

9. Internal Control and Connected Transaction

9.1 Internal Control

PTT implements its internal control by the international standard of The Committee of Sponsoring Organizations of the Treadway Commission (COSO) to achieve these objectives: Operation, Reporting, and Compliance.

At Board Meeting No. 12/2563 of December 17, 2020, with all the Board of Directors consist of 11 independent directors (of whom 3 independent directors were the Audit Committee) in attendance, the Board reviewed the internal control assessment report prepared by the management following the form of The Securities and Exchange Commission (SEC) together with the result of the Audit Committee. The Board regarded PTT's internal control as adequate and suitable, with consistent compliance. Its assigned unit responsible for internal control focused on laying down a system embracing all activities that was adequate and suitable for its businesses for efficient and effective achievement of internal control objectives. Its financial and other reports were transparent, reliable, timely and compliance with applicable laws and regulations.

PTT has modified its procedures and systems further to improve internal control and ensure that the system's detection of problems or risks efficiently and more speedily. PTT's internal control system can be summarized by COSO component as seen below.

(1) Control Environment

PTT commands a sound overall control environment that is adequate for business efficiency and effectiveness. Its executives have promoted a corporate culture focusing on integrity and ethics as a role model with the following implementation:

- The Board and management executives take seriously the control environment and corporate culture by defining policies for internal control, risk management, corporate governance (CG), anti-corruption, compliance, and giving and receiving of gifts, assets, or other benefits. It announces these policies for all to acknowledge and observe and organizes training and internal/ external public relations about them. Regular monitoring and assessment are in place. The Board, management executives, and the workforce must acknowledge such guidelines in writing and conform to the Corporate Governance, Ethical Standards and Code of Business Ethics Handbook (CG Handbook). Integrity and Ethics form part of the SPIRIT corporate values to stress transparent business conduct and collaboration in the Power of Virtue, which explicitly embraces their everyday duties, decision-making, and treatment of all stakeholders, including business partners, customers, and third parties. PTT values equitable treatment on the basis of fair competition, mutual respect of rights, nurturing of relations and cooperation, and strict honoring of contracts. All executives and employees prepare reports disclosing items of potential conflicts of interest with PTT annually or upon every related incident.

- Setting good corporate governance as a part of the organization's vision, mission and values by considering the 3 aspects of equilibrium (ESG) which include Environmental, Social and business operations under good Governance principles, and integrated management of stakeholders with the strategy of Business Integrity as part of the operation.
- Its structure is based on the “Three Lines Model” management approach focusing on ensuring everyone’s understanding and strictly complying with regulations and duties and responsibility. To this end, it focuses on prevention and solution by those on the job, systematic operation with total segregation of authority for approving, account recording, payment and receipt of payment, and verification and stewardship of assets, which results in effective checks and balances. In addition, the Office of Corporate Audit has a clear and independent reporting line to the Audit Committee under PTT’s structure, which is marked by decentralization of power to business units, thus giving due flexibility to communication for their duties and responsibility.
- It defines a written policy and procedure for human resource (HR) development, including procedures for planning and administering the overall workforce in both short and long-terms. In place is an annual analysis and revision of manpower, including analysis, planning, and definition of key succession processes by defining policies, regulations, tools, selection, assessment of potential, and plans for developing those in the Potential Pool for key positions. All these are compatible with business directions, as well as compliance. PTT reviews the suitability of audit authority segregation for checks and balances for efficient internal control and communicates to applicable units to prepare for recruitment and prepare expenditure budgets to meet HR needs.

(2) Risk Assessment

PTT recognizes the importance of risk management to achieve business objectives as well as those of compliance and preparation of credible reports under changes that impact its businesses due to internal and external factors. It views risk management as a critical component of every business process which must be linked with one another.

- PTT defines a policy of corporate risk management for all to conform to. At every level, risks are to be assessed, including those of corruption. For corporate risks, management is systematically undertaken by its various management committees. Operational risks fall under the oversight of respective executives. An Enterprise Risk Management Committee (ERMC) steers and supports corporate risk management in line with business strategies and goals as well as shifting circumstances, and provides advice on guidelines for monitoring and assessment to the Corporate Plan and Risk Management Committee (CPRC) to manage overall risks for maximum efficiency. It is the responsibility of all units to manage and control risks to manageable levels (risk appetite), as clearly stated in the functional descriptions of all units.
- The Business Continuity Management (BCM) process is applied to the COVID-19 situation management to assess guidelines for business, workforce communication, and preparation of resources and business processes for employees’ uninterrupted and safe work without impacts on key goals.
- It develops a third-party screening process for greater efficiency and prudence together with fostering credibility and confidence in engagement with business partners and stakeholders for standardized and suitable analysis and assessment of traders, customers, business partners, and employees. The year 2021 will see application in pilot processes: procurement, hiring, and crude oil trading.

(3) Control Activities

PTT defines control activities to lower risks to achievement of its objectives as described below.

- The Management Committee (MC) reviews financial and other reports of all business groups and regularly reviews performance to ensure conformance to regulations, protocols, and job manuals. PTT defines written policies and procedures, including those for performance assessment of all employees, which relies on KPIs to make control of administrative activities suitable, adequate, and auditable. Portions of businesses have been identified for key risks, and mechanisms have been defined to control and minimize errors. Regular performance reviews by the management are in place, including financial, procurement, and general administrative transactions.
- Systematic delegation of duties to personnel groups ensures proper checks and balances. Authority is duly and fully segregated for approval, information compilation, transaction recording, receipt and disbursement of cash, reviews of inspection and stewardship of properties. In place is an internal control system for finance and accounting dealing with cash collection, cash retention, receipt and disbursement, bank deposits, and cash advances. These follow the rules with complete, accurate, and regular recording. Systematic and consistent storage of accounting documents, both documents and informations, is in place to comply with the law. Should PTT engage in transactions with the major shareholder, directors, managers, or their related parties, it would apply strict measures to ensure that each such transaction secures the required approval every time and for every item. Parties with vested interests will not take part in the approval of such an item. PTT also closely monitors subsequent actions.
- An investment plan to grow business is carefully developed with due regard for sources of capital, notably by structuring the capital structure to duly maintain key financial ratios on a par with industry peers through screening by the Strategic Investment Management Committee to grow adequate future businesses at suitable finance costs. It also executes investment priority by grouping current businesses in a business portfolio.
- PTT Group Way of Conduct serves as a mechanism and guidelines for steering the policies and business conduct among PTT Group under Principle, Change, and Team Choice. Multi-level Governance ensures a single implementation standard for all. The internal control policy is grouped under strategic alignment, with a report submitted to PTT annually. It also arranges site visits, which integrates the GRC Policy to engage in sharing, counseling, and recommending ideas on internal control development as well as compliance with the PTT Group Way of Conduct.
- PTT defines its requirement on the standard for compliance with the ICT policy to control, develop, or execute change management to its computer work systems. The practical guidelines embrace various work procedures, including requesting, testing, and migrating for actual application, and major system maintenance, including data backup. Also in place are policies and requirements for ICT policy compliance for controlling key infrastructure, including security of network systems and operation centers and access control to wireless networks. It develops infrastructure for emergencies by leveraging the BCM standard to sustain uncertainty, thus it can provide continuous services; plan drills take place every year. Should its businesses be affected by COVID-19, procedures have been amended in line with the Ministry of Public Health's measures, including delivery and transmission of documents, to allow uninterrupted businesses.

- Investigation and fact-finding processes are defined to obtain facts and lead to fair disciplinary actions, ranging from receipt of a given matter into the deliberation process, appointment of a fact-finding panel and a disciplinary investigation panel, planning and issue definition, compilation of evidence and weighing of witness accounts, to preparation of reports and issue findings.
- In procurement, PTT follows the Public Sector Procurement and Supplies Management Act of 2017 and requirements on materials and supplies, which clearly define responsible parties, including the authority, approval limits, supply need assessment, delivery inspection, control and storage of supplies, and property counting. It has systematized HR administration, complete with adequate monitoring and assessment, covering recruitment, determination of compensation, responsibilities, personnel development, performance, and communication so that employees may be competent and that HR administration may be suitable and efficient.
- PTT values the steering of sustainability management together with security, safety, health, and environment (SSHE), all of which are likened to a vital shield against risks or impacts, and efficiently as well as effectively lowering potential losses suffered by all stakeholders, assets, work processes, data, and the surroundings. This would bring about business sustainability while extending performance in all aspects of excellence for vision and goal attainment. In 2020, it defined tools and processes for sustainability management under the “Manual for State Enterprise Assessment under the New Assessment System” section 4.1 (policy and job manual and strategic implementation of CSR in Process) and section 9.2 (policy and job manual and development of strategic sustainability), required by the State Enterprise Policy Office for sustainability management supervisory structure. The Board looks after, monitors, and provides policies as well as recommendations on sustainability management and SSHE, which PTT then applies as its control activities through the Corporate Governance Committee, which reviews, orders, and comments on

the outcomes of strategic and plan implementation, key sustainability and SSHE goals and indicators every quarter. The MC, led by the President & CEO, screens, orders, and comments monthly, supported by subcommittees at the management level for specific matters and management practices at the strategic level and operating level for sustainability and SSHE, namely the Governance Risk and Compliance Management Committee (GRCMC), PTT Group Sustainability Management Committee (GSMC) and the Corporate Plan and Risk Management Committee (CPRC). To this end, centralized departments are Good Governance and Corporate Ethics, Sustainability Strategy, and Enterprise Planning and Budgeting. In addition, the “PTT Sustainability Management Policy” has been revised and officially enforced with the President & CEO’s signature given on June 22, 2020, to show PTT’s intention and commitment to managing its key sustainability issues for management for the entire workforce to support, drive, integrate, and conform to this policy and convey it to PTT Group and all stakeholders while communicating and engaging with world-class leading entities to enhance its potential for sustainability development. At the same time, it has developed a “Master Plan, Processes, and Manual for Sustainability Management as an Illustration of Social and Environmental Responsibility” to describe its objectives, strategic directions, roadmap, short-term and long-term goals, key plans, and processes for sustainability management; and to define key roles and responsibility of related agencies for implementing the master plan and processes to jointly mobilize toward integrated implementation with other key processes in the same fashion across PTT while illustrating the connection between other procedures and key documents describing minor work processes. To this end, a “Sustainability Roadmap” measures the outcomes of sustainability strategic directions and roadmap of senior executives of each related unit. Details about sustainability management and SSHE management appear under the annual information disclosure form/ Form 56-1 One Report under “**Driving Business for Sustainability**”.

(4) Information & Communication

PTT values quality ICT systems since ICT supports effective internal control. Below are its management guidelines:

- Managing data by classifying levels of confidentiality; defining guidelines for storing key documents and control documents, and internal and external operation-supporting data to ensure that key information related to business is accurate, complete, adequate, and timely and that an efficient data analytical and storage system is in place to ensure that the data used are credible and adequate for timely decision-making.
- Instituting various internal communication channels, namely Town Hall, intranet communication, electronic mail, orientation, and Learning Management System.
- Instituting communication channels with external stakeholders, including the website and facebook. Directly responsible units regularly disclose key data to all stakeholders. PTT set up its 1365 Contact Center to centralize data provision covering integrated goods and services for interested parties. It allows shareholders to propose AGM agenda items and nominate directors in advance, thus promoting corporate governance under the rights of shareholders and equitable treatment.
- Instituting clear grievance channels and management guidelines so that employees and third parties can be assured that their complaints will be transparently, fairly, confidentially, and honestly considered in due time.

In 2020, PTT forged ahead with the “PTT” (“Powering Thailand’s Transformation”) concept as Thailand’s energy entity driving the country across this transformation by leveraging technology and innovation to all sectors, upgrading national competitiveness, developing society, and upgrading the quality of life for Thais. The Board therefore approved and pushed ahead with Digital Roadmap implementation to drive innovations for business efficiency, lower costs, and lower business competition expenses by focusing on outcomes that comprehensively and equitably meet all stakeholders’ needs with the application of digital technology.

With BCI (Thailand) Co., Ltd., or Thailand Blockchain Community Initiative (a cooperative scheme among 22 commercial banks in Thailand on Blockchain technological application), PTT developed a system for returning contract collateral to traders once they have completely and accurately delivered work at the end of their contractual obligation period. The system generates requests for collateral return for authorized people to approve through the system, thus speeding up the process with clarity and accuracy, eliminating document filing, and lowering the use of paper, which supports the green procurement policy. On another matter, PTT applies the Robotic Process Automation (RPA) to repetitive everyday actions by employees in a speedy fashion around the clock; today RPA has been completed for over 30 processes, thus raising work efficiency by giving processes faster speed. On average, 75% of the processes save 25 - 50% overall expenses while reducing errors under the manual process. PTT supervises RPA by distinctly grouping the roles of those involved and grouping processes. In addition, it developed the Digital Procurement Project to raise the efficiency of procurement and non-hydrocarbon procurement by leveraging advanced technology in support of work, including RPA, Analytic, and Chatbot, with a focus on procurement under the Governance, Risk, and Compliance principle.

Due to the outbreak of the Coronavirus Disease 2019 (COVID-19), PTT manages its digital support of business to enable prompt adjustment to change and engage in uninterrupted business. To elaborate, PTT's digital management enables employees to work from home efficiently and safely by properly preparing notebooks for employees and preparing software to efficiently accommodate working from home, namely VPN, data file and data backup management, teleconference, and virtual classroom personnel development. Resource adequacy is closely examined to ensure that employees can function efficiently as normal.

The Board also values cyber security, which are on the rise according to the World Economic Forum. This year saw a wide variety of cyber-attacks worldwide through networks, applications, data, Cloud, and the Internet of Things (IoT), wreaking havoc to organizations in several aspects, including data ransom expenses, business disruption impacts, and worst of all, loss of customers' confidence in the organization. Cyber-threats are therefore a common topic of value. The Board recognizes the value of cybersecurity by planning and installing preventive hardware; it cooperates with PTT Digital in three aspects. First, technology, systems, and hardware. Second, process for dealing with cyber-threats with the Cyber Security Operation Center (CSOC) and reporting; all CSOC personnel are internationally certified experts. Third, users; users are exposed to activities and tools to relentlessly forge awareness of cyber security and the digital culture so as to ensure that PTT's cyber security is indeed efficient and that employees are poised to handle cyber-threats. To this end, PTT in conjunction with PTT Digital hired third parties to attempt to penetrate PTT's system (penetration test); the test outcomes have helped PTT improve the system.

(5) Monitoring & Evaluation Activities

PTT commands a process for monitoring and assessing the adequacy of internal control and defines guidelines for improvement to ensure system efficiency and effectiveness:

- Assess the efficiency and effectiveness at least annually by requiring top management to conduct such assessment by themselves according to their assigned roles through the Control Self-Assessment (E-CSA) forms and by requiring all departments and direct-report divisions to assess risks and internal control by themselves against the Governance, Risk and Compliance (GRC) guidelines. They are also to develop internal control improvement plans for high-risk processes and regularly follow up the outcomes of such improvement at least quarterly.
- Regularly monitor and report the outcomes of implementation of strategic plans, laws, and regulations (inside and outside PTT and PTT Group).

This year the Office of Corporate Audit also reviewed internal control practices to ensure that they are adequate, suitable, and consistently practiced. If a given item needed improvement, procedures would be discussed with management to define implementation guidelines along with improvement plans to ward off or lower risks and monitor execution to ensure that audit and review findings are promptly remedied. This is reported every quarter to the Audit Committee, indicating that PTT's internal control system for this year is adequate, efficient, and effective, a view shared by the external auditor.

Internal Control System

The Office of Corporate Audit is an independent unit that directly reports to the Audit Committee. It fosters assurance and provides consultation to ensure that business processes are duly equipped with CG, risk management, and sound internal control practices as well as GRC in support of corporate objectives.

The office commands an annual audit plan and three-year audit plans in line with PTT's business strategic direction and a risk-based approach to key corporate risks, encompassing PTT Group's domestic and international businesses. It reports findings to the Audit Committee for consideration and forwarding them to the Board for acknowledgment every quarter. Regular monitoring is undertaken for actions in response to the office's recommendations. In its course of work, the office freely expresses its opinions. No conflicts have arisen between audited units and the office that cannot be resolved.

Head of the Office of Corporate Audit

At Meeting No. 5/2562 of May 16, 2019, the Board appointed Mr. Chadil Chavanalikhikorn Executive Vice President, Office of Corporate Audit, with effect from July 1, 2019, citing his mastery of PTT's business. Equipped with expertise, skills, and experience in internal audit, he is familiar with business undertaking, good governance, risk assessment, and internal control at the business and overall levels and was therefore regarded as suitable for the position. The Audit Committee approved the appointment, transfer, performance assessment, and annual merit pay increase of this position.

Biography of the Head of Corporate Audit



Mr. Chadil Chavanalikhikorn

Age: 54

Education

- Bachelor of Engineering, Kasetsart University
- Master of Business Administration, Kasetsart University
- Certified Internal Auditor (CIA), The Institute of Internal Auditors

Training

- Senior Energy Executive, Thailand Energy Academy, Ministry of Energy
- Administrative Psychological Operation: Institute of Security Psychology, National Defence Studies Institute
- Anti-Corruption Training Program for Public Officials, NACC
- Senior Executive Program (SEP), Sasin Graduate Institute of Business Administration
- Leadership Development Program II, PTT-Harvard Business School: PLLI
- Leadership Development Program II, PTT-IMD: PLLI
- Successful Formulation & Execution of Strategy (SFE 17/2013), Anti-Corruption: The Practical Guide (ACPG 2/2013), Company Secretary Program (CSP 65/2015), Independent Observer Program (IOP 1/2016), Thai Institute of Directors Association (IOD)

Working Experiences (past 5 years)

- 2013 - 2016
Vice President, Strategy & Audit Quality Development Department
- 2016 - 2017
Vice President, Internal Audit Department
- 2017 - 2018
Executive Vice President, Sustainability Management
- 2018 - 2019
Executive Vice President, Corporate Governance
- 2019 - Present
Executive Vice President, Office of Corporate Audit

Key Related Directorship

- -None-

Relations with the Management

- -None-

Compliance Unit

PTT inaugurated a Compliance Department, which governs under the Office of General Counsel and reports directly to the Senior Executive Vice President (biographical data shown under “PTT Executives”), indirectly reporting to the GRCMC and the Corporate Governance Committee. Compliance centralizes corporate compliance and oversees all personnel and all business units under PTT to fully comply with all external and internal laws, rules, regulations, directives, procedures, and announcements controlling all facets of PTT businesses, such as laws governing state-owned enterprises, regulations governing company registration and articles of association, rules and laws governing energy businesses, both inside and outside.

Compliance routinely works with the 2nd Line of Defense Alliances or business units directly in charge of specific legal issues, forming a coordination team to collect, search, and develop a data depository on laws and regulations governing the operations and businesses of PTT. The team is tasked to analyze and determine legal assessment and potential legal risks, as well as impacts on the operations and businesses. The assessment also focuses on the compliance of all business units with all laws and regulations, and takes all concerning issues into consideration for analysis and solution – or measure-finding for continuous work process improvement to ensure full compliance with external and internal laws, rules, and regulations. Compliance also constantly develops and nurtures a compliance culture through continuous organization of legal learning and development sessions, consultancy services, and publications and dissemination of data and information related to laws, rules, and regulations governing operations and businesses. Compliance promotes various public relations efforts and organizes activities promoting the compliance culture, including series of internal emails, training, and E-learning, and sharing of best practices and regulatory compliance. In 2020, its activities promoted role models provided by the Board and top management to urge and promote personnel’s commitment to compliance, CG and the code of conduct; the activities also stressed whistleblowing in conjunction with the Corporate Governance unit throughout the year. It also disseminated the E-learning course on “Basic Knowledge of the Organic Law on Prevention and Suppression of Corruption (2018)” so that employees may master key points of such law. These compliance efforts are intended to nurture compliance values and culture, and to enhance understanding of legal and compliance issues concerning individual job responsibilities and the awareness of consequences of non-compliance. Thanks to correct work practices and strict adherence to legal and regulatory compliance of all, PTT can rest assured that all operations and businesses are uninterrupted by legal risks, while striving to become a sustainable zero non-compliance organization.