

PRESIDENT/GROUP CEO'S REVIEW

Our Best Growth in the Worst Conditions



Dear Valued Shareholders,

2020 will be remembered as the year that the world was brought to its knees by a single common global threat. An invisible enemy that does not discriminate its victims but threatens all that are in its way. We know this enemy as the global pandemic, COVID-19.

The word 'challenging' does not come close to describing the economic calamity and havoc the global pandemic has caused. 'Catastrophe' is perhaps a more apt word. As I write this, the threat of COVID-19 is still present, but we all hope that this damaging threat will be in our rear-view mirror by the end of 2021.

As ironic as it may sound, and against a backdrop whereby global business communities struggled to survive, the MISC Group had its best year in terms of growth.



REFLECTIONS OF 2020

As I reflected on my thoughts of past years, I recall describing 2018 as a chaotic year, with volatility not seen since the great global financial crisis of 2007-2008. In that year, oil prices began to stabilise and new investments in the oil and gas industry began to pick up after the oil price crash of 2014. I believed in the tailwind that carried the MISC Group in 2018. And we had growth successes (USD900 million of new growth investments) despite difficult business conditions. 2018 was also the year that we declared the Group was ready to step up its presence in the international arena and compete against the very best in the global sectors that we are in.

Unfortunately, 2019 was not any better than 2018. Economic and political conflicts dominated headlines even more than ever and the year was equally, if not more, volatile than 2018. However, the tailwind that carried us in 2018 continued to support us. In 2019, we were able to secure up to USD1.1 billion of new investment in assets with long-term secured income streams once the assets are operationalised.

Then came 2020. Who would have thought the world would be battling a global pandemic? A threat to humanity, and a threat that does not discriminate, regardless of background, race, ethnic origin and faith.

Although cross-border economic tensions such as trade wars and sanctions and political differences between nations were still raging on from past years, all these took a back seat as COVID-19 seized the headlines.

A well-known Malay proverb "sudah jatuh, ditimpa tangga" best described 2020. In my feeble attempt to translate to English, this proverb describes a state of perpetual misfortune and bad luck. Consistent challenging economic and geopolitical conditions have already made it tricky and risky for many global companies and businesses, year in year out. Throw in a virtual shutdown of global economic activities and trade due to the necessary lockdowns and restrictions required to combat the spread of the virus, it is the ultimate misfortune and bad luck. And yes, the world saw another collapse in oil price at the beginning of 2020, when not even a decade has passed since the last collapse in 2014.

Need I say more on how challenging 2020 was?

Yet, in perhaps the most challenging year that the MISC Group has had to face in the history of its existence, we continued to thrive and achieve success in our quest for growth. Yes, tremendous success – in 2020, we achieved our best annual growth in the worst of economic climates and circumstances.

In 2020, we delivered new investments in growth assets amounting to USD2.8 billion, the highest we have ever achieved in a year. And we made good our commitment to step up our international presence and to compete against the best in the industry. Nothing can better showcase this successful journey than the award of the Mero 3 FPSO project by Petróleo Brasileiro S.A. (Petrobras) to MISC in August 2020. It has to be said that our march towards securing the Mero 3 FPSO project has been in the making for three years. Three years of unwavering belief that we could find success despite not having the track record in bidding for such a large-scale deepwater project and three years of hard work and painstaking efforts by the team to develop our execution capabilities and capacities.

Besides the Mero 3 FPSO project, we are also proud of our breakthrough into the global ethane trade when we purchased six new very large ethane carriers (VLECs) in July 2020. These six VLECs will also be committed to long-term time charter party (TCP) agreements with Zhejiang Satellite Petrochemical Co. Ltd. (STL) as charterer of the vessels. Prior to these six VLECs, there are only eight other VLECs operating globally and once our six new VLECs come into service, MISC will be the largest transporter of ethane in the world.

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I would be remiss if I do not also highlight a low note for us during the year that marred our otherwise excellent performance. We started 2020 with an unfavourable arbitration decision relating to the dispute between Gumusut-Kakap Semi-Floating Production System (L) Limited (GKL) and Sabah Shell Petroleum Company Limited (SSPC), after a drawn-out arbitration process. As a consequence, we have to adopt the necessary financial provisions required in our financial reporting that has resulted in an overall statutory loss for the Group for the financial year 2020. However, MISC intends to challenge various aspects of the decision through the Malaysian courts for what we believe to be a fairer outcome.

Beyond the successes and the low point in the arbitration, at the core, the Group's cash flow generation machinery continued to run robustly in 2020, generating precious liquidity that underpins our financial strength and credit quality. We were not left wanting in any way from a financial resource standpoint during the year. It is a bold statement to make despite the well-described difficult operating conditions for many in 2020.

OUR STRATEGIC FOCUS AND FINANCIAL DISCIPLINE VALIDATED

Tailwinds and luck always help. Who will be foolish not to accept any free assistance? However, I would like to stress that our successes the past few years, especially in 2020 are not random occurrences and circumstantial. Far from it. It has been a deliberate attempt and effort over the years.

Hence, it is worthwhile for me to reiterate and recap what I shared in last year's annual report on the MISC Group's strategy formulation process and the financial discipline and governance that we subject ourselves to.

I shared in my message last year the importance of identifying and using long-term economic and industrial trends/ inflexion points as strategic



decision drivers in setting the growth agenda of the Group. This approach helps any organisation to achieve steady and sustainable growth over time but more importantly provides the necessary focus on long-term fundamental issues. We need to avoid the risk of being distracted or misled by short-term noise and volatility into making knee-jerk short-term decisions that may harm the longer-term prospects of any organisation or institution.

I admit that the volatility and unpredictability of the past few years have tested our beliefs and convictions from time to time. We asked ourselves if we have focused on the wrong long-term fundamental trends and indicators. Did we miss or overlook anything? We never stop questioning ourselves to ensure that we are not complacent in our views.

With each revisit, review and scrutiny, our views of the long-term economic and industrial trends continued to hold true. It gave us the resolve to maintain our strategic course and not self-doubt, despite short-term circumstances creating fear and doubt.

All the more, as volatility and chaos seems to be on the agenda for the world in the years to come, we will need to remind ourselves to always look at the core long-term fundamentals. We need to know our economic, business and technology drivers for our industry inside out to be able to navigate our strategies with conviction.

I also highlighted in my message last year that the MISC Group is fundamentally an asset leasing company, whereby the assets we own are leased or hired to charterers. Our assets require sizeable CAPEX and to fund their construction, we need to raise debt funding besides the equity capital that we will provide as owners. To ensure that we will consistently honour our loan obligations as well as generating return for our equity shareholders, we prefer to work on long-term leases with our clients. By attempting to match our long-term leases or charters with our long-term debt repayment obligations, we can achieve sustainability and predictability in our annual operating cash flow management. This approach has been the cornerstone of our ability to achieve our objective of generating sustainable and recurring income.

The coming together of these philosophies and how they are put to work is best illustrated by the five-year strategic focus that we ran from FY2016-FY2020. This is the strategic focus that we named MISC2020. Given that MISC2020 concluded in 2020,

it is also timely that we do a self-assessment as to whether we achieved what we set out to do.

When we embarked on MISC2020 five years ago, we set ourselves two core goals that will underpin our financial sustainability as an organisation into the future. The first was to reach a sustainable level of secured income to remain resilient even during the most difficult times, while the second was to achieve a double-digit return on all our assets, a measure of the quality of the investments that we have made.

In FY2020, we generated cash flow from operations of approximately RM5.6 billion, of which approximately 90% comes from long-term secured income contracts. What this effectively means is that come rain or shine, regardless of the economic backdrop that we are operating in, we have visibility and predictability of up to 90% of operating financial resources for the year. This level of visibility and security of cash flow at our disposal allows us to confidently plan our growth ambitions whilst ensuring we meet our annual capital and operating commitments and last but not least, ensuring a healthy dividend payment to our shareholders.

In terms of return on assets, using a cashflow-derived formula (cash flow from operations over total assets) instead of the more traditional return on equity (ROE) or return on average capital employed (ROACE), we have achieved a double-digit return since 2019.

The relevance and effectiveness of MISC2020 was greatly stress-tested in 2020 under the extreme economic conditions brought about by COVID-19. I believe our financial health in terms of cash flow generation during the year as well as the balance sheet of the Group at the end of the financial year reflects the resilience and robustness that MISC2020 has delivered.

Whilst MISC2020 may be behind us as we move into 2021, the same dual discipline of generating secured and recurring operating cash flow from our operations/assets and the application of quality checks on our investment decisions will remain part of our day-to-day decision-making process going forward. They will continue to keep us on the straight and narrow path of financial discipline critical to our financial resilience as a Group. It bears repeating, as I have mentioned in my message last year, that these dual disciplines form the heart of the 'virtuous cycle of growth' that we promote.

OUR FINANCIAL REPORT CARD FOR THE YEAR

Amidst the pandemic, I am happy to report that the MISC Group recorded better operating results for the financial year ended 31 December 2020 (FY2020). The Group's revenue increased by 4.9% to RM9,401.2 million year on year, while operating profit rose by 4.6% to RM2,017.2 million.

Despite the higher operating profit, the Group recorded a statutory loss before tax of RM123.6 million. This was mainly due to the recognition of 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 relating to the adverse decision on arbitration proceedings by GKL against SSPC as mentioned earlier. Excluding the impact from the GKL arbitration decision, MISC would have recorded a profit before tax of RM1,771.8 million which is 17.2% higher than the previous financial year.

Notwithstanding the consequences of the necessary accounting provisions related to the GKL arbitration decision, we have a fundamentally sound business, with cash flow generated from operating activities for FY2020 of RM5,587.9 million, in line with FY2019, and the Group continued to maintain a very robust balance sheet.

I am indeed very pleased that the Group is able to maintain a dividend payment of 33.0 sen for the financial year, similar to FY2019 whereby we had increased our annual payment by 3 sen over the average of 30.0 sen in the prior years. Our ability to pay this higher dividend reaffirms the strength and quality of our operating cash flow, despite the statutory loss before tax for FY2020.

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THRIVING DESPITE PREVAILING CHALLENGES

I am happy to share the key highlights of each of our major business and operating subsidiaries/divisions.

Our **LNG Asset Solutions** segment had another good year in capturing growth projects, by acquiring six of the world's largest ethane carriers which forms the thrust of our venture into the growing ethane trade. Lauded by the Maritime Reporter and Engineering News as one of the 'Great Ships of 2020', we took delivery of the first of these VLECs, *Seri Everest*, in October 2020 and recently its sister vessel, *Seri Erlang*, in January 2021. These six new VLECs will enable us to gain a strong foothold in this niche segment to cater to increasing future demand.

The **Petroleum & Product Shipping** segment went through a rollercoaster market. It was a year of two halves, with high earnings in the first half, and low returns in the second, but we ended with an improved operating profit overall over the previous year. We continue to take bolder steps in line with our sustainability aspirations by expanding our fleet of green and eco-friendly tankers. We secured time charters for two LNG dual-fuel very large crude carriers (VLCCs) from TOTAL as well as three Suezmax second-generation dynamic positioning shuttle tankers (DPSTs) from Petrobras. These successes, together with the delivery of two LNG dual-fuel DPSTs and four eco-friendly DPSTs during the year, all on long-term charters with international energy companies, clearly demonstrates the potential of combining commercial viability and environmental sustainability in ensuring that we deliver our business objectives and at the same time reduce our carbon footprint.

As I highlighted earlier, the **Offshore Business** segment's award by Petrobras of our first major deepwater project in Brazil, the Mero 3 FPSO project, has been one of the high notes of the year. We worked towards securing this contract through focused investments on people, processes, partners and technology. The aim was to strengthen



our competitive position in bidding for larger international offshore projects with higher complexity in the likes of the Mero 3 FPSO project. Our team has demonstrated tremendous dedication and commitment to make this a reality. Our achievement on this front has ushered in a new era for MISC, denoting our ability to take on a complex project with a huge investment that will ultimately lay the foundation for future international projects.

The lockdown and restrictions imposed by the Malaysian government in March 2020 to stem the spread of the COVID-19 pandemic in the country had adversely impacted the **Marine & Heavy Engineering** segment due to the closure of their yard operations for almost a month to ensure the safety of their workers. Once the restrictions were lifted, MHB initially resumed their yard operations at limited capacity and then ramped it up to full capacity soon thereafter. Despite these disruptions, the segment closed the year by completing Dry Dock 3 which commenced operations in December 2020. The addition of another dry dock to our existing facilities of two dry docks

and one floating dock has built up our regional capabilities to conduct repair and refurbishment services on vessels and other marine and oil and gas facilities.

Our three strategic enabler business segments continued to support our four core businesses, despite the various challenges they had to contend with in their own operations.

Our **Integrated Marine Services** segment steadfastly upheld the highest levels of operational excellence and efficiency, thanks to the diligent efforts of its people despite various COVID-19 restrictions and regulations imposed by global authorities. With their strong industry reputation and credibility that has been built over several decades, Eaglestar is now poised to take their business to the next level by offering their services to third-party customers.

Our **Port Management & Maritime Services** segment also had to deal with the challenges of COVID-19 which disrupted their vessel inspection operations. MMS responded by accelerating the digitalisation of

its operations and processes, and successfully launched its mobile-based application for the Vessel Inspection System (VIS) and the Offshore Support Vessel Inspection System (OSVIS). MMS also charted a new milestone which strengthened its industry position through its official recognition as a member of the Oil Companies International Marine Forum (OCIMF).

The COVID-19 has forced the closure of educational institutions to limit infections and ensure student safety. In response, our **Maritime Education & Training** segment was able to continue its activities by providing online remote learning options for its students. Some limited onsite education was also provided for certain courses, especially practical courses, that were allowed by the respective authorities.

Details on the performance of each business segment can be found in their respective sections on pages 136 to 189 of this Integrated Annual Report.

THE GREAT ENERGY TRANSITION AND THE THREAT TO OUR VERY EXISTENCE

In last year's message, I explained the meaning of sustainability at MISC. Sustainability is both a philosophy and culture for us – the need to perpetuate our existence into the future and for the next generation. Besides the need for financial sustenance which I have explained in great detail, this future also demands that we address all aspects of social responsibilities, environmental considerations and good corporate governance. These are the expectations of our multiple stakeholders.

In the maritime space, the focus is on sustainable shipping for a sustainable planet. The entire value chain is taking sustainability on board and subsuming its principles into their respective businesses. Our customers are seeking greener products and services and have extended this expectation to vendors in our value chain. Our investors and banking partners are putting greater emphasis on environmental, social and governance (ESG) considerations when evaluating businesses and institutions that they wish to invest or do business with.

To ensure the long-term viability and relevance of our businesses, MISC needs to address these critical concerns. It is time we translate our philosophy and culture of sustainability to address and tackle all these concerns head on in terms of the very actions that we take as a Group in the years to come.

Beyond the expectations of our stakeholders, we face a greater challenge at our doorstep. We cannot ignore the double threats of the energy transition to the very existence of MISC. The first threat is to our portfolio of existing assets. Our ships run on the very hydrocarbon fuel that is a source of greenhouse gas (GHG) emissions that contribute to climate change. We need to address our choice of fuel for our vessels that is consistent with a future net zero carbon era. Secondly, the cargoes that we transport around the world, specifically oil, is facing an unavoidable structural reduction in demand over time as the world moves away from oil-based fuel sources. To ignore these structural shifts (long-term fundamental trends) is to risk our very own relevance in the future.

We have not sat still and did nothing, waiting for others to show the way forward. Rather, we believe it is our duty to determine our own fate during this energy transition. Over the last few years, the Group has already begun to respond in a few different ways. Firstly, we placed stronger emphasis on greener shipping solutions as evidenced by our pioneering investments in LNG dual-fuel technology and eco-friendly vessels.

As we believe strongly in greater stakeholder collaborations in the maritime industry, we decided to join forces with our shipping peers via the Global Maritime Forum (GMF). GMF has pioneered many global alliances working towards the future welfare of the global maritime industry and one of the priorities is the decarbonisation of shipping. Through the GMF, we signed up to be a member of the Getting to Zero Coalition which is a partnership between GMF, the Friends of Ocean Action and the World Economic Forum.

It is through this network of peers who share a vision of sustainable shipping in a green future, that we were able to form a Joint Development Project a year ago with Samsung Heavy Industries, Lloyd's Register and MAN Energy Solutions to develop a commercially viable zero-emission vessel (ZEV) by 2030. The coalition has been further expanded in February 2021, with two new partners namely the Maritime and Port Authority of Singapore (MPA) and Yara International ASA (Yara). With the addition of MPA and Yara, the now six-partner coalition represents a complete representation from all key stakeholders of the maritime ecosystem that we truly believe can help make a ZEV fuelled by ammonia, a reality. We do not have all the answers today but over the course of the next few years, the coalition will address each challenge one by one. We proudly named the coalition 'The Castor Initiative'. We chose this name as Castor is a star system, comprising six stars that shine brightly in unison. These six stars represent the six partners.

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To address the risk of obsolescence of MISC's present business portfolio and assets in a net zero carbon future, I am excited to share that the Group will be working on a new roadmap to be called MISC2050, a 30-year journey that will map our journey and mission in reimagining the economic and social role of MISC in a carbon-free future come the year 2050.

With this 30-year roadmap, we will be guided in the shifting of our present business and asset portfolio that we are all very familiar with today, and transition it to a new portfolio that is relevant and will thrive in this future that we are imagining. Thirty years may be overly long for some as a strategic roadmap as many things many change over the course of the coming years. However, we cannot deny that if we do nothing, 30 years may be too short as well. What matters is that we act now and seize the opportunity to define the undefined future for ourselves.

In the meantime, we have launched our 2021-2025 Sustainability Strategy, which represents the next phase of our overall sustainability goals. This new sustainability strategy continues to reinforce our ESG commitments for 2021 until 2025, with our climate commitments stretching further ahead into 2030 and 2050. Some key aspects of the strategy include our commitment towards decarbonisation, promoting the circular economy, health and safety, diversity and inclusion, and last but not least, our values and business ethics.

As part of the 2021-2025 Sustainability Strategy, MISC will also be embarking on our Task Force on Climate-related Financial Disclosures (TCFD) journey in 2021, and to implement its recommendations in a phased approach. During the year, we will also participate in the Carbon Disclosure Project (CDP) as part of our efforts to fulfil our commitment to environmental transparency and ascertain our baseline disclosure level. We believe our disclosure to the CDP coupled with our upcoming TCFD journey will provide our stakeholders with a clear understanding of our business readiness for a low-carbon economy.

Another major milestone in our Sustainability Strategy is the emphasis on ownership and advocacy of the sustainability agenda throughout the MISC Group. This begins with a strong tone at the top with the Board of Directors, through the Board Governance and Risk Committee (BGR), providing governance oversight, and cascading down to each business/service unit and subsidiary that will own and drive the implementation of initiatives.

2021 – HOPE AND PATIENCE

The threat of COVID-19 is here to stay, at least for the greater part of 2021, until globally, nations and the populations of the world achieve a level of herd immunity. We cannot underestimate the far-reaching negative social economic impact that was felt throughout of 2020 that will spill into 2021. Various businesses, large or small have struggled to stay afloat as the shutdown of activities to combat the spread of the virus took its toll. Likewise, global workforces faced the risk of displacement and unemployment, a consequence of business failures and shutdowns.

It is hard for most to be positive and optimistic for 2021. While the development and dissemination of vaccines is welcome news indeed, the reality is that it will take time for vaccines to reach the majority of global population before we can safely say that the pandemic is behind us. In a best-case scenario, some normalcy will resume in the second half of 2021, but it will be imbalanced. We therefore have to brace ourselves for persisting headwinds, as the restrictions of COVID-19 will continue till the threat is fully under control.

Therefore, how long can one stay patient and persistent?

Hope is a powerful word and a powerful belief. Hope is an emotion. Hope is a state of mind. As difficult as it may seem, we must all not lose hope. With hope comes motivation to keep on striving and trying. With hope comes the emotional energy to stay patient and committed to our cause and beliefs. In the MISC Family, we remind each other to stay hopeful that better days will come in 2021. We repeat the hope and we encourage each other to not give up.

While hope will keep us focused and energised despite the negativity brought about by the weight of a global pandemic, there are also strategic tools and decisions at our disposal that we can take as a Group to safely navigate 2021.

With the growth that we have achieved under the MISC2020 strategic initiatives, the Group can afford to take a pause in 2021. We can most certainly afford to be more selective in our pursuit of new growth projects. Even if hypothetically we do not secure any new growth project in 2021, our growth in secured operating cash flow is assured. In total, we had USD3.9 billion of projects under construction as at the end of 2020. When completed and delivered into operations from 2021 into 2024, we will have a total of 19 new vessels and assets entering service for us. In other words, the heavy lifting that we have done in securing new projects the past few years will serve us well in the coming years in terms of growth in operating cash flow.

I have touted the tailwinds of past few years that had blown behind us, carrying MISC to many successes on many fronts. Truth be told, we did not anticipate a global pandemic. No one did. Most certainly, with this global pandemic comes the tremendous headwind that will continue to blow hard against anyone in 2021. We can most certainly choose not to sail straight or fight this headwind given that we have done enough the past years.

Therefore, we will keep our priorities for the year ahead straightforward. We plan to keep it sweet and simple. In 2021, we will just focus on execution.

Yes, execution, execution, execution. Execution of all the projects under construction as I have mentioned above. Focus on delivering them into operations and converting into cash generating assets in the coming years.

Besides the emphasis on execution excellence, we will also be focusing on the Group's various internal transformation exercises will focus on strengthening our processes in finance, procurement and document management. Collectively, they will underpin the digitalisation of our processes that will enable us to be even more data-driven in our day-to-day decision making. This means speed and agility while improving the science in the decision-making process.

We will also dedicate the year to rolling out our new sustainability roadmap for the years 2021-2025. We will put in place a well-thought-out execution plan to align the MISC Group with the energy transition and the climate change agenda. And central to this execution plan will be MISC2050.

NOTE OF APPRECIATION

I would like to take this opportunity and I can never do it enough, to thank and express my deepest gratitude to everyone in the MISC Family for keeping our flag flying every year, through good times and bad times. Especially through the trying times of 2020. As the saying goes, "When the going gets tough, the tough gets going" – I cannot imagine a more apt description of the fighting spirit of everyone in the Group in 2020 as we weathered the challenges of the past year together. We looked after each other and we kept each other safe, encouraged and motivated.

The MISC Group has many heroes and heroines in 2020. Besides those who were instrumental in delivering our successful growth story during the year, we have our very own frontliners i.e. our seafarers who risked COVID-19 infection as they continued to transport cargoes safely and on time. Our frontliners also include our employees and workers at

our heavy engineering yard in Johor, Malaysia who remained committed to their mission to deliver the projects they had committed to. Not forgetting, our project teams managing the various newbuildings in South Korea and our employees who managed and manned the ports and terminals.

We also have many unsung and invisible heroes and heroines. Silent in their contributions and always never drawing attention to themselves but without them, everything else will not run. These include our ICT teams across the globe who kept all of us in the family connected as lockdowns and restrictions across the world to combat the spread of COVID-19 prohibited us from connecting and interacting in our physical workspaces. Not forgetting the HR teams who continue to look out for the welfare of our people and the finance teams who work tirelessly to ensure we are on top of our payables and receivables and making sure the pay cheques get to our people.

From the bottom of my heart, I thank and salute all of you. Indeed, we lived up to what we have said the MISC Group stands for – People, Passion, Possibilities.

On behalf of the Group, I would also like to record our sincere appreciation to our valued shareholders, customers and partners for their continuous and steadfast support, trust and belief in MISC. We are deeply indebted to the MISC Board of Directors for their stewardship of the company and wise counsel as we steered through a stormy year.

As we step into the year ahead, we reaffirm our commitment to create tangible and meaningful value for our shareholders and stakeholders. Our People will stay the course towards achieving our strategic priorities, as their Passion inspires them to make the most of Possibilities ahead.

YEE YANG CHIEN
President/Group CEO