

## CHAIRMAN'S MESSAGE



**DATUK YEE YANG CHIEN**  
Chairman

2021 was a particularly tough year for the tanker sector, and quite possibly, one of the worst we have seen in recent times with tanker rates diving to a 30-year low. Earnings fell below operating costs for most parts of the year until OPEC+ eased the supply cut in the third quarter. Oil demand returned very slowly and was offset by inventory drawdowns, with the resulting release of floating storage further dampening the already weak tanker market.

Despite these gashing headwinds, if we compare AET's numbers with that of 2012, which was another difficult year where the charter rates were equally dismal, the books will tell quite different stories. The cash flow generation in 2021 was easily double of 2012, and this was done with a smaller fleet. While the fleet size is still a strategic consideration but having the right type of vessels to meet emerging market demands in energy transition has now become the key to winning long-term secured income contracts.

### Riding the financial cyclicality

We see AET as a key player in the long game of supporting the global energy supply chain. The goal is to achieve sustainable and secured income. In that long

game, it is all about making the right moves at the right time, every time. We have built a strong team of professionals with diverse expertise to develop robust and comprehensive strategies and contingency plans through rigorous scenario planning. As MISC Group steers towards net-zero by 2050, we knew from the start that to support and deliver our various ESG (Environment, Social and Governance) initiatives would require strong and sustainable finance.

In many ways, our present financial robustness was borne out of the strategic decision made five years ago in 2017 to invest in LNG dual-fuel Aframax and DPSTs, ahead of the industry. It has given us an invaluable head-start in the net-zero emission race and landed us major contracts that would pivot our market positioning. That AET is today one of the largest shuttle tanker players in the world within a short span of just three years is certainly not by chance. With six eco-efficient shuttle tankers hitting the water in 2022, our asset portfolio and financial standing will only get stronger. These are just some of the far-reaching effects of our financial resilience.

Rather than planning around the conventional shipping cycle which follows crude oil prices, charter rates and newbuild costs that we cannot influence, we are paying closer attention to our internal cash flow cycle which is within our control. To counter this internal financial cyclicality, we turn to growing a secured income base. When the right opportunity presents itself, like the dual-fuel DPSTs in 2017, we will flex our cash flow cycle and pursue the project before pausing to consolidate and replenish resources for the next cycle. Last year was that respite. Other than the three dual-fuel VLCCs for Shell, we did not invest in any new assets and were focused on driving operational excellence and service delivery. It turned out to be a fortuitous timing for us when the global energy supply chain went into a tailspin in 2021.

### Investing in sustainable shipping

Our current business model is entirely focused on the fossil fuel supply chain. Although demand for fossil fuel will fall when the world reduces its consumption from today's one hundred million barrels a day, there will still be a regular supply for petrochemical production and other needs. Being considered by energy majors as a safe and reliable tanker operator, AET is in a good position to defend its revenue streams even as the market tightens.

As we gear up for the next cycle, shuttle tankers and VLCCs will remain relevant among all the asset classes that we own and operate. The FPSOs in Brazil and the North Sea will need to do shuttle runs, and the oil refineries will require the VLCCs for the ocean haulage. The only difference is that these vessels will become

**Financial robustness is the bedrock of sustainable shipping. Through optimising the asset portfolio with an increasingly greener fleet of vessels and securing long-term chartering contracts, AET has successfully anchored its business against the current stormy economic conditions to ensure financial agility, enable energy transition and enhance shareholder value for the long haul.**

greener, whether they are using LNG with greenhouse gas (GHG) abatement technology or zero-emission fuels, like ammonia.

Shipping used to be a highly competitive and fragmented industry, but the energy transition priority might just have united us. Collectively as an industry, we are now moving ahead of the public sector in paving the way for sustainable shipping. A case in point is the Memorandum of Understanding (MOU) AET has just signed with Lloyd's Register and Samsung Heavy Industries (SHI) in April 2022 for the development and construction of the first two zero-emission VLCCs. As founding members of The Castor Initiative, MISC, Lloyd's Register and Samsung Heavy Industries (SHI) are taking the active lead to demonstrate both the commercial feasibility of ammonia as a clean fuel for the shipping industry and the need for more such collaboration within and across industries. We are all eagerly awaiting the first dual-fuel zero-emission tanker to enter service in late 2025, and the second in early 2026.

As the transition fuel of choice, LNG has taken centre stage in the current energy transition. An LNG dual-fuel vessel built today will have 12 to 15 years of service in it. When coupled with abatement technology that can also

capture methane slips, the vessel can already reduce up to 30% GHG emission. This efficiency will improve with new advancements in abatement technology, making LNG itself a fuel in transition with an eventual place alongside other zero-emission fuels. In this regard, we have invested in Daphne Technology with its patented abatement technology to provide additional options for AET on the type of vessels it will build to meet its net-zero commitment.

### Piloting towards a green horizon

In finding our footing with the right business cycle and asset mix, we have created a powerful AET playbook that will guide our future investments in sustainable shipping with greater clarity and assurance. At the same time, we must look beyond the conventional as we move towards carbon neutrality. We need to find ways to tap into new opportunities in areas such as the circular economy, energy transition and zero-carbon supply chain.

I have already kick-started this introspection throughout the MISC Group via a 30-year-long game called "MISC 2050". MISC 2050 is a long-haul strategy designed to reimagine the business portfolios of the Group and ensure we continue to thrive, grow, and push the boundaries in a green and circular global economy. Every business under the MISC Group, including AET, is required to identify new capabilities, asset classes, and investments that can meet future market needs. It will call for a change in mindset, like bringing in people with diverse, non-traditional skillsets into the tanker space, as we navigate towards a green horizon.

Moving into 2022, just as the world was thinking the global economy had turned a corner settling into a post-COVID norm, a war started raging between Russia and Ukraine and drove fuel prices sharply past the US\$100 per barrel mark in March. The external environment will continue to be challenging.

In IPCC's April 2022 report, Climate Change 2022: Mitigation of Climate Change, it was stated that to keep global warming within 1.5 degree Celsius, GHG emissions must peak by 2025 and then be reduced by 43% before 2030. AET is already heading towards these goals through our investments in dual-fuel LNG, and now, ammonia. I am pleased to inform our stakeholders that in Q1 2022, the AET Board has approved the mid-term target of 40% GHG intensity reduction and the longer-term net-zero GHG commitment by 2050. We are just doing our part and showing the way.

It takes tremendous time, effort, and resources to reconstitute our asset portfolio and pivot our business towards sustainable shipping. In making AET one of the world's largest shuttle tanker players and a leading dual-fuel tanker company, we have accomplished that, and more. I would like to commend and congratulate the Executive Leadership Team and all employees on a job well done! I am confident that together as a team, we will continue to make bold strides to unlock new possibilities that lie ahead.