

STRATEGIC OVERVIEW



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Energy transition will gear up as demand for cleaner energy gathers pace. For MISC, the growing demand for cleaner energy brings new opportunities as we pivot to target new income sources. At the same time, MISC will capitalise on the surge in demand for LNG as one of the primary green fuels supporting energy transition.

VICE PRESIDENT'S MESSAGE

2022 has seen MISC remaining resilient despite the strong headwinds we encountered during the year. Although the shift from the pandemic to the endemic phase of COVID-19 led to the easing of lockdowns and travel restrictions, the Group faced various other challenges that arose from macroeconomic and geopolitical factors.

The Russia-Ukraine war led to rising commodities prices and increased energy market volatilities. The war caused an energy trilemma in addressing key issues of energy security, energy equity and achieving environmental sustainability. Europe had to find new and more secure ways to obtain energy including building up its LNG import infrastructure as it sought to find alternatives to pipeline deliveries from Russia which had dramatically reduced. The Russia-Ukraine war together with China's zero-COVID policy also resulted in supply chain disruptions which had already been under pressure during the COVID-19 pandemic.

Notwithstanding this difficult market environment, MISC was able to rise above these challenges with our strong HSSE culture and robust risk management approach. Our project deliveries took consideration of all the factors required to ensure efficient project management and execution. To address supply chain disruptions, we expanded our supplier base to ensure continuous availability of equipment required for our operations and projects.

During the year, MISC progressed with our strategic goals and secured major project wins as we continued to deliver on projects under execution. The Group added eight new assets to the portfolio to strengthen our core cash generators when AET took delivery of six DPSTs for long-term charter with Petrobras; and two dual-fuel VLCCs for long-term charter with TotalEnergies. These new fleet are setting benchmarks for the maritime industry as these are amongst the most eco-efficient vessels in the market. It demonstrates MISC's commitment towards meeting the IMO's 2030 GHG goals.

We further strengthened our long-term recurring revenue stream by securing a total of 14 LNGC charter contracts with SRM and QatarEnergy, while also obtaining contract extensions for *FPSO Kikeh* and *FPSO Bunga Kertas*.

The Group also successfully issued USD1.0 billion in GTMN, a rare issuance for the marine transport sector despite a tight issuance window due to ongoing geopolitical conflicts. Establishing a GMTN programme enables us to access the market swiftly in the future, when the need arises to capture favourable funding levels.

2022 has seen MISC obtaining market recognition for our ESG excellence when we were accorded the Strongest Commitment to Sustainable Energy Transportation at the Alpha Southeast Asia 12th Annual Institutional Investor Corporate Awards 2022. At the same event, we were also recognised to be among the Top Five Malaysian Companies in the category of Most Organised Investor Relations. This is possible as a result of our focus in transparently and accountably sharing MISC's value creation efforts with the investment community.

We meet significant progress on our ESG and sustainability journey demonstrated by MOUs signed by AET during the year. Setting a clear signal to reduce GHG intensity from shipping. One with PTT for the development and construction of two zero-emission Aframax vessels that will be fueled by green ammonia. The second MOU with South Korean shipbuilding SHI and Lloyd's Register to build two VLCCs operating on green ammonia. The year also saw global energy major TotalEnergies becoming the eighth member of The Castor Initiative working towards making zero-emission ammonia-fueled vessels a reality.

Continuing to work towards our MISC 2050 goal, we rolled out the MISC 2050 Ideation Manual to our workforce as a guideline to operationalise the MISC 2050 Framework. The manual aims to help employees on generating and managing new ideas and define roles and responsibilities for each stage of the idea maturation process.

Stepping into 2023, we expect the business landscape to continue being dominated by challenges driven by various global trends. Uncertainties will prevail due to trade wars between major economies, supply chain disruptions and energy security concerns. Ongoing tensions between the USA, China and Russia will continue to disrupt global stability, economic development and trade. A prolonged Russia-Ukraine war will further disrupt supply chains, fuel inflation and potentially cause a global recession. It will also heighten energy security concerns and drive demand for fossil fuels in the short to medium term.

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The global decarbonisation agenda will remain at the forefront of international concerns. In the shipping sector, this is being driven by new maritime regulations such as the EEXI, CII, the ETS and Carbon Tax. It is highly likely that the ETS or Carbon Tax will be expanded to new countries to meet decarbonisation demands. Responding to these shifts, MISC's primary focus for new capex investment will be on greener assets, namely dual-fuel vessels and low carbon emission assets.

Taking these factors into consideration, the Group's strategic priorities for 2023 are three-fold. Firstly, we will retain focus on project delivery and selective investment within the current portfolio to sustain our ability to generate predictable, secured, and recurring cash flows. We will achieve this by emphasising on long term contracts, diversifying into new asset classes, and maintaining excellence in project execution and delivery and asset operations.

Secondly, our investment focus would be to ensure sustainable growth based on affordability and MISC 2050 target. Maintaining financial discipline and incorporating sustainability goals in our investment decisions will form the mainstay of our strategy to decarbonise our operations. In parallel, we intent to identify and invest in new opportunities in the cleaner and green asset solutions areas in order to build a clean energy business.

Finally, a gradual reshaping of our business portfolio will take place to capture new values and propel the organisation in energy transition environment.

I would like to reiterate MISC's commitment to deliver on our promises to our shareholders and other stakeholders regardless of what challenges may come our way. We, in MISC, look forward to further driving our growth momentum in the year ahead.