

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors recognises its responsibility for maintaining a sound system of risk management and internal control. In compliance with paragraph 15.26(b) of Bursa Malaysia’s Main Market Listing Requirements (MMLR), this statement outlines the Group’s key risk management and internal control frameworks as implemented during the reporting period. This disclosure provides an overview of the measures in place to safeguard the interests of stakeholders and ensure the integrity of the Group’s operations.

The key elements of PCG’s risk management framework and internal control systems are detailed below:

## BOARD ACCOUNTABILITY

The Board recognises that robust risk management practices and an effective internal control system are integral to sound corporate governance. These measures are critical for safeguarding shareholders’ investments, protecting the Group’s assets, and fostering sustainable value creation. The Board takes full responsibility for overseeing and regularly reviewing the adequacy and effectiveness of the Group’s risk management and internal control systems.

To support this commitment, the Group has established a structured process for identifying, evaluating, managing, and monitoring principal risks that could materially impact the achievement of its corporate objectives. This framework ensures a systematic approach to risk management, enabling the Group to address potential challenges proactively. Through ongoing oversight, the Board ensures that these practices are effectively implemented and remain aligned with the Group’s strategic objectives.

## MANAGEMENT RESPONSIBILITY

The Board entrusts Management with the responsibility for implementing the Group’s risk management and internal control systems. This includes formulating and endorsing risk management policy, frameworks, and guidelines, ensuring their seamless integration across the organisation.

As part of its oversight, Management conducts quarterly reviews of the Group’s risk profile, identifying key risks and recommending appropriate mitigation measures. It also ensures clear accountability at all levels, fostering a culture of proactive risk management. Additionally, Management is responsible for the efficient allocation of resources to support the Group’s risk management efforts.

## RISK GOVERNANCE AND OVERSIGHT

The Group’s risk oversight structure ensures the seamless flow of risk information, enabling effective risk management at all levels through clearly defined roles and responsibilities, as detailed below:

### RISK OVERSIGHT STRUCTURE

#### BOARD OF DIRECTORS

Responsible for the overall effective oversight of PCG Group’s risk management to safeguard PCG’s assets, reputation and deliver sustainable shareholders’ value

Board  
Committee  
Level

#### BOARD SUSTAINABILITY AND RISK COMMITTEE (BSRC)

- Responsible for guidance and oversight on Sustainability, Risk Management and Integrity Management
- Review and endorse the Group’s risk profile and risk appetite
- Review of the Group’s Integrity Management and anti-corruption plan, implementation and effectiveness
- Review the Group’s sustainability agenda, commitment, strategy and goals, the risk as well as opportunities
- Deliberate risk assessment for high impact business matters

Management  
Level

#### SUSTAINABILITY AND RISK MANAGEMENT COMMITTEE (SRMC)

- Responsible for ensuring the adequacy and effectiveness of sustainability, risk management and integrity management systems and its implementation
- Deliberate and recommend sustainability and risk performances to be reported and escalated to the BSRC and Board

Operational  
Level

#### MANUFACTURING

Responsible to oversee risk management for manufacturing

#### COMMERCIAL

Responsible to oversee risk management for commercial

#### SPECIALTY CHEMICALS

Responsible to oversee risk management for specialty chemicals

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The Board, with the support of the Board Sustainability and Risk Committee (BSRC), oversees the Group's risk management frameworks and practices. Together, they establish the "tone from the top," driving the effective implementation of risk management and fostering a strong risk culture across the Group.

**R** *The key activities of the Board and BSRC are set out in the Corporate Governance Overview Statement on pages 88 to 107 and Board Sustainability and Risk Committee Report on pages 118 to 120.*

The SRMC, chaired by the MD/CEO, is accountable to the BSRC and Board for ensuring the effective implementation of the Group's risk management and internal control systems. The SRMC undertakes a comprehensive review and deliberation of key areas, including PCG's risk profile, risk appetite, sustainability-related matters, integrity management, crisis and business continuity management and risk assurance activities. Based on these deliberations, the SRMC recommends further actions or interventions to enhance the Group's risk management practices and ensure alignment with strategic objectives.

The Risk Management Department (RMD), led by the Head of RMD is responsible for embedding robust risk management practices and fostering a risk-aware culture across the organisation. This includes developing and implementing risk policy, frameworks and guidelines that adhere to good corporate governance. As secretary to the SRMC, the Head of RMD provides quarterly updates on the implementation of the Group's risk management, ensuring transparency and accountability in risk oversight.

The RMD comprises staff with diverse background and expertise in Accounting, Finance, Engineering, Business Administration, Management, Marketing, Sustainability, Supply Chain, Procurement, and IT. RMD staff are trained and certified by the Institute of Enterprise Risk Practitioners (IERP) as Enterprise Risk Manager, Enterprise Risk Advisor, Sustainability Risk Manager and Qualified Risk Auditor. They also hold Certified Integrity Officer (CeIO) qualifications from the Malaysian Anti-Corruption Academy (MACA). This multidisciplinary team is crucial for an effective and comprehensive approach to risk management. The competencies of RMD staff are assessed through practical experience and formal assessments, in accordance with the PETRONAS Risk Capability Framework.

Supporting this structure, the Group's risk management implementation is underpinned by the 3 Lines of Defence Model. This model clearly delineates roles and responsibilities, ensuring an integrated and effective approach to managing risks at all levels of the organisation.

## 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 internal 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

PCG Risk Policy outlines the Group's commitment to effective risk management by driving best practices and integrating risk-based decision-making into strategic and operational processes, safeguarding and creating value while enhancing resilience and adaptability. The policy also addresses responsibility, fostering a culture of risk awareness and ownership at all levels.

#### PETRONAS CHEMICALS GROUP IS COMMITTED TO BECOME A RISK RESILIENT ORGANISATION

PETRONAS Chemicals Group 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

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## PETRONAS RESILIENCY MODEL

PCG adopted the PETRONAS Resiliency Model (PRM) as the foundation for risk management. The model focuses on three pillars: Enterprise Risk Management (ERM), Crisis Management (CM), and Business Continuity Management (BCM). Together, they provide a structured and integrated framework for managing risks, addressing crises, and ensuring business continuity across the organisation, as shown in the diagram below.



We have continued to strengthen our risk management practices, demonstrating our commitment to becoming a risk-resilient organisation. These efforts are supported by well-established risk management frameworks and comprehensive guidelines that govern and guide practices across the Group.

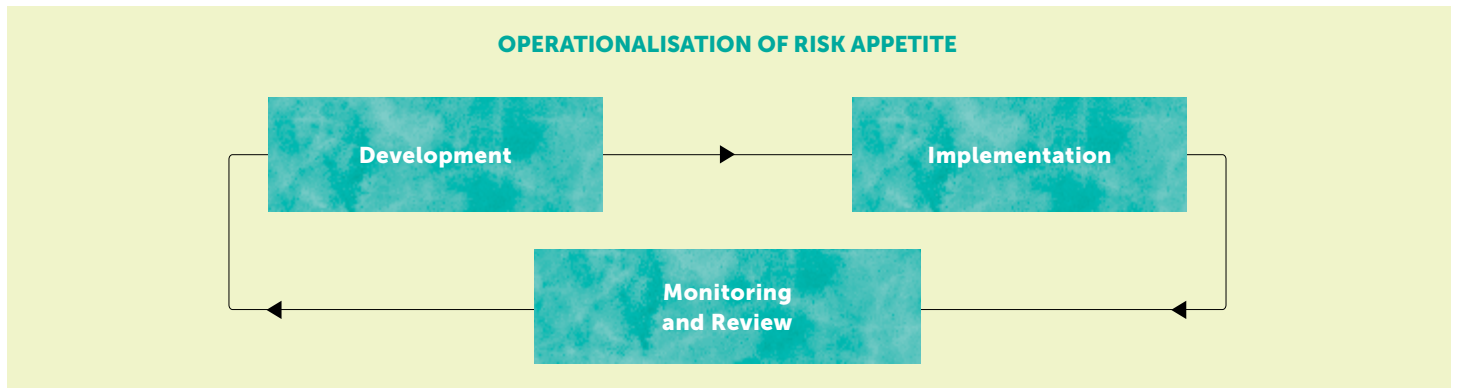
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## ENTERPRISE RISK MANAGEMENT

Our ERM Framework, together with its supporting guidelines, is broadly aligned with the principles and guidelines of ISO 31000:2009. It establishes a standardised and consistent approach for identifying, assessing, treating, monitoring, and reviewing risks that may affect PCG's business objectives and targets.

### RISK APPETITE

Risk appetite defines the amount and types of risks PCG is willing to accept in pursuit of strategic and business objectives, and the PCG Risk Appetite is established and implemented through the following guiding principles:

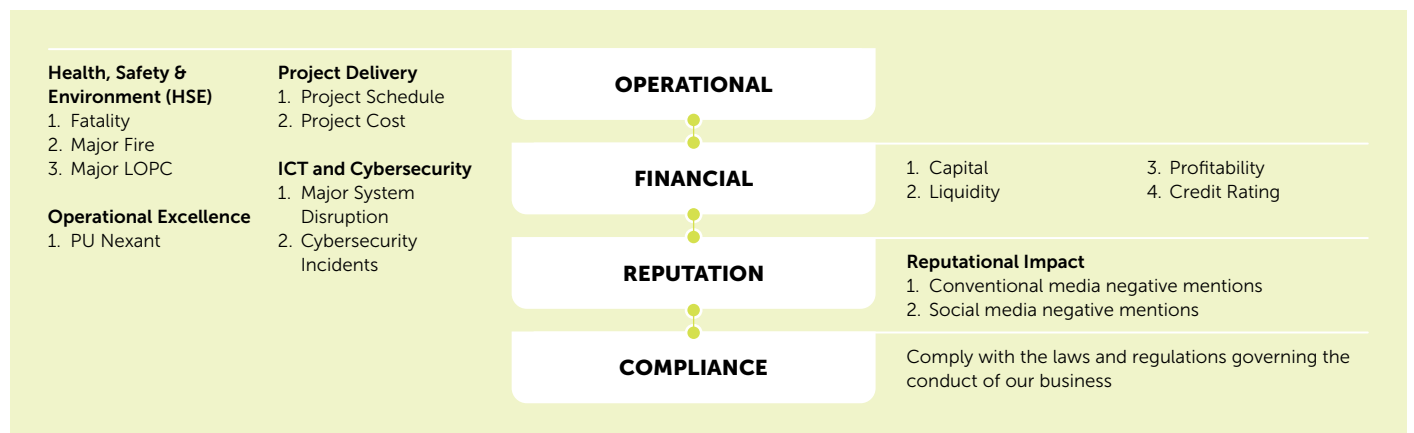


#### a. Development

PCG's Risk Appetite has been designed in alignment with the Group's business strategies, with four key Risk Appetite Focus Areas identified for close monitoring and control.

To ensure risks undertaken in achieving business objectives remain within acceptable levels, the Risk Appetite Statement, Risk Tolerance, and Risk Thresholds have been clearly defined. During the year under review, the risk thresholds related to Project Delivery were revised and updated, with particular emphasis on Project Schedule and Cost. These enhancements aim to provide meaningful insights, enabling timely discussions and the activation of early intervention strategies when required.

PCG Risk Appetite Focus Areas are as follows:



#### b. Implementation

To ensure clear accountability, the roles and responsibilities of all parties involved in the implementation of the Risk Appetite have been clearly defined. The Risk Appetite is communicated to the respective risk owners to promote a thorough understanding and ensure strict adherence to its principles. Furthermore, the Risk Appetite is embedded in risk assessment discussions to guide decision-making and maintain alignment with the Group's strategic objectives.

#### c. Monitoring and Review

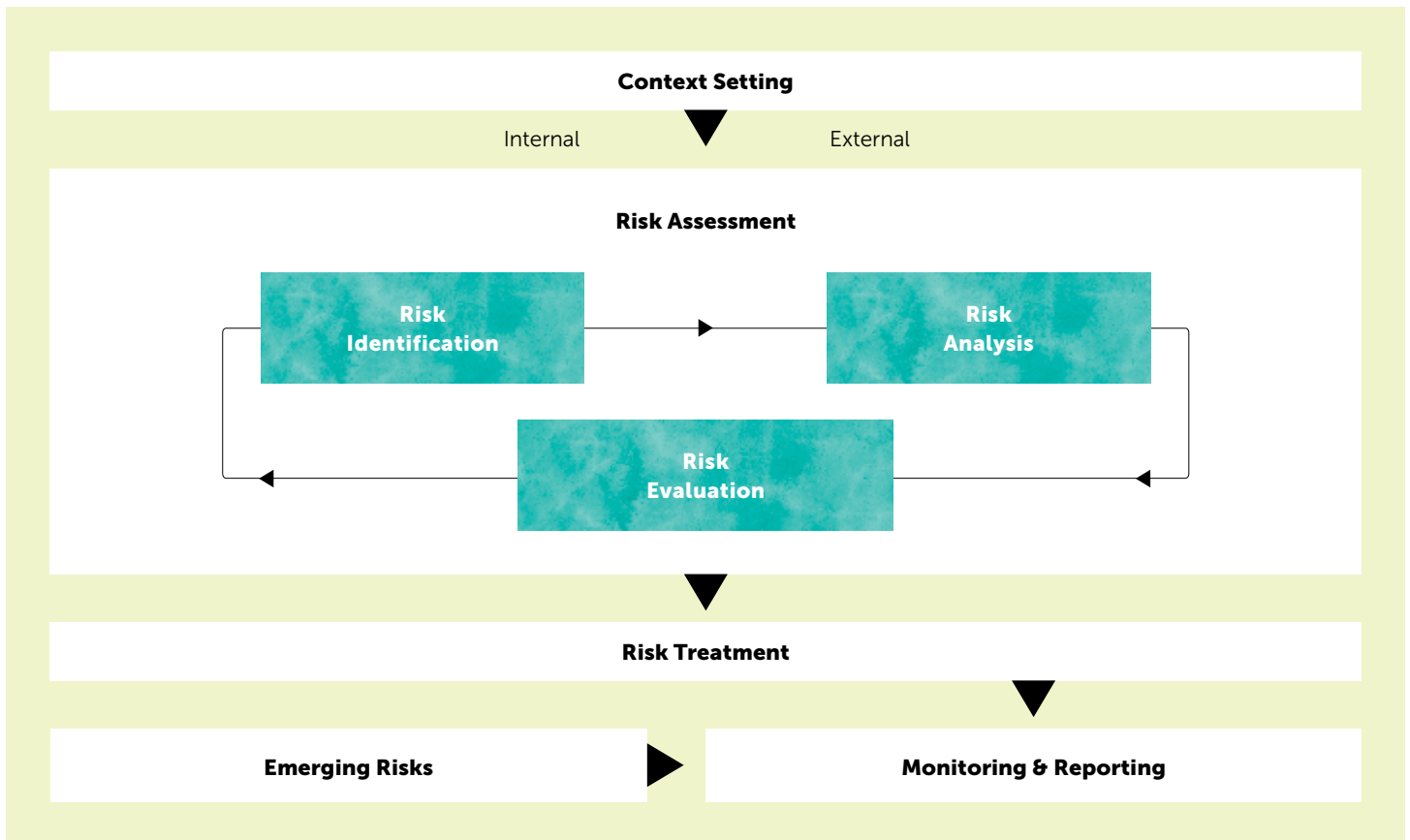
Effective monitoring and review processes are essential to ensure that PCG operates within its defined Risk Appetite. A systematic approach to monitoring and reporting has been established, enabling the timely escalation of any breaches of the Risk Thresholds to the relevant risk owner, Management, and, where necessary, the Board. This ensures prompt deliberation and facilitates the implementation of appropriate actions or decisions.

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## CORPORATE RISK PROFILE

The Corporate Risk Profile (CRP) is developed in accordance with the Enterprise Risk Management Process Guideline (ERMPG). To address the dynamic and evolving business environment, the CRP is reviewed on a quarterly basis. This proactive approach enables the Group to navigate uncertainties effectively, drawing on insights from both internal and external sources. Inputs include key business focus areas, materiality assessments, previous risk profiles, emerging risks scanning, industry risk reports, audit findings, and feedback from stakeholders and Management.

Our structured risk profiling process is set out below:



The status of PCG’s CRP, including Key Risk Indicators (KRIs) and mitigation plans for principal risks, are reviewed and deliberated during quarterly meetings of the SRMC, BSRC and the Board. Each principal risk is assigned to a dedicated risk owner who is accountable for implementing control measures, monitoring and tracking KRIs, and identifying and executing mitigation strategies. These risks and their corresponding mitigation measures are communicated promptly to line management to ensure awareness and alignment across all levels.

PCG continuously monitors its operating and external environments to identify emerging risks. Such risks are discussed by both Management and the Board. Where an emerging risk is assessed to pose a significant threat, it is formally incorporated into the CRP for ongoing assessment and monitoring.

Since its establishment, the Risk International Database (RID) has been regularly reviewed and updated. This database serves as a comprehensive tool for documenting, assessing, and monitoring geopolitical developments in various regions that may impact PCG’s business operations. It provides critical insights to support informed decision-making for current activities and plays a key role in shaping strategic planning for future growth and expansion.

**R** For more information on PCG’s principal risks, please refer to Risk Overview on pages 66 to 73.

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To support the implementation of risk management at the operational level, PCG adopts a structured approach using PETRONAS' risk assessment methodologies and tools. These tools ensure systematic identification, assessment, and mitigation of risks across various areas, aligning with regulatory requirements and industry best practices. The key approaches include:

<b>Corruption Risk Assessment</b>	Ensures a systematic process to identify, assess, and mitigate risks related to bribery and corruption within the Group, in compliance with the Prime Minister's Department Guidelines on Adequate Procedures
<b>PETRONAS Health Safety Environment Management System (HSEMS)</b>	Manages health, safety, and environment (HSE) risks to ensure operations comply with HSE regulatory requirements and adhere to industry best practices
<b>Social Risk Assessment</b>	Identifies, assesses, and mitigates any existing or potential human rights impacts on communities, partners, and stakeholders resulting from business activities
<b>Environmental Impact Assessment (EIA)</b>	Evaluates the potential environmental impacts of PCG projects or developments and ensures compliance with regulatory requirements through the development of mitigation plans
<b>Carbon Footprint Assessment (CFA)</b>	Identifies and assesses greenhouse gas (GHG) emissions from PCG's existing manufacturing facilities and future growth projects. This process provides recommendations and identifies opportunities for reducing the carbon footprint
<b>Climate Risk Assessment</b>	Identifies and evaluates climate-related risks, including physical risks e.g., extreme weather events, rising sea levels and transition risks e.g., policy changes, market shifts. This process quantifies financial impacts, provides strategic recommendations, and identifies opportunities to enhance resilience and adapt to a low-carbon economy
<b>Water Risk Assessment</b>	Identifies and evaluates water-related risks that may impact our business, including risks from freshwater dependency and wastewater discharge. The process prioritises assets, identifies risks, and develops targeted action plans to mitigate impacts and ensure business continuity
<b>Project Risk Assessment (PRA)</b>	Systematically addresses risks associated with projects in line with the requirements of the PETRONAS Project Management System (PPMS)
<b>Turnaround Risk Assessment (TaRA)</b>	Identifies and mitigates risks specific to turnaround activities, ensuring seamless execution
<b>Contractor Risk Assessment (CoRA)</b>	Evaluates critical risks related to contractor performance during the procurement process, ensuring risks are mitigated prior to contractor selection
<b>Counterparty Risk Assessment</b>	Focuses on credit and performance risks, in alignment with PCG's Financial Policy and PETRONAS Credit Guidelines. Each counterparty is assigned credit ratings to facilitate informed business decision-making
<b>Supplier Risk Assessment</b>	Evaluates risks related to supplier performance, with each supplier assigned risk ratings to support business decision-making

### RISK IN DECISION MAKING

A risk assessment is mandatory for all Board decision papers, ensuring that decision-makers are fully informed, understand the levels of risk to accept and implement appropriate mitigation measures. As the Group continues to expand capacity and diversify its business portfolio, the importance of comprehensive risk assessments has grown significantly, particularly in evaluating strategic planning, business opportunities and project execution to ensure the achievement of desired returns. During the year under review, the BSRC reviewed and deliberated on the risks associated to the decision papers and their proposed mitigations before seeking final approval from the Board. The status of these mitigations is monitored and reported to the Sustainability and Risk Management Committee (SRMC) to ensure they are implemented as intended.

### CRISIS MANAGEMENT

**Given the nature of its business operations, PCG is exposed to potential events of varying severity. To address these challenges, PCG has developed a Crisis Management Framework (CMF) to provide structured guidance across the Group. The CMF establishes a comprehensive approach to managing crises and outlines effective response mechanisms to mitigate their impact.**

A comprehensive Crisis Management Plan (CMP) has been established to provide strategic support in managing crises, including defining the roles and responsibilities of the Crisis Management Team (CMT). The CMP incorporates a three-tiered response system tailored to the severity of a crisis, ensuring clear delineation of response control and the necessary capabilities of emergency or crisis team members to safeguard people, the environment, assets and PCG's reputation.

Throughout the year, refresher training sessions were conducted for the CMT to reinforce their understanding of roles and responsibilities in managing crisis. In addition, testing and exercise was carried out to assess the CMT's response times to the Emergency Command Centre (ECC), evaluate collaboration among team members in developing solutions for simulated scenarios and review their approach to managing press conferences.

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## BUSINESS CONTINUITY MANAGEMENT

**The Business Continuity Management (BCM) Framework and Guidelines have been established to ensure a systematic and consistent approach in managing prolonged business disruptions. This framework is designed to ensure the continuity of PCG's business operations, providing a structured methodology for maintaining resilience.**

PCG has implemented a Business Continuity Plan (BCP) for Product Supply to address potential disruptions, including abrupt or prolonged outages, that could impact product delivery to customers. Additionally, a BCP for PETRONAS Twin Towers has been established to address scenarios such as workplace inaccessibility, failure of critical ICT systems and the prolonged unavailability of key personnel. Complementing these plans, Business Recovery Plans (BRPs) have been developed for the Group's plants and facilities, enabling the restoration of assets and processes to facilitate the resumption of normal operations following a crisis or incident.

During the year under review, PCG conducted a thorough review of the BCP for Product Supply, the BCP for PETRONAS Twin Towers, and the BRPs for its plants and facilities. This review ensured that these plans remain current and effective in mitigating potential business disruptions or crises. To validate the readiness of PCG and its Management team, as well as the robustness of these continuity plans, testing and exercises are conducted as required.

## CONTINUAL IMPROVEMENT UNDER RISK MANAGEMENT FRAMEWORK

Fostering a strong risk management culture is fundamental to effective risk management. PCG engages its employees through continuous communication programmes to emphasise the importance of risk management in their roles. During the review period, the Group undertook a Risk Maturity Survey (RMS) involving PCG staff at the corporate office. The survey indicated that the overall risk maturity achieved the compliance level with opportunities identified to further enhance risk management practices and culture.

PCG implements risk assurance programmes in line with the annual risk assurance plan endorsed by SRMC. The progress of risk assurance, updates, findings and the implementation of corrective actions are tracked and reported to the SRMC on a quarterly basis. For associate and joint ventures companies, PCG facilitated multiple engagement sessions to share insights and guidance on implementing risk management practices. A baseline assessment was conducted to identify areas for improvement and to develop action items needed to strengthen risk management practices.

## INTERNAL CONTROLS

Management is accountable to the Board for designing, implementing and maintaining the governance, risk management and internal control systems across the Group. The Board, supported by the Board Audit Committee (BAC), provides oversight of Management's actions and monitors the effectiveness of the controls in place to ensure they align with the Group's objectives.

The Group refers to the 17 principles outlined in the Committee of Sponsoring Organizations of The Treadway Commission (COSO) Internal Control Integrated Framework. These principles serve as a comprehensive roadmap for establishing and maintaining robust and effective internal controls, as illustrated below.

<b>Control Environment</b>	<ol style="list-style-type: none"> <li>1. Demonstrates a commitment to integrity and ethical values</li> <li>2. Board of Directors demonstrates independence from the Management and exercises oversight of internal control performance</li> <li>3. Establishes structures, reporting lines and appropriate authorities and responsibilities</li> <li>4. Demonstrates commitment to attract, develop and retain competent workforce</li> <li>5. Holds individuals accountable for their internal control responsibilities</li> </ol>
<b>Risk Assessment</b>	<ol style="list-style-type: none"> <li>6. Specifies objectives with sufficient clarity for risk identification and assessment</li> <li>7. Identifies and analyses risks relating to objectives for determining how the risks are to be managed</li> <li>8. Evaluates and considers potential for fraud in assessing risks</li> <li>9. Identifies and assesses changes that could significantly impact the system of internal control</li> </ol>
<b>Control Activities</b>	<ol style="list-style-type: none"> <li>10. Selects and develops control activities to mitigate risks</li> <li>11. Selects and develops control activities through technology</li> <li>12. Deploys control activities through policies and procedures</li> </ol>
<b>Monitoring Activities</b>	<ol style="list-style-type: none"> <li>13. Selects, develops, and performs ongoing and/or separate evaluations to ascertain the components of internal control are present and functioning</li> <li>14. Evaluates and communicates internal control deficiencies in timely manner</li> </ol>
<b>Information &amp; Communication</b>	<ol style="list-style-type: none"> <li>15. Obtains or generates and uses relevant, quality information to support the functioning of internal control</li> <li>16. Communicates internal control information internally</li> <li>17. Communicates internal control information externally</li> </ol>

The implementation and maintenance of governance, risk management and internal control within joint operations, associate and joint ventures companies are governed by respective established governing procedures. The Group safeguards its interests through its appointed representatives on the boards of these entities and PCG secondees who are actively involved in oversight activities. This commitment is further supported by regular reviews of management accounts and joint shareholders' audits.

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## Internal Audit

PCG's Internal Audit Department (IAD) maintains impartiality, objectivity and integrity to provide independent assurance and advisory services that enhance the Group's governance, risk management and internal control processes. The BAC provides oversight of IAD's planned and ongoing activities, focusing on audit priorities, scope, resource adequacy, capabilities, quality assurance and improvement programme. This structure reinforces the department's independence and objectivity, align with the Group's strategic priorities and ensures adherence to professional standards:

- IAD reports functionally to the BAC and administratively to the Group's MD/CEO.
- Its processes and activities are guided by an approved Internal Audit Charter, defining the department's purpose, authority, responsibilities, and limitations. The charter aligns with the International Professional Practices Framework (IPPF) and the 2024 Global Internal Audit Standards (GIAS) issued by the Institute of Internal Auditors (IIA), effective 9 January 2025.
- IAD leverages the internationally recognised COSO internal control framework, which provides guidance on internal control, enterprise risk management and governance, to ensure comprehensive evaluation of internal controls and effective risk management and mitigation.

IAD undertakes reviews of governance, risk management and internal controls for selected key activities and operations, guided by a risk-based audit plan approved annually by the BAC. This plan incorporates business strategies, key objectives, associated risks (including emerging risks) and stakeholder inputs, ensuring relevance and strategic alignment. Continuous risk sensing is conducted to ensure audit activities remain responsive to emerging risks and evolving enterprise strategies. The audit reports to the BAC include opinions on the adequacy and effectiveness of governance, risk management and internal controls, highlighting root causes, implications and recommended corrective actions. The status of audit activities and progress in resolving audit issues are reported to the BAC on a quarterly basis.

**R** The key activities of the internal audit function and audit competencies are set out in the BAC Report on pages 110 to 117.

## Other Key Elements of Internal Control Systems

### • Organisation Structure and Management Committee

The Group has established an organisational structure that is aligned with its business and operational requirements. This structure defines clear lines of responsibility, accountability and authority, enabling the effective implementation of the Group's strategies and the efficient management of day-to-day operations. The Company's Management Committee supports the MD/CEO in an advisory capacity, assisting in the execution of the Group's vision, strategies, and objectives. Additionally, various functional committees have been established across the Group to provide oversight, coordinate activities and operations, and ensure alignment with the organisation's overarching goals and objectives.

### • Group Policies

The Group has established a suite of policies to govern its daily business operations, encompassing areas such as HSE, plant operations, human resource management and related party transactions. In addition, the Group adheres to the PCG Financial Policy, which provides a comprehensive framework for financial management activities, embedding the principles of financial risk management. This policy governs financial risk management practices across the Group, ensuring that financial risk exposures are systematically identified and managed. It also supports the adoption of efficient capital management practices.

### • Whistleblowing Policy

The Group has implemented the PETRONAS Whistleblowing Policy, which provides a formal channel for employees and members of the public to report any instances of improper conduct in accordance with the procedures outlined in the Policy. The Policy ensures that whistleblowers are afforded confidentiality of identity, to the extent reasonably practicable, and protection against retaliation or adverse actions, provided the disclosure is made in good faith. Employees who report improper conduct internally are safeguarded from any detrimental actions, even if subsequent investigations determine that the whistleblower was mistaken regarding the facts, rules, or procedures involved. The PETRONAS Whistleblowing Committee oversees the whistleblowing process, ensuring that all reports are handled appropriately and in accordance with the Policy. The Whistleblowing Policy and its procedures are publicly accessible on the Company's corporate website at <https://www.petronas.com/pcg/about-us/governance>.

### • Limits of Authority

The Group has implemented a comprehensive Limits of Authority (LOA), which establishes clear authorisation and decision-making limits to govern the business decision-making process, including matters reserved for the Board, ensuring clear accountability and consistency across the organisation. The LOA is reviewed every five years or as required to reflect changes in organisational structure and evolving business needs, ensuring its continued relevance and effectiveness in supporting decision-making processes. During the year, the LOA was revised to enhance process efficiency and to better align with current business requirements.



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### • Anti-Bribery Management Systems (ABMS)

The Group maintains a zero-tolerance approach to bribery and corruption, guided by the PETRONAS Code of Conduct and Business Ethics (CoBE), Anti-Bribery and Corruption Manual, and PCG Integrity Management Systems. 19 PCG staff who attended the Certified Integrity Officer (CeIO) programme have been certified, with five attaining Exemplar Global certification. Regular integrity programmes are implemented across the Group, raising awareness of key topics such as corruption and corporate liability, further embedding a culture of ethical conduct. PCG achieved ISO 37001:2016 ABMS certification in February 2024 and for PETRONAS Chemicals Marketing (Labuan) Ltd. in December 2024, demonstrating its commitment to robust anti-bribery measures, including rigorous documentation and annual surveillance audits.

### • Operating Procedures and Guidelines

The Group has established a comprehensive set of operating procedures and guidelines that govern its business and operational activities. These cover a broad range of areas, including business planning, capital expenditure, financial operations, performance reporting, HSE, plant operations, marketing and sales, procurement, supply and distribution, human resource management, corporate affairs, innovation and technology, and information systems. These procedures and guidelines provide a structured framework for day-to-day operations and serve as a reference for appropriate actions to be taken in specific circumstances. To ensure their continued relevance, applicability, and effectiveness, they are reviewed periodically or whenever changes occur in the work processes.

### • Business Plan and Budget

The Group conducts an annual budgeting and forecasting exercise which encompasses the development of business strategies for the next five years and the establishment of key performance indicators (KPIs). These KPIs provide a benchmark for measuring the overall performance of the Group, as well as the performance of individual business segments and companies within the Group. Detailed operating and capital expenditure plans are prepared and submitted to the Board for approval prior to the start of each financial year. The Group's performance is monitored internally on a monthly basis and reported to the Management Committee. Quarterly performance updates are presented to the Board, including comparisons against approved plans and prior periods. The Group's strategic direction is subject to continuous review through a rigorous assessment process that considers evolving market conditions and significant business risks.

### • Information and Communications Technology

The Group continues to expand its adoption of digital intelligence technologies, leveraging analytics, Artificial Intelligence (AI), Internet of Things (IoT), and robotics. These advancements enhance workflow automation, operational efficiency, reliability, productivity, and data-driven decision-making. This strategic approach not only supports business growth but also strengthens data management practices and cyber resilience across the organisation. The Group's cybersecurity standards and practices are aligned with the PETRONAS Enterprise Cyber Security Governance Framework (ECSGF), which provides comprehensive guidance for mitigating cyber risks, threats and attacks on data and systems. To reinforce cybersecurity awareness, the Group conducts continuous education initiatives on social engineering threats, including email phishing, vishing, smishing, and the misuse of AI-generated deepfake videos designed to compromise company and personal data.

### • Management System

PCG has implemented the Operational Excellence Management Systems (OEMS), an integrated management systems designed to capture and apply collective best practices and experiences, encompassing documentation, people and self-assurance structure to ensure consistent success in operational activities. The document structure follows a four-level hierarchy with a top-down approach, encompassing policies, requirements, procedures, and records. These documents are readily accessible to users, ensuring clarity and standardisation across all levels of the organisation. The people's structure clearly defines the roles and responsibilities, ensuring a robust OEMS framework and fostering seamless collaboration among stakeholders at various levels. The self-assurance structure, adopting a bottom-up approach, empowers individuals to conduct self-checks and escalate issues requiring higher-level intervention. This ensures that operational challenges are promptly addressed and resolved. OEMS incorporates an annual Plan-Do-Check-Act Review (MSR) for continuous improvement. OEMS aims to eliminate unplanned events and ensure delivery and consistent and reliable outcomes in all tasks including retaining and leveraging knowledge.

### • Integrated Assurance

PCG has adopted the PETRONAS Integrated Assurance framework, providing a structured and consistent approach to managing its assurance programme. This framework ensures compliance with standards and legal requirements while facilitating the effective management of risk across the organisation. To uphold good governance, an assurance programme has been established to evaluate the adequacy and effectiveness of PCG's internal control system. This assurance process delivers valuable insights and oversight, enabling effective, informed decision-making and driving continuous business improvement and sustainability. Each PCG subsidiary operates its own assurance function, serving as the First Line Assurance, which is responsible for managing risks, conducting self-assessments and providing assurance to their respective Management. Additionally, they undertake advisory and value-added services as part of the assurance process, ensuring compliance with operational activities and management systems while supporting the Group's commitment to excellence.

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### • Financial Reporting Control

The Group has established a Financial Reporting Control (FRC) Assurance, aligned with the PETRONAS Assurance Framework to ensure the quality and reliability of financial reporting. This structured process is designed to provide assurance on the adequacy and effectiveness of key internal controls operating across the Group. FRC serves as the first line of assurance, utilising a self-assessment approach to act as the initial defence within the integrated assurance framework. The process encompasses five assurance stages, as defined in the PETRONAS Assurance Framework, which are as follows:



Key process owners across various levels of the organisation are responsible for executing FRC activities. These include defining the scope of testing, assigning appropriate assessors, evaluating the Functional Checklist, and finalising assurance results. This process is facilitated through an integrated assurance system platform, which enables the confirmation of compliance with key internal controls in the respective areas of business accountability.

### • Tax Compliance & Control

The Group has implemented Tax Compliance & Control (TCC) programme as part of its tax assurance framework, aligned with the PETRONAS Assurance Framework. This initiative operates as the first line of assurance, providing structured and consistent oversight to ensure compliance with tax statutory and regulatory requirements across all levels of the Group. TCC adopts a self-assessment approach, serving as the first line of defence within the integrated assurance model. Key process owners are responsible for executing TCC activities, which include defining the scope of testing, assigning assessors, evaluating the TCC Functional Checklist, and finalising assurance results. These activities are managed through the integrated assurance system platform, which confirms compliance with critical internal controls for the areas under their accountability.

### • Procurement Governance

The Group has adopted the PETRONAS tendering process and governing principles, as outlined in the PETRONAS Procurement Standard, for procurement activities exceeding the tendering threshold. This framework ensures consistency, transparency, and governance in procurement practices. The primary selection criteria focus on securing the best value by evaluating bids that are both technically acceptable and commercially attractive. This approach ensures the procurement of goods and services aligns with the Group's operational requirements while maintaining strong governance standards. The key tendering processes are as follows:



Tender Committees have been established to oversee the evaluation process, ensuring it is conducted effectively, transparently, and in accordance with established procedures and guidelines. The Tender Committee endorses the award recommendation, which is subsequently approved by the designated Approving Authority, as defined in the Limits of Authority (LOA) manual.

### • Employee Performance Management

The Group adopts the PETRONAS Employee Performance Management system, a structured framework designed to align organisational objectives with individual performance. This system underpins a high-performance culture by enabling employees to contribute effectively while realising their full potential.

Employee performance is assessed objectively against predefined performance targets and the demonstration of PETRONAS Cultural Beliefs (PCB) behaviours. Performance differentiation ensures that individual contributions are fairly recognised and appropriately rewarded. A key feature of the system is continuous performance dialogue between employees and their line managers. These ongoing discussions, conducted throughout the year, provide opportunities for constructive feedback, address challenges, and support employees in achieving their objectives as set at the outset of the performance cycle.

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

The Group has implemented the Policy on Related Party Transactions (RPTs), Recurrent Related Party Transactions (RRPTs) and Conflict of Interest (COI) situations (the Policy), alongside a Guideline and Procedures on RPTs and COI situations (the Guideline). These frameworks promote continuous awareness and ensure a standardised approach to managing RPTs, RRPTs, and COI situations across the organisation.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Policy reinforces the Group's commitment to compliance with Bursa Malaysia's Main Market Listing Requirements (MMLR) and other applicable laws and regulations. It ensures that all such transactions are conducted with transparency, fairness, and in a manner that safeguards the interests of minority shareholders.

Complementing this, the Guideline outlines the principles and processes to ensure RPTs and RRPTs are conducted on an arm's length basis, aligned with the Group's standard business practices. To support this, an RPT Assessment Checklist is prepared for each transaction, incorporating inputs from Corporate Secretarial, Governance, Finance, and Legal functions. All transactions are reviewed and approved by the Group's designated authorities in accordance with the MMLR.

The Guideline prescribes detailed processes for identifying, evaluating, approving, monitoring, and reporting RPTs, RRPTs, and COI situations. Key elements include:

- All sourcing and sales of PCG products, general merchandise, and shared facilities are based on market-negotiated pricing terms and conditions or pricing formulas, ensuring they are no more favourable to related parties than those offered to third parties.
- A database is maintained to record related parties and the RPTs/RRPTs entered into by the Group.
- Directors or related parties with an interest in a transaction must abstain from any deliberation or decision-making at the Board or subsidiary Board level.
- COI declaration at key decision making platform.
- All RPTs are reviewed by the BAC in adherence to the Group's Guidelines and Procedures before being approved by either the Board or shareholders. Quarterly reports on RPTs and RRPTs are provided to the BAC.
- Annually, all Directors and related parties of the Group must submit written declarations disclosing current or potential relationships or COI situations. They are also required to notify the Group in writing of any interest in an RPT or COI situation as soon as it becomes known to them.

The Guideline further outlines scenarios where COI may arise, including if the Director:

- has an interest in a business that competes directly or indirectly, with the Group's operations;
- receives commissions or fees for consultancy or advisory services to a transacting party doing business with the Group;
- involves in or has an interest in business transactions involving goods or services with the Group, either directly or indirectly;
- provides or receives financial assistance from the Group.

The BAC's Terms of Reference (TOR) were updated to incorporate the new MMLR requirements. The BAC's role was expanded to address COI issues, including implementing measures to resolve, eliminate, or mitigate conflicts involving Directors and key senior management of the Company and its subsidiaries. During the year, there were no COI or potential COI reported during the year in relation to the personal direct/indirect interest of any competing business with the Group and the Company save for disclosure made on page 81.

### MANAGEMENT'S ACCOUNTABILITY

Management is accountable to the Board for implementing processes to identify, evaluate, monitor and report on risks and internal controls, as prescribed above. The MD/CEO and CFO have provided the Board with assurance that the Group's risk management and internal control systems are functioning adequately and effectively in all material aspects. This accountability underscores the Group's commitment to ensure that the risk management and internal control systems operate effectively and align with the Group's strategic objectives.

### 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 2024, 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 21 February 2025.