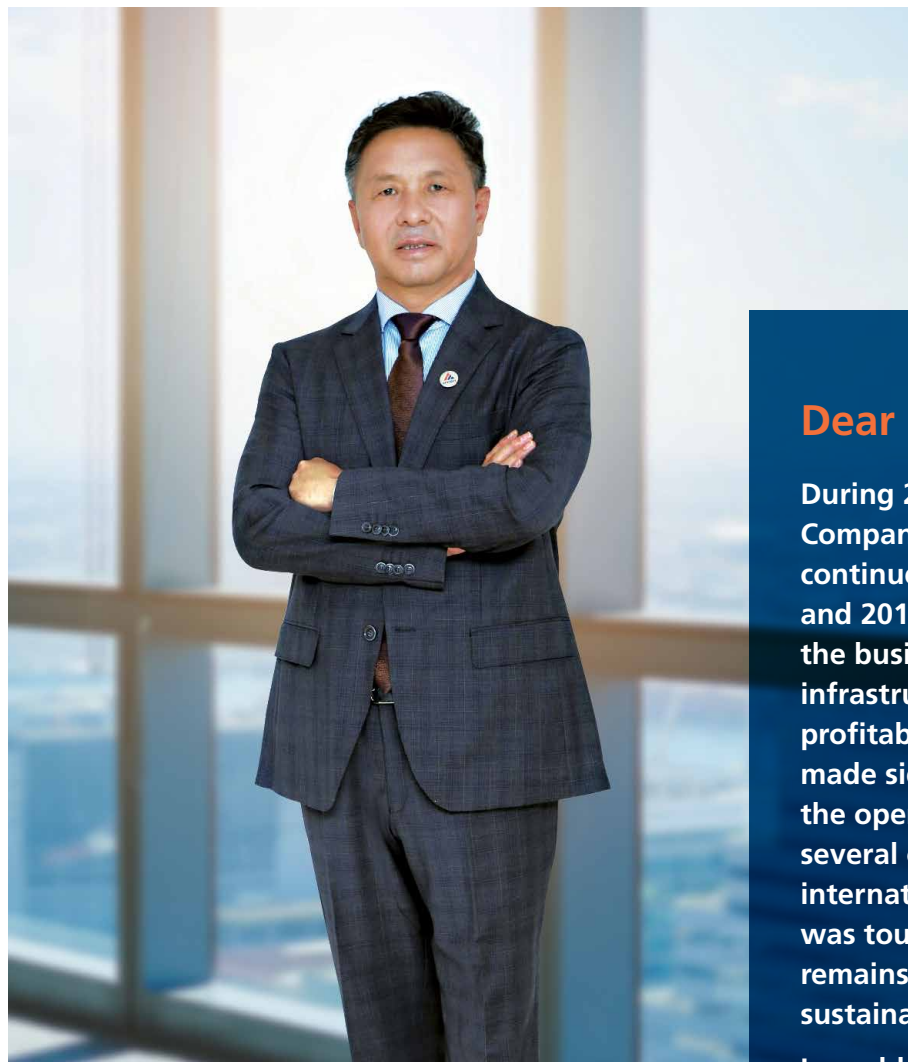


## CHAIRMAN'S STATEMENT



**WANG, YOUDE**

Chairman

### Dear Shareholders,

During 2019, Hengyuan Refining Company Berhad (HRC or Company) continued the path set in 2017 and 2018, focusing on solidifying the business and putting the infrastructure in place for a long-term profitable future. All major projects made significant progress and the operating refinery achieved several operating records. The international refining environment was tough, but the Company remains competitive and focused on sustainable performance.

I would like to share some of HRC's notable achievements during 2019.

### KEEPING STRONG

During 2019, the excellent safety performance continued and we passed 10 million hours without a Lost Time Injury in early December. This milestone is rarely reached within the oil and gas industry and the Company is rightly proud of this achievement.

The Company's investment of USD400 million in capex for sustainable development in major projects planned for execution from 2017 to 2020 is indicative of our commitment towards fully realising the Company's potential and growing the Company long-term at its current premises in Port Dickson.

HRC recorded an extremely good reliability performance with its Long Residue Catalytic Cracker Unit (LRCCU) during the year achieving an all-time record seven-month run without stoppage. Unfortunately, the full year performance was severely impacted by a failure of the Underwater Pipe Line End Manifold (PLEM) during October. However, the significant improvement in the underlying trend helped the refinery to an overall 3.7 per cent unplanned downtime.

Nonetheless, the tough external environment continued for oil refining regionally and globally. International markets were hit by a combination of volatile product prices, weak demand and oversupply of products and elevated freight rates in the latter half of the year. In our region, new refining capacity came on-stream in Malaysia, increasing the flow of products into well supplied markets. The result was depressed refining margins with January and June being the lowest margin months for the year.

Notwithstanding the challenges faced, I am pleased to report that HRC had leveraged its strategic location and its strengths in reliability and hedging to deliver a fair result.

► Details of the 2019 Market Environment can be found on page 30 of the Management Discussion & Analysis.

## BUILDING COLLABORATIVE PARTNERSHIPS

In the process of enhancing our operations, it has been heartening to note that HRC has built win-win collaborations during the year. HRC continues to gain technical guidance and support in various areas from Shandong Hengyuan Petrochemical Company Limited (SHPC) through official trips to SHPC in China to share and exchange knowledge, expertise and culture. Various experts from SHPC have also supported the site from time to time.

Closer to home, HRC has strengthened the relationship with our neighbouring refinery with mutual operational, safety and environmental benefits.

We have also signed a Mutual Aid agreement for reciprocal emergency response support. We regard this collaboration as a positive step towards enhanced sustainability in serving the greater good of the Port Dickson community.

## INTEGRITY IN OUR PROCESSES

Creating relationships of trust and transparency with all our stakeholders has always been a defining characteristic of HRC. Continuous focus is given to ensure business integrity and social responsibility through adherence to our General Business Principles. We aim to be a high performing organisation that is anchored on results, merit and exemplary integrity in our relationships with our stakeholders. This is HRC's defining character.

► Details on our General Business Principles are disclosed on page 10.

“The Board and I applaud the good work by HRC in receiving the certification for ISO 37001: 2016 for Anti-Bribery Management Systems in 2019. HRC is the first company in Negeri Sembilan; first oil and gas and chemical plant in Malaysia; and one of the first 25 organisations in Malaysia to achieve the ISO 37001 milestone.”



HRC Crude Distillation Unit 1.

The HRC Control Framework was also fully embedded during 2019. This gives a clear structure for the various controls and lines of defense for auditing and approval authorities. Internal and external audit programmes plans for the year were all completed and the closure of agreed action items from previous audits were monitored on time.

► Details on the Control Framework can be found on page 63.

Given the nature of our business and the impact it has on the environment, HRC holds itself to a high standard of disclosure. Communication with stakeholders continued to be one of the priorities during the year, and we provided timely business updates to relevant government agencies, enforcement bodies and communities and to Bursa Malaysia Securities Berhad. Beyond this, regular community engagement activities were organised in which HRC contributed directly and indirectly to the general well-being of surrounding communities.

► Further details on stakeholder engagements are disclosed on page 26.

## CHAIRMAN'S STATEMENT

### Highlights



**10.1 million** hours  
without a  
**Lost Time Injury**



Investment of **USD400 million**  
in CAPEX for projects planned  
for execution from **2017 to 2020**



**96.3%**  
operational availability

### OUR PEOPLE, OUR ASSETS

One of HRC's key strengths is the Company's loyal and capable employees. We are proud to have a workforce that includes different generations of the same family and many long-serving individuals even up to 40 years. The capabilities and work conduct of HRC employees and the investments the Company has made in cultivating their skills are a source of much pride. Unfortunately, this has also made us a target for foreign and international oil refiners who have actively tried to recruit our employees during the year, with some success. Coinciding with the tough market environment, this has made for a challenging phase and employee morale has dipped at times during the year.

As a result, HRC put in place a employees retention scheme, reviewed the salary structure and focused on various team and group initiatives which are described further in the Management Discussion & Analysis (MD&A) section. An Employee Engagement Survey was launched during the year to gain further insights and information on how we can enhance our employee value proposition and create higher morale as well as increased loyalty and pride among key personnel. More emphasis on corporate branding and talent retention programs will pave the way forward for HRC in the coming years. The new Purpose, Vision and Mission put in place is part of the journey towards a more purposeful future with the Company.

Five shared values were also introduced in 2019 to shape employee behaviours towards a more dynamic corporate culture. These are Integrity, Collaboration, Accountability, Respect and Entrepreneurial.

► Details on the Shared Values are disclosed on page 22.

### 2019 DIVIDENDS

The Board reviews the many different considerations on current and future financial positioning at each board meeting and makes a dividend recommendation considering the long-term interests of shareholders.



HRC Harl Raya Staff Gathering 2019.

The Board's view is to maintain a conservative set of assumptions in cashflow and forecasting and other reviews. Hence no dividends were declared for the year ended 31 December 2019.

### MOVING AHEAD

Building on our achievements in 2019, HRC's main focus for 2020 will continue to be on Rejuvenation and Streamlining. Namely, to improve and enhance current operations and business processes; to further develop our people; and to continue to comply with the government regulatory requirements for oil specification. This will enable HRC to cement its strengths and stay agile and responsive to available opportunities.

This has shown to be more important now than ever given the unprecedented challenges posed by the 2020 Covid-19 pandemic and the oil price slump, among others. As the world and Malaysia evolves with conditions that are constantly changing, we too have to adapt and think about how we can do things better to ensure that we continue to deliver sustainable value to our shareholders.

By further improving our reliability and operational excellence, HRC aims to leverage on the increased volume of saleable products. At the same time, streamlining initiatives such as improvements in information technology and focused cost reductions will enable productivity gains and help widen margins.

Given that the challenging market environment is expected to continue, more quick-win initiatives such as forex and hydrocarbon hedging, engaging new customers and operational collaborations with our neighbouring refinery will also be pursued to improve profitability. Shareholders may be aware that from 1 January 2020, international shipping fuel sulphur levels will reduce. HRC has been preparing for this since 2017 and will reap gains from hedging and sales.

In addition to continued asset rejuvenation, the completion of major projects and mitigation of delays will be another key focus for the year.

At the same time, HRC is mindful of where the future leads. Market forecasts show that demand for petrol and diesel could decrease substantially in the decades ahead. The future holds opportunities beyond oil refining in new energy and alternative energy businesses such as Liquefied Natural Gas (LNG) and diversification into petrochemicals. Further afield would be the conscious development of the HRC brand as a pioneer of sustainable solutions in energy and petrochemicals.

Although this is a long-term journey for the Company over the next two decades, in building this brand in these early stages, HRC can initiate meaningful community activities and deepen engagement and relationships with local stakeholders in areas where we can make an immediate positive impact. The progress made in meeting Environmental Quality (Clean Air) Regulations 2014 requirements within the timeline is significant in this front.

To hold true to its refreshed Purpose, the HRC team is required to be poised and ever ready in closing gaps in talents, skills and productivity. I, along with the Board of Directors (Board), do believe that with their inspiring integrity, loyalty and passion this is a journey we will complete together.

“*The Board and I are confident that the clearly defined short, medium and long-term goals and our action plans provide HRC a sustainable roadmap within which to prosper. We will further grow our refining business in Port Dickson while progressing towards our long-term vision to be a leading global energy and petrochemical company, pioneering sustainable solutions.*”

## THE SHAPE OF THE FUTURE

Building on HRC's strengths and its position within the Hengyuan Group, a meaningful and aspirational Purpose has emerged: *To Power Human Connections*. Energised, inspired, and guided by its Purpose of how HRC can help make the world a better place, the management and employees of HRC refreshed the HRC Vision to one where the company aspires *to be a leading global energy and petrochemical company, pioneering sustainable solutions*.

► Details of HRC's Purpose, Vision, Mission and Values can be found on page 22.

HRC's Mission statement: *To safeguard operational integrity, to be bold in our innovations, to leverage on the strength of our people and to maximise stakeholder value*, will guide the Company forward in realising its audacious goals. Our action plans will continue to be anchored on HRC's six strategic pillars of People First; Staying Safe & Reliable; Being \$ Smart; Building a Sustainable Future; Rising Together; and Focusing on Growth.

► Details of HRC's 2019 Business Priorities can be found on page 10.

## ACKNOWLEDGEMENTS

On behalf of the Board, I take this opportunity to thank Mr David Ronald Keat, our hardworking Chief Executive Officer who had completed his contract on 29 February 2020. His dedicated service and contributions have made an indelible impact to HRC. We wish him well in his future endeavours.

Taking his place as Chief Executive Officer is Mr Erkki Tapio Ranta, who took up his current duties and responsibilities on 1 March 2020. Mr Ranta brings with him vast experience in the oil and gas industry and has held a variety of engineering, executive roles and directorships for over 29 years. We extend him a warm welcome and look forward to his dynamic leadership.

Last but not least, I would like to thank our supportive shareholders and stakeholders for their commitment and trust in the long-term sustainability of HRC. An exciting era of growth awaits us all as we begin to make strides in powering human connections.

**Wang, YouDe**  
Chairman