

# EXTERNAL ENVIRONMENT

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# EXTERNAL ENVIRONMENT

The geopolitical landscape, economic conditions and social factors can impact our business and our capacity to create value for our stakeholders over the long term. We have identified eight external themes and outlined our strategic approach to ensure that we are positioned to manage the risks and capitalise on the opportunities associated with each of these themes.

Deep structural changes are necessary for the world to achieve the ambitious target set by the Paris Agreement to limit global warming to within 1.5°C above pre-industrial levels. Corporations worldwide are urged to control their environmental impacts and take part in the global movement towards a low-carbon, climate-resilient business environment or face dire climate-driven issues. Referencing key recommendations from the TCFD, we frame these eight external themes against the backdrop of climate change-driven transition risk: policy & legal, technology, market and reputational risks.





GLOBAL ECONOMY

OVERVIEW	RISKS	OPPORTUNITIES	YINSON'S STRATEGIC RESPONSE	IMPACT
<ul style="list-style-type: none"> <li>• The Covid-19 pandemic saw global economies locking down and crude prices plummeting.</li> <li>• With the reopening of borders, resumption of normal activities and vaccine rollout programmes in place, the global economy is gradually recovering. However, the reboot of the economy back to pre-pandemic levels comes with its own set of challenges and opportunities.</li> <li>• There is a growing push towards a greener economy.</li> </ul>	<ul style="list-style-type: none"> <li>• Supply chain disruptions and business continuity challenges could affect most businesses and economies.</li> <li>• While lenders are unlikely to entirely cut off exposure to the oil &amp; gas sector due to the global green agenda, investors may favour pathways that support a greener economy.</li> </ul>	<ul style="list-style-type: none"> <li>• Companies with robust business continuity plans could adapt to the 'new normal' and build resilience for future challenges.</li> <li>• In a low interest rate environment where there is significant dry powder in the market, companies with long-term projects and stable returns are increasingly attractive to new partners and investors.</li> <li>• The rise of green loans and sustainability-linked lending provides exciting opportunities for businesses which adopt a sustainability focus.</li> <li>• The growing green economy segment provides synergistic opportunities for companies with marine and energy backgrounds looking to diversify.</li> <li>• Establishment of climate-based strategies and action plans, as well as improved disclosures of ESG items will align outcomes to stakeholder expectations.</li> </ul>	<ul style="list-style-type: none"> <li>• At Yinson, we believe that energy is the backbone of economic growth.</li> <li>• We leverage on our strengths and knowledge in the energy space to strategically diversify and adapt our businesses to ensure we build a profitable, sustainable and resilient portfolio of assets. This includes diversification into renewables in 2019 and green technologies in 2020.</li> <li>• Yinson actively seeks opportunities to create synergies between our financial strategies and Group-wide ESG practices, such as through sustainability-linked financing opportunities and green bonds.</li> <li>• Yinson mitigates supply chain risks by integrating ESG into procurement practices.</li> <li>• We continuously enhance our strategy towards achieving our Carbon Goals and improving overall ESG disclosures.</li> <li>• At a strategic level, we manage transition risks relating to climate change by considering regulatory, reputational and market risks.</li> </ul>	<p>Stakeholder groups</p> <p>Materiality</p> <p>Capitals</p>

## EXTERNAL ENVIRONMENT



## OIL &amp; GAS MARKET

OVERVIEW	RISKS	OPPORTUNITIES	YINSON'S STRATEGIC RESPONSE	IMPACT
<ul style="list-style-type: none"> <li>Oil &amp; gas demand was severely impacted in 2020 due to Covid-19. However, demand has increased in 2021, surpassing the OPEC compliant supply since Q3 2020. Oil prices have risen to pre-Covid-19 levels.</li> <li>Many oil &amp; gas developments that were postponed in 2020 are now progressing due to rising demand and pricing.</li> <li>As global energy demand continues to rise, the long-term outlook for oil &amp; gas remains promising, even alongside an increasing contribution from renewables to the energy mix.</li> </ul>	<ul style="list-style-type: none"> <li>A prolonged pandemic may cause short-term risks of further delays in the development of new oil &amp; gas projects.</li> <li>In the longer-term, accelerated development of alternative energies may cause a shift away from oil &amp; gas earlier than predicted, resulting in an earlier decline in consumption.</li> </ul>	<ul style="list-style-type: none"> <li>Many delayed projects have reached an improved maturity, which means less uncertainty and lower risks.</li> <li>Current trends in energy transition, as well as the lag in oil &amp; gas reserve replacements, could lead to even higher oil prices – allowing more projects to develop and become economically viable.</li> </ul>	<ul style="list-style-type: none"> <li>Yinson will continue to strengthen our project execution capacity, while continuously adhering to our Project Execution Philosophy, thus limiting our vulnerability to changing market conditions.</li> </ul>	<p>Stakeholder groups</p> <p>S1 S2 S3 S4 S6 S7 S8 S9 S10</p> <p>Materiality</p> <p>M4 M6 M7 M11</p> <p>Capitals</p> <p>C1 C2 C5</p>



## FPSO MARKET

OVERVIEW	RISKS	OPPORTUNITIES	YINSON'S STRATEGIC RESPONSE	IMPACT
<ul style="list-style-type: none"> <li>Due to the postponement of oil &amp; gas developments in 2020, the number of FPSO awards for the year ended at an all-time low. However, most postponed projects have now resumed and a significant increase in awards are anticipated in 2021 and beyond.</li> </ul>	<ul style="list-style-type: none"> <li>Delays in project awards due to a prolonged pandemic.</li> <li>Execution risk due to the pandemic's potential impact on subcontractors and fabrication yards.</li> </ul>	<ul style="list-style-type: none"> <li>With an anticipated increase in project awards expected against a backdrop of limited specialist FPSO contractors in the market, there is potential for FPSO contractors to be more selective and obtain more balanced commercial contracts.</li> </ul>	<ul style="list-style-type: none"> <li>The FPSO lease market has, as always, been relatively resilient towards external economic impact due to the long-term nature of its contracts.</li> <li>Yinson's unique Project Execution Philosophy limits our vulnerability to a volatile FPSO market.</li> </ul>	<p>Stakeholder groups</p> <p>S1 S2 S3 S4 S6 S7 S8 S9 S10</p> <p>Materiality</p> <p>M4 M7 M8 M11</p> <p>Capitals</p> <p>C1 C2 C5</p>



FPSO MARKET (CONT'D.)

OVERVIEW	RISKS	OPPORTUNITIES	YINSON'S STRATEGIC RESPONSE	IMPACT
<ul style="list-style-type: none"> <li>Some oil companies revisited and optimised their development strategies in 2020 to reduce capital expenditure and make projects more financially robust. The exercise also increased demand for leased FPSOs compared to owned units and shows a trend towards acceptance of contractor standards.</li> <li>Many oil companies are considering FPSO redeployment opportunities as this can result in considerable operational cost savings and quicker delivery schedules.</li> </ul>	<ul style="list-style-type: none"> <li>Financing could be more challenging as providers may prioritise other investments.</li> </ul>	<ul style="list-style-type: none"> <li>Increasing interest from clients and financiers for environmentally friendly FPSOs will benefit contractors who focus on energy efficiency and minimisation of emissions.</li> <li>Increased opportunities for companies that strategically target redeployment projects.</li> </ul>	<ul style="list-style-type: none"> <li>We have prioritised maintaining the special skillset needed to execute FPSO redeployment projects efficiently and are well positioned to take on several such projects.</li> <li>Yinson has continuously increased our focus on environmentally sustainable FPSO solutions and is taking further major steps in 2021.</li> <li>Developed Zero-Emissions FPSO Concept.</li> </ul>	



REGULATIONS

OVERVIEW	RISKS	OPPORTUNITIES	YINSON'S STRATEGIC RESPONSE	IMPACT
<ul style="list-style-type: none"> <li>Policymakers worldwide face an increasingly urgent task of making the energy system more sustainable and climate-friendly.</li> <li>2020 saw a rise in Covid-19 driven regulatory changes to increase occupational health and safety ("OHS") requirements on FPSOs.</li> <li>The International Maritime Organisation ("IMO") adopted a resolution that obligates maritime operators to update their safety management systems to appropriately address cyber risks by their 2021 annual verification.</li> </ul>	<ul style="list-style-type: none"> <li>Possible adoption of carbon tax across different jurisdictions.</li> <li>Multilateral governance pressures on corporations to provide mandatory climate disclosures may adversely affect corporations who are not adequately prepared.</li> <li>Regulatory changes to comply to Covid-19 driven OHS standards may lead to changes in working practices that affect continuity of operations.</li> <li>Corporations may find it challenging to comply with the increased technical upgrades and documentation required to manage cyber threats.</li> </ul>	<ul style="list-style-type: none"> <li>Worldwide policies towards a more climate-friendly energy system has opened up new business opportunities in energy efficiency and renewables, hence creating a demand for more emissions-friendly assets.</li> <li>Companies that demonstrate exemplary compliance to Covid-19-driven OHS and cyber security regulations may become industry leaders in those areas, inspiring investor confidence and building business resilience.</li> </ul>	<ul style="list-style-type: none"> <li>Yinson has diversified our business interests beyond oil &amp; gas to become a mixed energy solutions company.</li> <li>Yinson is performing technical assessments to determine the most feasible methods to reduce Group-wide carbon emissions.</li> <li>Where possible, Yinson aims to adopt practices that go beyond local and regional compliance obligations, in accordance to our strategic plan. This applies to all regulations including the increased OHS requirements due to Covid-19, and the IMO cyber security regulation.</li> </ul>	<p>Stakeholder groups</p> <p>Materiality</p> <p>Capitals</p>

## EXTERNAL ENVIRONMENT



## RENEWABLE ENERGY MARKET

OVERVIEW	RISKS	OPPORTUNITIES	YINSON'S STRATEGIC RESPONSE	IMPACT
<ul style="list-style-type: none"> <li>The Paris Agreement has driven many countries to set harder targets for implementing alternative and renewable energy sources to replace fossil-based sources. Earlier initiatives had built a strong platform for renewables to become a viable and cost-effective alternative.</li> <li>Total lifecycle costs of renewable generation in many economies are falling below the base operations costs of fossil energy sources, positioning renewables as the generation source of choice.</li> <li>Governments are increasingly focused on green economy investments as a means to revitalise infrastructure investment following the economic downturn caused by the pandemic.</li> </ul>	<ul style="list-style-type: none"> <li>Increased competition as more investors and corporations move into the renewables segment.</li> <li>Low-cost capital investors searching for stable yields drive down margins.</li> <li>The intermittent nature of renewable energy generation, when combined with an increased share of energy supply coming from these sources, can lead to renewable assets being exposed to curtailment risk or lower captured power prices in some markets.</li> </ul>	<ul style="list-style-type: none"> <li>Renewables are still early on the growth 'S-curve' with significant expansion anticipated.</li> <li>Investments are underpinned by strong government policies, international agreements and public opinion.</li> <li>Increased availability of low-cost capital drives opportunities for co-investment and/ or capital recycling.</li> <li>Increasing numbers of risk averse renewables investors, who are seeking stable yield, opens the field up for players with capability to manage development and construction risk.</li> </ul>	<ul style="list-style-type: none"> <li>Yinson has established its renewables footprint through investments and new projects in India, one of the global leaders in renewable energy growth. Simultaneously, we keep a strong focus on developing a diversified portfolio in a few selected core markets.</li> <li>Careful market selection is based on growth potential, governmental and regulatory policy regimes and good market access with potential for strong counterparties.</li> <li>A key aspect of Yinson's growth plans focuses on greenfield asset development in markets where we assess the consenting risk to be manageable and where we can deliver greater total value to our stakeholders.</li> </ul>	<p>Stakeholder groups</p> <p>S1 S5 S6 S7 S9</p> <p>Materiality</p> <p>M7</p> <p>Capitals</p> <p>C1 C2 C6</p>



## GREEN TECHNOLOGIES MARKET

OVERVIEW	RISKS	OPPORTUNITIES	YINSON'S STRATEGIC RESPONSE	IMPACT
<ul style="list-style-type: none"> <li>Rising awareness about the harmful effects of greenhouse gas ("GHG") emissions is spurring low-carbon electricity demand, which is driving the global green technology and sustainability market.</li> </ul>	<ul style="list-style-type: none"> <li>New and novel green technologies can prove challenging to commercialise, caused in part by high product costs.</li> <li>A lack of affordable and reliable research institutions could delay the development of green technologies.</li> </ul>	<ul style="list-style-type: none"> <li>Green technologies is an emerging segment, with the decarbonisation of the transport industry offering exciting opportunities.</li> <li>Investments are supported by government funding and incentives.</li> </ul>	<ul style="list-style-type: none"> <li>Yinson established its Green Technologies Division in 2020. It aims to build a profitable global business, which, through investments in green technologies, accelerates the transition to a net carbon-zero world, making the world a better place to live for current and future generations.</li> </ul>	<p>Stakeholder groups</p> <p>S1 S5 S6 S7 S9</p> <p>Materiality</p> <p>M7</p> <p>Capitals</p> <p>C1 C2 C6</p>



**GREEN TECHNOLOGIES MARKET (CONT'D.)**

OVERVIEW	RISKS	OPPORTUNITIES	YINSON'S STRATEGIC RESPONSE	IMPACT
<ul style="list-style-type: none"> <li>The global green technology and sustainability market is expected to grow from USD11.2 billion in 2020 to USD36.6 billion by 2025, at a compound annual growth rate of 26.6%.</li> <li>Growth accelerated in 2020/ 21, in response to significant government-led investments in the mobility, infrastructure and alternative energy industries following the economic downturn.</li> <li>Decarbonising the transport segment is a priority.</li> </ul>	<ul style="list-style-type: none"> <li>Corporations that do not adapt their business models to align with green consumer choices risk the longer-term viability of their businesses.</li> </ul>	<ul style="list-style-type: none"> <li>The economic environment is poised for breakthrough technologies in existing business models.</li> </ul>		



**INFORMATION TECHNOLOGY**

OVERVIEW	RISKS	OPPORTUNITIES	YINSON'S STRATEGIC RESPONSE	IMPACT
<ul style="list-style-type: none"> <li>The Covid-19 pandemic caused unprecedented demand for adaptive information technology ("IT") services and resources requirements to facilitate the needs of workforces operating remotely.</li> </ul>	<ul style="list-style-type: none"> <li>Companies may struggle to adapt to or afford the technological resources that support remote working, thus experiencing loss in productivity and failure of business continuity.</li> </ul>	<ul style="list-style-type: none"> <li>Companies that have invested in digitalisation and technology are able to thrive and move ahead more easily in this 'new norm' compared to their peers.</li> </ul>	<ul style="list-style-type: none"> <li>Pre-pandemic, Yinson had already transitioned to a cloud-based collaborative platform and implemented video communication tools in alignment with the Group's direction to enable employees to work from home. This enabled a smooth rollout of our business continuity plans when movement restrictions were enforced.</li> </ul>	<p>Stakeholder groups</p> <p>S2 S3 S4</p> <p>S6</p> <p>Materiality</p> <p>M7 M17</p> <p>Capitals</p> <p>C3 C5</p>

## EXTERNAL ENVIRONMENT



## INFORMATION TECHNOLOGY (CONT'D.)

OVERVIEW	RISKS	OPPORTUNITIES	YINSON'S STRATEGIC RESPONSE	IMPACT
<ul style="list-style-type: none"> <li>There has been a worldwide demand for technological improvements and resources to enable this 'new normal'.</li> <li>Technology emerged as a key enabler for businesses to ensure resilience and the smooth rollout of business continuity plans.</li> </ul>	<ul style="list-style-type: none"> <li>Companies and industries face greater cyber security risks, for example from the increasing number of phishing emails sent out during the pandemic.</li> <li>Inability to physically attend to IT hardware problems may cause further drops in productivity.</li> </ul>	<ul style="list-style-type: none"> <li>Companies that have invested in robust IT governance, such as cyber security awareness and information security, are less likely to be susceptible to cyberattacks, thus, supporting business continuity.</li> <li>Companies with flexible working policies pre-pandemic were able to more seamlessly adapt to the new remote working culture.</li> </ul>	<ul style="list-style-type: none"> <li>Cyber security and information security have always been a priority for Yinson. We invest in solutions to protect us against cyber attacks and run a robust cyber security awareness training programme for all employees.</li> <li>Yinson continues to prioritise digitalisation in all our workflows for increased efficiency and business resilience.</li> </ul>	



## CHANGES IN CONSUMER BEHAVIOUR

OVERVIEW	RISKS	OPPORTUNITIES	YINSON'S STRATEGIC RESPONSE	IMPACT
<ul style="list-style-type: none"> <li>Key findings from a poll conducted by Ernst &amp; Young in the US indicates that while majority agree on the value of the oil &amp; gas industry to the economy and modern lifestyle, they are sceptical of the industry's ability to protect the environment and consumer pocketbooks.</li> <li>The same report also indicates that younger consumers expect the oil &amp; gas industry to better evidence positive social and environmental impacts.</li> </ul>	<ul style="list-style-type: none"> <li>Challenges in attracting talent, especially from the younger generation.</li> <li>Dwindling interest in Petroleum Engineering (or other related courses) may narrow the pool of graduates for injection into the FPSO industry's workforce.</li> <li>Oil &amp; gas industry's ESG efforts risks perception of 'greenwashing'.</li> </ul>	<ul style="list-style-type: none"> <li>Implementing thoughtful and impactful ESG initiatives and communications to protect the industry with integrity and increase positive perceptions.</li> <li>Be an early and serious innovator of engineering design and systems that address environmental concerns and communicate such innovation with impact.</li> </ul>	<ul style="list-style-type: none"> <li>With sustainability as a key value driver, we are committed to embedding sustainability in all aspects of our business and across all divisions.</li> <li>We actively design our key assets and their operational processes to take environmental concerns into consideration towards achieving our Group sustainability targets.</li> <li>We aim to create stronger, more effective consumer connections which recognise consumer values and concerns by providing regular, open and transparent updates on our ESG commitments.</li> <li>Our diversification into renewables and green technologies addresses this perception.</li> </ul>	<p>Stakeholder groups</p> <p>S8</p> <p>Materiality</p> <p>M7 M16 M18</p> <p>Capitals</p> <p>C4 C5</p>

# COVID-19: YINSON'S NEW NORMAL

When Covid-19 hit, Yinson activated its business continuity plans across the globe to ensure we could continue delivering vital energy products to countries and communities in this time of crisis. The safety of our employees and crew took top priority, and we worked hard to continue delivering on our commitment to all our stakeholders.

## EMPLOYEES

When lockdowns were announced, all Yinson employees worked from home. This was a smooth transition, as the Company had already implemented an elective work from home policy prior to the pandemic, supported by a cloud-based collaboration platform. As restrictions were lifted, we began a phasic approach to reopening our offices, ensuring we complied with all necessary multinational government regulations.

Building awareness was an important part of our fight against Covid-19. Internally, we ran extensive information campaigns on virus prevention and mitigation, derived from information and guidelines issued by national health authorities, flag states and International SOS. A special section on our corporate intranet, YNet, was set up to provide a centralised location for related updates and resources.

We also adapted our people processes to incorporate important adjustments as a result of the ongoing pandemic, including:

- Working from home continues to be fully supported across all offices.
- Flexibility to adjust working hours beyond core working hours.
- Masks to be worn in the office, and social distancing observed.
- Sanitising to take place more frequently.
- Contact tracing, health declaration and temperature checks taken.
- Staggered arrival times to prevent crowding.

Regular risk assessments were carried out in cooperation between the local management teams and employees. The Singapore office, for example, established a Covid-19 Action Committee which conducted weekly meetings to ensure they had appropriate measures in place and complied with regulatory requirements. The Norway office utilised their Working Environment Committee to facilitate risk assessments and decide on measures to be implemented.

Management issued Covid-19 vaccinations guidelines to the Group on 2 April 2021 affirming the Group's commitment to the highest standards of health and safety, and recognising its obligation to provide a safe working environment for all employees and visitors. Management strongly encouraged voluntary use of approved vaccines and affirmed its commitment to providing employees with access to qualified practitioners for those who wish to consult further on the benefits and risks, whilst respecting the right of those who may not wish to or are unable to receive the vaccine. The guidelines also affirmed a commitment to complying with and implementing guidance from the applicable national governments and the World Health Organisation.

Employee engagement levels and productivity remained strong and consistent during the year.



*Information Technology, External environment, pg 67; Information Technology, Intellectual Capital, pg 110; Global consistency, pg 116; Conducive and healthy work environments, pg 118; Covid-19 support for employees, pg 118; Local workforce, pg 122; Employees, pg 130*

## OFFSHORE PRODUCTION AND CREW

Yinson devoted considerable time and resources to prevent Covid-19 infections amongst crew, and ensure a safe and healthy working environment.

During the onset of the pandemic, it took some time to put appropriate quarantine arrangements and testing processes in place. While these arrangements were being made, some crew had to stay offshore for prolonged periods of time. Our crewing managers kept close contact with the manning agencies, crew and their families, to provide information and ensure that everybody felt safe and secure. We are deeply appreciative of our crew and their families for their kind understanding and for remaining patient throughout this period.

## COVID-19: YINSON'S NEW NORMAL

Regional office teams in Port Harcourt, Accra and Miri devoted significant resources towards organising and managing quarantine arrangements for crew, as well as ensuring adherence to evolving national requirements. All units established Covid-19 procedures for prevention and case management.

Throughout the pandemic, we cooperated closely with our clients, to ensure safe and consistent practices amongst internal and external stakeholders.

A number of positive cases were revealed during quarantine and testing onshore, preventing further spread of the virus onboard. All cases were treated and made a full recovery, except one. Unfortunately, one individual did not recover, despite being evacuated to his home country and receiving best available care.

Despite the tremendous effort made, and significant resources deployed, four crew members tested positive for Covid-19 onboard one of the FPSOs at end January 2021. The crew members were immediately isolated and evacuated to shore and provided medical treatment in hospital. Other appropriate mitigating actions were concurrently implemented onboard. All affected crew have recovered, and the unit was declared Covid-19-free four weeks later. Yinson and our clients have provided ongoing support to all affected crew and their families. All vessels are now Covid-free.

Operational uptime has not been affected by the Covid-19 cases offshore and precautionary measures remain in force on board all our units.



*Operations, pg 100; Offshore health and safety, pg 125; Crew, pg 130; Clients, pg 132*

### COMMUNITIES

Yinson continued to support our frontliners and local communities. Since the start of the pandemic, Yinson has contributed over RM1.2 million in medical protective equipment and other needed supplies to support the fight against Covid-19. As the situation improved and restrictions were lifted, we shifted our focus to contribute actively to post-recovery efforts. One of the needs that came to light post-recovery was that many families, especially from the lower income group, did not have laptops or computers to enable their children to attend online classes. Yinson responded by donating USD13,500 worth of laptops and computer equipment to support this need.



*Local communities, pg 136; United in the fight against Covid-19, pg 138*

### VIRTUAL STAKEHOLDER ENGAGEMENT

Strengthening Yinson's ability to connect and collaborate virtually with our external stakeholders was a key adaptation the Group went through to enable business continuity. With the support of our global IT team, we worked closely with our stakeholder groups to bring meetings and events online to maintain stakeholder engagement levels. We explored tools for enhancing online meeting effectiveness, and upskilled our employees to use them. Some key virtual stakeholder engagements in FYE 2021 include:

- Continued participation in industry exhibitions and conferences as exhibitors and speakers, using virtual conference platforms.
- Broadcasted the 27<sup>th</sup> AGM virtually, with shareholders tuning in and voting via a dedicated secure platform.
- Investor meetings and analyst briefings held virtually.
- Participated in virtual career fairs and student-focused events, allowing live chats with students.
- Facilitated site audits and visits virtually.
- Brought corporate events such as signing ceremonies to a virtual platform.

Covid-19 drove Yinson to step up our digitalisation efforts, allowing business processes to take place with limited reliance on physical presence. Focus was placed on automation; integrity of data collection, storage and transfer; collaboration platforms; cyber security; ease of use and workflow improvements.



*Business systems and processes, pg 110; Digitalisation, pg 123; Social & Relationships Capital, pg 130*

