HENGYUAN REFINING COMPANY BERHAD (HRC)

Risk Management

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1.0 INTRODUCTION

Risks that could have a significant influence on achieving the company vision, mission and strategic objectives are systematically analyzed and ranked with respect to their relative importance, in terms of impact and likelihood. The term "risk" is used for both downside and upside risks (risks and opportunities). Measures are already in place to control the risks, in the form of design features, management systems, competence requirements, etc.

Risks profiling exercise is conducted quarterly to ensure the existing risk control measures continue to be adequate, should be reinforced or could possibly be relaxed.

2.0 PURPOSE

The purpose of this document is to provide practical guidance for addressing the risks and opportunities in accordance with ISO 31000, 9001, ISO 14001, ISO 45001 and ISO 37001 requirements.

The objectives of carrying out risk assessments are to:
- Give assurance that the management system can achieve its intended result(s).
- Enhance desirable effect.
- Prevent or reduce undesirable effects.
- Achieve continual improvement.

3.0 SCOPE

This document applies to all actions that will be taken to address risks and opportunities in the company.

4.0 REFERENCES

- Quality Manual
- Health, Safety, Security and Environment Management System
- ISO 9001 Requirements
- ISO 14001 Requirements
- ISO 14004 Requirements
- ISO 45001 Requirements
- ISO 37001 Requirements
- ISO 27001 Requirements
- ISO 31000 Guideline

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5.0 DEFINITIONS

HRCPD - Hengyuan Refining Company Port Dickson
ISO - International Organization of Standardization
SWOT - Strengh, Weakness, Opportunity and Threat
PESTEL - Politic, Economy, Social, Technology, Environment & Legal

6.0 RESPONSIBILITIES

6.1 Board Risk Management Committee (BRMC)

BOD via its BRMC's responsibilities are to:
1. Oversee, review and approve HRC Corporate risk register/profile quarterly.
2. Require adequate and appropriate resources for effective operation of risk management.
3. Assess and evaluate existing risk management framework, policies and strategies.
4. Review and evaluate necessary internal controls to ascertain their adequacy and effectiveness to address the identified risks.

6.2 Site Leadership Team

Site Leadership Team's responsibilities are to:
1. Promote risk aware behaviors.
2. Monitor and review allocated strategic risks.
3. Manage and provide assurance to the Board of Director.
4. Identify strategic opportunities arising from the company's risk profile.
5. Ensure risk management activities are carried out in the company in accordance to this document.

6.3 Risk & Integrity Department

Risk and Integrity Department's responsibility is to:
1. Keep and maintain risk assessment profile up to date.
2. Report the risks and opportunity profile to the Board Risk Management Committee (BRMC).

6.4 Risk Owner

Risk Owner responsibility is to:
1. Manage the risk(s) which are assigned to him/her.
2. Report to Leadership Team on progress against mitigation plan and the results of risk assessments performed on new initiatives.

6.5 Staff

Staff responsibilities are to:
1. Apply risk thinking as part of prudent decision making every day.
2. Provide continuous disclosure of areas of concern and opportunities.

7.0 PRINCIPLES

The purpose of risk management is the creation and protection of value. It improves performance, encourages innovation and supports the achievement of objectives. HRC adopts risk management principle from ISO31000 Risk Management as follows:
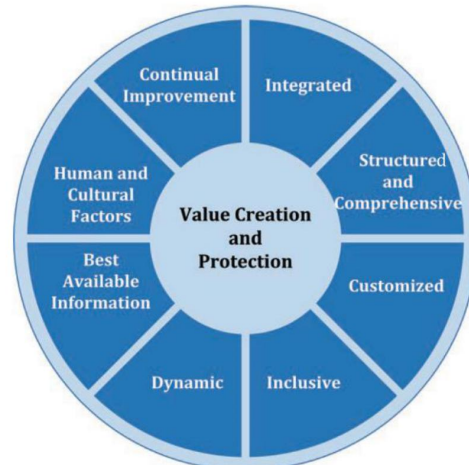
Figure 1: Principles

8.0 FRAMEWORK

The purpose of risk management framework is to assist HRC in integrating risk management into significant activities and functions. The effectiveness of risk management will depend on its integration into the governance of HRC, including decision making. This requires support from stakeholders, particularly Top Management.

Figure 2: Framework

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9.0 PROCESS

When planning for the Quality, Information Security, Anti-Bribery and HSE Manegement System, HRCPD shall consider the issues related to Context of the Organisation and the needs and expectations of interested parties. HRCPD shall also determine the risks and opportunities that need to be addressed as per below:
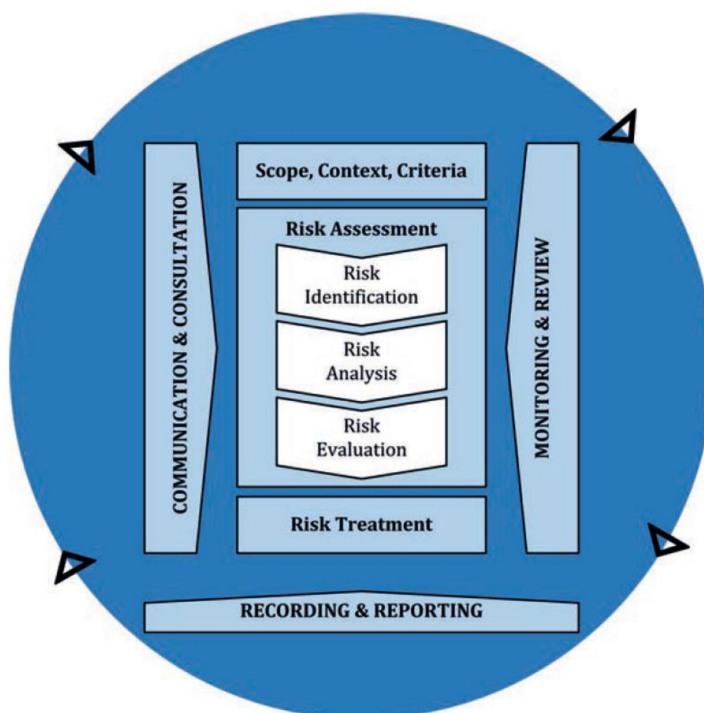

Figure 3: Risk Management Process

9.1 Communication and Consultation

The purpose of communication and consultation is to assist relevant stakeholders in understanding risk, the basis on which decisions are made and the reasons why particular actions are required. Hence, Risk & Integrity Department, continuously, communicate with the risk owners and its respective LTs to ensure the information with regards to the reported and recorded risks are up-to-date and accurate. The information then shall be evaluated, reviewed and challenged during a LT meeting for deliberation.

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9.2 Scope, Context and Criteria

9.2.1 Scope

The scope of risk management in HRC covers overall work processes as follows:
1. Strategic & GRCI
2. Commercial, Economic and Scheduling
3. Finance
4. QHSSE
5. Engineering & Projects
6. Operations
7. Information Technology
8. Corporate Affairs and Government Relations
9. Technology and Process Safety
10. Human Resource
11. Contract & Procurement

9.2.2 Context

Context of the risk management covers both internal and external factors as follows:

Issues	Type of Issues
Cash Payment	Internal/External
Gift	Internal/External
Fraud by own staff	Internal/External
Travel, hospitality and entertainment	Internal/External
Sponsorships and grants	Internal/External
Employment	Internal/External
Joint ventures	Internal/External
Acquisitions	Internal/External
Security	Internal/External
Corporate social responsibility	Internal/External
Intermediaries	Internal/External
Safety	Internal/External
Environment	Internal/External
Operational	Internal/External
Financial	Internal/External
Political donation	External
Customs	External
License and permit	External
Tax	External
Compliance obligations	External
Reputation	External

9.2.3 Criteria

HRC risk criteria is dynamic and subject to Senior Management approval and based on the approved risk appetite.

9.3 Risk Assessment

9.3.1 Risk Identification

There are no requirements in ISO standards we subscribed to use formal risk management in the identification of risks and opportunities. However, the site must first determine the context of organization and interested parties. This would become the basis of how we prioritise the way we manage our processes with balance risks and opportunity.

1. It is important to identify potential risks and opportunities specific to site activities. They are classified to HSSE risks, Operational risks and Commercial risks.
2. Risk Identification shall include any action taken with the aim of identifying risk including opportunities within HRCPD.
3. Several tools and methodology may be applied in risks and opportunities identification such as Risk Profiling, SWOT analysis, PESTEL, Audits, Inspection, Customer Feedback, Complaint, Brainstorming etc.
4. There are 3 inputs to be considered when determining the risks and opportunities:
    *   Financial/ Operations.
    *   HSSE.
    *   Compliance/ Reputation.

HRCPD Corporate Risks and Opportunities can be found in the register updated by Risk & Integrity Department. Components of the risk register include at least the followings:
*   Risk name
*   Risk description and impact
*   Risk owner
*   External & internal issues
*   Interested parties
*   Compliance obligation
*   Mitigation action or control put in place
*   Timeline
*   Quarterly specific action/ result

Risk & Integrity Department is also responsible to maintain and update Anti-Bribery Risk Register. Whereas Refinery Application Analyst is responsible to maintain, and update Risk Register associated with Information Security.

9.3.2 Risk Analysis

9.3.2.1 Corporate risk

Risk analysis is carried out in order to prioritize them. Important questions to ask frequency, likelihood, severity, impact on objectives, monetary consequences, loss of customers, legal exposure and impact on interested parties.

Risk analysis attributes used by HRCPD:

△	Inclining	**Green**	Risk Response(s) Acceptable
◯	Stable	**Yellow**	Risk Response(s) Need Improvement
▽	Declining	**Red**	Risk Response(s) Need Major Improvement
		Blue	Risk Response(s) Under Review

Impact	Low, Medium & High
Likelihood	Low, Medium & High

Low Likelihood	Slight chance of occurrence
Medium Likelihood	Medium chance of occurrence
High Likelihood	Very likely to occur

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9.3.2.2 Corporate opportunity

Corporate opportunity refers to any business opportunity that may benefit the company for example improvement in operations, reduce in wastage and expenditure, improvement in effectiveness and efficiency throughout the entire work processes etc.

Opportunity analysis attributes used by HRCPD:

△	Inclining	**Green**	Opportunity Response(s) Consistently In Progress
○	Stable	**Yellow**	Opportunity Response(s) In Progress
▽	Declining	**Orange**	Opportunity Response(s) Slowly In Progress
		Blue	Opportunity Response(s) Under Review

Impact	Low, Medium & High
Likelihood	Low, Medium & High

Low Likelihood	Slight chance of occurrence
Medium Likelihood	Medium chance of occurrence
High Likelihood	Very likely to occur

9.3.2.3 Anti-bribery risk

For Anti Bribery, risk level is divided into 3 categories:
1. High (15-25) – Reduce
2. Medium (5-14) – Accept
3. Low (1-4) – Accept

Each category derived from the multiplication of consequence and likelihood as per following:

Consequences:
- Very High – 5
- High – 4
- Medium – 3
- Low – 2
- Very Low – 1

Likelihood:
- Very High – 5 (more than 3-time occurrences in a year)
- High - 4 (3-time occurrences in a year)
- Medium – 3 (2-time occurrences in a year)
- Low – 2 (1-time occurrence in a year)
- Very Low -1 (Zero occurrence in a year)

9.3.2.4 Information security risk

Information Security, due to the nature of its process has its own risk assessment procedure in complying to ISO 27001. The procedure is called ISMS Risk Assessment Procedure (ISMS P001).

9.3.3 Risk Evaluation

The purpose of risk evaluation is to support decisions. Risk evaluation involves comparing the results of the risk analysis with the established risk criteria to determine where additional action is required.

9.4 Risk Treatment

After identification of the risks and opportunities, it is important to determine the likelihood of their occurrences and how shall we manage them. Check on what control measure already in place and ask our self the followings:

- Can we avoid the risk?
- Can we eliminate the risk?
- Can we take the risk in order to pursue the opportunity?
- Can we reduce the likelihood or consequences?
- Can we share the risk?

9.5 Monitoring and Review

All information on site risks and opportunities are available from the Corporate Risks and Opportunities Register and ABMS Risk Register (for bribery and corruption risks). Risk & Integrity Department is responsible to ensure that the contents are up to date.

9.6 Recording and Reporting

HRCPD reviews the risks and opportunities every quarter (at the Leadership Team level) before presenting to the Board Risk Management Committee chaired by the BRMC Chairman.

As per Board request, only the top 20 risks will be presented to Board level for notation. Risk & Integrity Department has the discretion to amalgamate risk identified at department level, streamline the risk appetite and review the risk rating before presenting the Corporate Risk Register information to Board level.

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