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EXTERNAL ENVIRONMENT

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The external environment that Yinson operates in are key contributing factors to our business' viability.

Yinson is well positioned to act on the opportunities presented by these external variables. Yinson uses our materiality matrix to better target our efforts and management of sustainability topics. Further information on how we mitigate these risks and consider these opportunities are found within our six Capitals, listed after our commentary on each external variable.

GLOBAL ECONOMY

Overview

- Global growth could slow to its lowest reading since the Great Depression as the Covid-19 pandemic weighs on. This is exacerbated by cities and countries being 'locked down', restricting the flow of goods, services and people.
- The trade war between China and US, rise in trade barriers and dislocation of supply chains could worsen macroeconomic stress and geopolitical tensions.

Risks

- Global recession risk is heightened, given a protracted outbreak of Covid-19. Aggregated demand is expected to fall sharply.
- Through these challenging times, Yinson's operations and projects continue to be on track. Yinson has successfully completed a USD800 million refinancing exercise for FPSO JAK, adding liquidity to buffer the Group.

Opportunities

- Governments and Central Banks could conduct coordinated fiscal and monetary stimulus to prop up the global economy.
- The Federal Reserve ("the Fed") has cut interest rates twice to near-zero in March 2020 to help shore up the US economy amid the Covid-19 pandemic.
- The Fed has acted decisively to prevent the financial system from seizing up. It has entered into new territory and pledged to buy corporate bonds to help stabilise the market.

How Yinson mitigates this risk: Financial Capital (pg 50), MD&A (pg 128)

OIL AND GAS MARKET

Overview

- Oil and gas remains the largest contributor to the global energy mix. The contribution is expected to grow over the medium term, with demand peaking in 2030.
- The breakdown of OPEC+ talks in early-March saw oil prices plunging. However, OPEC+ turned around in April 2020 and agreed to production cuts to stabilise the oil market.
- With confinement measures in place in 187 countries due to Covid-19, the International Energy Agency predicted in April 2020 that this year's global oil demand will fall by 9.3 million barrels a day versus 2019.

Risks

- Oil is facing weak demand. Predictions in April 2020 are that demand will recover by year-end. However, considering the rapid changes in predictions over the past months, this is uncertain.
- Oil price volatility poses a threat to oil companies, especially those with higher production costs. To deal with the reduced revenues, most oil companies will, or already have, introduced significant capex reductions.

Opportunities

- The oil shock could curb US shale oil production. This may hasten global supply and demand back to an equilibrium.
- Notwithstanding the temporal dip in the oil market, global oil and gas demand is set to grow in the next decade.
- Green movement and IMO 2020 could see higher demand for cleaner fuels and fuels with lower sulphur content.

How Yinson mitigates this risk: Group strategy (pg 30), Financial Capital (pg 50), MD&A (pg 128)

FPSO MARKET

Overview

- Discovery of deepwater assets in offshore Africa, Brazil, Mexico and Guyana will be driving the demand for FPSOs.
- South America, Africa and Asia constitute more than 75% of the global FPSO market. Brazil is the largest market for FPSOs on a country level.
- Petrobras is the single largest operator of FPSO vessels globally with almost 10% of the fleet. Other major oil companies such as BP, Chevron, CNOOC, ENI, Exxon, Shell and Total operate almost 20% of the FPSO fleet, while lease contractors still have a share of approximately 50% of the fleet.

Risks

- High customer concentration risk.
- Project executions may be impacted by financial markets due to Covid-19, causing potential delays.
- FPSO projects may be delayed by oil companies. The trend is that this mainly impacts EPC projects, while lease projects continue as planned.
- Inability to secure project financing, new projects or deferment in projects amid stiff competition and tightening financing conditions.

Opportunities

- Increased demand for FPSOs in Brazil, Africa, Mexico and Guyana.
- Increasing demand for FPSOs to support deepwater projects as shallower prospects are exhausted.
- Postponement of projects free up capacity in the supply chain which could result in lower cost and shorter delivery times for the projects being executed.

How Yinson mitigates this risk: Group strategy (pg 30), Financial Capital (pg 50), Business Development (pg 64), Projects (pg 65), Governance (pg 69), Social & Relationships Capital (pg 102), MD&A (pg 128)

EXTERNAL ENVIRONMENT

REGULATIONS

Overview

- Over 100 governments committed to updating their national climate plans in line with the Paris Agreement, and these enhanced climate plans aim to include all vital sectors.
- The International Maritime Organisation ("IMO") has ruled that from 1 January 2020, marine sector emissions in international waters be slashed. The marine sector will have to reduce sulphur emissions by over 80% by switching to lower sulphur fuels.

Risks

- Increased pressure from governments to adopt cleaner energy.
- Increased technical complexity in FPSO operating environment in areas such as water treatment, flaring, and emissions.
- Geopolitical tensions, regional instability and territorial disputes could affect oil field concessions.
- Higher compliance costs.

Opportunities

- Increased demand for FPSOs in Brazil.
- Yinson's clean record with regulators gives us an edge in heavily regulated environments.
- IMO sulphur regulations have the potential to be highly disruptive to the pricing and availability of compliant fuels. Growing demand for middle distillates could result in upward price pressure on fuels such as diesel and jet fuel.
- Other capital providers could provide alternative funding solutions for new projects.

How Yinson mitigates this risk: Renewables assets (pg 21), Group strategy (pg 30), Sustainability-linked financing (pg 53), Renewables (pg 68) Governance (pg 69), Government and regulatory bodies (pg 107), Natural Capital (pg 120), MD&A (pg 128)

TECHNOLOGY

Overview

- Offshore projects in increasingly isolated locations and deep waters increase the need for robust remote monitoring and data-driven operations.
- Blockchain has enormous potential to reduce the risk of fraud, errors, and invalid transactions in energy trading, while making financial transactions more efficient, facilitating regulatory reporting requirements, and enabling interoperability.

Risks

- Cybersecurity concerns – safeguarding of confidential information and data integrity due to increased cybersecurity attacks from external hackers.

Opportunities

- Production improvement and efficient decision-making utilising real-time data and information.
- Cost savings and improvement performance from digitalisation of various areas such as finance, Health, Safety, Environment and Quality ("HSEQ") and procurement.

How Yinson mitigates this risk: Business systems and processes (pg 74), Building IT capabilities (pg 77), MD&A (pg 128)

ALTERNATIVE ENERGY SOURCES

Overview

- Growing concern over environmental damage and the conservation of materials and fuels.
- A clear shift towards renewables in the global energy mix, from around 15% in 2016 to over 20% in 2030, as government policies gear towards cleaner energy.
- The expansion of generation from wind and solar PV helps renewables overtake coal in the power generation mix in the mid-2020s. By 2040, low-carbon sources could provide more than half of total electricity generation.
- 2020 could herald the year of the electric car, with a wave of new models launching as the world's biggest manufacturers scramble to lower the carbon dioxide emissions of their products.

Risks

- Potential changes in investor preferences towards carbon-friendly investments.
- Financial risks resulting from the process of adjusting towards a low-carbon and climate-resilient economy.
- Inability to manage 'environmental image' may reduce ability to attract talent.

Opportunities

- Growing generation from wind and solar photovoltaic presents opportunities for increased investment in Yinson's Renewables Division. Yinson has ventured into the renewables market in FYE 2021 with the acquisition of solar parks in Rajasthan, India.
- Widespread adoption and advancement of renewables infrastructure to drive capex and operating costs down.
- Governments promoting green energy via grants, subsidies or tax incentives.
- Greater opportunity to demonstrate better and continual control of our environmental impact can strenghthen our credibility in the market, thereby attracting talent.

How Yinson mitigates this risk: Renewables assets (pg 21), Group strategy (pg 30), Sustainability-linked financing (pg 53), Renewables (pg 68), Utilise digitalisation tools for HSEQ improvements (pg 78), Natural Capital (pg 120), MD&A (pg 128)