOPLE-CENTRED ORGANISATION

As reflected in the theme 'People, Passion, Possibilities', MISC is a people-centred organisation that places great value on its diverse, high-performing and skilled workforce of over 8,000 employees from more than 40 nationalities working around the world at sea and shore.

In an extremely difficult year where COVID-19 has dramatically changed the way we live and work, it is the people that kept the Group moving forward, employing ingenuity and agility in overcoming the various challenges and rising to the occasion in order to sustain its trajectory. For that, I must applaud the people of MISC for their commitment and tireless efforts. I believe that it is important for MISC to continue its efforts in building a resilient and dynamic workforce that is able to strive and thrive together in any challenging situation in the future.

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A DIVERSE AND EFFECTIVE BOARD

In 2020, MISC refreshed its Board composition to welcome new members. On behalf of the Board, I wish to extend our collective gratitude to Dato' Ab. Halim Mohyiddin who had been Chairman of the Board until 31 May 2020 for his leadership. Dato' Ab. Halim has since been subsequently redesignated as Independent Non-Executive Director and we look forward to his continued participation on the Board.

Our deepest appreciation goes to Tengku Muhammad Taufik who has stepped down as the Non-Independent Non-Executive Director of the Company during the year for his valuable contributions. We warmly welcome Datin Norazah Mohamed Razali who is also the Chairperson of the newly constituted Board Governance and Risk Committee (BGRC) and Encik Mohammad Suhaimi Mohd Yassin. We are confident that their insights and perspectives will augment the ability of the Board to provide Management with focused oversight.

UPHOLDING GOOD GOVERNANCE STANDARDS

MISC has consistently practiced good corporate governance, reflecting its belief that robust governance practices, processes, and culture are fundamental to inspiring investors' confidence, ensuring long-term shareholder value and protecting stakeholders' interests. Several enhancements were implemented during the year in line with established best practices for

governance as well as stepping up on the efforts towards building and sustaining a culture of ethical compliance throughout the Group. Among them were splitting the functions of the previous Board Audit and Risk Committee (BARC) between the Board Audit Committee (BAC) and the newly established Board Governance and Risk Committee (BGRC), pursuant to the step-up practice recommended by the Malaysian Code of Corporate Governance 2017 (MCCG 2017).

Sustainability is another important area of attention, and to provide more focused oversight, the Board has included sustainability as part of the BGRC's purview. In terms of sustainability accomplishments during 2020, it is very commendable that MISC has improved its scores on FTSE4Good Index and Dow Jones Sustainability Index as compared to 2019.

MISC has also sustained its efforts to reduce carbon emissions through its shipping operations, and as at the end of 2020, the actual achievements recorded have exceeded the targets set against a 2016 baseline. With the conclusion of the previous five-year Sustainability Strategy, the Board approved the 2021-2025 Sustainability Strategy, which will guide MISC's sustainability agenda for the next five years.

INTERNATIONAL ACCOLADES AND AWARDS

MISC continues to garner recognition at the Alpha Southeast Asia's Institutional Investor Corporate Awards 2020 and received three awards in the categories of 'Most Organised Investor Relations',

'Most Consistent Dividend Policy' and 'Strongest Adherence to Corporate Governance'. The Edge Billion Ringgit Club Awards also recognised MISC as providing the 'Highest Returns to Shareholders over three years' in the transportation and logistics sector. These awards represent the investment community's recognition of MISC's commitment towards upholding high standards in investor relations practices and consistent efforts towards value creation for shareholders.

In recognition of MISC's commitment to upholding its environmental stewardship practices, the Group was honoured with the 'Notable Achievement' award for 'Environmental Performance' at the prestigious Prime Minister's Hibiscus Awards. The Group's focus on green shipping solutions was acknowledged when five of AET's vessels, namely the *Eagle Brasilia*, *Eagle Barents*, *Eagle Bergen*, *Eagle Blane* and *Eagle Balder*, received the Green Foundation Award.

Health and safety remains the utmost priority for the Group and holds value for both employees and customers. In 2020, the Maritime and Port Authority of Singapore presented AET the International Safety@Sea Award for its outstanding contribution to search and rescue efforts in 2019 when it came to the assistance of three French sailors in the Bay of Biscay. The *FSO Orkid*'s high performance was recognised with the Repsol Marine Vessel Safety and Operational Excellence Award, while the *Seri Amanah* was given the Best Quality Ship Award 2019 by the Japan Federation of Pilots' Associations.

IN APPRECIATION

Our ability to work through the challenges of a difficult year would not have been possible without the unstinting support of our entire ecosystem of stakeholders. On behalf of MISC, I thank our shareholders, customers, business partners and financiers for the unreserved trust they continue to place in us. To the authorities all over the world that we have worked with, we thank you for collaborating with the Group throughout this global crisis.

On behalf of the Board, I extend our heartfelt appreciation to everyone in MISC for their unfailing commitment to keep the company moving forward. And last but by no means least, to my fellow colleagues on the Board, I am indebted to you for your valuable contributions and stellar guidance in ensuring that the Group continues to persevere and prosper through these challenging times.

We may not be able to control the direction of the wind, but the best that we could do is to adjust the sails to reach our destination. As MISC steps into 2021, our corporate strategy will serve as the compass to navigate our future. At the same time, we must keep our perspectives clear on the prevailing and emerging risks we would face along the way.

Bolstered by the strong relationships of trust we have built with all our stakeholders throughout the years, MISC remains committed to create value for all, as we continue moving energy towards a more sustainable future.

DATUK ABU HURAIRA ABU YAZID
Chairman

