

President/Group Chief Executive Officer's Message



**CAPTAIN RAJALINGAM
SUBRAMANIAM**

President/Group Chief Executive Officer

Dear Stakeholders,

2023 was a dynamic year. Recent times have unveiled challenges of unprecedented scale, from the impacts of COVID-19, worsening geopolitical tensions to society's intensifying demand to accelerate the energy transition. In 2023 these challenges prompted a critical reflection – how do we translate our ambition into action?

This year has been a testament to such perspective, signifying a pivotal period of strategic recalibration and operational advancement for MISC, as we forge ahead in the shift from emissions to solutions. A year where we have again shown resiliency as a team.

● A Review of 2023

2023 was a year of project execution, ambition setting and laying the groundwork for future success. A strategic business review was conducted, leading to various structural adjustments within the group. These adjustments are essential for the successful implementation of our strategy, aimed at delivering sustainable financial returns and reducing GHG emissions in line with our ambitious targets.

MISC delivered robust financial returns and improved year-on-year performance. Group revenue rose 2.9% to RM14,271.7 million in FY2023 compared to RM13,867.0 million in FY2022, while profit before tax increased by 11.7% to RM2,093.7 million in FY2023, as compared to RM1,874.3 million in FY2022 – improving our returns to shareholders.

The Group recorded cash flows from operating activities (CFO) of RM5,696.3 million in 2023. Excluding the CAPEX relating to the MERO 3 Project and the one-off FSU prepayments, MISC would have had an adjusted CFO of RM6,536.1 million in FY2023, a 14.2% increase from 2022. Our balance sheet continues to demonstrate resilience, evidenced by the reduction in our net gearing ratio from 0.28 to 0.25. MISC's credit rating remains investment grade and is one of the highest in the shipping industry. This recognition reflects the strong financial positions of both our company and our major shareholder.

As a result of our healthy financial position and after taking into account our future CAPEX requirements, our Board declared an increased dividend of 36 sen per share for 2023, surpassing that of prior years.

● Strategic Progress & Highlights

As outlined in my message last year, our focus for 2023 was to prioritise project execution while remaining open to opportunistic investments which met our strategic aims and created long-term shareholder value.

We completed a strategic business review in 2023, strengthening our foundation for the future. This has led to the development of our MISC 2030 Aspiration. This formed the basis to strengthen our foundation to grow our core business, as well as commence our pivot to support a low-carbon future. We also took the decision to merge two of our divisions, Port Management & Maritime Services and Integrated Marine Services into a unified segment, Marine Services. The merger, which should complete in 2024, will allow our services arm to scale up and enhance our capabilities to support our growing business requirements, for the medium and long-term. In addition, after a successful incubation year, the New Energy and Decarbonisation (NED) unit established in 2023 shall become a full-fledged business division in 2024, amplifying our efforts in this critical area.

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We achieved a significant milestone with the sail away of *FPSO Marechal Duque de Caxias* from Yantai, China to the Mero field of the Santos Basin in offshore Brazil. This FPSO is our Group's first ultra-deepwater asset and is amongst the largest of its kind, with first oil scheduled in the second half of 2024. Our team navigated the significant challenges of the COVID-19 pandemic and the consequent supply chain issues and completed the construction phase, safely with 28 million man-hours LTI free. I commend them for their relentless focus on project execution and excellence.

We successfully delivered two new LNGCs and two new eco-friendly LNG dual-fuel VLCCs into long-term charters, with the third delivered to our client in early 2024. These vessels will bolster our secured income profile and reinforce our commitment to reducing our carbon footprint.

Through MHB, we successfully secured a contract for an Offshore Submersible High Voltage Direct Current (HVDC) project. This marked a notable milestone for the Group as we venture into the renewable energy sector.

Additionally, we entered into a binding Heads of Agreement with Pengerang LNG (Two) Sdn. Bhd. for the supply, operation and maintenance of an FSU for a 20-year period, repurposing and extending the operational lifespan of our nominee vessel, *Puteri Delima Satu*, securing future cash flows, while supporting the national energy transition in Malaysia using LNG as a transitional fuel.

● Prioritising HSSE

At MISC, safety is paramount. Throughout the year, we launched several initiatives aimed at enhancing workplace safety, preserving the environment and upholding regulatory compliance. Whilst our group cultural maturity survey results have improved, we have experienced unfortunate Health, Safety, Security and Environment (HSSE) related incidents and injuries. We have conducted an exhaustive review of our frontline processes and reinforced the "Tone at the Top" throughout the group. The HSSE management of our contracting partners is an area of focus for the coming years.

● Sustainable Maritime Leadership

It is our priority to deliver the energy the world needs today in a responsible manner that minimises our carbon footprint and impact on tomorrow.

We continue to advocate internationally for tangible action towards delivering an equitable and resilient transition. In 2023, we were able to provide a voice for Malaysia, Southeast Asia and our industry at several events including the launch of the Clean Energy Marine Hubs at the G20 in Goa and the Shaping the Future of Shipping Summit at COP28. In addition to these engagements, we remain active in several industry bodies such as the Global Maritime Forum, INTERTANKO and SIGTTO. Our leaders have been involved in a number of these industry bodies, which allows MISC to address industry issues as well as provide our input in shaping industry policies.



FPSO Marechal Duque de Caxias sailed away safely in February 2024 with 28 million man-hours LTI free

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The Group has introduced the MISC 2030 Aspiration, serving as a rallying call to mobilise our workforce to progress towards a Net-Zero and circular economy as envisaged in our MISC 2050 Vision. In this regard, we have set ourselves ambitious targets to meet our own responsibilities. We are committed to reducing the carbon intensity of our shipping operations by 50% by 2030, with an aspiration to reduce our total GHG emissions by 50% by 2030. These goals are well ahead of those contained in the IMO strategy on reduction of GHG Emissions and represent our commitment to decarbonising responsibly. We aspire to do this while simultaneously increasing our CFO sustainably, from our core and new business solutions across the Group.

Achieving these targets and aspirations involves a dual strategy - delivering sustainable financial returns, while actively developing future low-carbon solutions and reducing the carbon footprint of moving energy today with the technology available. 2023 marked significant progress in this respect, with a commendable 24% decrease in GHG emissions intensity and 17% decrease in total emissions compared to the 2008 baseline.

Through collaborative initiatives across the industry, we are exploring innovative solutions such as low and zero-carbon emission vessels and carbon capture and storage (CCS) technologies. In 2023, we secured Approval in Principle (AiP) for our innovative Floating CO₂ Storage Unit (FCSU) with injection capability (FCSU-I), a dynamic and versatile solution which addresses a critical gap in the CCS value chain by providing seamless transportation and storage solutions to CO₂ emitters without access to nearby sequestration sites. Work in developing ammonia-fuelled zero-emission vessels (ZEVs) has also continued through the Castor Initiative. We hope to have our first ammonia ZEVs on the water by 2027. As a Group, we have the capabilities to develop the safety standards, competent staff to manage the vessels and design development capabilities to enable this very significant step for maritime decarbonisation. This is also aligned with our shareholders' and stakeholders' aspirations.

Recognising our commitment to environmental excellence, two of our latest LNGCs, *Seri Damai* and *Seri Daya* were recognised with the Green Ship status by the Singapore Registry of Ships. Further, we successfully implemented Shaft Power Limitation (ShaPoLi) across our fleet to ensure the environmental responsibility and compliance of our older vessels with IMO Energy Efficiency Existing Ship Index (EEXI)/Carbon Intensity Indicator (CII) requirements.



Meanwhile, our Offshore Business segment unveiled an innovative design for a Newbuild Floating Production, Storage & Offloading (NBFP) Unit with Mega-Module Engineering and Green Architecture (MMEGA) at OTC Houston 2023. This pioneering FPSO has received AiP and the SUSTAIN-1 notation from the American Bureau of Shipping, showcasing a 40% reduction in greenhouse gas emissions compared to similar assets. The Offshore Business segment has also undertaken initiatives to develop designs incorporating OxyFuel Power generation and an ammonia FPSO. These efforts underscore our commitment to minimising carbon emissions per barrel extracted.

We also continue to seek innovative green financing deals tailored to support our low-carbon initiatives and decarbonisation efforts. We are honoured to have been awarded the "Sustainability-Linked Deal of the Year for Asia" by Marine Money in 2023, for the USD527 million Senior Secured Term Loan for six VLECs.

Elevating Employee Well-being and Talent Optimisation

At the core of our organisational ethos lies a steadfast commitment to nurturing employee well-being and fostering a safe workplace environment. We advocate continuous engagement through various initiatives, including regular townhall sessions conducted by our management team throughout the year and we actively encourage employees to participate in one-on-one check-ins with their leaders.

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In alignment with our dedication to cultivating a robust HSSE culture, we have conducted workshops aimed at illuminating the critical importance of managing emotional well-being, including training in mental health first aiders.

To meet changing expectations, we have streamlined our talent attraction model and introduced a contingent workforce policy. This strategic move affords us the agility to swiftly and efficiently recruit and onboard a diverse pool of skilled professionals as needed. Recognising the significance of talent mobility in driving organisational growth, we have embarked on enhancing our internal talent mobility programmes. These initiatives are designed to facilitate purposeful development and seamless movement of emerging leaders across our organisation, ensuring both cultural alignment and talent integration at every step of the journey. Additionally, we provide targeted mentoring to identified successors, bolstering their readiness to assume key leadership roles within the organisation.

In our commitment to ensuring our workforce remains ahead of the curve, talent upskilling and reskilling remain as pivotal strategies. During the year, we introduced LinkedIn Learning for our employees, providing them accessibility to a variety of learning content at their convenience. Through the continuous and proactive partnership between Marine Services and ALAM, we have spearheaded initiatives to equip our seafarers with essential competencies in navigating towards a low-carbon future at sea or transitioning to a career onshore.

Looking Ahead into 2024

As we venture into 2024, continuing uncertainties mean there will inevitably be challenges to overcome. But there will also be opportunities and the shifting landscape underscores the importance of resilience, adaptability and foresight in our operations, as we seek to harness these.

The IMO has adopted revised GHG emissions targets, which now serve as a benchmark for change within the industry. As advocates for sustainability, we recognise the imperative to not only meet these targets but exceed them. Through innovation, collaboration and a commitment to environmental stewardship, we aim to position ourselves at the forefront of the energy

transition, responsibly driving meaningful change within our industry.

In 2023, we undertook a comprehensive reassessment of our business portfolio and strategy, laying the groundwork for these transformative years ahead. As we transition from ambition to action in 2024, I believe we are well-placed to capitalise on emerging opportunities, navigate external uncertainties with resilience and chart a course towards sustainable growth. With a clear vision and determination, we stand ready to embrace the challenges and possibilities that lie ahead, confident in our ability to deliver value to our stakeholders while driving positive change.

The pessimist complains about the wind, the optimist expects it to change whilst the realist adjusts the sail. Our team remain optimistic to be positive influencers for change, but realistic to adjust our sails and capture the emerging opportunities for a sustainable future together.

Acknowledging Board and Leadership Transitions

On behalf of MISC management, I would like to extend our sincere appreciation to Datuk Nasarudin Md Idris and Dato' Rozalila Abdul Rahman, both of whom retired as Independent Non-Executive Directors (INEDs) of MISC on 1 September 2023. Additionally, we take this opportunity to express gratitude to Dato' Ab. Halim Mohyiddin and Dato' Sekhar Krishnan, who retired as INEDs in January 2024.

My sincere thanks to all leaders past and present at MISC who have contributed to strengthening the foundation of this organisation and building upon its success. My thanks to our Board members for their continued guidance to the management.

We believe we have improved stakeholder and shareholder value. Our thanks for your continued trust and support. We remain committed to do our best as a team for all our stakeholders.

CAPTAIN RAJALINGAM SUBRAMANIAM
President/Group Chief Executive Officer