MANAGEMENT DISCUSSION & ANALYSIS

DATUK AZMI AHMAD
Group Managing Director / Group Chief Executive Director

"The Group strives to consistently maintain its competitive positioning when tendering for contracts by leveraging our exemplary HSSE track record and reliable operational capacity."

MANAGEMENT DISCUSSION & ANALYSIS

BACKGROUND

Alam Maritim Resources Berhad ("AMRB") is a first-tier service provider to the oil and gas industry. The Group commenced its business in 1998 when Alam Maritim (M) Sdn Bhd, a wholly-owned subsidiary of AMRB, began its operations which consist of supplying third-party Offshore Support Vessels ("OSVs") either on the contract or callout basis (spot charter) to meet the needs and requirements of oil and gas players in Malaysia and around the Asian region.

Since then, AMRB has integrated its OSV business proposition with OIC and Subsea IRM ("Subsea") operations to provide synergistic oil and gas solutions and capture a wide range of market opportunities in the industry.

The OIC and Subsea segments involve upstream-focused design and construction activities that constitute a wide range of maritime infrastructure. These activities include, but are not limited to, offshore facilities construction and installation services, such as marine construction-related services; subsea engineering services and offshore pipeline construction-related services, and designing, manufacturing and operating of remotely operated vehicles ("ROVs"). This also includes the provision of various diving services, ROVs, saturation diving systems and other related systems.

Essentially, AMRB delivers a diversified and holistic value proposition that is unique, attractive and useful to oil and gas majors, beyond just relying on pure-play OSV contracts. This drives AMRB's symbiotic business capabilities to pursue larger, more integrated tenders with higher revenues and earning margins.

The Group strives to consistently maintain its competitive positioning when tendering for contracts by leveraging our exemplary HSSE track record and reliable operational capacity.

OVERVIEW

AMRB was treading the positive path to recovery during pre-pandemic years, even posting its first growth revenue in 4 years of RM306.67 million (221.57% higher year-on-year) in FY2019, while steadily building up our order book to RM727.22 million as of FY2019. The onset of the COVID-19 pandemic in FY2020 and its continued persistent in FPE2022 derailed our steady recovery

trajectory, however, as global economic growth and the upwards momentum in the oil and gas sector were upended. A worldwide black swan event, the pandemic's wide-ranging detrimental effects have caused prolonged global economic contractions and down cycles not seen since the 2008-2009 global subprime crisis.

The oil and gas sector, where demand and supply dynamics are very much influenced by the level of global economic activities, was one of the worst-performing commodities with upstream activities particularly disrupted. In 2021, however, oil prices did begin to pick up again, reaching upwards of USD80 per barrel in October and November 2021.

OIL PRICES IN OCTOBER & NOVEMBER 2021

USD80
per barrel

MANAGEMENT DISCUSSION & ANALYSIS

"All in all, the Group intends to remain resilient through its robust business model that sustained our fundamentally diverse and advantageous role as an integrated service provider in the oil and gas sector going forward."

Malaysia's oil and gas export demand continued to be negatively impacted by the ongoing trade conflicts between OPEC members and world leaders, as well as US-China trade deadlocks. PETRONAS and other oil and gas majors also continued to tread cautiously on exploration and production ("E&P") activities, which included strategic delays of projects and other contractual decisions well into late 2021 which significantly affected upstream players.

COVID-19's presence exacerbated the depressed market as it made logistical operations more difficult for us. We thus experienced several delays in executing our projects, as well as incurred extra costs for us in regards to mitigating quarantine factors, bearing with the scarce availability of certain services, materials and products, prolonging the time taken to execute operations and remaining on standby for possible viral exposure caused by possible COVID-19 cases.

MANAGEMENT STRUCTURAL REFORMATION

With the prolonged upstream downturn since 2015 and the hit of the COVID-19 pandemic between 2020-2021, the industry as a whole has been severely devastated. AMRB has not been spared; in fact, the OSV segment, being its largest core business, was the most affected by low demand and therefore lower charter rates and utilization. This combination of factors has put our finances and even operations in the most challenging of positions.

To ensure the sustainability of the business, drastic action had to be made both at the corporate finance level and with our business structure's fundamentals. However, despite tumultuous operating conditions, AMRB is in a unique position for transformation as it is not a pure-play OSV provider but integrated solution specialists in the high barrier of entry segments of Subsea and OIC. In this respect critical management decisions were made:

1. Financial and corporate restructuring via CDRC to reduce its debt burden to manageable levels and provide for healthy cashflow and balance sheet post-restructuring.
2. A structural revamp of the two (2) operational segments that needed to be more resilient to downturns in challenging times, namely, the OSV and the OIC segments.
3. A massive fleet reduction for OSV from the then 40 units to a planned 16-vessel fleet that will be more standardized to ensure a higher level of operability and maintenance quality assurance.
4. The 16-vessel fleet will be fully consolidated and acquired by AMRB.
5. Stronger business-focused operations and a higher quality of fleet management and crewing workforce for high-caliber OSV asset integrity and operations.
6. Much stronger project management and technical execution team to helm and operate the OIC division to provide for the step-growth possible from the lack of competition that AMRB faces in this segment.
7. An overall rationalization of total workforce

All in all, the Group intends to remain resilient through its robust business model that sustained our fundamentally diverse and advantageous role as an integrated service provider in the oil and gas sector going forward, which will allow us to not only differentiate but to pull away from pure-play OSV circles or hook-up and commissioning players.

MANAGEMENT DISCUSSION & ANALYSIS

KEY BUSINESS INDICATORS

Key Business Indicators

INDICATORS	FPE2022	FY2020	FY2019
Vessel utilisation rates	61%	33%	40%
Order book (RM '000)	363.64	150.63	727.22
Number of employees	154	184	163
Man-hours without LTI	9,509,550 hours*	6,111,547	3,688,451

**(From 14 May 2018 – 30 June 2022)*

Group Financial Indicators

(RM '000)	FPE2022	FY2020	FY2019
Revenue	300,271	255,210	306,669
Operating loss	(188,401)	(207,270)	(64,908)
EBITDA	(43,109,812)	(44,971)	9,926
Finance costs	(7,558)	(5,909)	(5,238)
Net profit / (loss) after taxation	(209,609)	(226,732)	(80,280)
Shareholders' equity	(72,791)	127,149	331,304
Total assets	269,696	366,456	649,030
Total liabilities	342,487	239,307	321,669
Borrowings	108,736	109,146	122,874
Debt / equity	1.49	0.86	0.36
Earnings per share	(14.2)	(18.3)	(8.4)
Net asset per share	0.04	0.17	0.82
Market capitalisation as at financial year ended	61,273	123,199	52,815

Note:
FPE2022 consists of the period of 18 months from 1 January 2021 to 30 June 2022.
FY2020 consists of a period of 12 months from 1 January 2020 to 31 December 2020.
FY2019 consists of a period of 12 months from 1 January 2019 to 31 December 2019.

MANAGEMENT DISCUSSION & ANALYSIS

REVENUE

AMRB posted revenue of RM300.27 million in FPE2022, a 8.9% increase from FY2020's revenue of RM255.21 million. Revenue from the OSV segment was reduced by 5.3% to RM50.98 million in FPE2022. The OSV segment was severely hampered by the inability to consolidate the financials of the joint ventures which the restructuring exercise will address.

OIC and Subsea segments' revenues were at RM222.89 million (20.4% increase year-on-year) respectively which were primarily reinforced by ongoing and completed OIC and Subsea works.

Our revenue performance displays AMRB's capacity to continue securing and delivering results on its projects despite the pandemic-caused economic contractions and oil and gas industry downturns. This performance fortifies our place in OIC and Subsea business segments that will ensure stronger business sustainability and growth.

TOTAL REVENUE

RM300.27
Million FPE2022

REVENUE	FPE2022 (RM MILLION)	FY2020 (RM MILLION)	VARIANCE (%)
OSV (including management fees)	81.93	69.92	17.2
OIC and Subsea	208.14	185.29	12.3
Rental of equipment / Ship catering / Other shipping related income	10.20	-	100
TOTAL REVENUE	300.27	255.21	17.7

EARNINGS

AMRB posted Earnings Before Interest Tax Depreciation and Amortisation ("EBITDA") of -RM43.11 million in FPE2022 (FY2020: RM22.25 million).

We recorded a loss before taxation of RM189.95 million in FPE2022, a 58.9% year-on-year variance (FY2020: RM119.57 million).

CAPITAL STRUCTURE, ASSETS, LIABILITIES & RESOURCES

As we continue adopting an asset-light strategy, AMRB has carried out the disposal of numerous ageing vessels and surplus vessels that have little probability in securing or servicing contracts. Our assets continue to far outweigh liabilities. Thus, going forward, shareholders can remain assured of the Group's capability of discharging its liabilities when appropriate.

ASSETS	FPE2022 (RM '000)
Non-current	87.92
Current	181.77
Total Assets	**269.69**

LIABILITIES	FPE2022 (RM '000)
Non-current	4.33
Current	338.16
Total Liabilities	**342.49**

TOTAL ASSETS

RM269.69
Million FPE2022

TOTAL LIABILITIES

RM342.49
Million FPE2022

MANAGEMENT DISCUSSION & ANALYSIS

In FPE2022, to sustain efficient cost management, AMRB continued its debt and financial restructuring initiatives to eliminate any standing debt obligations, which also include vessel liabilities.

In May 2021, AMRB secured the required court orders to facilitate its restructuring plan via a scheme of arrangement with its creditors, granted pursuant to Section 366 of the Companies Act 2016. The Group appointed Sage 3 Capital Sdn Bhd as its financial advisor to assist in this proposed scheme of arrangement.

Later on 1 July 2021, the Group announced that the Corporate Debt Restructuring Committee ("CDRC") has approved its application for assistance to mediate between the company and certain subsidiaries, joint-venture companies and associated companies.

In November 2021, the High Court of Malaya granted AMRB and its subsidiary Alam Maritim (M) Sdn Bhd ("AMSB") a 3-month extension beginning from 21 November 2021 to call for a scheme of creditors meeting, and allowed our request to restrain all legal proceedings against AMSB. Encik Ahmad Ruhaizad bin Hashim was also approved as director of AMRB and AMSB, pursuant to these court's decisions. In February 2022, a further 9-month extension beginning from 19 February 2022 was later granted on this matter.

These events are part of AMRB's proactive efforts to turnaround its business and reposition ourselves to focus on where and how the Group's restructured business should compete and win, ensuring underlying viability and the generation of sufficient EBITDA to meet its obligations. Moreover, CDRC recognizes that this is a priority sector for restructuring under CDRC's mediation process, given this challenging period for the oil and gas industry.

"In regards to leveraging resources, we continue to explore various solutions for unlocking the value of its 35-acre industrial land parcel at Kuala Linggi, Alor Gajah, Melaka."

	FPE2022	FY2020	FY2019
Gearing ratio	1.49	0.86	0.36

	FPE2022 (RM MILLION)	FY2020 (RM MILLION)	FY2019 (RM MILLION)
Short-term borrowings	108.57	108.81	47.57
Long-term borrowings	2.92	3.56	75.32
Total borrowings	**111.49**	**112.37**	**122.89**

In regards to leveraging resources, we continue to explore various solutions for unlocking the value of its 35-acre industrial land parcel at Kuala Linggi, Alor Gajah, Melaka. We are processing through sales offer, in addition to receiving new ones. Potential joint venture ("JV") development projects on those lands also remain in the Group's purview.

MANAGEMENT DISCUSSION & ANALYSIS

TOTAL CASH AND CASH EQUIVALENTS

RM20.54
Million FPE2022

"We will remain observant of more suitable best practices to be applied to AMRB's business processes to improve our overall sustainability and efficiency."

CASH & CASH EQUIVALENTS & BANK BALANCES

In FPE2022, AMRB's total cash and cash equivalents came in at RM24.71 million (FY2020: RM25.41 million). Our cash flow was buoyed by our current order book as well as ongoing and completed OIC and Subsea projects amidst the unstable operating environment.

The Group also continued its Board-approved share placement exercise, announcing on February 2021 that the proposed private placement exercise's (billed as Private Placement II) issue price per share is RM0.0771. In March 2021, we submitted an application to Bursa Malaysia Securities Berhad to seek its approval for an extension of time for AMRB to implement and complete its Private Placement II, which was approved that same month.

In September 2021, the Group announced that the Board resolved to fix the issue price for the Private Placement II at RM0.0476 issue price per share. The Private Placement II was completed on 5 October 2021. This placement exercise was done in partnership with UOB Kay Hian. In April 2022, AMRB announced its corporate proposal of the final conversion of Warrants A 2019 / 2022 to ordinary shares, with the issue price per share at RM0.12.

We will persist with suitable fundraising exercises to meet working capital requirements. The average collection time frame for receivables was 9 days in FPE2022 (FY2020: 63 days). We always maintained ongoing dialogues with shipyards and vendors to secure better credit terms, further enhancing our cash flow.

GROUP COSTS & EXPENDITURE

Total FPE2022 Group operating costs amounted to RM318.13 million (FY2020: RM273.23 million). Direct costs continued to be sustained by OIC and Subsea business segments and their ongoing contracts. To mitigate costings, AMRB maintained key departmental restructuring initiatives. Non-urgent, variable costs were understandably deferred.

Leveraging trends of past financial years, we retained best practices such as preserving minimum required crew numbers on laid-up vessels as well as maintaining minimum maintenance work on idle vessels. We also kept these vessels' satellite communication equipment deactivated and have sought to reduce the number of vessels in our fleet. We carried out impairment on the value of our assets making sure it was realistic in comparison to the practical value in the market.

Cost reductions during the year under review also included usual protocols such as standardizing equipment used across vessels, conducting maintenance in a strategic manner to optimize resources as well as undertaking collective purchasing of spare parts and inventory to benefit from bulk discounts where possible.

These initiatives allowed us to consolidate routines, integrate diverse functionalities and foster synergistic productivity across our business segments to better streamline our operations. We will remain observant of more suitable best practices to be applied to AMRB's business processes to improve our overall sustainability and efficiency.

Payroll costs for our 154-strong workforce were also affected in FPE2022, with these costs seeing lessening due to the ongoing temporary salary rationalization measures in mitigating the COVID-19 pandemic's negative economic impact and oil and gas downturn, which also negatively impacted the sustainability of AMRB.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS TRENDS & HIGHLIGHTS

OSV

The Group's OSV segment continued to contribute to AMRB sustaining substantial impacts on its operating cost and margin, primarily caused by vessel impairments and delayed turnaround times. Record-high COVID-19 infection cases and subsequent movement restrictions also sprouted hampering mobility and contributing to logistic complexities which disrupted docking and vessel maintenance.

We mitigated these impacts by diversifying our docking facilities in Peninsular and East Malaysia, as well as overseas, to increase vessel preparation rates when completing contracts. These actions helped lessen congestion.

Any occasional dock unavailability for owned vessels augured the need of external replacement vessels to be contracted, incurring more costs too. As with 2020, 2021 required us to source replacement vessels to undertake contracts on multiple occasions. This strategy also presented its own set of challenges, as the government-sanctioned Movement Control Order ("MCO") prevented our JV vessels from being docked due to stringent customs and travelling restrictions. Management has already decided to reduce AMRB's fleet from 40 to 16 vessels. The reduced vessel fleet size helps us to optimize our OSV operations in relation to the type of vessels we operate to focus on AHTS and supply vessels.

As at todate, 9 numbers of vessels have now been disposed getting close to the target of optimizing our fleet operation costs. In terms of contract developments, AMRB has secured extensions of the Integrated Logistics Control Tower ("ILCT") contract from PETRONAS at higher charter rates on average. Vessels not on long-term charter are marketed and secured work primarily from the spot market at better charter rates than the previous 3 to 5 years.

The supply side has seen an increase in demand due to higher activities and lower availability of domestically operating vessels.

VESSEL FLEET SIZE

16
Vessels

"The supply side has seen an increase in demand due to higher activities and lower availability of domestically operating vessels."

MANAGEMENT DISCUSSION & ANALYSIS

> "The successful implementation of Zap-Lok™ during TNAG project has encouraged other oil and gas players to look into this cost-reduction alternative to fast-track projects."

TNAG PIPELINE SYSTEM WORTH

RM242.49 Million

OIC & SUBSEA

AMRB's OIC and Subsea business segment continue to be invaluable in bolstering our synergistic approach to integrated oil and gas services. Furthermore, the performance of our OIC and Subsea segments remains the key reasons we have persevered in the current reporting year. Since we are not a pure-play OSV company, we can leverage the positive business profitability from diverse segments to help buffer the downturn of other segment(s).

Our OIC segment did not perform to its laid-out expectations in 2021 as there was a lack of available OIC projects in the market, and many other OIC projects continued to be put on hold due to the pandemic and the ensuing oil crisis. In the face of these circumstances, many companies in our local industry have either faced financial failures and/or sought to reduce their OIC capacity. Larger international OIC operators have moved to more lucrative regions with much bigger contracts such as the Middle East. This has resulted in less OIC-prevalent competitors in the market.

Previously, positive revenue from the OIC segment was primarily contributed by the completion of the 2020 Vestigo-awarded contract where we provided engineering, procurement, construction, installation and pre-commissioning services for the Tembikai Non-Associated Gas' ("TNAG") Pipeline System worth USD59 million, or RM242.49 million. This project was completed in June 2020 and was the first ever pipeline contract to utilise the state-of-the-art Zap-Lok™ Technology in South East Asia.

Zap-Lok™ has since given alternative solutions for PAC in looking at pipeline construction, whether it is regarding a new construction or replacement works. The successful implementation of Zap-Lok™ during TNAG project has encouraged other oil and gas players to look into this cost-reduction alternative to fast-track projects. PETRONAS has also approved the Zap-Lok™ system as an acceptable alternative method for pipe-laying works when it comes to tenders for Pan Malaysia T&I contracts in 2021.

However, AMRB still secured an OIC-related project when the Group was recently awarded the provision of transportation, installation and pre-commissioning of flexible risers and other appurtenances for the Cendor Pipeline Project for Petrofac Malaysia in 2022. The contract was completed in July 2022.

This contract was secured in tandem with other smaller pipe-laying jobs that AMRB focused on in the OIC segment throughout the financial year. Therefore, while many companies have fallen by the wayside in terms of OIC prospects, AMRB still maintained business viability to now remain as one of the strongest OIC players in the market.

Regarding our Subsea segment, we continued to work on ongoing projects previously secured. This included the provision of Subsea services for PM3-CAA from Repsol which has a duration of 5 years, as well as providing underwater services from the International Petroleum Corporation ("IPC") Malaysia BV which pertains to AMRB's Floating Production Storage and Offloading ("FPSO") Bertam for Underwater Inspection in Lieu of Drydocking ("UWILD").

Overall, new contracts for the Subsea segment have been continuously streaming in throughout 2021, and we continue to see an uptick in projects due to pent-up demand on maintenance projects.

MANAGEMENT DISCUSSION & ANALYSIS

SUSTAINABILITY THROUGH iCARE PHILOSOPHY INTEGRATION

Sustainability remains at the forefront of AMRB's mind, with the Management over the past years being determined in aggressively facilitate the integration of AMRB's internal cultural transformation beyond just work processes. We understand that pushing ourselves to the next level and setting higher standards of excellence is needed to consistently revitalize and reinforce our performances across the Group. This augurs a tightening of productivity and discarding of wastage to enhance efficiency levels in our projects in terms of time, budget and safety.

AMRB remains fully aware of the pandemic's continued resonance and historic difficulties, which is why we are more determined than ever to further forge shared excellence in performance, customer-centric responsibility as well as Environmental, Social and Governance ("ESG") integrity across our Group through our employees, work ethics and corporate initiatives to fortify shared values in our work culture derived from our iCARE philosophy.

Our Shared Values philosophy and iCARE work culture were established for the purpose of cultivating personal accountability, teamwork, collaboration, discipline and integrity among staff on their performance. It also applies to dealing with customers and clients, where we endeavour to embrace customer centricity, which is the focus of our iCARE work culture. On the other hand, Shared Values help us foster effective teamwork and collaboration. Impossible odds can always be surmounted through collaborative strength and encouragement from each other.

AMRB realizes it needs to internalize its surrounding environment and the workforce operating in this environment to better formulate meaningful transformation and understanding on which overall direction it needs to pursue as an organization. By internalizing a sense of excellent work delivery via self-motivation, an efficient workflow can be created that ultimately cascades benefit across the company, other employees and its stakeholders. Therefore, knowing what direction to tread is the vital first step for everyone at AMRB to take to move forward as one entity.

Past years' efforts in instilling these Group values have been instrumental in promoting a persistent outlook of positivity, commitment, diligence and performance equality among staff, Management and everyone in AMRB's value chain in 2021, more so given the pandemic's negative influence on almost all facets of businesses and livelihoods. It is heartwarming to witness the proactive cultural transformation we embarked on years ago has been a solid, guiding pillar for everyone at AMRB to lean on. Our employees have truly embodied the iCARE work culture and Shared Values philosophy in successfully planning and executing Group projects throughout AMRB's various business segments.

This is also reflected in everyone's desire to enhance positive industry reputation towards the Group's performance amidst the pandemic's disruptions. We have risen above unprecedented conflict and confusion to shape a sturdier and more cohesive organization than we could have ever imagined. Although we are aware of areas we can improve upon to accelerate our transformation process towards operational excellence, we remain judiciously level-headed in firstly prioritizing the facilitation of a conducive ecosystem that is obstacle-light to induce high performance. This ensures that AMRB will remain flexible and resilient in navigating these volatile headwinds and other trials in the future. More information on our sustainability and our organisational values are in the 'Sustainability Statement' section of this report on page 52.

"Our employees have truly embodied the iCARE work culture and Shared Values philosophy in successfully planning and executing Group projects throughout AMRB's various business segments."

MANAGEMENT DISCUSSION & ANALYSIS

"Given our strong adherence to excellent HSSE, we continued to be encouraged of successfully improve trends across key HSSE indicators in FPE2022."

MAN-HOURS WITHOUT A LTI

9.509
Million

HSSE EXCELLENCE

AMRB's exemplary HSSE performance record continues to be a crucial factor in project execution excellence and delivery as it remains determined and focused to achieve accuracy of cost and duration estimates in both initial, intermediate and final delivery, as well as execution efficiency and professionalism when it comes to project implementation and execution. Therefore, for AMRB, excellent HSSE performance across the board is always an influential contributor of successful projects, if not the most influential.

In recent times, the COVID-19 pandemic's presence saw our HSSE strategy adopting measures towards mitigating the virus' impact on the Group. Among the many measures taken to reduce or prevent COVID-19 infections at Alam Maritim's environment include:

- Frequent briefings to new and existing staff on 'new normal' SOPs of office spaces.
- Displaying COVID-19 awareness reminders and posters at various locations in the office.
- Conducting random checks on COVID-19 SOP compliance i.e. ensuring MySejahtera check-ins.
- Including COVID-19 inspection criteria in our mandatory Workplace Inspection checklist.
- Regularly update employees on COVID-19 statistics via email, as well as share COVID-19-related news alerts when necessary.
- Updating and discussing COVID-19 statistics during management meetings.

We also encouraged all employees to get their COVID-19 vaccinations, and then require them to later update their vaccination status in an internal portal for us to monitor. Management also keeps a copy of employees' digital vaccination certificates as an internal record for reference and supervision.

Given our strong adherence to excellent HSSE, we continued to be encouraged of successfully improve trends across key HSSE indicators in FPE2022. We achieve 9,509,550 million man-hours without a Loss Time Incident ("LTI"), while recording notable improvements in indicators such as recordable injury frequency and severity cases like TRFC, medical treatment ("MTC") and first aid ("FAC") cases, restricted work case ("RWC"), spillage, near misses as well as property damages – all of which remain strong markers of the continuous enhancement AMRB has done for overall HSSE. As with previous years, the Group recorded zero fatalities. Our HSSE excellence is due to the collaborative efforts of everyone at AMRB when it comes to driving compliance at levels, portraying a strong action-based safety culture.

All our employees and management personnel across business segments and operational hierarchies significantly contributed to AMRB's first-rate HSSE record. This is reflected in our inclusive 2021 Culture Survey which involved all staff in the company's organization. We obtained key insights from the collected survey results which further fortified HSSE awareness and enrichment in our staff's mindset and behaviour. We are confident that these results signal a generative HSSE culture becoming rooted in AMRB. Our most recent HSSE Culture Survey clearly shows the Group's ingrained commitment in progressive HSSE maturity, developing from the level of Calculative towards the level of Generative HSSE culture. Details on our HSSE performance are in our report's 'Sustainability Statement' section on page 78.

The primary challenge to tackle in the future would be maintaining and building upon this positive momentum. A safer workplace allows an entire organization to better produce excellent performances while garnering unanimous support and appreciation from our clients. This gifts us the critical competitive edge of our tenders across the industry.

MANAGEMENT DISCUSSION & ANALYSIS

ANTICIPATED OR KNOWN RISKS

The Group's key business segments: OSV, OIC and Subsea works are generally dependent on the level of activity of oil and gas majors, in particular PETRONAS. The level of E&P activities by oil and gas majors hinges on the present and expected stability of future prices of crude oil and gas.

In Malaysia, the demand for upstream works is mainly determined by PETRONAS who holds the exclusive rights of minerals exploitation in Malaysia under the Petroleum Development Act 1974 ("PDA"). In essence, the risk of AMRB as an oil & gas service provider to achieving its corporate objectives is very much tied to PETRONAS exploration and production plans and activities in Malaysia.

However, beyond these general risks, the Group has clearly identified its operational and financial risks and maintains a risk register, especially given the pandemic's presence which has shifted the organization's mindset into pursuing feasible operations in a post-pandemic landscape. Our commitment towards managing risks is centered on the following dimensions:

- Asset Reliability: Maximizing operational readiness to ensure timely delivery of assets to clients and to maintain desired uptime performance.
- Optimizing human capability and performance towards managing operational costs, schedule and delivery of the Group's OSVs, OIC and Subsea projects.
- Ensuring robust controls and governance over internal systems and procedures to ensure adherence to clients' requirements.
- Realizing overall Group profitability and business sustainability by driving business segment diversification given the present challenging external environment.
- Allocating sufficient funding to support projects financially to ensure smooth execution of project implementation. Thus, Group financial standing is an essential award criterion in securing projects, apart from being technically acceptable.

AMRB has identified Assets Utilization, Assets Readiness and Capital Constraints as the Group's principal risks, which if unmitigated, can potentially impact operational resilience and overall growth and sustainability in the long term.

Based on the aforementioned risks, effective mitigation action plans have been formulated and implemented. Such plans are rigorously deliberated by the Group Risk Management Working Committee ("GRMWC") which reports to the Board Risk Management Committee ("BRMC") on a quarterly basis. Throughout FPE2022, the following key risk mitigation actions were implemented:

- Capital Debt Restructuring ("CDRC") to manage long-term payables with lenders.
- Board approval on the change of accounting and procurement system from SAP system to SUN system. Was completed in March 2021.
- Manpower rightsizing.
- Maintaining good supplier relationships to facilitate better credit terms.
- Initiated cost optimization efforts and expedited billing and recovery from clients.
- Sale of laid-up vessels.
- Undertook vessel repair during dry docking.
- Implemented integrated procurement functions to improve lead time.
- Continued to aggressively initiate business development activities.

In mitigating our reliance on the OSV segment as the main revenue contributor, the Group continues to expand its Subsea and OIC segments. With the restructuring of our debt, we will significantly reduce our financial risks and provide healthy balance sheets moving forward.

Further details of our risk mitigation and internal controls are given at length within the Statement of Risk Management and Internal Control section of this annual report on pages 110 to 114.

MANAGEMENT DISCUSSION & ANALYSIS

"In terms of the overall outlook for the oil and gas sector, the IMF's projection on fuel price increases supports global market watchers' early positive sentiments on a strong oil price rebound."

OUTLOOK AND PROSPECTS

In particular, the crude oil price's prospects in FPE2022 will significantly depend on a myriad of positive and negative international factors and market forces, from the reduction of movement restrictions and strong vaccination rollouts to the continual geopolitical conflict in Eastern Europe. Regarding the latter point, as of April 2022, the International Monetary Fund ("IMF") predicts that global growth is projected to be slow but positive at a 3.6% growth in 2022 and 2023. This projection comes as economic damage from the ongoing Russia-Ukraine conflict in Eastern Europe will significantly contribute to a slowdown in global growth in 2022 as well as add to inflation. Fuel and food prices continue to rise, with vulnerable low-income populations being hit the hardest.

In terms of the overall outlook for the oil and gas sector, the IMF's projection on fuel price increases supports global market watchers' early positive sentiments on a strong oil price rebound. For instance, Goldman Sachs and their USD85 per barrel oil price prediction made at the end of 2021 has been exceeded, with prices for Brent crude oil price achieving an average of USD99.96 per barrel for 2022 according to the average of forecasts supplied by 13 major banks. These prices are projected to stand at USD106.08 and USD103.08 per barrel for the second and third quarters of 2022, respectively.

OPEC also supports the notion that the strong oil price rise in 2022 is primarily attributed to the escalating geopolitical conflict in Eastern Europe and concerns this might result in large oil supply shortages. OPEC+, which consists of OPEC and other producers including Russia, are planning to increase its June 2022 production target by around 432,000 barrels per day to gradually make up for the record output cuts done during the height of the COVID-19 pandemic.

In the long term, the International Energy Agency predicts that global oil demand will reach 99.4 million barrels per day in 2022, an increase by 1.9 million barrels per day from 2021.

Certain global deterrents may undermine these positive oil prospects, such as the recent rising COVID-19 cases in China, which may negatively affect global oil growth should the situation worsen. However, intense vaccine and booster shot rollouts already carried out is projected to be a major deterrent in the pandemic's unpredictable effects. Another global downturn that may negatively affect the oil market is the continuing global supply chain issues that is still seeing a slow recovery growth, with supply chains set to face a multitude of challenges in the next few decades.

MALAYSIAN ECONOMIC OUTLOOK

Domestically, Malaysia's economic outlook remains positive for 2022, which mirrors the aforementioned international GDP growth predictions. Malaysia is predicted to garner a GDP growth of 5.5% to 6.5% in 2022, according to the Minister of Finance Malaysia. This GDP forecast is buoyed by Malaysia's largest budget allocation ever of RM332.1 billion budget for 2022. The Malaysian government also foresees revenue expanding 5.9% to RM234 billion.

The Malaysian government relies heavily on the oil and gas sector specifically the upstream segment for its finances. Oil and gas contribution to the Malaysian GDP stands at a whopping 20% and its multiplier impact spills over to other sectors of GDP. We believe moving forward it will be imperative for PETRONAS to ensure a more consistent and sustainable policy for the sector to flourish such that the Malaysian economy is stable and growing.

MANAGEMENT DISCUSSION & ANALYSIS

AMRB'S BUSINESS SEGMENT PROSPECTS

In the face of these projected upswings in the operating environment, AMRB will continue leveraging its business model of synergistic solutions to better optimize and bolster the strengths and capabilities of its various business segments. This would be done in tandem with the pursuit of an asset-light strategy, as AMRB will also continue transforming its business by disposing of ageing and surplus vessels that have little prospect in securing or servicing contracts.

The disposal of vessels plays into a larger goal of optimizing vessel fleet utilization which we have already embarked upon in FPE2022. However, in the next few years, we hope to continue with the second phase of this internal vessel restructure by really honing the type of vessels we want to utilize going forward.

In the OIC segment, AMRB is looking to potentially increase pipeline replacement works and decommissioning activities. Furthermore, we will definitely seek to retain the minimal amount of OIC personnel and expertise in order to effectively participate in bidding exercises to secure OIC projects. These measures would hopefully further solidify the Group's broader intention to continue OIC as one of its core businesses alongside OSV.

AMRB's synergistic pivot also looks to massively take advantage of projected FPE2022 industry trends and developments. This is reflected in the PETRONAS Activity Outlook 2022-2024 ("PAO"), which shows that offshore fabrication prospects have a steady medium-term outlook (post-2024) for fabrication of fixed structures (especially Lightweight) and subsea facilities as PETRONAS continues monetizing its oil and gas resources to generate cashflow while meeting the demands of customers.

Additionally, a more modest outlook is still expected for heavier structures as cost competitiveness will drive development projects to opt for Wellhead Platform ("WHP") tie-ins to existing nearby facilities. This modest outlook also extends to floaters, as technology innovation presents favorable options for the monetization of remote fields.

Subsea facilities are also seeing positive prospects, with the PAO auguring that demand for Subsea Umbilical, Riser and Flowline ("SURF") in 2023 could rise further as more deepwater projects are maturing, as Malaysia's deepwater projects are also having long-term arrangements for SURF as one of the options to support the project requirement.

Offshore installation services are one of the Group's strong business propositions, with the steady medium-term outlook of pipelay barges expected due to more development projects opting for tie-ins to existing WHP or processing facilities. This outlook benefits our Zap-Lok™ technology utilization, giving us a significant advantage when it comes to efficient and economical pipeline installations.

AMRB is always looking to foster potential business partnerships and strategic alliances to enhance our ability to win even more contracts while also improving our capabilities of successfully delivering on our contractual commitments. We remain determined to make aggressive bids for new contracts to continue raising our order book value.

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MANAGEMENT DISCUSSION & ANALYSIS

"We hope that by 2022, we can achieve a positive turnaround in financial performance in all business segments."

STRATEGIC POSITIONING

Our restructuring plan will continue to look into reshaping of our portfolio mix. This entails a portfolio pivot, focusing on those with faster returns and less volatility, as well as sharing of risk, profit and liabilities and being an asset-light organization. Therefore, our choice of potential partners to work and collaborate with and/or do the joint undertaking of projects, including their capability to provide us with digital and technology insights, will require adequate evaluation. This means that we need to pursue more meaningful collaborations with external parties. We should be working with partners who are able to solve common business challenges and improve performance and efficiency using jointly-developed solutions while sharing risks and costs.

Currently, our restructuring plan includes assessing and recommending which part of the business should be maintained, grown, divested, enact interventions where required and also drive the transition moving forward while remaining cognizant of the necessary strategic trade-off between long-term sustainability and accelerating high-value returns to the Group. While this is ambitious in nature, it has to be done in tandem with some measure of financial prudence to ensure our future sustainability is achieved pragmatically. We hope that by 2022, we can achieve a positive turnaround in financial performance in all business segments.

To support these initiatives and accelerate their execution, we are also currently undertaking the retooling of our human resources capability pool in order to better harness our internal strength, capabilities, resources and brand name that we already have. We need to ensure our workforce is well-positioned to continue delivering on our strategies and commitments with pace and focused execution. This requires a reassessment and enhancement of our talent strategies as well as a redefinition of our workforce ecosystem. We need to future-proof our leaders as well as our talents.

We also need to accelerate organizational agility in shifting the work culture and mindset. At the core of these initiatives is our desire to build trusting teams that are committed towards focused execution across the Group to progress it further. This is critical if we intend to deliver on our strategies and commitments, grounded upon principles of merit and performance in all our endeavours, to earn the respect and trust of our clients. Underpinning these and numerous other critical deliverables within each business division and operating units would be the strict observance of QHSSE, asset integrity and continuous operations and uninterrupted service.

In the pursuit of these strategic objectives, we ultimately seek the support of all our stakeholders such as our customers, clients, creditors, subcontractors and more to continue supporting us as we emerge from strategic restructuring, collaborations and diversification into a more vibrant oil and gas market with much stronger management and operational position. The robust fundamental infrastructure of our business model remains strong, and will continue to serve as the framework for AMRB's future growth.

DIVIDEND

The Group's ability to pay dividends is subject to its profit performance for the financial year as well as the need to preserve capital to fund business development and to ensure its financial and operational sustainability in the long term. Management has not declared any dividend for FPE20222. Management will consider the possibility of a dividend payout to shareholders premised upon AMRB return to profitability in the near term.

DATUK AZMI AHMAD
Group Managing Director / Group Chief Executive Director