

## STRATEGIC REVIEW

# STRATEGIC OVERVIEW



**ZAHID OSMAN**  
Vice President, Corporate Planning

Encik Zahid Osman has assumed the role of Vice President, Corporate Planning effective 1 January 2022. Having previously been the Vice President of the Gas Assets & Solutions segment, he is valued as a highly experienced member of the Management Committee. During his tenure with the Gas Assets & Solutions segment, he was instrumental in developing the segment which has significantly contributed to MISC's profitability and realisation of the Group's vision and mission. Encik Zahid's insights, acumen and skills will be key to steering the Corporate Planning Division as MISC navigates its way towards achieving long-term growth and profitability.

## VICE PRESIDENT'S MESSAGE

2021 has been a year of resilience for MISC, as we navigated the macroeconomic headwinds that shaped our operating landscape to execute our strategic initiatives. Bearing in mind the sizeable number of ongoing projects to be delivered to our customers and the pandemic's impacts on limiting growth opportunities, we decided to train our focus on ensuring excellence in project execution and delivery while employing a more selective approach in our pursuit of new growth projects. Our considered approach ensures that we remain on track with our value creation journey of sustainable growth and profitability, while at the same time managing our risks.

We began 2021 with 19 projects in hand, comprising 14 assets under construction and 5 acquisition VLECs pending delivery, as a result of us actively pursuing our growth agenda and recording rapid growth in new contract wins and asset acquisitions over the past few years. The largest of these is our Brazil FPSO project, which is slated for completion in 2024. We are making



steady progress on this project, with robust project governance and controls put in place to address as best as we can the disruptions that the continuing pandemic has had on business operations and global supply chains. As for the other projects, I am happy to say that we have successfully delivered eight newbuilds and purchased assets to our customers during the year, while the remainder have delivery dates between 2022 and 2023.

Although the market was slow, with client tenders deferred, we still managed to commit USD300 million of capex investment into new vessels during the year. As we step into 2022, we will once again be returning our focus towards our growth agenda, after the pause in 2021.

We are keenly aware of the long-term risks MISC faces due to climate change and the energy transition. These require immediate actions as well as long-range strategies, and we have these in place. An example is our adoption of the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), to integrate climate-related considerations into our annual strategic planning and our risk management practices. For the longer term, we have formulated corporate and sustainability strategies that will transform the business in line with the demands of energy transition and climate change.

The eagerly-anticipated MISC 2050 strategy framework was unveiled to our people in January 2022. I believe it is a game-changer for MISC and gives everyone in the MISC Family a good understanding of our strategic direction and the role we envision ourselves playing to make our long-term vision a reality. You can read more about our strategies and initiatives in the Strategic Overview and Our Strategic Focus sections in this Report, as well as in our Sustainability Report.

On a personal note, I am excited to take on my new role in Corporate Planning after more than four years spearheading the Gas & Asset Solutions segment. I look forward to contributing to MISC's strategic progress into the future, to ensure a sustainable growth and profitability for the Group. I am confident that regardless of the challenges that may come our way, we can achieve the results we aspire for our shareholders and stakeholders by drawing from our people's indomitable team spirit and shared purpose towards a better future for all.

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## OUR STRATEGY

MISC's corporate and sustainability strategies set the direction and priorities for our action plans, resource allocation and business activities, culminating in business results and outcomes that we have identified as key to creating value in the short, medium and long term.

From 2016 to 2020, MISC successfully delivered on our MISC2020 strategy, which had been developed with the aim of ensuring that the Group would have a sustainable level of recurring income to remain resilient even during the most difficult times. Despite the COVID-19 pandemic that surged through the world since early 2020, our focus on secured income enabled the Group to continue creating substantial value for our shareholders and other stakeholders. Having proven its worth, we will continue to pursue this secured income agenda as an overarching objective.

2021 was a year of temporary de-emphasis of growth, where we focused on execution and delivery of our sizeable pool of projects, while positioning ourselves for market recovery. It was also a time to focus on internal transformations and capability and capacity building of our people.

Our five-year rolling business plan has been drawn up based on the analysis of our operating environment for both the near and long-term future. We have identified both existing and emerging risks and opportunities, and have assessed the outlook for our industry. At the same time, we have integrated sustainability imperatives into our strategy, along with a consideration of the needs of our stakeholders and our material matters.

Our five-year rolling business plan aims to grow our secured income, strengthen

our business fundamentals and diversify our business portfolio, within the Group's risk appetite and affordability. Just as vital, we continue our five-year Sustainability Strategy journey to meet the increasing ESG expectations of our stakeholders. MISC believes that our corporate and sustainability strategies – bolstered by our fundamentally strong business model – will enable the Group to withstand the buffeting headwinds during and beyond the pandemic as we continue to deliver our value creation promise to our stakeholders.

### Our Analysis of Our Operating Environment



### MISC Group's Corporate and Sustainability Strategies

#### Short to medium term (Within 5 years)

Push for new areas of growth within our current portfolio, while ensuring ability to generate predictable, secured and recurring cash flows:

- Five-year rolling business plan; and
- Sustainability Strategy 2021-2025

#### Medium to long term (Beyond 5 years)

Two-pronged strategy to prosper in a circular and net-zero economy:

- Decarbonise our operations to meet changing market demands and ensure sustainability of our existing business; and
- MISC 2050 long-range strategy to build new businesses to be added to our present business portfolio

To address the impacts to MISC's long-term financial sustainability arising from the energy transition, we have just launched a two-pronged approach to future proof our business against the key long-term threats that we face:

Our ships and operations run on fossil fuels which contribute to global GHG emissions, and we are subject to increasing regulatory and stakeholder pressure

We have announced MISC's commitment to attain net-zero GHG emissions by 2050, with an interim milestone to reduce our shipping carbon intensity by 2030

Our current business of transporting fossil fuels in the long term will face slowing growth and eventual decline as the world moves towards a circular and net-zero economy

MISC 2050 is a roadmap for our 30-year journey in reimagining the economic and social role of MISC come the year 2050. More specifically its goal is to identify new business opportunities that will allow us to develop and commercialise into new businesses and asset portfolios to be added to our present business portfolio mix



More details on the above can be found in the Our Strategic Focus section.

## OUR TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) JOURNEY IN 2021

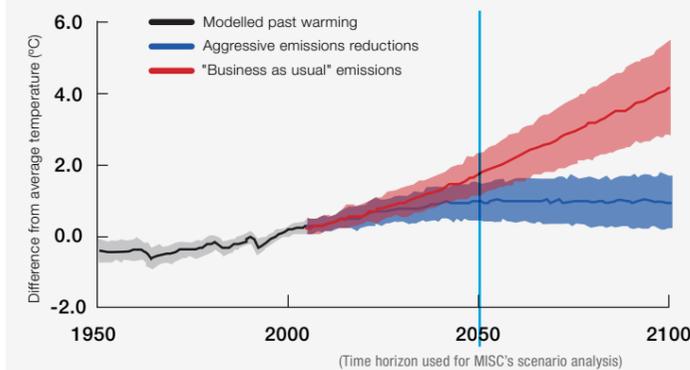
In 2021, MISC embarked on a structured journey to strengthen our management and disclosure of climate-related risks by adopting the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

As part of the exercise, we conducted a series of TCFD reviews and workshops for our four core businesses to deepen our understanding of the climate-related risks that we are exposed to, as well as opportunities arising, and to evaluate the significance of those exposures under different climate scenarios.

### Scenario Analysis

We considered two climate scenarios for the year 2050 - global warming of 1.5 degrees Celsius and 4 degrees Celsius.

#### Global average surface temperature change



Source: Climate change 2021 The Physical Science Basis (<https://www.ipcc.ch/report/ar5/wg1/technical-summary/>)

### Temperature Trajectories Used for MISC's Scenario Analysis

#### 4 degrees scenario

- In 2012, the World Bank reported that a four degree world would be one of "unprecedented heatwaves, severe drought and major floods in many region".
- The risks of doing nothing are clearly very high, and increasingly plausible without stronger efforts to reduce carbon emissions.
- The latest Intergovernmental Panel on Climate Change (IPCC) report indicate that the hotter the planet gets, the greater the risks of crossing dangerous "tipping points," like the irreversible collapse of the immense ice sheets in Greenland and West Antarctica.

#### 1.5 degrees scenario

- The IPCC has reported that limiting the risks from global warming of 1.5 degrees Celsius in the context of sustainable development and poverty eradication implies system transitions that can be enabled by an increase of adaptation and mitigation investments, policy instruments, the acceleration of technological innovation and behaviour changes.

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**OUR TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) JOURNEY IN 2021**

We also identified the key climate-related risks and opportunities for MISC Group.



We then conducted scenario workshops to map and assess the identified transition and physical risks and opportunities against the two future climate scenarios. The discussions focused on how each risk and opportunity could manifest in the respective core businesses, their likelihood and potential impacts, the strategy and decarbonisation pathway to mitigate the risks, and the value creation opportunities that could be captured.

**MISC's Climate-related Risks and Opportunities**

**TR Regulatory Risks:**  
Increasing environmental/carbon regulation leads to higher compliance costs, and risks of higher borrowing cost and decreased asset values

**Opportunities:**  
Increased demand for LNG in the short to medium term\*, and demand for new asset classes and transportation of alternative fuels in the medium to long term\*

**OUR RESPONSE**

- Proactively keep abreast with maritime legislation and the unilateral decisions of maritime nations
- Continuously monitor any new or emerging regulatory developments

**TR Market Risks:**  
Changing market preferences for low-carbon and environmentally-friendly solutions would lead to reduced demand for oil and gas-related assets and services

**Opportunities:**  
Increased demand in the medium to long term\* for new asset classes, transportation of alternative fuels and new businesses that contribute to circular and net-zero economy

**OUR RESPONSE**

- Monitor industry trends and expectations of customers and capital providers, and implement relevant strategies and solutions
- Partnership in The Castor Initiative
- MISC 2050 strategy to explore and develop new businesses relevant in circular and net-zero economy

**TR Reputation & Social Risks:**  
Increasing stakeholder pressure to reduce value chain emissions and reputational impact on talent retention and attraction

**Opportunities:**  
Taking a stewardship position and driving advancement in decarbonisation

**OUR RESPONSE**

- Setting GHG intensity emissions reduction goals
- Committing to net-zero GHG emissions by 2050
- Communicating sustainability efforts and achievements to internal and external stakeholders

**TR Technology Risks:**  
R&D for low carbon solutions and training to manage such technology requires higher investment, and higher risk of technological uncertainty

**Opportunities:**  
Potential savings from more energy-efficient technologies, and increased marine business revenue from retrofitting vessels with carbon capture or low carbon technology

**OUR RESPONSE**

- We diligently innovate our service offerings to remain competitive and exceed customers' expectations
- We incorporate green technology in our newbuilds and retrofit low-carbon technologies on existing vessels
- Partnership in The Castor Initiative to develop commercially-viable ammonia-fuelled tankers to support a decarbonised future for the shipping industry

**PR Physical Risks - Acute:**  
Increase in extreme weather events such as hurricanes can cause interruptions in the value chain, and jeopardise the safety of personnel, assets and cargo

**Opportunities:**  
Increased demand for marine repair and maintenance

**OUR RESPONSE**

- Continuously improve the specifications of our newbuild vessels
- Apply stringent safety controls to vessel navigation
- Group Crisis Management Plan (GCMP) in place to govern crises at corporate level

**PR Physical Risks - Chronic:**  
Rising sea levels can disrupt operations and affect availability of transportation routes (e.g. flooding, port closures)

**OUR RESPONSE**

- Beginning in 2022, MISC will include chronic physical risks into its risk register
- Continuously monitor these risk indicators and develop specific measures to ensure our business resilience

Types of Risks are denoted by the following:

**PR = Physical Risks**

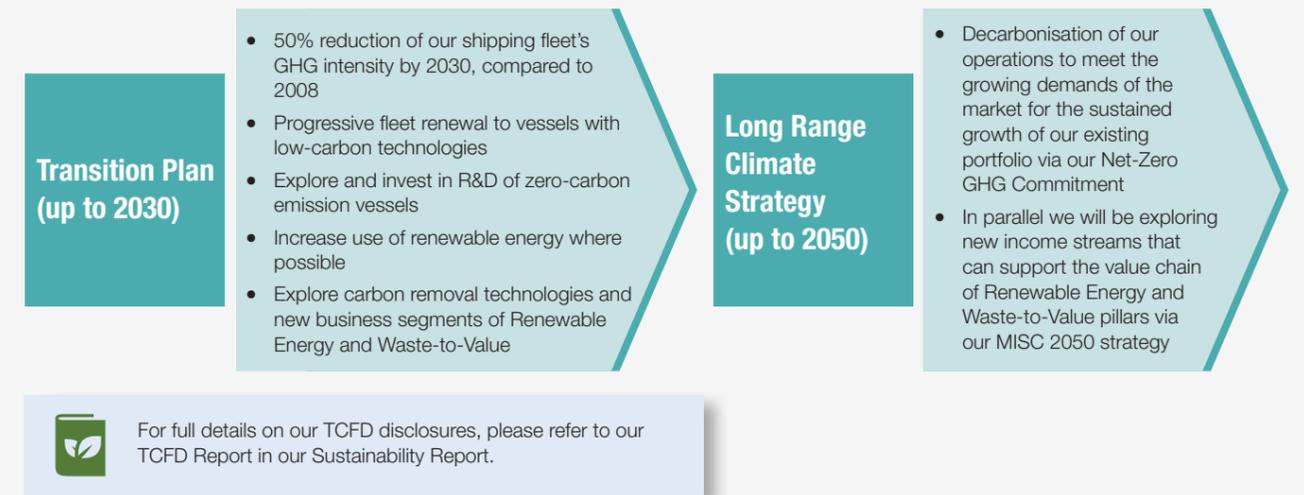
**TR = Transition Risks**

\*For TCFD, short term is defined as within the next five years, medium term is within the next 10 years (~2030) and long term is within the next 30 years (~2050).

**Our Climate Strategy to Realise the 1.5 Degrees Scenario**

At MISC, we believe that climate action must be taken to realise the 1.5 degrees Celsius scenario. Our climate strategy responds to the risks and opportunities posed by climate change in two parts:

- A transition plan for short and medium-term risks; and
- A longer-range climate strategy to mitigate our long-term financial impacts and position ourselves competitively in the low-carbon economy



For full details on our TCFD disclosures, please refer to our TCFD Report in our Sustainability Report.