

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

PCG has a risk management framework and internal control systems are in place to ensure the smooth running of our business.

This statement on risk management and internal control is made in accordance with Paragraph 15.26(b) of Bursa Malaysia's Main Market Listing Requirements (MMLR) which requires the board of directors of public companies to publish a statement about the state of risk management and internal control of the listed issuer as a group.

PCG's sustainability strategy takes into consideration effective risk management practices, internal control and compliance with objectives to create value for our stakeholders and safeguard the existing portfolios as well as moving forward to capitalise on opportunity for growth.

Risk management is integrated into our business planning, capital allocation, investment decisions, internal control and day-to-day operations to enhance ownership and agility in managing risks. We believe our internal control systems are appropriate for the Group given the size, diversity and complexity of our operations.

Key elements of the risk management and systems of internal control are set out below.

BOARD ACCOUNTABILITY

The Board acknowledges the importance of maintaining a robust risk management practices and internal control system for good corporate governance with the objective of safeguarding the shareholders' investment and the Group's assets. The Board further affirms its overall responsibility for reviewing the adequacy and integrity of the Group's risk management and internal control systems.

The Group has established a process for identifying, evaluating, treating, monitoring and managing principal risks that may materially affect the achievement of our corporate objectives. The Board monitors the principal risks regularly.

MANAGEMENT RESPONSIBILITY

The Management is accountable to the Board to ensure effective implementation of risk management and internal controls. The Management formulates and endorses the risk management policy, frameworks and guidelines including their implementations across the Group. The Management reviews PCG's risks and recommends additional course of action to mitigate the identified risks.

The Management also assigns accountabilities and responsibilities at appropriate levels within PCG and ensures that all the necessary resources are efficiently allocated to manage risks.

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RISK GOVERNANCE AND OVERSIGHT

Our risk oversight structure facilitates the flow of risk information for effective risk management implementation oversight at all levels. It assigns clear roles and responsibilities, and facilitates the implementation of risk policy, procedures and methodologies.

The structure also consists of different layers of responsibilities, as explained below:

RISK OVERSIGHT STRUCTURE			
<p>BOARD OF DIRECTORS</p> <p>Responsible for the overall effective oversight of PCG’s risk management to safeguard PCG’s assets, reputation and deliver sustainable shareholders’ value</p>			
<p>Board Committee Level</p>	<p>BOARD SUSTAINABILITY AND RISK COMMITTEE (BSRC)</p> <ul style="list-style-type: none"> Responsible for guidance and oversight of PCG Group risk management Review and endorse the Group’s risk profile and risk appetite Deliberate risk assessment for high impact business matters Review the Group’s sustainability agenda, commitment, strategy and goals, the risk as well as opportunities 		
<p>Management Level</p>	<p>SUSTAINABILITY AND RISK MANAGEMENT COMMITTEE (SRMC)</p> <ul style="list-style-type: none"> Responsible for ensuring the adequacy and effectiveness of sustainability and risk management system and its implementation Deliberate and recommend sustainability and risk performances to be reported and escalated to the BSRC and Board 		
<p>Operational Level</p>	<table border="1"> <tr> <td> <p>MANUFACTURING LEADERSHIP TEAM</p> <p>Responsible to oversee risk management for manufacturing</p> </td> <td> <p>COMMERCIAL LEADERSHIP TEAM</p> <p>Responsible to oversee risk management for commercial</p> </td> </tr> </table>	<p>MANUFACTURING LEADERSHIP TEAM</p> <p>Responsible to oversee risk management for manufacturing</p>	<p>COMMERCIAL LEADERSHIP TEAM</p> <p>Responsible to oversee risk management for commercial</p>
<p>MANUFACTURING LEADERSHIP TEAM</p> <p>Responsible to oversee risk management for manufacturing</p>	<p>COMMERCIAL LEADERSHIP TEAM</p> <p>Responsible to oversee risk management for commercial</p>		

The Board is supported by the Board Sustainability and Risk Committee (BSRC) in supervising the Group’s risk management frameworks and practices. Together, they establish the ‘tone from the top,’ fostering the desired implementation of risk management throughout the Group.

R The key activities of the Board and BSRC are set out in the Corporate Governance Overview Statement on pages 84 to 109 and Board Sustainability and Risk Committee Report on pages 120 to 121.

The SRMC, chaired by MD/CEO, is accountable to the Board to ensure effective implementation of risk management and internal controls. The Management formulates and recommends risk management policy and internal control mechanisms, along with their implementation strategies, aimed at mitigating risks for sustaining business operations throughout the Group.

The SRMC deliberates among others PCG’s risks profile, risk appetite, sustainability related matters, crisis and business continuity management and risk assurance activities, and recommends additional course of action or interventions if required.

The Management also provides a reasonable assurance to the Board that the Group’s risks and internal control systems are being managed appropriately.

The Risk Management Department (RMD), led by the Head of Risk Management, is accountable and responsible for the implementation of risk management practices and culture through the development and execution of risk policy, frameworks and guidelines in line with good corporate governance. The Head of Risk Management, as Secretary of SRMC, provides updates on PCG’s overall risk management implementation during the quarterly SRMC meetings.

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In addition to our risk oversight structure, our risk management is supported by the 3 Lines of Defence Model that distinguishes the three groups which are involved in effective risk management.

Three Lines of Defence

FIRST LINE OF DEFENCE

BUSINESS LINE (RISK OWNER)

Own and manage risks directly within respective area. Conduct self-assessment and corrective action

SECOND LINE OF DEFENCE

RISK MANAGEMENT AND RESPECTIVE SMEs FROM RISK FOCUS AREAS

Implement and review risk management and control systems for reporting to the Management and the Board as well as attest on compliance with internal controls

THIRD LINE OF DEFENCE

INTERNAL AND EXTERNAL AUDIT

Provide independent and objective assurance on the overall adequacy, integrity and effectiveness of risk management and internal control systems

RISK POLICY

The PCG Risk Policy is a statement of the overall intention and direction of the Group on risk management. Through this Policy, we continuously strive to implement risk management best practices and incorporate risk-based decisions to protect and create value, thus strengthening our position as a risk resilient organisation.

PCG IS COMMITTED TO BECOME A RISK RESILIENT ORGANISATION

PCG shall continuously strive to implement:

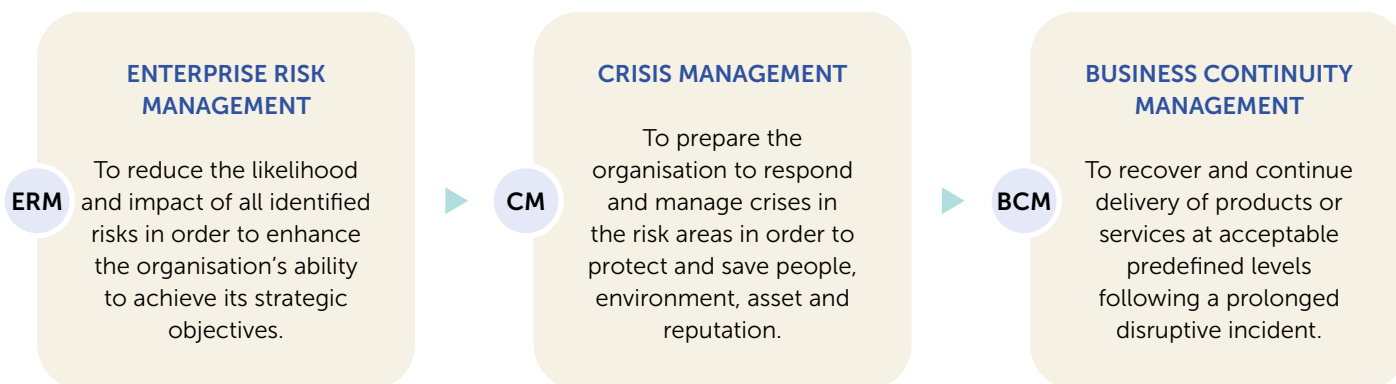
- Risk management best practices to protect and create value within the set boundaries
- Risk based decision making by providing a balanced and holistic view of exposure to achieve business objectives

Managing risk is everyone's responsibility.

The policy underscores the pivotal role for everyone in the organisation to be responsible and accountable in managing risks associated with their actions and decisions.

PETRONAS RESILIENCY MODEL

PCG has adopted the PETRONAS Resiliency Model (PRM) in managing risk with three key areas namely, Enterprise Risk Management (ERM), Crisis Management (CM) and Business Continuity Management (BCM).



We have continued to enhance our risk management practices and intensify our efforts to be a risk resilient organisation. These are supported by the risk management frameworks and the relevant guidelines to govern and guide the risk management practices across the Group. The status of risk management practices across the Group are continuously monitored and reported to SRMC, BSRC and Board on a quarterly basis.

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ENTERPRISE RISK MANAGEMENT

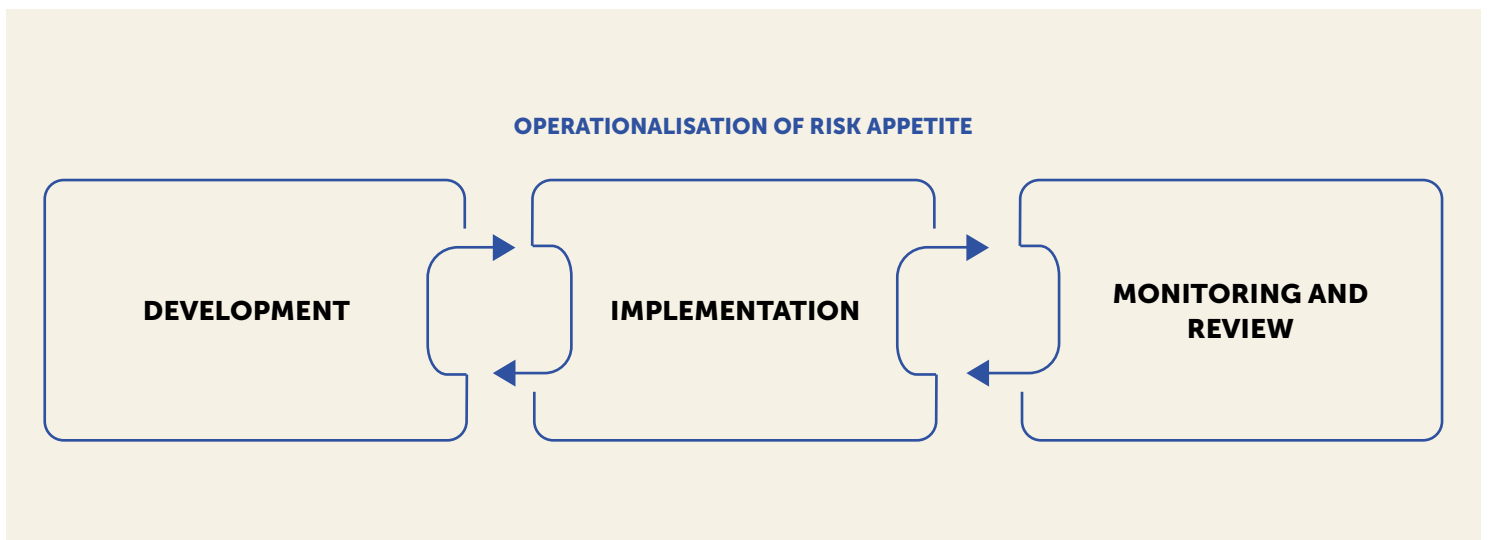
Our ERM Framework and relevant guidelines are generally aligned with the Principles and Guidelines of ISO 31000:2009 and provides a standard and consistent approach in implementing the elements and processes to identify, assess, treat, monitor and review risks impacting PCG’s business objectives and targets.



RISK APPETITE

Risk appetite is defined as the amount and type of risks that PCG is willing to take, accept or retain in pursuing its strategic and business objectives.

The PCG Risk Appetite is guided and operationalised as follows:



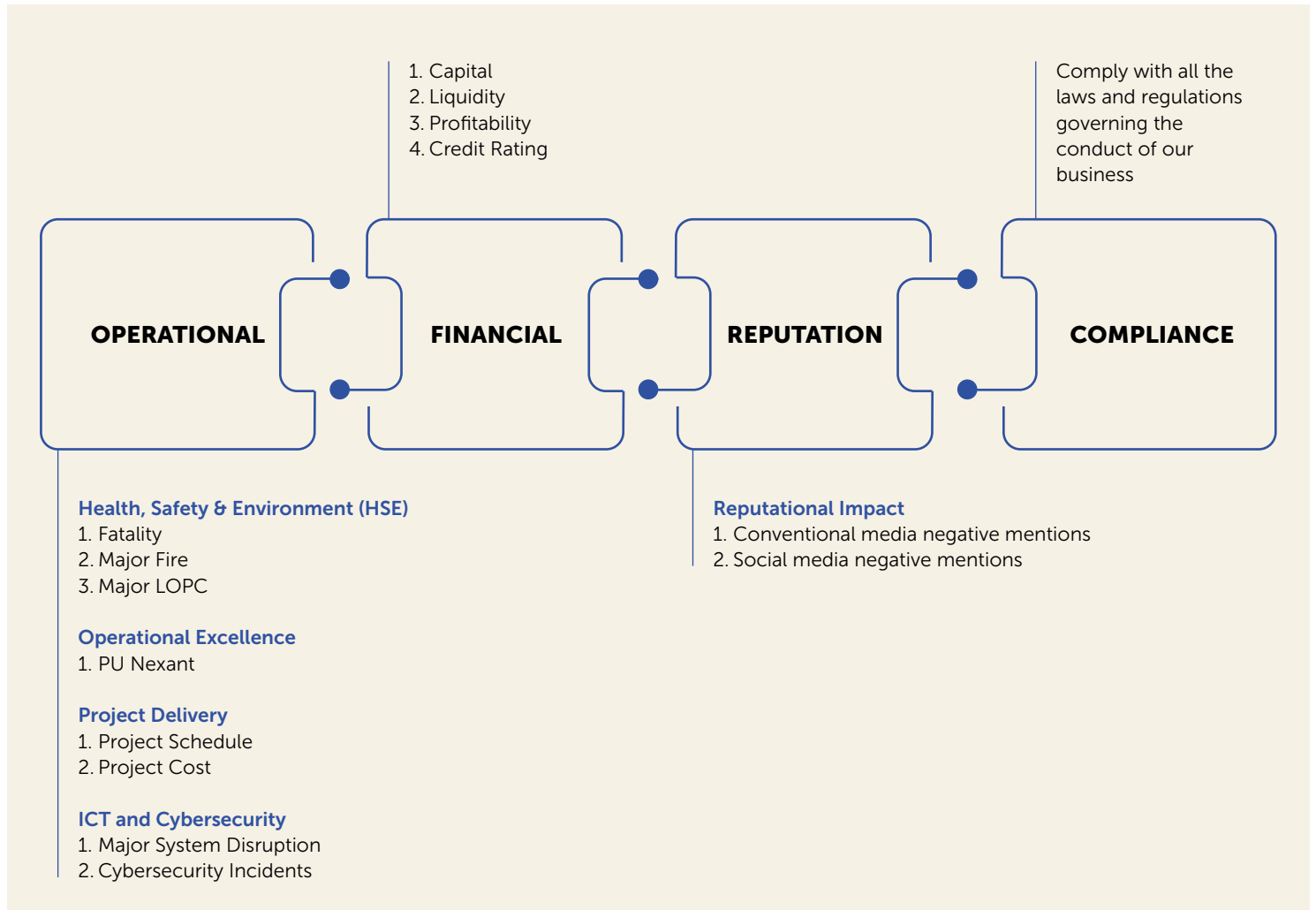
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a. Development

PCG Risk Appetite was developed by aligning to PCG business strategies, with four Risk Appetite Focus Areas to be closely controlled and monitored.

Risk Appetite Statement, Risk Tolerance and Risk Threshold were established to ensure risks undertaken in pursuit of business objectives are consistently within acceptable level.

PCG Risk Appetite Focus Areas are as follows:



b. Implementation

To ensure clear accountability, the roles and responsibilities of all parties involved in Risk Appetite implementation were established. The Risk Appetite is communicated to the respective risk owners to ensure strong understanding and strict adherence. In addition, Risk Appetite is integrated in the discussion on risk assessment for decision-making.

c. Monitoring and Review

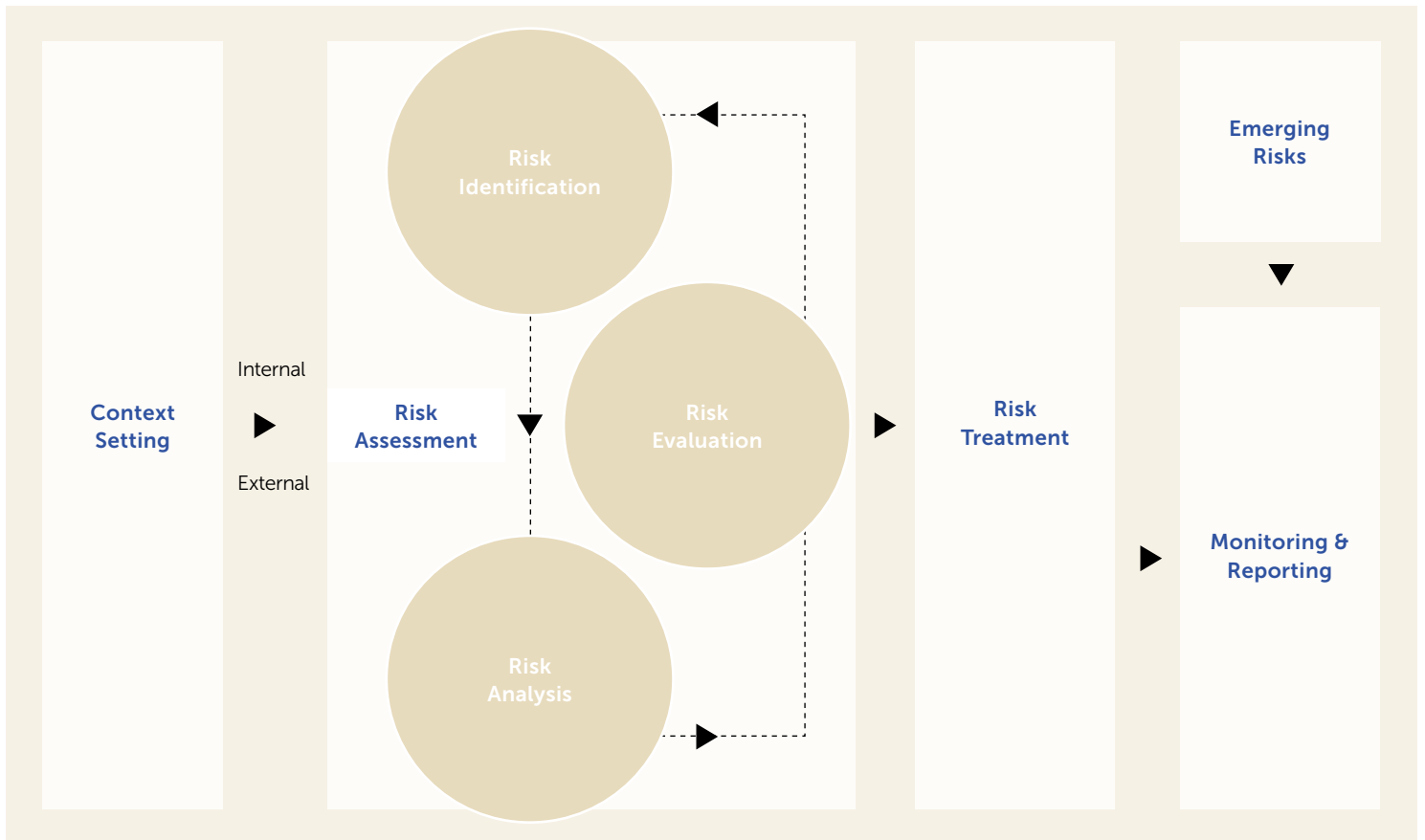
Monitoring and review are critical to ensuring that PCG does not exceed its Risk Appetite. Systematic monitoring and reporting were established to ensure that any breach of the Risk Threshold is escalated to the risk owner, Management, and Board, if required, on a timely basis to trigger deliberation for specific action or decision.

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CORPORATE RISK PROFILE

Our Corporate Risk Profile (CRP) is developed based on the Enterprise Risk Management Process Guideline (ERMPG). In keeping abreast with the ever-changing environment, we review our CRP on a quarterly basis to navigate these uncertainties with input from internal and external sources. These include key focus areas for the business, materiality assessments, previous risk profiles, risk scanning, industry risk reports, audit findings, stakeholders and management’s feedback.

Our structured risk profiling process is set out below:



The status of the PCG CRP including Key Risk Indicators (KRIs) and mitigation plans of critical risks are deliberated at the SRMC, BSRC and Board during their quarterly meetings.

Each critical risk has a dedicated owner responsible for the implementation of control measures, monitoring and tracking of key risk indicators, as well as identifying and implementing risk mitigation measures. The risks and mitigation measures are communicated to the line management on a timely basis to ensure awareness at all levels.

We continuously scan and monitor our operating and external environments to identify any emerging risks. These emerging risks are discussed by the Management and Board. If the emerging risk poses a real threat, we will include and register into our CRP.

Proactively, we have initiated efforts to establish the Risk International Database (RID), a comprehensive tool designed to assess and monitor geopolitical issues in countries that may impact PCG’s business. This strategic initiative not only aids in decision-making for current operations but also supports future expansion plans by providing crucial information for informed decision-making.

R For more information on PCG’s principal risks, please refer to Risk Overview on pages 64 to 70.

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To support the implementation of risk management at operational level, we apply the following PETRONAS' structured risk management assessment approach and tools:

Corruption Risk Assessment	To ensure the systematic identification, assessment and mitigation of risks to prevent bribery and corruption practices within the Group in line with the implementation of Prime Minister's Department Guidelines on Adequate Procedures
Health, Safety & Environment Management System (HSEMS)	To manage HSE risks and ensure our operations are in tandem with HSE regulatory requirements and industry best practices
Social Risk Assessment	To ensure the systematic identification, assessment and mitigation of any existing and potential human rights impact to communities, partners and stakeholders through business activities
Environmental Impact Assessment (EIA)	To ensure the systematic identification and assessment of the potential environmental effects of PCG projects or developments and to develop plans in order to comply with the regulatory requirements
Carbon Footprint Assessment (CFA)	To ensure the systematic identification and assessment of the total amount of Greenhouse Gases (GHGs) emitted into the atmosphere from PCG's existing manufacturing facilities and future growth projects, and to develop recommendations and identify opportunities for reducing the carbon footprint
Project Risk Assessment (PRA)	To ensure the systematic identification, assessment and mitigation of risks associated with projects, in line with PETRONAS Project Management System (PPMS) requirements
Turnaround Risk Assessment (TaRA)	To ensure the systematic identification, assessment and mitigation of risks for turnaround activities
Contractor Risk Assessment (CoRA)	To ensure the systematic identification, assessment and mitigation of risks critical to contractors' performance. CoRA is undertaken as part of the procurement process prior to contractor selection
Counterparty Risk Assessment	To ensure the systematic identification, assessment and mitigation of risks associated with credit and financial performance, in line with PCG Financial Policy and PETRONAS Credit Guidelines Each counterparty is assigned credit ratings which will eventually facilitate business decision-making
Supplier Risk Assessment	To ensure the systematic identification, assessment and mitigation of risks associated with supplier performance with each supplier being assigned risk ratings to facilitate business decision-making

Risk in Strategic Planning

We continued our focus on integrating risk management into our strategic planning and business decision-making processes, including conducting a risk assessment for PCG's Annual Plans and Budget. This is to ensure that our key strategies are solid and any business assumptions made are better understood, as well as the risks associated with them are identified and managed.

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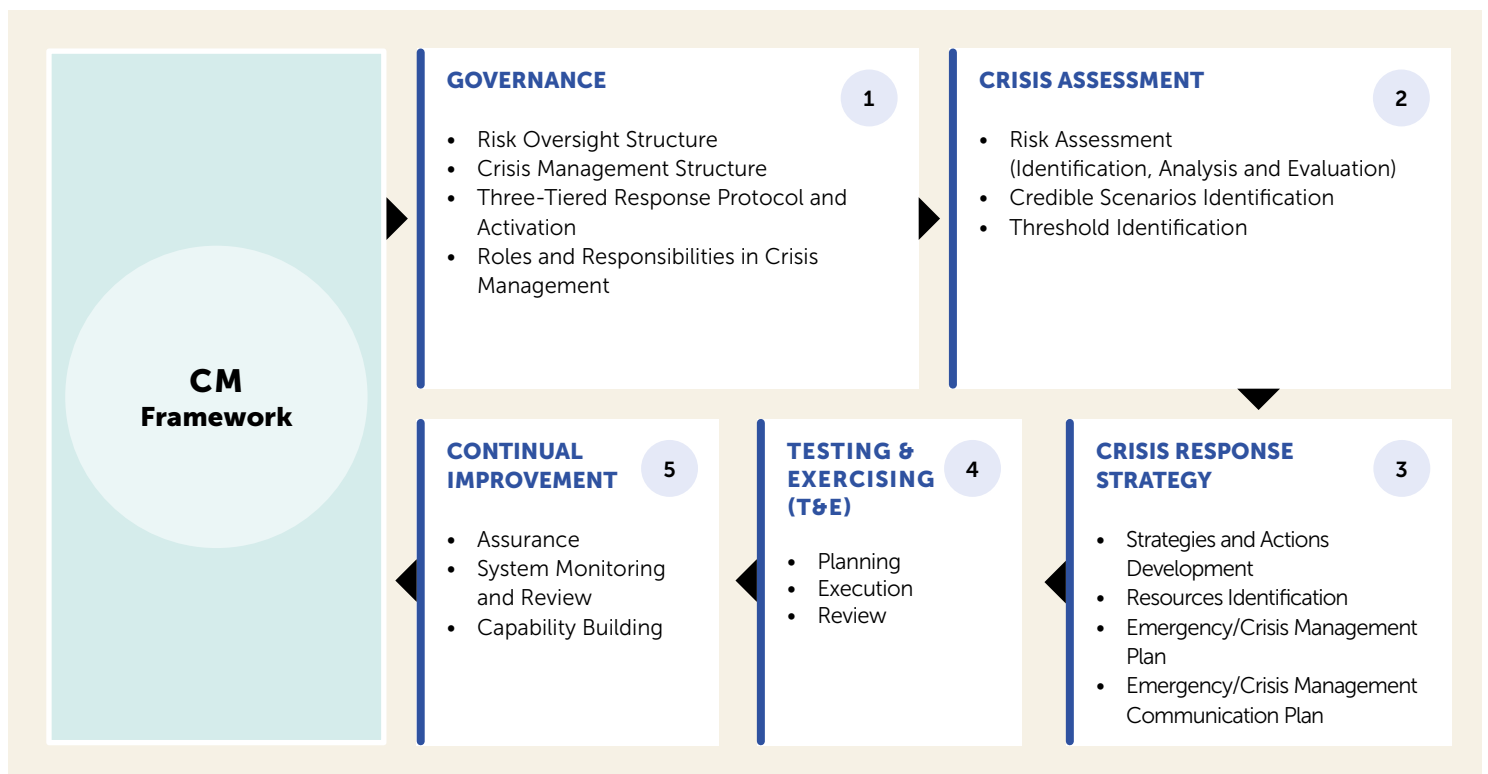
Risk in Decision-Making

We also mandated that all Board decision papers are equipped with risk assessments to ensure that decision makers make fully informed decisions, consider the level of risk that the Company is willing to take, and implement necessary controls to achieve the desired business objectives.

As we strive to expand our capacity and diversify our product portfolio, risk assessments are more important than ever in the selection of business opportunities and project executions to ensure that we achieve the desired returns. During the year under review, the BSRC deliberated risks related to key growth projects and their mitigations prior to approval by the Board.

CRISIS MANAGEMENT

PCG is susceptible to potential events of varying severities due to the nature of its business operations. PCG has established a Crisis Management Framework (CMF) to provide guidance on establishing a comprehensive approach across PCG Group in managing crisis and to respond to any crisis that may manifest.



A Crisis Management Plan (CMP) has been established in order to give comprehensive and strategic support to manage crises, including defining the roles and duties of the Crisis Management Team. The CMP outlines a three-tiered response system based on severity of the crisis that provides clear demarcation of response control and required capability of emergency or crisis team members to protect and save people, environment, asset and reputation of PCG.

During the year, refresher training was conducted for Crisis Management Team (CMT) on their roles and responsibilities.

Subsequently, a tabletop exercise was carried out to evaluate CMT’s response time to Emergency Command Centre (ECC), collaboration among CMT members in devising solutions for testing scenarios, and management of press conferences.

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BUSINESS CONTINUITY MANAGEMENT

The Business Continuity Management (BCM) Framework and Guidelines were developed to provide a systematic approach and consistent practices in the event of prolonged business disruption. This is to ensure the continuation of PCG's business and operations, as illustrated in the diagram below:



PCG has established a Business Continuity Plan (BCP) for Products Supply to address abrupt and prolonged outage of the products that could affect delivery to customers. Additionally, the Group has developed a BCP for PETRONAS Twin Towers to cater for inaccessibility of workplace, failure of critical ICT systems and prolonged unavailability of key personnel. Business Recovery Plans (BRPs) for our plants and facilities were also developed to restore assets and processes to resume for normal operation after crisis or incidents. During the year under review, PCG has reviewed BCP for Products Supply and BRPs for plants and facilities to ensure the documents are kept up-to-date when facing business disruption or crisis or incidents.

Tests and drills are conducted as per requirement to ensure readiness of PCG and our Management team in managing crisis and business continuity, as well as the robustness of our plans.

CONTINUAL IMPROVEMENT UNDER RISK MANAGEMENT FRAMEWORK

The inculcation of a risk management culture is a key aspect of an effective risk management. We continuously engage our employees through communication programmes to instil the importance of risk management. Throughout the period under review, PCG conducted several engagement sessions with joint venture and associate companies to share insights on risk management implementation, including business and operation readiness for risk management workstream deliverables for LG PETRONAS Chemicals Malaysia Sdn. Bhd. and PCG PCC Oxyalkylates Sdn. Bhd.

PCG acknowledges the importance of risk assurance programmes to provide assurance to stakeholders that the systems of risk management and internal controls are implemented and complied with. The Group performed risk assurance activities including self-assessment in accordance with the annual risk assurance plan as endorsed by SRMC. The progress of risk assurance, findings and the implementation of relevant corrective actions are reported to the SRMC on a quarterly basis.

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INTERNAL CONTROLS

Management is accountable to the Board and is responsible to design, implement and maintain governance, risk management and internal controls in the Group. The Board and Board Audit Committee oversee the actions of the Management and monitor the effectiveness of controls that have been put in place.

The Group refers to the 17 principles outlined in the Committee of Sponsoring Organizations of The Treadway Commission (COSO) Internal Control Integrated Framework, serving as a roadmap for ensuring robust and effective internal controls, as depicted below:

CONTROL ENVIRONMENT	<ul style="list-style-type: none"> • Demonstrates a commitment to integrity and ethical values • Board of Directors demonstrates independence from the Management and exercises oversight of internal control performance • Establishes structures, reporting lines and appropriate authorities and responsibilities • Demonstrates commitment to attract, develop and retain competent workforce • Holds individuals accountable for their internal control responsibilities
RISK ASSESSMENT	<ul style="list-style-type: none"> • Specifies objectives with sufficient clarity for risk identification and assessment • Identifies and analyses risks relating to objectives for determining how the risks are to be managed • Evaluates and considers potential for fraud in assessing risks • Identifies and assesses changes that could significantly impact the system of internal control
CONTROL ACTIVITIES	<ul style="list-style-type: none"> • Selects and develops control activities to mitigate risks • Selects and develops control activities through technology • Deploys control activities through policies and procedures
MONITORING ACTIVITIES	<ul style="list-style-type: none"> • Selects, develops, and performs ongoing and/or separate evaluations to ascertain the components of internal control are present and functioning • Evaluates and communicates internal control deficiencies in timely manner
INFORMATION AND COMMUNICATION	<ul style="list-style-type: none"> • Obtains or generates and uses relevant, quality information to support the functioning of internal control • Communicates internal control information internally and externally

The implementation and maintenance of governance, risk management and internal control in joint ventures, joint operations and associates are performed under the purview of their respective established governing procedures.

The Group's interests are secured by its representatives on the boards and PCG secondees involved in the oversight of joint ventures, joint operations and associates. This commitment is reinforced by routine examinations of management accounts and joint shareholders' audits.

Internal Audit

The Internal Audit Department (IAD) of PCG reports independently to the Board Audit Committee (BAC) and is independent of the activities and operations of the Group.

IAD provides independent and objective assurance as well as advisory activities designed to add value and improve the Group's operations. IAD helps PCG accomplish its objectives by bringing a systematic approach to evaluate design and improve the adequacy and effectiveness of governance, risk management and internal control processes.

IAD maintains its impartiality, proficiency and due professional care by having its plans and performance, audit reports, resources, capabilities and quality assurance and improvement programme directly under the purview of the BAC.

The IAD function includes undertaking reviews of PCG governance, risk management and internal control on selected key activities and operations based on risk assessment and in accordance with the annual internal audit plan which is approved by the BAC.

The internal audit plan is formulated using a risk-based audit planning methodology encompassing the business strategies, key business objectives, its associated risks (including relevant emerging risks), and inputs from relevant stakeholders.

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IAD performs continuous risk sensing and insights to ensure the proposed audit activities are carried out as per emerging and relevant risks as well as latest enterprise or business strategies.

The BAC reviews IAD planned and ongoing activities on a quarterly basis with emphasis on audit priority, audit scope and resource adequacy and capabilities.

The BAC reviews IAD audit reports which includes opinion on the adequacy and effectiveness of PCG's governance, risk management and internal control, audit finding's root cause, implications and the recommended corrective actions to be undertaken by the Management. The status of the IAD activities and closures of audit issues are reported to the BAC on a quarterly basis.

IAD adopts the standards and principles outlined in the Institute of Internal Auditors' International Professional Practices Framework (IPPF) and five components of COSO Internal Control Integrated Framework; a comprehensive, structured and widely used auditing approach, in conducting the audit activities. The conduct of IAD is also governed by the PCG Internal Audit Charter and established procedures and guidelines.

R *The key activities of the internal audit function and audit competencies are set out in the BAC Report on pages 112 to 119.*

Other Key Elements of Internal Control Systems

In furtherance of the Board's commitment to maintain a sound system of internal control, the Board continues to implement and maintain a strong control structure and environment for the proper conduct of the Group's business operations as follows:

- Board of Directors

The Board meets at least quarterly and has set a schedule of matters, which are required to be brought to its attention for discussion, thus ensuring that it maintains full and effective supervision over appropriate controls. Additional meetings are held to discuss specific issues that require deliberation in between the scheduled meetings. The MD/CEO leads the Management in the presentation of Board papers which would include the Group Quarterly performance reports and related financial reports of the Group and provides detailed explanation of pertinent issues as well as its recommendation of issues resolutions. In arriving at any decision requiring Board's approval, as set out in the Limits of Authority manual, thorough deliberation and discussion by the Board is a prerequisite. The Board is also appraised on the Group's activities and its operation on a regular basis and the risks associated with them. In addition, the Board is updated on any key risk arising from changes in the business and external environment which may result in significant impact to the Group.

- Board Audit Committee

The Board has delegated the duty of reviewing and monitoring the effectiveness of the Group's system of internal control to the BAC.

The BAC assumes the overall duties of reviewing with the external auditors their audit plan, audit report, as well as their findings and recommendations pursuant to the year end audit. The BAC

also evaluates the adequacy and effectiveness of the Group's internal control systems through reviews of internal control issues identified by internal auditors and Management. The BAC members keep abreast with the MMLR, MCCG, MFRS as well as new legal and regulatory requirements.

The BAC meets at least quarterly and has full and unimpeded access to the internal and external auditors as well as all employees of the Group.

R *Further details on the BAC activities are set out on pages 112 to 119.*

- Organisation Structure and Management Committee

An organisational structure, which is aligned to the business and operational requirements, and with clearly defined lines of responsibility, accountability and levels of authority, is in place to assist in implementing the Group's strategies and day-to-day business activities.

The Company has a Management Committee which serves in an advisory capacity to the MD/CEO in accomplishing the vision, strategies and objectives set for the Group.

In addition, various functional Committees have also been established across the Group to ensure the Group's activities and operations are properly aligned towards achieving the organisational goals and objectives.

- Group Policies

The Group has in place policies which govern the day-to-day workings of the business such as HSE, plant operations, human resource management and related party transactions. The Group also subscribes to the PCG Financial Policy which sets forth the policy for financial management activities embedding the principles of financial risk management. PCG Financial Policy governs financial risk management practices across the Group. It prescribes a framework in which financial risk exposure is identified and managed towards efficient capital management practices.

- Anti-Bribery Management Systems (ABMS)

The Group maintains a zero-tolerance stance against any form of bribery or corruption. To guide employees and third parties in navigating potential or actual bribery and corruption situations, as well as improper conduct in daily business activities, we rely on the PETRONAS Code of Conduct and Business Ethics (CoBE), PETRONAS Anti-Bribery and Corruption Manual, and PETRONAS Whistleblowing Policy.

PCG is dedicated to enhancing the integrity and governance capabilities of our workforce, achieved through the Certified Integrity Officer (CeIO) programme. This initiative, conducted in collaboration with the Malaysian Anti-Corruption Academy (MACA) and PETRONAS Group Integrity, has led to the certification of 11 PCG staff as CeIO, with five staff attaining Exemplar Global certification. Regular integrity strengthening programmes are implemented across the Group, focusing on awareness of key integrity-related topics such as whistleblowing and corporate liability.

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In Q4 2023, PCG successfully underwent the ISO 37001:2016 Anti-Bribery Management Systems (ABMS) audit, culminating in certification from SIRIM in February 2024. The ABMS certification journey, initiated in May 2023, involved a comprehensive review and enhancement of documentation, including manuals, guidelines, procedures, and Corruption Risk Assessment (CRA). This certification reinforces our commitment to the effective implementation, maintenance, and continuous improvement of our anti-bribery compliance programme. It serves as a testament to our dedication to managing any integrity-related activities and adhering to all applicable laws and regulations.

- Whistleblowing Policy

The Group has adopted the PETRONAS Whistleblowing Policy which provides an avenue for the Group employees and members of the public to disclose any improper conduct in accordance with the procedures set out under the Policy. Under the Whistleblowing Policy, a whistleblower will be accorded with protection of confidentiality of identity, to the extent reasonably practicable. An employee who whistleblows internally will also be protected against any adverse and detrimental actions for disclosing any improper conduct committed or about to be committed within the Group, to the extent reasonably practicable, provided that the disclosure is made in good faith. Such protection is accorded even if the investigation later reveals that the whistleblower is mistaken as to the facts, rules and procedures involved. The process is undertaken by the PETRONAS' Whistleblowing Committee. The policy and procedures are accessible to the public for reference on the Company's corporate website at <https://www.petronas.com/pcg/about-us/governance>.

- Limits of Authority

The Group has established Limits of Authority (LOA) which defines clear demarcation of authorisation and decision-making limits to govern business decision process within the Group including matters reserved for the Board.

The Limits of Authority is reviewed in every five years or as necessary, adapting to shifts in organisational structure and business needs to enhance effective decision-making. During the year, the LOA underwent revisions to incorporate new areas of decision-making and changes of authority levels, aligning with current business requirements and governing documents. Review of LOAs for joint ventures were also carried out, striking a balance between operational flexibility and management control to align decision-making areas and authorities with the business activities and operations.

- Operating Procedures and Guidelines

The Group has developed operating procedures and guidelines which cover business and operations, including but not limited to business planning, capital expenditure, financial operation, performance reporting, HSE, plant operations, marketing and sales, procurement, supply and distribution, human resource management, corporate affairs, innovation and technology, and information system. These define the procedures for day-to-day operations and act as guidelines to the proper measures to be undertaken in a given set of circumstances. The procedures and guidelines are reviewed at specific intervals or as and when changes happen in the work process to ensure its relevancy, applicability and effectiveness.

- Business Plan and Budget

The Group undertakes an annual budgeting and forecasting exercise which includes development of business strategies for the next five years, and the establishment of KPIs against which the overall performance of the Group, including the respective performance of business segments and companies within the Group are measured. Detailed operating and capital expenditure requirements are tabled to the Board for approval prior to the commencement of a new financial year. The Group's performances are reported internally on a monthly basis to the Management Committee. The Group's quarterly performances are also presented to the Board with comparison to approved plans as well as against prior periods. The Group's strategic direction is also reviewed through a rigorous assessment process considering changes in market conditions and significant business risks.

- Information and Communications Technology

The Group relies on the deployment of Information and Communications Technology (ICT) and Digital programmes to automate workflow processes, aiming to boost operational efficiency, productivity, and facilitate data-driven decision-making. This strategic approach not only propels business growth but also elevates data management practices and bolsters cyber resilience.

The Group is investing in programmes to accelerate maturity towards digital intelligence enabling analytics, Artificial Intelligence (AI), Internet of Things (IoT) and robotics. Digitalisation is undertaken in consideration of business risk and exposure towards increasing cyber threats and sophisticated attacks that may impact operations with financial loss, reputational damage and regulatory impact.

The Group's cybersecurity standards and practices are firmly rooted in the PETRONAS Enterprise Cyber Security Governance Framework (ECSGF), serving as a guide against cyber threats and attacks on our data and systems. ECSGF incorporates industry best practices and standards, such as Information Security Management Systems (ISMS) ISO27001, International Electrotechnical Commission IEC62442, and National Institute of Standards and Technology (NIST), spanning both the Information Technology (IT) and Operational Technology (OT) domains. The group acknowledges cybersecurity threats as a critical risk within the Corporate Risk Profile (CRP) and ensures diligent monitoring and reporting of such risks.

Our IT and OT systems are under constant monitoring by the Cyber Security Operations Centre (SOC), which actively tracks cyber risks, vulnerabilities, threat intelligence, and potential attacks. A proactive approach is taken to raise awareness among employees regarding the current trends and complexities of cyber attacks across the industry. This initiative aims to empower our workforce to remain vigilant and uphold compliant human firewall behaviour.

The awareness efforts specifically address social engineering scams, email phishing, vishing, smishing, and the misuse of deep fake videos generated by AI to steal both company and personal data. The cybersecurity performance was reported to management on a monthly basis.

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- Management System

PCG has implemented the Operational Excellence Management Systems (OEMS) with its fundamental principle being the documentation and use of collective best knowledge and experience that ensures each job is performed successfully. It serves as an integrated management system consisting of a document structure, a people structure and a self-assurance structure.

The document structure is a four-level document hierarchy with a "top-down" approach namely Policies, Requirements, Procedures and Records which are made accessible to users. The people structure provides clarity on the roles each focal has to perform to keep OEMS robust as well as enables a seamless working relationship among focals at various levels. The self-assurance structure with a "bottom-up" approach allows for self-check and escalation of issues that require higher level interventions.

The OEMS has an in-built annual Plan-Do-Check-Act cycle for continual improvement for which the Management System Review is a crucial component that serves as a platform to determine which element of OEMS needs attention for improvement. A digital solution that supports OEMS is established and actively used.

The Management System seeks to eliminate unplanned events and ensure each job is done successfully by making certain that knowledge is retained and used by the right people at the right time to deliver the right results.

- Integrated Assurance

PCG has implemented PETRONAS Integrated Assurance which provides a structured and consistent approach in managing the assurance programme. PETRONAS Integrated Assurance ensures compliance to standards and legal requirements as well as effective management of risk.

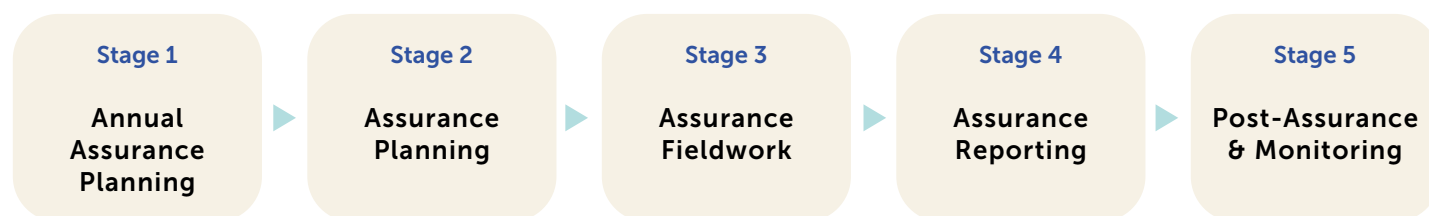
In order to ensure that good governance is practised, an assurance programme is established to evaluate the adequacy and effectiveness of PCG's internal control system. This assurance requirement is a continuous process which provides insight and oversight towards effective and informed decision-making for business improvement and sustainability.

Each PCG subsidiary establishes its own assurance team as First Line Assurance to manage the risk and conduct self-assessment, provide assurance to its own Management, undertake advisory and value-added services in the assurance process to evaluate the compliance of operational activities and management system.

- Financial Reporting Control

The Group has implemented a Financial Reporting Control (FRC) Assurance aligned to PETRONAS Assurance Framework with the principal objective of providing assurance on the quality of financial reporting through a structured process of ensuring the adequacy and effectiveness of key internal controls operating at various levels within the Group at all times.

FRC is the first line assurance involving self-assessment, with the objective to act as the first line of defence in integrated assurance approach. It comprises five assurance stages as outlined in PETRONAS Assurance Framework as follows:



The bedrock of FRC comprises key governing documents, namely the FRC Assurance Guideline, the Risk and Control Assessment Matrix (RCAM) and the Functional Checklist (FC). The FC which consists of a series of questionnaires, serves as a crucial tool for evaluating adherence to FRC's requirements.

Key process owners at various levels are required to complete FRC activities such as identifying scope of testing, assigning relevant assessor, evaluating the FC and finalising assurance result via integrated assurance system platform which provides confirmation of compliance to key internal controls for the areas of the business for which they are accountable.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

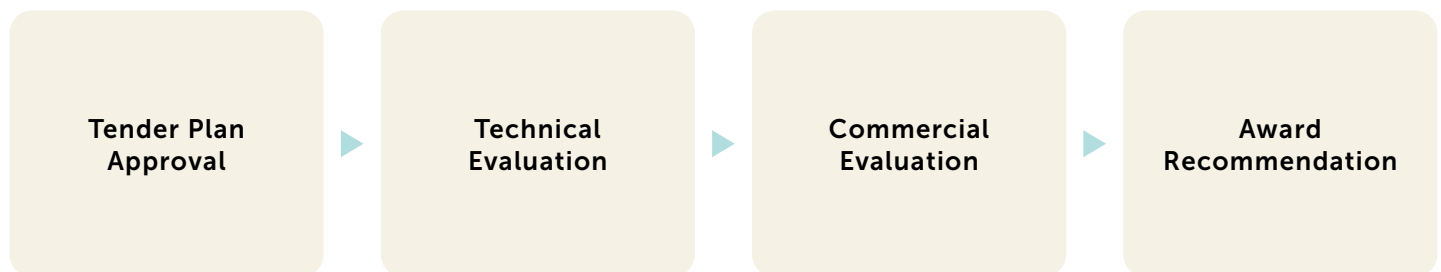
- Tax Compliance & Control

The Group has implemented Tax Compliance & Control (TCC) as part of Tax assurance programme that is aligned with PETRONAS Assurance Framework (i.e. First Line Assurance) with the principal objective of providing assurance on compliance with Tax statutory and regulatory requirements at various levels within the Group at all times.

TCC involves self-assessment, with the objective to act as the first line of defense in integrated assurance approach. Key process owners at various levels are required to complete the TCC activities such as identifying scope of testing, assigning assessor, evaluating the TCC functional checklist (FC) and finalising the assurance result via integrated assurance system platform which provides confirmation of compliance to key internal controls for the areas to which they are accountable.

- Procurement Governance

The Group has adopted the PETRONAS tendering process and governing principles that are embedded in the PETRONAS Procurement Standard for procurement activities above tendering threshold limit. Generally, the main selection criteria are based on technically acceptable and commercially attractive bid so as to secure the best value in procurement of goods and services whilst upholding good procurement governance. The key tendering processes are as follows:



Procurement processes include:

- The most effective approach to be undertaken in the execution of procurement exercise shall be outlined in Tender Plan for evaluation of vendors' proposal against a set of pre-approved technical and commercial evaluation criteria.
- The award recommendation shall be based on the pre-approved technical and commercial evaluation criteria and award strategy.

Tender Committees have been established to ensure tender evaluations are carried out in an effective, transparent and fair manner in line with established procedures and guidelines. The award recommendation will be endorsed by the Tender Committee and approved by Approving Authority as set out in the LOA manual.

Risk assessment is included in each tender exercise to identify associated risk and minimise its likelihood and impact in ensuring that an informed decision is made. Suppliers are also subjected to "Know Your Counterparty" (KYC) questionnaire, strengthening third-party due diligence process and controls in ensuring they consistently meet PETRONAS high integrity standards. Furthermore, tenders are also subjected to cybersecurity contract requirements, ensuring the protection of PCG/PETRONAS data and systems.

- Employee Performance Management

The Group subscribes to the PETRONAS Employee Performance Management system, a business tool that helps align both organisational goals and individual objectives. It is a structured approach to help talent to perform and deliver successfully, maximising performance towards high performing culture. Talent overall performance is objectively assessed and differentiated based on fulfilment of performance objectives and demonstration of PETRONAS Cultural Beliefs (PCB) behaviours. Performance conversation takes place between employee and superior throughout the year for superior to provide feedback and assist talent to achieve the objectives set during the goal setting at the beginning of the performance management cycle.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

RELATED PARTY TRANSACTIONS (RPTS)/RECURRENT RELATED PARTY TRANSACTIONS (RRPTS) AND CONFLICT OF INTEREST (COI) SITUATIONS

The Group has established the Policy on RPTS/RRPTS and COI situations (Policy) and the Guideline and Procedures on RPTS and COI situations (the Guideline) to promote continuous awareness and provide consistent approach to all RPTS and RRPTS or COI situations. While the Policy commits PCG Group to comply with MMLR requirements and other laws and regulations relating to RPT and COI situations in all its activities across the Group, the Guideline sets forth the principles and processes to ensure that RPTS/RRPTS are conducted on an arm's length basis, which is consistent with the Group's normal business practices and policies and will not be to the detriment of the Group's minority shareholders. To facilitate this, the RPT Assessment Checklist is prepared for each transaction which requires the input from various parties namely, Corporate Secretarial, Governance, Finance and Legal. The Guideline aims to provide guidance under which certain transactions and situations must be reviewed and endorsed by the various approving authorities of the Group in compliance with the applicable MMLR of Bursa Malaysia.

The Guideline also prescribes the processes required to identify, evaluate, approve, monitor and report RPTS/RRPTS as well as manage COI. Such processes include identification and screening of transactions, negotiation of transactions and approval/mandate mechanism, monitoring and reporting principles, and renewal or changes in the terms or termination of such transactions. In principle, the said Guideline sets forth the following:

- All sourcing and sales of PCG's products, general merchandise and shared facilities shall be based on market negotiated pricing terms and conditions and/or pricing formulas and the terms are not more favourable to the related party than those generally applied to a third party, in order to ensure that the transactions are on an arm's length basis;
- Database is maintained to capture the list of related parties and RPTS/RRPTS which have been entered into;
- If a Director or a related party has an interest in a transaction, he or she will abstain from any deliberation and decision making at the Board or subsidiary company's Board (as the case may be) in respect of such transaction;
- All RPTS will be reviewed by the BAC adhering to PCG's Guidelines and Procedures prior to the approval by either the board or the shareholders. All RPTS and RRPTS will be reported to the BAC on a quarterly basis.
- On an annual basis, all Directors and any related party of the Group will declare in a written form, designed to elicit information about current/potential relationships and/or COI situations, involving their interest, either directly or indirectly. All Directors and any related party of the Group shall also notify in writing of any interest in RPT or COI situation when it becomes immediately known to them.

According to the Guideline, a COI may arise in the following scenarios:

- If the Director holds an interest in a business that competes or is likely to compete, either directly or indirectly, with the business of the PCG Group
- In cases where there is no competing interest in the business, but the Director receives commission or fees due to providing consultancy or advisory services to the transacting party having business with the PCG Group
- When the Director is involved in or has an interest in business transactions concerning goods or services, either directly or indirectly, with the PCG Group
- If the Director provides or receives financial assistance from the PCG Group

BAC is satisfied that during the year under review, all the RPTS/RRPTS were fairly concluded on prevailing market rate/prices, had been carried out at arm's length basis and normal commercial terms/conditions, applicable industry norms and not detrimental to the interests of PCG and its minority shareholders. There was no COI situation that had arisen which required the BAC's assessment.

MANAGEMENT'S ACCOUNTABILITY

Management is accountable to the Board for the implementation of the processes in identifying, evaluating, monitoring and reporting of risks and internal control as prescribed above. The MD/CEO and CFO have provided the Board with assurance that the Group risk management and internal control system is operating adequately and effectively, in all material aspects, to ensure achievement of corporate objectives. In providing the above assurance by the MD/CEO and CFO, similar assurances have also been obtained from Management Committee members confirming the adequacy and effectiveness of risk management practice and internal control system within their respective areas.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Audit and Assurance Practice Guide (AAPG 3), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants (MIA) for inclusion in the Integrated Report of the Group for the year ended 31 December 2023, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the Integrated Report of the Group, in all material respects:

- a. has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or
- b. is factually inaccurate

AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and Management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

CONCLUSION

Based on the above, the Board is of the view that the risk management and internal control system instituted throughout PCG is sound and provides a level of confidence on which the Board relies for assurance. In the year under review, there was no significant control failure or weakness that would result in material losses, contingencies or uncertainties requiring separate disclosure in this Integrated Report.

The Board and Management will continue to review and strengthen the Group's risk management and internal control system to ensure ongoing adequacy and effectiveness of the system of internal control and risk management practices to meet the changing and challenging operating environment.

This Statement on Risk Management and Internal Control is made in accordance with the resolution of the Board dated 26 February 2024.