The Responsibilities of the Board, Structure, and the Committee

Structure of the Board of Directors

The Board of Directors comprises nationally accepted knowledgeable and competent persons who are responsible for drawing up corporate policy and collaborating with the top executives in making the operating plans both short term and long term plans. The Board shall have the responsibilities to draw up financial policy, risk management policy and the organization overview. The Board shall play an important role in overseeing, monitoring and assessing the performance of the company and the top executives on an independence basis.

The number of directors is currently limited to twelve. The Board of Directors comprises eleven non-executive directors, which included five independent directors and one executive director, being the company’s President. The independent directors must be independent of others and have qualifications as stated in the company’s regulations, which are more rigorous than those required by SEC.

The Board has further established the following committees, Audit Committee, Corporate Governance and Nomination Committee, to be responsible to their specific areas and report directly to the Board for its consideration.

The Audit Committee consists of five of the company’s independent directors, all of which are nationally accepted and have a full understanding of and experience in accounting or finance. Their duties include checking if the operation has been carried out in accordance with the company’s regulations as well as the laws and the compliance unit’s regulations. Moreover, they are committed to promoting the development of the financial and accounting report system to meet international standards and to ensure that the company has an appropriate, modern and efficient internal control system, internal audit system, and a risk management system. The Audit Committee acts and expresses opinions freely, with the company’s Audit Office acting as an operation unit directly reporting to the Audit Committee. The Audit Committee also works regularly with an auditor, consultant and specialists in law and accounting areas. The Audit Committee is entitled to seek advice from an independent consultant with the company bearing responsibility for the total expenses.

The Corporate Governance and Nomination Committee including five of the company’s directors, all of which do not come from SCG’s top executives. The Chairman of the Corporate Governance and Nominations Committee is an independent director. The Committee is responsible for to proposing, revising and supervising the company’s corporate governance tasks. The Committee is also in charge of the nomination of persons qualified as directors to replace those who are retired rotation, or whatever the case maybe. In addition, they revise the performance evaluation system of the Board of Directors and other committees and plan the succession of the studying president of the company.

The Remuneration Committee comprises three of the company’s directors, of which the chairman is an independent director. The Committee is responsible for monitoring and studying of changes and SCG’s top executives to suggest remuneration
policies as incentives to lead the company towards prosperity as well as to create loyalty among good and efficient employees.

Nonetheless, each committee has the rights and duties as specified by each committee’s regulations. An evaluation of performance and a revision of operation results of committees are conducted annually, at least once a year. The Board of Directors, moreover, are entitled to form ad hoc committees suitable for changing situations.

The company has made the unambiguous separation of the roles and responsibilities of the Board of Directors and the top executives. The Board shall be responsible for establishing the policies and overseeing the management’s implementation of those policies. The top executives, on the other hand, shall be responsible for implementing the policies formulated by the Board, and ensuring that these are carried out as planned. Therefore, the Chairman and the President of the company shall not be the same person, providing that both are nominated and elected by the Board. Furthermore, the Board is responsible for establishing a succession plan of the top executives, which is subjected to annually reviewing.

**Board of Directors’ Meetings**

It is the duty of a member of the Board to constantly attend the Board’s meetings to acknowledge and make decisions on the corporate operations. The Board holds eight scheduled meeting per years, providing that the agendas are set clearly in advance prior to each meeting. The Board members may be summoned to special meetings to consider and determine on the urgent matters.

At time meetings, the Chairman and the President of the company jointly determine on which items on the agendas are relevant to the meetings. Every individual member of the Board is entitled to propose the agendas items.

In 2007, the Board held nine meetings, eight scheduled meetings and one special meeting. Prior to each meeting, all members received the agendas and supporting documents well in advance to allow adequate time for preparation.

When considering the matters presented to the Board, chairman of the Board presides over and duly conducts the meetings. All members of the Board are allowed to express their opinions freely. Resolutions are passed with a majority vote, providing that one director is eligible for one vote. The director with any interest in the issue under consideration or the director ineligible to vote is excused and to be absent during voting. In case of a tie vote, chairman of the meeting will vote and give the binding result.

The management is encouraged to attend the Board’s meetings to provide updated information to the Board, and to learn directly about the Board’s initiatives and policies for effective implementation. However, the management is not allowed to attend the Board’s exclusive meetings, inclusive of non-executive directors in certain cases, to ensure independence and uninhibited discussion.

After the meeting, the secretary to the Board is responsible for preparing the minutes, and sending the certified copies to the directors. The minutes must then be approved at the following Board’s meeting, where the directors may make comments, corrections, or additions to ensure the greatest accuracy and completeness.
After approval, minutes of the meeting are stored securely in the Corporate Secretary Office together with all related documents backed up electronically to facilitate data searches.

Remuneration for the Board and the Management

SCG sets remuneration for members of the Board and the top executives at rates comparable to those of listed companies or other top companies in the same industries. Remuneration for the top executives is set by the Board of Directors, based on their responsibilities, performance, and the operation results of the company.

In addition to basis salary, SCG sets bonuses and variable payments for the directors according to guidelines approved by the shareholders’ meeting, and the payments for the top executives is based on their performance and the operating results of each business. The remuneration payment method correlates with the employees’ performance, thus reflecting the company’s operating results.

Details of remuneration for the Board of Directors, both monthly payment and annual bonus, as approved by the shareholders’ meeting, including the remuneration for specific committee in 2007 are reported on an individual basis on page 167 of the Annual Report.

Internal Information Controls

The Company transparently follows the regulations covering conflict of interest, as per the SEC and SET, in a strict, comprehensive, and fair manner. Any connected transaction must be considered carefully, openly, and in a timely manner to protect the overall interests of the Group.

SCG has an established policy governing the use of internal information, including employee regulations with specific penalties for management and staff in the event whereby internal information is divulged to the public or used for personal benefit. In addition, the purchase and sale of company’s shares is prohibited during specified “blackout periods” as further means of protecting shareholder interests and preventing conflicts of interest.

SCG’s shareholding structure is clear and transparent without any cross-holdings with major shareholders, thus, ensuring that there is no conflict of interest. In addition, the roles of the Board, the management, and shareholders are carefully defined to minimize interference. If any member of the Board or management has a stake in any item which is on the Board’s meeting agenda, they will either abstain themselves from the meeting, or be excluded from voting to ensure decisions always benefits shareholders.

The company shareholders’ structure is clearly stated in the annual report, as are director common share and debenture holding in the company and subsidiaries.

Internal Controls and Audit

1. Internal Controls

SCG defines and develops an efficient and effective internal controls system according to international standards in terms of internal environment, risk
assessment, control practices, information technology and communication systems, and continuous monitoring and assessment. The organizational structure is created to suit a business plan, with clear responsibility outlines, systematic risk management, a written SCG Code of Conduct, a procedure manual suitable for the business, an efficient and up-to-date computer system and units’ internal controls evaluation. SCG regularly updates these matters in keeping up with the changing business environment, details of which are summarized below.

a. **SCG Code of Conduct Revision**
   SCG’s philosophy of doing business with fairness and responsibility towards all related parties has been practiced since the company was established in 1913. SCG is committed to good corporate governance policies, in line with internationally accepted organizations’ principles. The company has compiled practices in writing know as “SCG Code of Conduct” in concordance with SCG’s philosophy. The Code is regularly updated and keeps up with economical and social changes and fluctuating business situations. The Code has been recently reviewed in 2007 for better understanding and convenient application with examples covering business matters. SCG Code of Conduct is regarded as part of employees’ practices and it is considered misconduct when the Code is neglected.

b. **Good Corporate Governance**
   SCG realizes the importance of internal control practices; therefore, the company defines appropriate strategies and code of practices to comply with the current business situation by preparing SCG’s written corporate governance manual which the company’s directors hold as guidelines to set good examples to employees. The manual contains the specification of structure, duties, responsibilities and the Board of Directors’ practices, including suitable improvement of the authorization, regulations and practice manual. Computers are used to assist in the examination of information before being saved in the system and to obtain reliable assessment.

c. **Development of Information Technology System**
   SCG has an efficient modern computer system, used as operational tools in managing information and communication throughout the organization continuously and regularly. The company also improves efficient and up-to-date control systems such as e-Budgeting, e-Catalog, e-Procurement, Process Improvement and Gear up Excellent Accounting Reengineering. This allows directors to make use of information along with the consideration of operational control planning and to be able to accurately and completely assess the results in due time. Employees, at the same time, effectively use information as key performance indicators.

d. **Whistleblower Policy**
   SCG’s Whistleblower Policy states that employees shall participate and be given fair protection in cases where they report information
regarding corruption or conduct against law, the company’s regulations and SCG Code of Conduct. The Policy allows every employee and all related parties to fully understand the circumstances and act correctly. Also, the development plan of the Whistleblower Policy is carried out to support such information rapidly, resulting in swift problem solving and the protection of the company as well as being fair to every concerned party.

2. **Internal Audit**
An internal audit is the independent task of monitoring and assessing operations within the organization. The purpose of the internal audit is to allow employees at every level to perform their job efficiently and to also promote effective internal controls within reasonable expenditure. The emphasis has been placed on creating proactive audit policies under international standards. It is of concern to SCG that a modern auditing system be developed in keeping up with changing economic conditions through the creation of a proactive system resulting in concrete benefits to the organization, the details of which are as follows:

a. **Electronics-Control Self Assessment (ECSA)**
   Over the past year, this is a tool enabling supervisors to evaluate internal controls to ensure that the performance of major duties are carried out in due time, allowing prompt analysis of the causes of problems during such performance and to define planning strategies for effective monitoring and solutions, such as ECSA-Accounting Analysis, ECSA-Procurement Information System and ECSA-Computer Contract.

b. **Intermediate Planning and Key Performance Indicators of Internal Audit**
   To reach internationally accepted standards of an efficient and effective audit, Key Performance Indicators are specified in the ECSA form for quick achievement, accurate cause analysis as well as strategy planning in solving problems and continuously developing the Audit Office’s efficiency.

c. **Development of Computer System**
   SCG develops audit programs to look for the weak points of the system and improves the computer system to be more effective in terms of prevention by developing online authorization which is a method to effectively assign authority to SCG’s businesses. Apart from improvements to keep up with business conditions, the online system is also developed in terms of audit assessment as an additional means for the auditee to assess performance and automatically return the assessment. With an effective and prompt audit monitoring, an auditee will be automatically notified via e-mail when the deadline for amendment approaches.

d. **Auditor’s Knowledge Enhancement**
   It is vital for auditors to exchange their knowledge gained and to
impart among each other, experiences and expertise through e-Learning, resulting in innovative auditing and capability enhancement.

e. **Consultation System**

SCG provides consultation system via its website to enable units to post questions and receive advice in time, allowing accurate work performance the first time. This creates proactive auditing guidelines and reduces errors due to lack of knowledge concerning regulations and procedures.

**Risk Management**

SCG values efficient risk management. Therefore, SCG’s management and the Audit Office create a booklet for risk management to achieve common standards of practice. In 2007, important operational risks included competition, decrease in product demand, high prices of oil, raw materials and gas, fluctuation in prices of raw materials and products in the world markets, exchange rates, interest rates and environmental issues, all of which are presented in the annual report. The contents of risks in terms of energy, raw materials and environment are summarized as follows:

1. **Risk of higher prices of all oil and raw materials brings higher costs in production and transportation.** SCG’s management has managed such risk by investing in projects where energy can be saved and providing alternative sources of raw materials to achieve an acceptable level of risk.

2. **Environmental risks have become a big issue due to a rapid and continuous increase in pollution.** Government sector sets strict measures to solve such a problem. SCG’s management operates in accordance with the measures and does better than the verified specifications, by improving efficiency in reducing pollution discharged by factories. SCG, moreover, work hand in hand with government sector in terms of environmental administration and management along with promotion of community activities. The group’s performance in this area has gained acceptance from the government sector in charge of the matter.

Additionally, the Audit Committee in cooperation with SCG’s management has set criteria in considering warning signs concerning risk factors by using Risk Indicators and Risk Tolerance as additional criteria to risk management regarding financial information. Moreover, the criteria are employed to monitor major risks in order to specify measures for effective and prompt risk management.

**Performance Appraisal and Knowledge Enhancement**

To enhance capabilities of the Board’s and the Committees’ members, the company requires continuous assessment of performance, involving 2 kinds of assessment, self-assessment by each individual director and assessment of the entire Board as a whole. The results of assessment are reviewed with the intention of finding ways for continual improvement of the Board’s performance.

SCG prepared a booklet for members of the Board, which includes the summary of law, rules and regulations related to the directors. The booklet is distributed to all current and new directors for their basic information. In the case of new directors, the company will arrange an information meeting where new directors and the top executives
can learn and exchange their opinions on matters relating to the group’s in-depth information.

Moreover, SCG encourages all members of the Board and the top executives to attend various seminars and courses benefited to their responsibilities, allowing them to constantly meet and exchange opinions with members of the Board and the top executives of different organizations. Some of these courses are organized by SCG Academy, and some are by the governmental agencies or by the independent organizations, such as Thai Institute of Directors Association. SEC requires directors of all listed companies to complete at least one of the following training courses: Directors Certification Program (DCP), Directors Accreditation Program (DAP) or Audit Committee Program (ACP). Experiences gained from these courses are useful for SCG’s growth and development.

To support the Board’s responsibilities, SCG has appointed the secretary to the Board to work in coordination with the Board and the top executives. In addition, the corporate secretary is responsible for overseeing legal matters, relevant standard practices and activities of the Board to ensure the implementation of the Board’s resolutions.

**Nomination of Board Members**

The Governance and Nomination Committee is responsible for selecting qualified candidates to replace the directors retiring on rotation at the end of their terms, or whatever the case may be, and proposing a list of nominees to the Board for resolution at the following shareholders’ meeting. The Governance and Nomination Committee selects the candidates with credentials in wide range of professions, great leadership, breadth of version, a proven record of ethical and integrity, and ability to express opinions freely.

SCG believes that the competence and business expertise of a director does not depend on number of terms, or the numbers of directorship in other businesses. Therefore, SCG neither fixes the required number of terms, nor the numbers of boards each candidate can serve. As long as the director is able to devote efforts and dedicate to the company, able to draw up policy and able to give advice on solving the problems related to the business operations based on the standards aspired by the company. Besides, the shareholders shall have right to select and nominate a candidate for the directorship to act on their behalf to lay down policy and oversee the company’s business operations.

**Assessing the President’s Performance**

The Board works in conjunction with the Remuneration Committee to assess the performance of the President, based on the company’s operating results and on implementing the Board policies, taking into account economic and social circumstances as a whole. The Remuneration Committee will then consider the appropriate compensation corresponding to his performance for the President to the Board.