

BUSINESS REVIEW

OPERATING RESPONSIBLY

Further details on Operating Responsibility
<https://www.misc.com.my/sustainability>



KEY HIGHLIGHTS



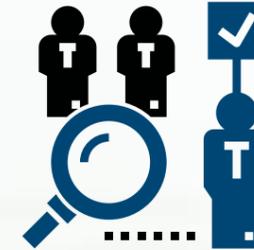
Achieved
FULL SCORE
in **FTSE4Good**
Bursa Malaysia
(Governance theme) for 2
consecutive years



Achieved
Robust
Compliance
and **Ethics**
Maturity
targets



Maintained
ISO
37001:2016
Anti-Bribery
Management
System



Completed
Social Risk
(Human Rights)
Assessment
on **2** business segments



AUSMAL KARDIN
Vice President, Legal, Corporate Secretarial and Compliance

OPERATING RESPONSIBLY VICE PRESIDENT'S REMARKS

In 2020, our efforts were focused on fortifying our governance culture. We enhanced our people's capability and competency in terms of ethics and integrity through a variety of initiatives that sought to create a mature and robust compliance and ethics culture. With 2020 marking the final year of MISC's Compliance and Ethics Programme 2016–2020, we conducted a Compliance and Ethics benchmarking exercise to review and assess our outcomes.

We also conducted a Compliance Culture Survey to validate the results of the benchmarking exercise. I am happy to report that we have exceeded the 2020 targets we had set ourselves under the Compliance and Ethics Programme which was to achieve the robust maturity level by 2020. As denoted by the robust maturity level, ethics and integrity have now become a part of all MISC's business conducts and transactions. Another achievement on our governance front is obtaining the rating of 5/5 for the governance element in the FTSE4Good Index for the second consecutive year. Bearing in mind our future focus on expanding our presence into new jurisdictions worldwide, the

strengthening of our ethics and integrity culture places us on firm foundations to continue with our global journey of growth in an ethical, transparent and accountable manner.

We were well prepared for the new section 17A of the Malaysian Anti-Corruption Commission (MACC) Act which came into effect on June 2020. Section 17A stipulates corporate liability for a commercial organisation in the event its employees or associates commit corrupt acts or practices for the benefit of the organisation. We conducted a number of anti-bribery and corruption (ABC) training programmes for our employees as well as members of the Board of Directors (Board) to enhance Group-wide awareness, as well as to propagate a strong tone from the top.

We have embedded the principle of due diligence to ensure a viable potential defence to section 17A through a series of assessments, guidelines and processes implemented in alignment with MACC's Guidelines on Adequate Procedure "T.R.U.S.T" principles, as well as foreign legislation such as the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act. This included the ISO 37001:2016 Anti-Bribery Management System (ABMS) certification, which is now held by MISC Bhd., Malaysia Marine and Heavy Engineering Holdings Berhad (MHB) and AET Tanker Holdings Sdn. Bhd. (AET).

Following MISC's adoption of our Human Rights Commitment and Modern Slavery

Policy and Statement in 2019, in 2020 we made further inroads in this area. We have implemented Group-wide policies that address international laws such as the UK Modern Slavery Act 2015 in addition to ensuring compliance with relevant Malaysian laws. Additionally, in 2020 we updated our Modern Slavery Statement, and have committed to continuously update this statement on an annual basis in line with any legislative changes within both international and local jurisdictions. Having conducted a Materiality Assessment to identify MISC's businesses that may be exposed to human rights issues and risks, we have now decided to conduct continuous Social Risk Assessments (SRA) to ensure that an adequate mitigation plan is in place to reduce and address human rights risks.

2020 has been a seminal year for MISC Group, as we addressed crucial global socio-economic and environmental issues, as well as current and emerging risks that our business faces. Having identified the key issues which are most important to our long-term business sustainability, we then incorporated our mitigating actions and forward-thinking solutions into our 2021–2025 Sustainability Strategic Priorities plan (Sustainability Strategy) which has been endorsed by the Board in November 2020.

Our future focused Sustainability Strategy represents the Group's commitment to entrench our strategic priorities in the environmental, social and governance (ESG) spheres within all aspects of our business. The Strategy is a clear demonstration of our organisational ethos on Operating Responsibly, bearing in mind our role as a leading company in the global maritime industry. It addresses the rising importance of ESG factors in the maritime sector, as stakeholders increase their expectations for greater transparency of a business' non-financial performance. We believe that the outcomes of our strategic approach will further augment our business resiliency and preparedness in a rapidly shifting post-pandemic world.

MISC's Sustainability Strategy will be a needle mover for the Group, marking a huge shift in our approach towards embedding ESG principles within our businesses. It aims to effect a proactive, rather than a reactive approach Group-wide, where the focus is not on merely ensuring regulatory compliance, but taking it further to create meaningful sustainable value for our entire

ecosystem of stakeholders through an ethical, accountable and transparent business culture.

To enable this proactive approach and internalise the shift, each business unit will now be expected to take ownership and spearhead their respective sustainability programmes, with the Corporate Sustainability team maintaining its oversight role. Governance and ethics will be part of the overall sustainability programme, as part of our move towards internalising ESG. The Board approved the setting-up of a Board Governance and Risk Committee (BGRC) effective 1 January 2021 to oversee the progress of MISC's sustainability agenda.

Moving into 2021, our focus is on effecting the internalisation of the execution of our Sustainability Strategy. For the next five years, our compliance activities will focus on implementing Monitoring and Assurance Programmes as a critical component of our governance and ethics business pillar. Our emphasis is on the development and utilisation of robust and systemised monitoring and assurance platforms. Among other initiatives, we will implement a compliance scorecard that will capture compliance levels from both the Management's and employees' perspectives.

We plan to roll out more employee awareness and engagement programmes throughout the Group. Through these programmes, we will be able to disseminate pertinent information and build up our people's knowledge with regards to our expectations of their conduct in their daily business and work functions. We realise that it will take time for our people's mindset to shift from a reactive stance towards compliance and ethics, to the proactive one we aspire to. Nevertheless, we are deeply committed to effecting this change, and to raise the bar on MISC's culture of ethics and integrity even further in the years to come.

Ausmal Kardin
Vice President, Legal, Corporate Secretarial and Compliance

COMPLIANCE GOVERNANCE STRUCTURE

MISC's **Compliance, Legal, Corporate Secretarial and Compliance (LCSC)** department provides oversight, coordination, consultation and validation of MISC's state of compliance. The Compliance function assists the Board of MISC (Board), the Board Audit and Risk Committee (BARC) and Management in coordinating compliance risk management activities (i.e. programmes or activities to identify, mitigate, and educate employees about the compliance risk and compliance obligations).

The following outlines the main roles and responsibilities in the compliance function:



Compliance, LCSC

- To implement a Compliance Management Framework to ensure that compliance risks are identified and adequately mitigated against.
- To continuously embed a culture of strong corporate governance and business ethics and conduct within the organisation. Compliance Champions are appointed within the respective business units, service units and subsidiaries to ensure compliance initiatives are implemented and embedded in the respective operations.



Management

- To ensure that the Compliance Management Framework is effective and fully implemented and to foster strong governance and business ethics culture.



Board Audit and Risk Committee (BARC)

- BARC to ensure that Management have a clear and adequate strategy to cultivate and promote a compliance culture within MISC's business activities and obtain assurance from Management that compliance processes are embedded within the day-to-day business activities.
- BARC also to ensure that compliance risks are identified and adequately mitigated.

MISC COMPLIANCE AND ETHICS PROGRAMME 2020

The programme was developed and approved in June 2016 (also formed part of the Sustainability Strategy 2020 under the Governance and Business Ethics Pillar)

The programme is a five-year strategic plan consisting of a set of action plans and deliverables to ultimately create a mature compliance and ethics culture within MISC. The aim is to achieve level 4 or 'robust' maturity level by year 2020, where ethics & integrity become a part of all business conducts and transactions.

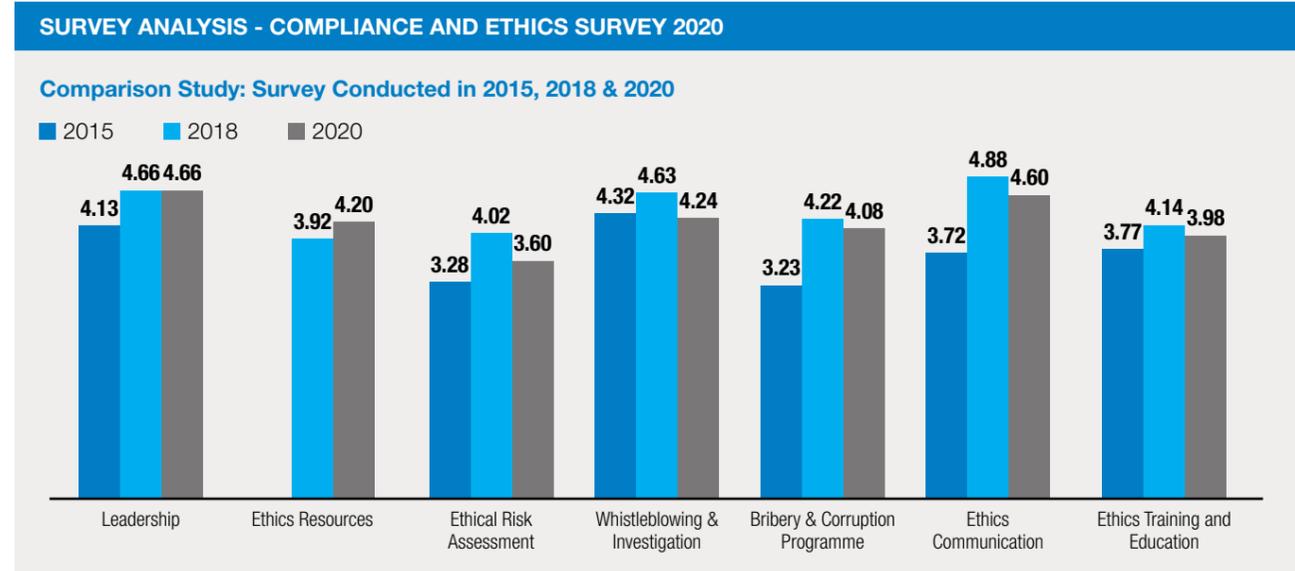
MISC has exceeded in meeting the FY2020 target of level 4 maturity level with all 14 benchmarking categories (100%) meeting and exceeding level 4.

COMPLIANCE AND ETHICS CULTURE SURVEY

The main aim of the survey was to gauge effectiveness of the Compliance and Ethics programme/initiatives as perceived by targeted employees. It also assessed the employees' depth of understanding and assimilation of the MISC's Code of Conduct and Business Ethics (CoBE) since its adoption and roll-out in August 2012.

In 2020, employees with employment period of more than six months across MISC Group participated in the survey. A total of 2,185 employees out of targeted 3,106 employees (70%) from MISC Group of Companies participated in the survey this year.

OPERATING RESPONSIBLY



The Survey Results

The 2020 results indicate overall improvements from the first survey in 2015. MISC Group employees are confident that the management is demonstrating positive strong tone from the top by supporting the effective implementation of ethics and integrity initiatives within respective business units and subsidiaries.

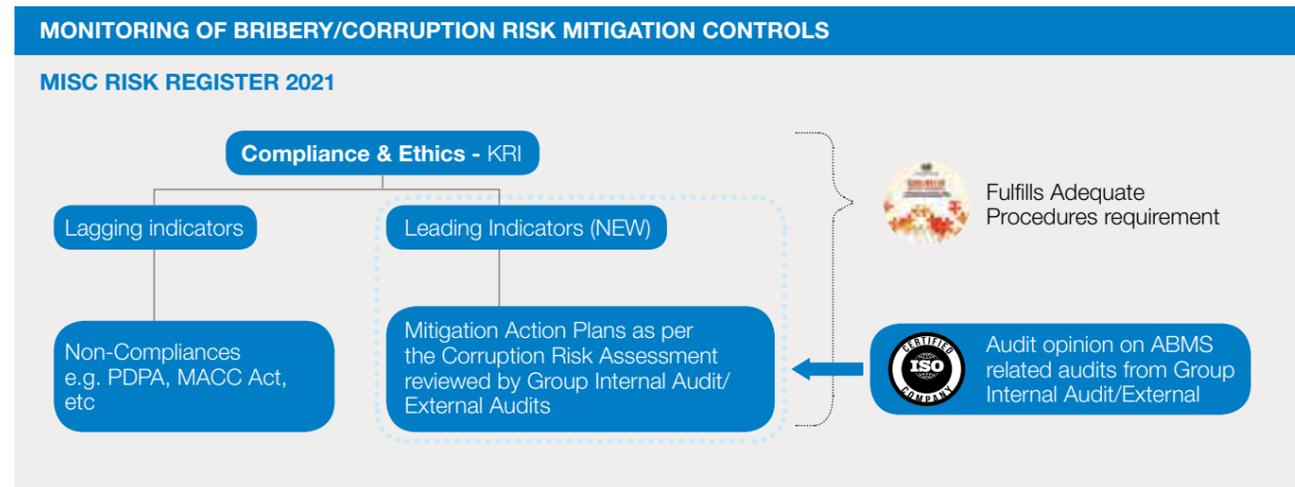
COMPLIANCE AND ETHICS PROGRAMME – ACTIVITIES IN 2020

ANTI-BRIBERY AND CORRUPTION

Bribery and Corruption Risk Management

The first bribery and corruption risk assessment was conducted in 2017. In October 2019, MISC Berhad commenced its first review and update of more comprehensive bribery and corruption assessment for each business units' and service units' key activity/process.

A total of 56 bribery and corruption risks identified with 36 risks documented based on business units' and service units' key activities/processes.



In 2020, the Risk Management Committee (RMC) agreed for the bribery and corruption risk to be linked to the Enterprise Risk Management (ERM) in 2021 where the key risk indicator will now include a new leading indicator in MISC Berhad's risk register which will capture the Anti-Bribery Management System (ABMS) audit outcomes.

ISO 37001:2016 Anti-Bribery Management System (ABMS) Journey for MISC Group

We have zero calls at ports in 20 countries that have the lowest rankings in Transparency International's Corruption Perception Index.

Since 2019, MISC, MHB and AET have received certification for ISO 37001:2016 ABMS. Moving forward, MISC Group targets to complete the ISO 37001:2016 ABMS certification for Eaglestar, MMS and ALAM by the end of 2021.

REGULATORY AND LEGISLATION (R&L) REGISTER

As a diversified multinational, the Group's businesses are subject to laws and regulations of all the countries in which we operate. MISC has put in place measures to ensure that our employees and partners adhere to all applicable policies, procedures, laws and regulations of the countries in which we operate and consistently upholds the highest standards of integrity and accountability.

We have developed an R&L Register that contains the list of relevant laws and regulations to MISC Berhad's operations based on legal operating entities and by functions within MISC Berhad. This will eventually cover the whole of MISC Group – including foreign legislations.

SEE. SPEAK. SUPPORT. PROGRAMMES

MISC had launched the "See, Speak and Support" Campaign back in October 2017, with the objectives of highlighting, and creating awareness, on MISC's principal elements of the CoBE. There are three main themes:

SEE - If you see something or hear something that makes you feel uncomfortable, do not ignore it.

SPEAK - It takes courage to speak up. Talk with your supervisor, Human Resource division or the Compliance division.

SUPPORT - Do not underestimate the power of support. It can help a colleague to stand up and take action.

In 2020, the awareness sessions were conducted via online platforms on a quarterly basis and was conducted by distinguished external speakers and actively participated by an average of 250 employees per session.

Quarter	Topic
Quarter 1	Conflict of interest The insightful talk touched on the duty as an employee to declare any conflict of interest, the implications of being involved in a conflict of interest situation and shared on potential conflict of interest situations.
Quarter 2	T.R.U.S.T (Compliance towards corporate liability) The talk focused on Section 17A Corporate Liability Provision of the Malaysian Anti-Corruption Commission (MACC) Act 2009 and Guidelines on Adequate Procedures, in light of the enforcement of the Corporate Liability Provision on 1 June 2020.
Quarter 3	Confidentiality obligations Touched on the definition of upholding confidentiality in law and as stated in the MISC CoBE, duty of care that is imposed on employees whilst being employed in MISC as well as post-employment obligations and lastly case studies related to confidentiality breach.
Quarter 4	Conducive workplace - Free of discrimination and harassment The topic covered the meaning of creating a conducive workplace environment, types of discriminations and harassments that could take place in an organisation as well as sharing of case studies.

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TRAINING – EMPLOYEES, THIRD PARTIES AND DIRECTORS

E-learning Refresher Compliance Training Programmes

- The Annual CoBE e-Learning refresher courses are mandated for employees and the Board. The refresher course includes guidelines on dealing with improper solicitation, bribery and other corrupt activities as well as issues that may arise in the course of doing business on behalf of MISC.
- There are six compliance-related modules that have been rolled out to employees in phases namely Human Rights Management, Personal Data Protection and Privacy Compliance, Third-Party Risk Management (TPRM), Sanctions, Anti-Bribery and Corruption Manual and Competition Law.
- The Compliance unit has attended trainings and online webinars as part of the Compliance resources' capacity building initiative. The trainings are related to sanctions, anti-bribery management, identifying risk ratings, sanctions on shipping industry, among others. For more information and details on the trainings, please visit www.misc.com.my compliance.

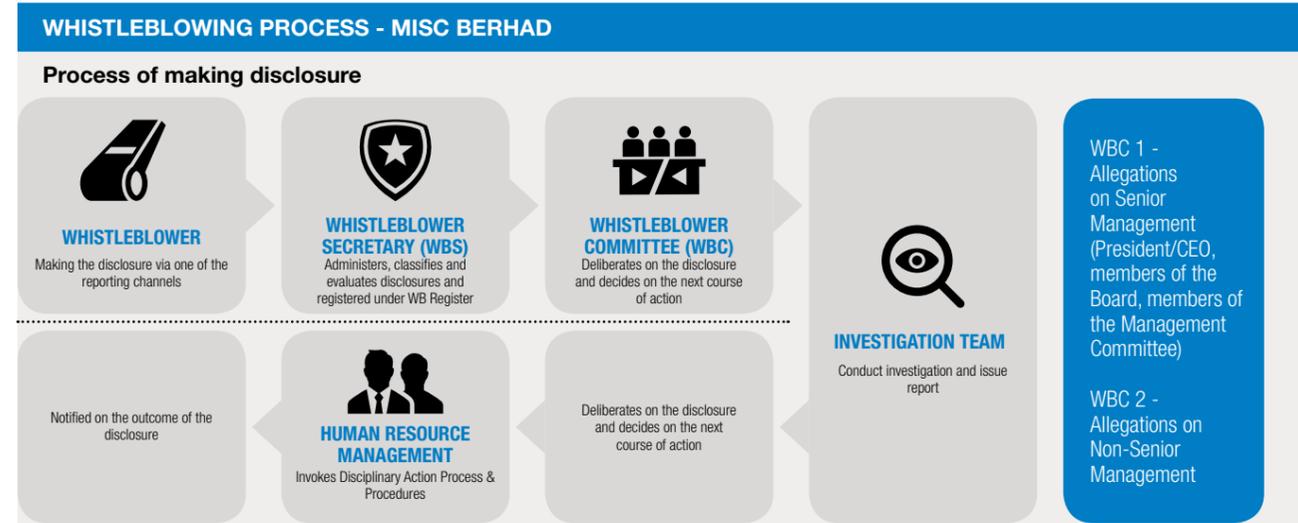
Third party briefing on CoBE and Sustainability

CoBE training for third-party service providers has been conducted annually since 2018. This year's session registered 70 participants from 47 third parties of MISC Group. The training forms part of MISC's initiative on enhancing MISC Group's Supply Chain Management to ensure that our third parties are aware of our CoBE and other requirements and expectations from them and shall comply to similar standards as per our CoBE.

WHISTLEBLOWING

The Whistleblowing Policy provides an avenue for all employees to disclose and report any suspected unethical and/or unlawful conduct or non-compliance with the CoBE involving MISC and/or any of our employees. In line with the highest standards of integrity expected of the Company and its employees and the Malaysian Code on Corporate Governance 2017, the BARC shall also review whistleblowing reports submitted to it.

BARC as the governing body shall also be updated in respect of compliance and ethics related matters as good governance and to ensure the objectives of the Compliance and Ethics Programme 2020 is effectively implemented.



Annual Conflict of Interest (COI) Declaration to employees and Board members

Objective: The intent of the annual COI disclosure is to identify any actual, perceived, or potential COIs amongst employees and Directors of MISC. This is important to ensure that appropriate measures are being taken so that it poses no risks to MISC, Directors and its employees. A total of 100% of MISC Berhad and Eaglestar employees' have completed the Annual COI Disclosure for 2020.	
Employees	On 18 May 2020, the Annual COI Declaration for the Year 2020 was rolled out as part of the assurance exercise in relation to Avoidance of Conflict of Interest under Part IIA of the MISC CoBE. A similar exercise will be conducted independently by the rest of the subsidiaries.
Board of Directors	Board of Directors declaration currently managed by Group Secretarial Services (GSS) and the outcome will be reflected in Corporate Governance Overview Statement on page 260.

In 2020, there were four cases raised through the whistleblowing channels. All cases were investigated and deliberated by the WBC2, with three cases closed with no delinquency. However, one case is still under investigation as it was reported in December 2020.

POLICY REVIEWS AND IMPLEMENTATIONS

Corporate Privacy Policy

Following the adoption of the Corporate Privacy Policy and its Master Guidelines in 2019, MISC has rolled out new Personal Data and Information Notice to MISC Berhad employees, directors, vendors, clients, business partners and visitors. A new Privacy Notice for MISC's corporate website was also developed to provide information regarding the processing of personal data of visitors that's collected from MISC website, social media pages or email messages.

Ongoing gap analysis is being conducted with business units and service units to ensure compliance with data privacy laws and regulations prioritising on Human Resource and Group Health, Safety, Security and Environment (GHSSE) divisions as these two divisions handle the most personal data within MISC.

Competition Protocols

MISC has Competition Law Guidelines in place which outline the main competition laws applicable in most jurisdictions around the world as well as providing guidelines in ensuring that MISC strictly complies with these rules in its day-to-day business. MISC has subsequently adopted two Competition Law Compliance Protocols in 2020 to support the Competition Law Guidelines as below:

- MISC's Competition Law Compliance Protocol on Meetings and Information Sharing
- MISC's Competition Law Compliance Protocol on Merger and Acquisition Transactions

Third Party Compliance Due Diligence Operational Guidelines (TPCDDOG)

MISC's TPCDDOG sets out the basic guidelines and procedures relating to Compliance Due Diligence to be conducted across all business units within MISC (including subsidiaries). It is good practice to assess the third parties to ensure that the business relationship with MISC does not pose significant Associated Compliance Risk, which refers to corruption and bribery risk, risk of COI, economic sanctions and export control risk, Anti-competition, credit risk (for clients), human rights and modern slavery risk and other relevant compliance and regulatory risk.

Business units and subsidiaries are required to ensure that the Compliance Due Diligence are performed on third parties by the completion of the Know Your Counterparty (KYC) Questionnaire, internal screening of third parties via KYC online checks, and to assess the potential Associated Compliance Risk using the Due Diligence Risk Assessment Checklist. In instances where the level of Associated Compliance Risk is indicated as medium or high, an Enhanced Compliance Due Diligence (ECDD) shall be undertaken. The ECDD shall nevertheless be undertaken for all proposed transactions involving mergers and acquisitions and business joint-ventures. Where 'red flags' are identified, the appropriate mitigation plans are then initiated and executed.

HUMAN RIGHTS COMMITMENT AND MODERN SLAVERY POLICY AND STATEMENT

In 2018, MISC established a cross-functional Human Rights Working Group (HRWG) to consider the way MISC implements its human rights commitments across the business and determine any adjustments or enhancement opportunities to improve our human rights performance. The HRWG is tasked, amongst others, to develop policies and procedures which included the adoption of a Modern Slavery Policy, to conduct risk assessments and due diligence and propose improvement actions to mitigate risks identified. The HRWG consists of representatives from all business units and subsidiaries and chaired by the Vice President (VP) of Legal, Corporate Secretarial and Compliance (LCSC).

MISC Group's Human Rights management is guided by the United Nations Guiding Principles on Business and Human Rights. In 2019, MISC Group established its Human Rights commitment and Modern Slavery policy and statement.

Since then, MISC Group has conducted Social Risk Assessment (SRA) for two of our business segments. The assessment was done according to PETRONAS SRA Guideline PTG 19.90.05.

The SRA focuses on the assessment of social risk variables under the Human Rights elements in accordance to MISC Group's Human Rights commitment:

<p>Labour and working condition</p> <ul style="list-style-type: none"> Forced labour Child labour and young workers Non-discrimination Freedom of association Workplace / accommodation health and safety Conditions of employment and work 	<p>Responsible security</p> <ul style="list-style-type: none"> Conduct of third-party security Human rights training Mechanism to report on security personnel
<p>Community well-being</p> <ul style="list-style-type: none"> Land management (right of way, compensation, access to natural resources) Indigenous peoples Cultural heritage Community health and safety In-migration Grievance mechanism 	<p>Supply chain management</p> <ul style="list-style-type: none"> Contractor/Supplier performance related to labour and working conditions, responsible security and community well-being Corruption and bribery

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IN 2019 AND 2020:

 No. of Human Rights assessment conducted: **2**

 Total number and percentage of operations that have been subject to human rights reviews or human rights impact assessments: **42%**

 Total number of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening: **9**
(Human Rights requirement is a standard clause in all agreements and contracts)

 No. of Human Rights physical training session conducted: **3**

 No. of employees trained on Human Rights: **100%**
(Human Rights training compulsory for MISC Berhad executives and above)

Additionally, as part of the Sustainability Strategy 2021-2025, Governance and Business Ethics Pillar's strategic priorities for values, assurance, business ethics, each business units and subsidiaries shall be re-assessed upon significant operational changes or maximum every three years.

In general, the outcomes of the SRAs showed that human rights practices for employees is in accordance with the International Labour Organisation (ILO) and Maritime Labour Convention. The main gaps that are identified are related to the lack of human rights assessment for supply chain related activities. Following this, MISC's 2021-2025 Sustainability Strategy will be addressing this gap under its Responsible Supply Chain programme. Please refer to the Anchoring Sustainability @ MISC section on page 122 of this Integrated Annual Report for more information.

PUBLIC POLICY POSITIONS/POLITICAL CONTRIBUTIONS

MISC does not allow for any political contributions, or the use of MISC's facilities, resources and equipment for any political related activities, campaigns or functions so as not to compromise its interest, nor do we receive any form of financial assistance from the government. Employees are also prohibited from using their position in MISC to influence political contributions and support, as stated in our Employee Handbook.

2021-2025 SUSTAINABILITY STRATEGY – GOVERNANCE PILLAR

As part of the 2021-2025 Sustainability Strategy, the Governance Pillar's strategic priorities of values, assurance and business ethics aim is to continuously embed a culture of strong corporate governance and business ethics and conduct within the organisation. Please refer to the Anchoring Sustainability @ MISC section on page 104 of this Integrated Annual Report for more information.

