

# INTERNAL CONTROL

PTT Global Chemical Public Company Limited continuously recognizes on the importance of Internal Control Systems, which helps Company operations to maintain accuracy, transparency, accountability, reducing or preventing losses from unexpected risks. The Board of Directors has assigned the Audit Committee with the task of assessing PTTGC's Internal Control Systems on an annual basis, to assure the adequacy of its internal control by alignment with business operations.

During the Board of Directors Meeting No. 2/2014 held on February 18<sup>th</sup>, 2014, the Audit Committee presented its assessment of PTTGC's Internal Control Systems. In summary, it was found that the Internal Control Systems were functioning properly in an adequate and effective manner. The Board therefore expressed its approval with both the Company's internal control system as well as the Audit Committee. A list of the Audit Committee's findings can be found below:

## 1. Control Environment

Overall, it was found that the Control Environment was appropriate, efficient and effective in the way it assisted with the conduct of business operations. Management strived to promote corporate culture values that focused on integrity and ethics, setting a good example for policy compliance, good governance, and sound business code of conduct.

- ▶ PTTGC established guidelines and best practices outlining the principles of integrity and business code of conduct in working operations, as well as in relations with business partners, customers, and third parties. A Corporate Governance and Business Code of Conduct Handbook has been published and distributed to members of management as well as other staff members. These efforts have been made in creating management system that works in a transparent and fair manner in its treatment of all stakeholders. It outlines the appropriate sanctions to be implemented in response to the violation of these policies. A channel has been opened to facilitate notices from Whistleblowers. It includes processes governing the monitoring and evaluation of the adherence to the corporate governance and business code of conduct handbook. This is done both through a self-assessment as well as an assessment by the Thai Institute of Directors Association (IOD) as well as the Dow Jones Sustainability Indices (DJSI).
- ▶ PTTGC's organizational structure has been established in a way to best support its business operations in an efficient manner. This structure delegates duties and responsibilities in an appropriate way as determined by the Board of Directors. PTTGC also employs policies and working practices to recruit, develop, and retain personnel. Assessment methods are used to analyze the fairness of working processes and incentives provided to staff members.
- ▶ The Board of Directors maintains its independence from the PTTGC's management and it is responsible for the supervision and development of internal control systems. The Board is also responsible for setting clear and measurable goals for business operations, as well as determining PTTGC's direction and the framework under which it will operate in both the short and long-term. The Board must ensure that PTTGC follows appropriate working processes, and continuously reviews PTTGC's strategic vision and goals. Furthermore, it must offer its suggestions and observations to PTTGC's management for continuous improvements.

## 2. Risk Assessment

PTTGC recognizes on its risk management activities. A Risk Management Committee has been established to create and oversee policies related to PTTGC's risk management system. Such policies are to be carried out in an appropriate and efficient manner. PTTGC follows the policies set by the Risk Management Committee. These clearly-outlined objectives enable the identification and assessment of risk and the various factors that might cause future risk. This includes the overall business environment, outside factors that might have an effect on business, and internal factors that could also have an effect on business operations or PTTGC's strategic direction. A risk management plan has been put into place to prevent or at least reduce the amount of risk to an acceptable level. Furthermore, an early warning system functions to allow management to keep track of current business operations and any kind of risks that might occur. A summary of this is included in a report and submitted to the Board of Directors on a quarterly basis.

## 3. Control Activities

It has been found that in general, PTTGC's Control Activities are adequate and effective. The following control measures in place have contributed to reducing risks that may result in PTTGC's being unable to achieve its goals at an acceptable level.

- ▶ Various policies, procedures, and regulations have been drawn up to limit the power and the financial authority of PTTGC's management, in aspects such as finance, procurement, and administrative powers. Organizational structure has been set up to allow for a division of responsibilities and powers in a clear fashion. Additionally, control mechanisms have been put into place to reduce and prevent mistakes from happening. This includes various approval processes, accounting records, and data storage. Assets have been diversified to ensure good internal control, including a system of checks

and balances. Furthermore, PTTGC has created an additional set of internal controls for the finance and accounting departments related to the deposit and dispersal of funds, bank deposits, and payment advances. This has been done in a systematic and accountable manner, recorded accurately and consistently.

- ▶ Various key performance indicators have been established to measure the performance of staff members throughout the organization in an effort to provide appropriate and sufficient controls helpful to the management.
- ▶ Strict measures are in place to govern transactions between PTTGC and major shareholders, Directors, Executives, and other connected persons. Guidelines have been set to deal with conflicts of interests according to principles of Good Corporate Governance. Disclosures are made of any conflicts of interest as per instruction from PTTGC's good corporate governance and business code of conduct handbook.
- ▶ PTTGC regularly monitors the operations of its subsidiaries and affiliated companies. Guidelines have been prepared regarding the governance and management of these companies in which PTTGC has a share of investment. Representatives are to be appointed by PTTGC to assume the role of Directors and/or other key management positions in those subsidiaries and affiliated companies. This is to ensure that PTTGC maintain a role in policy making, as well as being able to receive information, monitor activity, and conduct assessments as per key performance indicators in these companies.

#### 4. Information and Communication

PTTGC recognizes on the information and communication systems, the information technology has been implemented to support the management's decision making. Examples in this regard are described below.

- ▶ Information systems related to areas PTTGC operations have been put into place. This includes a system for financial reporting that helps to ensure compliance with various policies and regulations, assisting in PTTGC's internal control processes and ensuring they remain up-to-date and easy to access. These systems also help manage the storage of accounting data in a comprehensive and categorized manner.
- ▶ The Board of Directors has access to a sufficient amount of information for consideration on issues they determine. Relevant documents are sent out before Meeting times, allowing the Board to make detailed inquiries so that they may make better informed decisions.
- ▶ PTTGC employs the use of important information systems to assist PTTGC management conduct their duties in a responsible, efficient, and effective manner to steer PTTGC to achieve its goals. Furthermore, PTTGC has opened the channels of communication that allow outside parties such as investor representatives and agencies to make inquiries and complaints.

#### 5. Monitoring

PTTGC has implemented various monitoring processes which help PTTGC to obtain effective risk management and sufficiency of internal control mechanisms. Improvements are constantly being made to make sure that these processes best address the changing environment that PTTGC operates in, as well as to rectify any irregularities in a timely manner. The Board of Directors is presented with a comparison of PTTGC's operations with its goals, on a quarterly basis. Furthermore, an Internal Audit Department scrutinizes the internal control system to determine its adequacy and effectiveness. Their findings are presented to the Audit Committee on a quarterly basis. In 2013, the Audit Report did not find any issues related to conflicts of interest, fraudulent activities, or any other significant deficiency in the internal control system. Additionally, no violations of SEC and SET regulations were found. Nevertheless, PTTGC continues to make improvements to the effectiveness and efficiency of internal control systems in accordance with the recommendation in the Audit Report.

