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PRESIDENT/ GROUP CEO'S REVIEW

DEAR VALUED SHAREHOLDERS

2021 - A FITNESS STRESS TEST

"What does not break you makes you stronger." I am sure these are familiar words most of us have heard before, words of motivation and encouragement when one is going through adversities and great tribulations in life.

Perhaps these are the words that we have all heard often the past two years as the COVID-19 pandemic brought the world we knew to a screeching halt in 2020 and raged on in 2021 as new variants emerged. We faced many trials and tribulations brought about by the pandemic that are unprecedented.

We lost our loved ones to the pandemic that took many lives. We suffered through isolation and separation from our families and friends, as our professions took us to different geographical locations away from home and were unable to visit each other due to strict border controls between countries and nations. In some locations, even inter-state border controls limited the movement within the same country. Many lived in fear and continued living in anxiety, afraid of the pandemic and the risk to our lives. Afraid of the side effects of vaccination.

And many across the globe lost their jobs or were displaced from their normal course of employment as the pandemic shut down economic activities and altered day-to-day business dynamics. Companies, enterprises, and institutions, regardless of size, failed due to the harsh financial tests imposed by COVID-19. Track records were certainly no guarantee of one's survival and continuity. Only the strong and resilient survive.

How did we as the MISC Family do in 2021? Did we merely survive and get by? Or we more than survived? Did the harsh realities of COVID-19 in 2021 break us or make us stronger?

Before I provide the self-assessment, let's remind ourselves as to what we said about 2021 and what our priorities would be during the year.

THE WORLD IN 2021

In last year's Integrated Annual Report, I shared my expectations that there would likely be persisting headwinds that the global COVID-19 pandemic would bring our way in 2021. The war against the pandemic and the road to global economic recovery remained uncertain. True enough, 2021 was shaped by the pandemic continuing to trigger socio-economic challenges throughout the world.

The global business community persevered in its efforts to maintain business continuity, bolstered by the hope promised by worldwide vaccination programmes. However, just when it seemed like we were turning the corner and looking to better times ahead, the situation got worse towards the later part of 2021 as new COVID-19 variants emerged, triggering a fresh wave of outbreaks. Global economic activities, striving to restart and to get back onto a path of recovery, grind to another screeching halt.

Among the cascading adverse effects of the pandemic were global supply chain disruptions, which could be seen across all facets of life and business. The continuation of the pandemic hampered efforts to get the logistics value chain up and running smoothly again, leading to seemingly unending delays and higher costs that were felt by all. The mobility of human capital across international borders has not fully recovered even until now. This has affected business activities and economic recovery across all industries and regions.

In the capital market, investors and bankers had trepidations on funding and lending to businesses as the uncertainties foreshadowed a murky future, although accommodative policies helped cushion the economic impacts for the time being. However, spiking global inflation, sparked primarily by a malfunctioning global supply chain has prematurely forced policymakers to turn hawkish, with expectations of inevitable interest rate hikes, the most common policy tools used to tame inflation. This is indeed a delicate balancing act for policymakers, on how to tame short-term circumstantially-induced inflation but at the same time, leave enough breathing space for global economic sectors to recover from the ill-effects of the pandemic.

DATUK YEE YANG CHIEN
PRESIDENT/GROUP CEO



ENTERING 2021 WITH OUR EYES WIDE OPEN

As we had entered the year with a very clear idea of what to expect should the pandemic continue into the year, there were very few surprise elements for us. We were able to leverage on our learnings from the year before and support our people at sea and shore with the utmost care and compassion. Consequently, we managed pandemic-related impacts much better in 2021. We made a huge and concerted effort to vaccinate all our people worldwide and I am very pleased with the high proportion of our people who are fully vaccinated.

2021 was the year that I had said MISC would take a breather in our aggressive growth agenda, after the rapid clip of securing new contracts in recent years. Instead, we would focus on ensuring the successful execution of our many ongoing projects. Hence, it was not a disappointment that we only secured one major contract in 2021, the time charter contract with Shell for three newbuild LNG dual-fuel VLCCs.

Our decision to hit the pause button has helped us navigate the second year of the pandemic. Standing firm on our decision to focus on what was most important to us were not pulled in too many different directions. Our 2021 mantra of keeping things simple and sweet saw us prioritising project execution through execution excellence. The GAS Business segment delivered the remaining five out of our six VLECs into service, while the Offshore Business segment secured contract renewals on four floater assets, which will contribute to the Group's secured and recurring income. We have continued to progress on the ongoing vessel newbuilding projects that are slated for delivery in 2022 and 2023, and of course, all hands on deck for the major Brazilian FPSO project, which is to be delivered in 2024.

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The other areas of focus were the various internal transformations we had identified as critical to our future success – our Finance Transformation, Procurement Transformation and Document Control Transformation. Our internal transformation agenda has a clear objective in mind – to make us into a more data-driven organisation that makes decisions based on facts and analysis, and not just instinct.

At the same time, we focused on our human capital proposition by strengthening, widening and deepening our leadership bench strength. We have various training programmes to enhance the skills and capabilities of everyone in the MISC Family, from the most junior to the most senior employee. The leadership appointments we made in the Group during the year is a clear testament to the strength of our leadership bench, reflecting our commitment to nurture the individual and team excellence of our employees as well as to cultivate the growth of our diverse talent pool.

FURTHER INTEGRATING SUSTAINABILITY INTO OUR CORE

COVID-19 was not the only topic dominating the headlines in 2021. It was also a pivotal year with global communities coming together to discuss taking serious action on climate change. At COP26, the International Maritime Organisation (IMO) highlighted the need for the shipping industry to elevate its ambition and raise its environmental targets. More financial institutions are taking a firmer stance on environmental, social and governance (ESG) and whom they are prepared to conduct transactions with.

When it comes to sustainability, MISC has consistently embedded ESG matters into our strategy and business operations. I have emphasised before how sustainability is both a philosophy and culture for us. Integrating sustainability is about building our resilience for the new paradigm the world is moving towards, namely a circular and net-zero economy.

Our efforts on this front which have seen us stepping up on our sustainability commitments year on year have gained the attention of the international investor domain. I am proud to share that last November, MISC debuted on the Dow Jones Sustainability Emerging Markets Index. We scored a first as the only Malaysian transportation sector company and one of the three Malaysian companies listed on this index globally. Our inaugural listing has led to us being acknowledged as one of the companies demonstrating best-in-class ESG practices in the world and is a testament to our ability to deliver on our strategy which embeds sustainability-related issues and considerations.

In 2021, we made good on many promises on the sustainability front. Our standalone Sustainability Report (SR), which should be read in conjunction with our Integrated Annual Report (IAR), provides a deep dive into all our initiatives within our five Sustainability Pillars of Financial, Environmental, Social, Governance and Stakeholder Engagement, and the value we have created for all our stakeholders as a result of these efforts.

Our inaugural Task Force on Climate-related Financial Disclosures (TCFD) Report is also a key feature in our SR. The TCFD Report shares the outcomes of the work we have done in identifying our climate-related risks and opportunities, conducting scenario analysis and developing a roadmap to further integrate climate-related risks into our strategic planning and risk management process. Our actions on this front have seen us taking a significant step forward in building resiliency and future-proofing the Group as we move towards a decarbonised future.

As a consequence of our deliberate and methodological approach in plotting our decarbonisation strategy, in February 2022, we stepped up on our climate change commitment by pledging to achieve net-zero GHG emissions by 2050. We have identified clear pathways on how we intend to get there, and the entire MISC Family is deeply motivated to realising a better future for all by putting in the hard work required. We are already making contributions through our collaboration in The Castor Initiative, where we are working with other like-minded global industry players to develop ammonia-fuelled zero-carbon emissions vessels (ZEV). Our target is to go into commercialisation of the project as early as 2024 and make ZEVs commercially viable by 2030.

I believe the entire MISC Family is deeply passionate about delivering on our promise of a sustainable future and reaffirming our commitment to putting in the hard work required to achieve our ambition.

OUR FINANCIAL FITNESS REPORT CARD

So, how did we fare against the stress test that was thrown at us in 2021? It was a year that provided us with the ultimate financial fitness test and therefore an assessment of the effectiveness of our financial discipline.

At MISC, we have always been consistent on what our financial ethos is, namely our dual financial discipline of prioritising the generation of secured and recurring cash flow from our operations/assets and high grading the quality of our cash flow as measured by the cash flow return on assets. Our strict investment risk assessment framework which provides us with the discipline to apply consistent and frequent quality checks of having the right counterparties, right contractual terms and focusing on the right quality of investment projects, keeps us on the straight and narrow path.

Previously fondly known as MISC2020, this financial strategy has transcended from a set of twin financial goals into a discipline and mantra for us. We do not need reminding of the goals. It is now part of our DNA as an organisation.

The proof of the pudding, of course, is in the eating. Let me share two examples of the fruits of our labour over the past years.

First exhibit - our Petroleum & Product Shipping segment had to contend with persistently low spot rates as seaborne trade volumes remained at below pre-pandemic levels amid tanker oversupply. Charter rates were flirting with cycle lows. In previous cycles, the cash-generating capacity of this business segment would have dipped with the cycles. Not in 2021. Despite accounting profits being weak and coming in below our budget, the cash generating capacity of the business decoupled from the reported statutory profits and remained healthy, in excess of USD300 million.

Second exhibit - despite the Group's overall operating cash flow generation falling below our expectations for the year, the sheer robustness of the Group's financial core continue to allow us to defend our credit strength with the credit rating agencies, meeting all our financial commitments and funding all our growth projects under execution and most significantly, funding our commitment to rewarding our shareholders with consistent dividend pay-outs.

We were never, at any point in time, perturbed by the shortfall in operating cash flow in 2021.

So, did we pass the financial fitness test? My answer – a resounding YES! I will proudly declare that the trials and tribulations of a world that continued to be plagued by a global pandemic in 2021 did not break us. Rather, it validated our strength and resilience. And I dare say that we, as the MISC Group, passed with flying colours.

OUR FINANCIAL REPORT CARD FOR THE FINANCIAL YEAR 2021

Against another challenging economic and business backdrop in 2021, I am pleased to report that the Group's overall financial performance and position have remained solid with better operating results for the year. Group revenue rose 13.5% to RM10,671.7 million compared to RM9,401.2 million in FY2020. Profit before tax (PBT) stood at RM1,774.6 million in FY2021, which was in line with PBT of RM1,771.8 million in FY2020, had we excluded the one-off impact of the unfavourable decision in relation to the GKL arbitration proceedings the previous year.

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I have always emphasised the importance of long-term economic and industry fundamentals/trends as the ones we should pay attention to, in identifying our long-term value creation pathway. Short-term trends are fads that will come and go, but a longer-term view allows for a big picture perspective in driving steady and sustainable growth.

Ultimately, we need to see the long game and have the patience and fortitude to see the game plan through. This may mean taking setbacks and making sacrifices in the short term for sustainable long-term gains and value creation. Sometimes, it takes corporate courage to take a few steps back in order for us to make that big permanent leap forward.



The Group recorded an operating cash flow of RM2,908.6 million, which included cash payments of RM1,126.1 million for the conversion of an FPSO. Excluding the latter payment, MISC would have had an operating cash flow of RM4,034.7 million, a reduction of 27.8% from FY2020. This was attributed to a one-off charter prepayment in the Petroleum & Product Shipping segment in FY2020 and lower operating cash flows in the Offshore Business and Petroleum & Product Shipping segments in FY2021. Despite this, the Group maintained a strong cash balance of RM7,952.3 million, mainly supported by the steady cash flow from the GAS Business segment's portfolio of long-term contracts. MISC's balance sheet remains healthy, with low gearing ratios and stable credit ratings.

A SOBERING LESSON IN STRATEGIC DISCIPLINE, COURAGE AND PATIENCE

The proud display of our financial strength and resilience is not a product of chance or luck in picking the right strategy at the right time. While the adoption of MISC2020 was an important step in achieving this financial discipline that we desired, it was also the second step of a multi-year strategy that began back in 2010.

A quick stroll down memory lane. To rebuild the financial robustness of the core of the MISC Group, the first step taken was the rebalancing of our business and asset portfolios. Dating back to MISC's exit from the liner business in 2012, the subsequent exit of our investment in the tank terminal business in 2015 and finally the exit from the land logistics business in 2017, the refocusing of our resources into a few core business areas were the first steps.

Each of the exercise to divest and exit the previous business segments require much deliberation and execution excellence. Each consumed much of the Board of Directors, Management and the Group's time and resources. These were no easy feats nor strolls in the park.

This first sequence of activities took almost the first half of the past decade to achieve. The four core business segments of the MISC Group that we see today is the consequence of this deliberate portfolio shift.

MISC2020, that was launched in 2015, was the second leg of the multi-year strategy.

It has taken us almost a decade to rebuild and fortify the financial core of the MISC Group that we enjoy today. Let it be a reminder to all of us that success does not come cheap and fast but from well-defined visions and goals, translating into clear strategic roadmaps and logical sequencing of execution activities.

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Now that we have built our financial strength and resilience and subjected it to the ultimate fitness test, what's the next long game, you may ask now?

A NEW LONG GAME - MISC 2050

Last year, I touched on the great energy transition that the world is facing and the double threats that the transition poses to our very existence. The threats are real and from the take-away messages from COP26 in Glasgow last year, the world is running out of time to arrest global warming, if concrete and decisive actions are not taken immediately.

The first threat is to our present core portfolio of businesses as our ships operate on fossil fuels. Consumption of fossil fuels is one of the main sources of GHG emissions, the main culprits behind global warming. In risk terms, it means that our portfolio of assets faces a high probability of technical obsolescence if we do not solve the emission problem. Second threat - the cargoes that we transport around the world, specifically crude oil, face structural demand attrition over time as the world attempts to move away from its dependency on fossil fuels. In risk terms, we may face a shrinking marketplace for our present portfolio of assets.

Hence, I shared in last year's message that we are working on a new roadmap to be called MISC 2050, a 30-year journey to reimagine our future, socially and economically, whereby we will thrive in a circular and net-zero economy.

MISC 2050 fills us in the MISC Family with excitement as it opens a whole new world of future possibilities which we can realistically achieve. It is based on the simple fact that we cannot ignore climate change and energy transition, and we need to embrace the circular economy of 2050. This transition will result in some traditional businesses, assets, services and solutions either being marginalised or completely losing their relevance. MISC 2050 is our answer to these two fundamental questions – What does this new world offer us? How can we succeed in it?

MISC 2050 is the playbook that will guide us in identifying new businesses that will co-exist with our current portfolio. Over the next one to two decades, MISC will be seeding new business ideas and commercialising them in line with our vision of a new clean, green and sustainable future for all. Over time, these new business portfolios will grow in prominence, scale and size, as the world gets closer to achieving the circular economy.

The MISC 2050 strategy is premised on turning challenges into opportunities and we have identified two opportunity pillars that are aligned with our capabilities: Renewable Energy and Waste-to-Value.

As a maritime conglomerate, MISC possesses capabilities that can be enhanced to support the maritime needs of the renewable energy value chain. At the point of the inception of the asset, we have Marine & Heavy Engineering, Offshore Business and Integrated Marine Services for design, engineering, procurement and construction; for the leasing and operations of those assets we have Gas Assets & Solutions, Petroleum & Product Shipping and Integrated Marine Services; while Port Management & Maritime Services can bridge the on-water assets to shore and Maritime Education & Training, develops and manages the talent required to future-proof our business. This is at the heart of our first opportunity pillar of the Renewable Energy value chain as the building block to manage climate change challenges, with the maritime sector playing a key role.

At the same time, we possess the potential capability to repurpose older maritime assets to support the offshore energy renewable energy supply chain. This will give new life to our assets, and in doing so, we are essentially turning something that is waste into value. This is the premise for our second opportunity pillar of the Waste-to-Value chain as critical in tackling resource scarcity and emissions as well as repurposing maritime assets. You can read more on MISC 2050 and how we envision our transformation in the Strategic Review section of our IAR.

To reiterate, we will have two parallel growth strategies, the short to medium-term strategy that is premised on the business-as-usual portfolio, and the longer-term MISC 2050 which is built on a new portfolio of businesses. While the former will be our key business driver for the next five to ten years, the latter is expected to be our core growth engine as we approach the year 2050.

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BACK TO PRESENT – OUR FOCUS IN 2022

We have come to the crossroads of putting the tough year that 2021 has been, behind us and we look forward to the year 2022. We do not expect the year ahead to be a bed of roses, in fact far from it. Challenges and restrictions will continue to constrain the global supply chain, and this will remain the largest hurdle for global economic recovery. For the MISC Group, it will be the biggest obstacle in our path ahead. In my estimation, it will take another year or so for pandemic-related impacts to ease off, as the world transitions into an endemic phase. We are prepared for another year when impacts will continue to be felt throughout our projects and operations.

Global capital markets will remain volatile, swinging between extremes. It goes without saying that we must be prepared for all these.

However, the silver lining is predictions from analysts that oil and gas prices will continue to find its footing and stabilise, with a likely upward trend.

Climate change and energy transition will have an even greater bearing on investment decisions and access to capital. ESG factors and risks associated with climate change and energy transition will continue to dominate how we do business. What we do expect to change in 2022 is the risk of not managing climate change to heighten. Businesses that do not have a strong ESG value creation narrative will begin to feel the real impacts of an unsustainable business model, as their access to funding, working with credible vendors and customer share will dwindle.

For the present moment, MISC's priorities in 2022 will be to challenge boundaries and to look at fresh ways of doing things as we seek out new areas of growth within our current portfolios. Having taken a breather from growing actively in 2021, we will restart our growth engine in 2022.

At the same time, we also need to be mindful in assessing the risks of these new opportunities to ensure that they will continue to generate predictable, secured and recurring cash flow, and provide us with an adequate return on all our investments.

Fortifying our core will remain a key theme in 2022. Maintaining our focus in developing our leadership bench strength and to expanding our capability and capacity for new growth areas are absolutely paramount to us.

Another imperative for the year ahead is pushing through with our digital strategy, which encompasses two aspects. The first is to continue with our internal transformation agenda to become a more data-driven organisation, as I highlighted earlier.

“ The MISC 2050 strategy is premised on turning challenges into opportunities and we have identified two opportunity pillars that are aligned with our capabilities: Renewable Energy and Waste-to-Value. ”

Many have often asked me whether we have a group-wide digital strategy. My answer? Our triple transformations that we initiated in 2021. Even though each transformation, be it the financial transformation, the procurement transformation, or the document control transformation, does not sound very technologically-driven, collectively, and viewed as an ecosystem, these three transformations will form the backbone of our quest to be a truly data-driven organisation. Essentially, we are seeking to re-engineer our digital platforms, our process flows and our people's capacity in an integrated manner. These transformations will take us up to 2023 to complete. I cannot emphasise the importance of this internal strategic priority.

The second aspect of our digital strategy covers our investments in three digital start-ups that are harnessing the power of IR4.0 to change the way we operate our ships. At the same time, we are investing in upskilling our entire workforce at sea and shore to operate these new technologies and to be future ready.

Underlying all these is our mantra to continue keeping things sweet and simple in 2022. Life is sufficiently complicated and let's not add to it further! It makes sense to continue with our approach of sharpening our focus to just a few things with the intention of extracting maximum impact and outcomes.

I am aware that we all stepped into 2021 hoping that the pandemic would end, but these hopes were dashed as new variants fuelled its continuation. Despite this, I would like to encourage everyone to remain optimistic about the future despite how hard as it may seem. Personally, I believe that 2022 will see the world coming to grips in dealing and living with COVID-19.

When we look at the new covid variants such as Omicron, as infectious as they are, they have also been less fatal. The signs are there that COVID-19 is shifting towards an endemic disease that we can treat and manage. Over time, activities will fully resume in this new norm without the starts and stops that we have been subject to thus far. 2022 will be a transitional year with the new normal kicking in sometime in 2023. This is my humble yet firm opinion on the situation, and I urge everyone to stay positive.

A SALUTE TO THE MISC FAMILY

Having been through two tough years together, I would like to extend my deepest appreciation and gratitude to every single member of the MISC Family for stepping up to the plate and coming through to deliver our commitments and promises to our stakeholders. Specifically, I want to thank all of you for looking out for each other. Having each other's back.

To our front liners, although I may sound like a broken record, I would like to repeat that no words can express our gratitude for your unfailing commitment to continue manning our fleet of vessels, yards, projects and the ports and terminals we manage in the face of great adversity. Our deepest thanks go to you for your fortitude and determination, despite the trials and tribulations.

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Of course, we cannot forget how our silent heroes in the background who have enabled us to continue performing – these are our global ICT teams who have kept our systems up and running throughout another year when a lot of work has been done remotely, our HR teams who have supported the health, safety and well-being of our people, and our finance teams who not just ensured that our business accounts remain in order, but also get wages and salaries to our people on time.

To all of you who form the MISC Family, thank you for your ultimate display of our cultural beliefs. You have indeed epitomised our Shared Values of Loyalty, Integrity, Professionalism and Cohesiveness.

FINAL WORDS

On behalf of the Group, I would also like to extend our sincere appreciation to our valued shareholders, customers and partners for their unwavering trust, faith and support to MISC. Our gratitude also goes to the MISC Board of Directors for their steadfast commitment in upholding the highest standards of governance and for their insightful and valuable guidance through the choppy waters of the past year.

As we move on with our journey in 2022, we will resolutely focus on achieving our strategic priorities, as we continue Moving Energy to Build a Better World. Onward and forward!

DATUK YEE YANG CHIEN

PRESIDENT/GROUP CEO