

## Vice President's Message Corporate Planning & Group Finance

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### STRATEGIC OVERVIEW



**RAJA AZLAN SHAH RAJA AZWA**  
Vice President, Corporate Planning  
(effective 1 March 2024)  
Vice President, Group Finance  
(until 29 February 2024)

### Dear Stakeholders,

In the context of our industry's constantly evolving landscape, the Group faced various challenges that arose from macroeconomic and geopolitical developments. The uncertainties stemming from the Russia-Ukraine and Middle East conflicts amidst an unfavourable global interest rate environment, continue to cast a shadow over the global economic landscape. At MISC, we remain committed in transitioning towards the clean energy sector, leveraging on our core strengths in project delivery and asset optimisation to drive growth.

#### ● Navigating Market Uncertainties and Energy Transition

The global economy continued to be affected by geopolitical tensions, particularly supply chain disruptions that led to volatility of global energy markets. Concurrently, the continuing tensions in the Middle East have escalated and disrupted trade flows. In addition China's sluggish recovery and the tightening of monetary policies which have led to higher interest rates and financing costs, are exposing economic growth to downside risks.

The shift to a clean energy economy is gathering momentum, with the peak in global oil and gas demand in sight before the end of the next decade. In an environment heightened by supply demand volatility driven by sudden shifts in the market and accelerated energy transition, we recognise that this will require the industry to collectively address infrastructure challenges in the ecosystem and to ensure concerted initiatives towards the development of clean energy solutions. Additionally, the financing landscape in securing funding for conventional projects has become increasingly challenging.

Against this backdrop, we remained resilient in efficiently executing ongoing projects while exercising prudent investment decisions. We placed a greater emphasis on securing long-term contracts with strategic clients to deliver sustainable value by focusing on project delivery and execution excellence, while strengthening our ESG commitments.

#### ● MISC's Strategic Initiatives and Achievements in 2023

Our strategic emphasis in 2023 was based on three key pillars – Selective Investments and Project Delivery Excellence, Pacing Growth to Ensure Sustainability and Strategic Business Review. These pillars define our trajectory towards our long-term success, encapsulating our commitment to generate secured and recurring cash flows; pursue sustainable business practices and gradually reshape our business portfolio.

This year we intensified our efforts to embed sustainability across all our operations. A notable achievement was the successful delivery of two dual-fuel VLCCs (a third LNG dual-fuel VLCC was delivered in early 2024) and the introduction of the NBFPSO with Mega-Module Engineering and Green Architecture (MMEGA). This innovative solution has the potential to achieve a 40% reduction in GHG emissions compared to similar-sized FPSOs, thus aligning with our Net-Zero commitments. Setting an exemplary leadership in reducing GHG emissions in the shipping industry, *Seri Damai* and *Seri Daya* were recognised with the prestigious Green Ship status. In addition, we were awarded the "Alternative-Fuelled Vessel Design of the Year" at the Marine Fuels 360 Awards.

In line with our strategy, we actively collaborate with industry partners to combine our strengths and accelerate the development of new opportunities. MISC signed a Term Sheet with PETRONAS CCS Ventures and Mitsui O.S.K. Lines, Ltd. (MOL), for the

potential incorporation of a joint venture entity to invest in developing Liquefied Carbon Dioxide (LCO<sub>2</sub>) carriers. Another notable highlight is the AiP from DNV for our innovative FCSU and FCSU-I concept that was jointly developed with Samsung Heavy Industries (SHI).

As we progress steadily in our sustainability journey, our achievements include MISC obtaining market recognition for our ESG excellence where we were accorded The Edge ESG Award 2023 - Silver Award under the Equities Category (Transport & Logistics) and The Star ESG Positive Impact Awards 2022 under the Large Companies Tier for the Environmental Category: Sustainable Ecosystems. Another notable achievement is "The Building Trust Awards 2023" by PwC Malaysia for making great strides in stakeholder governance.

During the year, as one of the strategic initiatives under MISC 2030 Aspiration, we embarked on a transformative journey that integrated two of our businesses, Port Management & Maritime Services and Integrated Marine Services, into a unified Marine Services segment. This synergistic move, driven by the maritime industry's evolving dynamics and challenges, aims to expand the depth of service offerings and effectively meet our clients' and partners' diverse needs.

In addition, in advancing our pivot towards the clean energy segment, the New Energy and Decarbonisation unit, or NED, was established in 2023 and this initiative has enabled the Group to develop feasible clean solutions for commercialisation. Following a successful incubation period, this unit is poised to evolve into a fully operational business division in 2024.

#### ● Charting the Course for a Low-Carbon Future

Acknowledging the changing dynamics of the global maritime sector, we conducted a thorough review of our business portfolio and strategy to lay a strong foundation for a successful transition towards a low-carbon future.

The MISC 2030 Aspiration focuses on delivering sustainable financial returns to stakeholders while significantly reducing GHG emissions. The key targets under MISC 2030 Aspiration include a 50% improvement in CFO, with the aim of achieving 25% of CFO from clean energy solutions and a 50% reduction in GHG emissions from shipping operations.

We are purpose driven in realising our mission and will continue prioritising our long-term outlook over short-term gains. Industries are entering into the next

cycle of transformation, where opportunities to capitalise on this change will be aplenty. In 2024, our pursuit will concentrate on unlocking value and strategically mitigating risks to fuel growth. Our growth strategy involves sustaining and expanding our conventional business operations responsibly while implementing decarbonisation initiatives for existing assets. An integral aspect of the strategy involves optimising portfolio returns, capitalising on selected asset monetisation opportunities, whilst facilitating a transition into the clean energy sector organically and inorganically. We are dedicated to building a supportive ecosystem through collaboration with like-minded stakeholders, including financial institutions, who share our vision for a lower carbon future.

The rapidly evolving energy sector offers new opportunities, such as carbon capture and storage, ammonia value chain and the development of ZEVs. To this effect, MISC is well-positioned to progress our development into the clean energy value chain, given the synergistic nature of our business segments. In parallel throughout the next year, we will also continue to leverage on the robust demand for conventional assets and be selective on investments that maximise returns for our portfolio.

Our strategic value creation is driven by the sustainability considerations that have been embedded into our business plan. Our Sustainability Strategy ensures that we deliver on the ESG commitments we have made to our stakeholders. In the current year, we implemented the ICP Framework which is a notable progress, enabling us to consider the financial implications of decarbonisation in decision-making and transition risks and opportunities.

Furthermore, in 2023, MISC took a significant step forward by establishing the MISC Group Risk Appetite to govern our business strategies and decision-making processes, ensuring effective risk management as the Group pivots into the clean energy segment.

Beyond driving growth, we will also continuously improve health and safety practices by embedding a Generative HSSE Culture across all facets of our operations, fostering a mature risk culture and embarking on a transformation journey of our enterprise culture to future-proof MISC. Moving forward, we will remain agile, ready to adapt and innovate in anticipation of industry changes, thereby maintaining our competitive advantage in a swiftly transforming market.

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### FINANCIAL PERFORMANCE REVIEW

The tightening of monetary policies by central banks globally has led to higher interest rates and financing costs, exposing economic growth to downside risks. Nevertheless, major central banks' interest rate monetary policies are expected to be nearing their respective cyclical peaks. Despite these challenges, our strategic financial management, including maintaining a high fixed-to-floating rate borrowings ratio, has been instrumental in navigating market volatility. Furthermore, we have tactically deployed excess cash to support projects under construction, thereby optimising our financing cost while maintaining our liquidity position. Overall, MISC delivered solid financial results for FY2023.

#### Resilient and Sustainable Growth

MISC recorded a 2.9% increase in revenue, contributed by several key achievements across our various operational segments. The Marine & Heavy Engineering segment recorded an increase in revenue from higher progress in both new and ongoing projects. Our Gas Assets & Solutions as well as Petroleum & Product Shipping segments also contributed to the overall revenue growth, benefitting from elevated charter rates during the year. However, our Offshore Business segment recognised lower construction revenue for the MERO 3 Project.

During the year in review, the Group registered a lower operating profit of RM2,881.4 million compared to RM3,102.0 million reported in FY2022. This was largely due to additional cost provisions arising from revised schedule on ongoing projects in the Marine & Heavy Engineering segment. However, both Petroleum & Product Shipping and Gas Assets & Solutions segments recorded higher operating profit from higher revenue as mentioned above.

Despite the lower operating profit, MISC reported a higher profit before tax of RM2,093.7 million in FY2023, an increase of 11.7% from RM1,874.3 million recorded in FY2022 mainly due to higher share of profit from joint ventures and lower impairment charges compared to the previous year.

The Group recorded strong CFO amounting to RM5,696.3 million in FY2023, an increase of RM2,654.2 million compared to RM3,042.1 million in FY2022. This was mainly contributed by the lower payments for costs relating to turnkey activities for the MERO 3 Project in the current year and the charter hire prepayment received for two Floating Storage Units (FSU prepayments) in the Gas Assets & Solutions segment. Additionally, the Group benefitted from the higher charter rates in the Petroleum & Product Shipping segment. Excluding the one-off FSU prepayments and the turnkey activities above, the Group's adjusted CFO of RM6,536.1 million was higher by RM814.1 million or 14.2% compared to RM5,722.0 million in FY2022. MISC Group's cash balance remains healthy at RM7,731.6 million which together with the Group's existing funding facilities should enable us to fund committed CAPEX and pursue targeted strategic investments.

Furthermore, MISC's balance sheet remained resilient, with total assets growing by 3.8%, as a result of an increase in recognition of contract assets stemming from the MERO 3 Project, coupled with the CAPEX incurred on vessels during the year. The Group exhibited improved financial leverage, evidenced by a reduction in the net gearing ratio from 0.28 to 0.25 from lower borrowings and increased shareholders' funds. Given our strong balance sheet, S&P and Moody's reaffirmed MISC's ratings at BBB+ and Baa2, respectively, reflecting the company's prudent financial management.

Underscored by our commitment to advance in environmentally responsible practices, our Sustainability-Linked USD527 million Senior Secured Term Loan for six VLECs was awarded the "Sustainability-Linked Deal of the Year for Asia" by Marine Money. The 11-year non-recourse term loan is MISC's debut sustainability-linked loan which has been structured to align with the Group's long-term business strategy and sustainability aspirations.

Following our robust financial performance in FY2023, the Board of Directors declared a higher dividend of 36 sen per share, reflecting a dividend payout of over 80% of profit after tax for 2023, demonstrating the company's commitment to enhance shareholders' returns.

Overall, MISC recorded commendable results for 2023, thanks to our dedicated and resilient workforce who have worked hard to overcome the challenges and seized the opportunities to deliver strong performance.

#### Looking Forward

The MISC 2030 Aspiration of 50% improvement in CFO and 25% of the CFO from clean energy solutions is in line with MISC's strategy to increase shareholders' returns and to grow the clean energy segment. Going forward, a significant portion of our CAPEX will be directed towards clean energy solutions. MISC remains committed to prudent financial management to sustain our growth trajectory responsibly and deliver long-term value to our shareholders.

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