

# Statement on Risk Management and Internal Control

## RESPONSIBILITY

The Board is responsible for the review of the adequacy and effectiveness of the Group's system of risk management and internal controls, which includes financial, operational and compliance controls. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives. Accordingly, it can only provide reasonable and not absolute assurance against material misstatement or loss.

The risk management and control processes are implemented by the Management, led by the Chief Executive Officer and Senior Management of the Group, who collectively are responsible for good business practices and governance.

## RISK MANAGEMENT

The Board confirms that as an integral part of the system of internal control, there is an ongoing Group-wide risk management process for identifying, evaluating and managing the significant risks faced by the Group. Risk management is practised within the Group on an iterative basis. All new and major investments have to observe a process approval that includes an assessment of the associated risks. The Group has implemented an improved Enterprise Risk Management System (named *RiSmart*) which is based on ISO 31000, premised on international guideline for managing risk. Risk owners across the business divisions of the Group uses *RiSmart* to define, highlight, report on and manage the key business and operational risks anticipated by them.

The Group-wide risk management process is subjected to regular review by the Board. The Group has an Audit and Risk Management Committee ("ARMC") to provide oversight and added impetus to the risk management process.

Management from each business or operations area apply a risk/control self-assessment approach to identify the risks relating to their areas of supervision and control. These include the likelihood of these risks occurring; the consequences if they do occur and the actions being and/or to be taken to manage these risks to an acceptable level. The risk profiles and risk treatment measures determined from this process are documented in risk registers with each business or operations area having its respective risk register. The overall process is facilitated at the holding company level by the Chemical Company of Malaysia Berhad Group ("CCMB Group") Risk Management Department which is dedicated to the role.

The Management liaises and maintains regular communication and consultation with CCMB Group Risk Management Committee which also facilitates risk analysis of strategic business objectives, operational initiatives and emerging issues in the Group.

## KEY ELEMENTS OF THE GROUP'S SYSTEM OF INTERNAL CONTROLS

The key elements of the Group's system of internal controls are described below:

### *Board Committees*

The delegation of responsibilities to the various committees of the Board of Directors is clearly defined. At present, the committees which are established are the Audit and Risk Management ("ARMC") and Nomination and Remuneration Committee ("NRC").

### *Assignment of Authority and Responsibility*

Clearly defined lines of authority within the Group's organisation structure have been established to facilitate the supervision and monitoring of conduct and operations of individual business units and support services departments. The Board has approved a defined and documented Limits of Authority ("LOA") which is used consistently throughout the Group. These LOAs specify clear division and delegation of responsibilities from the Board to the Board Committees and to members of Management and the authorisation levels of various aspects of operations. These are regularly reviewed and updated to resolve operational effectiveness and challenges and to reflect changing risks. Additionally, at the holding company level, the CCMB Group has established the Project Review Committee and the Finance and Investment Committee to provide added assurance to the Board on the feasibility evaluation of project/investment proposals and subsequent evaluation of the progress and results of endorsed project/investment through a process of due scrutiny.

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### *Planning, Monitoring & Reporting*

The Group undertakes a strategic and budgeting planning process annually, to establish plans and targets against which performance is monitored. These business plan and budgets are subjected to evaluation and assessment by the Group's Senior Management and CCMB Group's Finance and Investment Committee before it is recommended to the Board for approval. Monthly review is carried out by the Management to ensure that the businesses are operating according to the plans, as well as to monitor adherence to the internal control procedures established. Management reports are presented to the Board each quarter providing financial information including key performance and risk indicators. The information is reviewed by the ARMC before it is presented to the Board for consideration and approval.

### *Policies & Procedures*

There are policies and procedures in place to ensure compliance with controls, and relevant law and regulations. These policies and procedures are periodically reviewed and updated to reflect changes in business structure and processes. In various instances, these documents form an integral part of the Integrated Quality Management Systems ("IQMS").

The Group has implemented Enterprise Resource Planning system ("SAP") as part of the Group initiative to establish best practices across key business functions promoting greater visibility, transparency and efficiency.

Annual assurance is provided by the Chief Executive Officer and Senior Management team to the Board on the adequacy and effectiveness of controls in the business processes.

### *Business Continuity Management ("BCM")*

A framework on BCM has been established to address continuity of business in the event of a disaster.

### *Human Resource Management*

Key Performance Indicators are used to measure the achievement of staff in achieving the business and operational objectives. To enhance the competencies of the Group's talent pool, staff are kept updated with required training programmes ensuring their capabilities to carry out duties and responsibilities towards achieving the Group's objectives.

To ensure unsatisfactory performance and workplace conflicts are properly dealt with, the Group has in place guidelines for handling misconduct and disciplinary matters which includes breach of integrity and other misconduct in violation of the terms and conditions of service whether expressed or implied.

### *Internal Audit*

The CCMB Group Internal Audit functions to independently review the adequacy and integrity of the system of internal control in managing the key risks, and reports accordingly to the ARMC on a quarterly basis. Where weaknesses have been identified as a result of the reviews, improvement measures are recommended to strengthen controls, and follow-up audits are conducted by GIA to assess the status of implementation thereof by Management. In carrying out its work, GIA focuses on areas of priority as directed and approved by the ARMC.

The Board remains committed towards maintaining a sound system of internal control and believes that a balanced achievement of the Group's business objectives and operational efficiency can be attained. The Group continues to take measures to further strengthen the internal control environment.