Tax Risk Management Policy

1.1 Introduction

As with the management of other risks, the UP Group considers tax risk management fundamental to maintaining efficient and effective operations. This Policy outlines a summary framework by which the tax obligations of the Group are met from an operational, governance and tax risk management perspective. This policy covers the Group’s Malaysian and Indonesian operations.

1.2 Tax Risk Management Roles and Responsibilities

The tax risk attaching to any transaction or investment should always be considered carefully and factored into every commercial decision. Officers and staff accountable for the management of tax risks are also accountable for the continued adequacy and effectiveness of controls, primarily through self-assessment.

The specific risk management responsibilities for each role within the Group are summarised below:

<table>
<thead>
<tr>
<th>Title</th>
<th>Roles and Responsibilities</th>
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<tbody>
<tr>
<td>Board of Directors</td>
<td>• Overall responsibility for the management and control of the Group.</td>
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<td>• Approval of and ultimate responsibility for corporate governance and the tax risk management framework.</td>
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<td>• Oversight of the establishment and continued effectiveness of the risk management and internal control system.</td>
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<td>• Responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound system of risk management and internal control.</td>
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<td>• Detailed work on this task may be delegated to the Audit Committee.</td>
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<td>Audit Committee (a subcommittee of the Board)</td>
<td>• Periodic oversight of the risk management program established and maintained by management</td>
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<td>• Review of changes to the risk management program</td>
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<td>• Oversight of the adequacy and comprehensiveness of risk reporting from management</td>
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<tr>
<td>Finance &amp; Marketing Director</td>
<td>• Communicating the Group’s desired tax risk profile and approach to tax risk management</td>
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<td>• Providing assurance to the Board that the existing tax risk management framework will allow all significant transactions and events to be assessed as part of every commercial decision relating to each transaction</td>
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<td>• Defining and communicating tax policies to the Finance Function, the Board, sub-committees and to other Business Units if necessary</td>
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## 1.3 Tax Risk Actions

Tax risk, particularly the reputational component, extends beyond the Group’s relationship with Revenue Authorities and impacts almost every area of the Group, including shareholders, investors, staff, management, the Board and all other stakeholders. Risk to the Group can cause a significant negative impact to the Group’s reputation and/or finances. Tax risk and its impact on stakeholders must also be managed by the Board in meeting its fiduciary duties to shareholders.

Tax risks must be identified and escalated to senior management and/or the Board for consideration, review and management; and, to mitigate the impact to the Group. The following criteria will assist staff to profile tax risk to determine what tax risks must be escalated to senior management and/or the Board.

<table>
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<tr>
<th>Role</th>
<th>Responsibilities</th>
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| Financial Controllers of the various business units | - Responsible for the ongoing management of the risks and ensuring that all of the control activities are adequate  
- Responsible for the preparation of tax compliance and reporting obligations (apart from income tax) |
| Accounting and Reporting Functions | - Understanding how the Group manages tax risk  
- Understanding the Group’s desired tax risk profile  
- Responsible for applying risk management within the scope of their roles  
- Being cognisant of the business operations such that tax risks are identified and managed |

- Providing the Business Units with satisfactory information in regards to tax implications  
- Responsible for the design, implementation and reporting of the adequacy of the tax risk management and internal control systems  
- Responsible for reporting to the Audit Committee on the key risks, and the extent to which these risks are being managed  
- Responsible for the development and monitoring of a tax risk framework, ensuring clear risk ownership and helping risk owners define and manage a robust control set  
- Responsible for escalating transactions or tax issues that he believes should be brought to the attention of the Board, including matters that are escalated by the Business Units  
- Assigning Risk Owners to particular taxes, events or compliance activities  
- Responsible for the final sign off of tax compliance and reporting obligations  
- Responsible for managing the relationship with the various revenue authorities.
Tax risk can be defined as follows:

*Any event, action, or inaction in tax strategy, operations, financial reporting, or compliance that either adversely affects the Group’s tax or business objectives or results in an unanticipated or unacceptable level of monetary, financial statement or reputational exposure.*

In the context of the tax risk management process, the following categories of risks should be considered:

- **Financial risk** – An adverse impact on cash as a result of tax (e.g. an unexpected tax payment).
- **Compliance systems risk** – an instance of inability to comply with regulatory and statutory requirements (e.g. use of incorrect data and late lodgement of a tax return).
- **Operational risk** – The risk of loss arising from inadequate or failed internal processes, people and systems (e.g. inadequate documentation to support transactions, a transaction is not implemented in accordance with advice).
- **Strategic Risk** – Uncertainties and untapped opportunities embedded in the business’s overall strategic intent (e.g. reputational risk resulting in negative publicity, creating a high-risk profile within the tax office or a higher risk rating leading to increased costs of compliance).

Risks include the existing obligations to pay an amount as a result of events happening in the present, past and future.

### 1.4 Risk Management

The Group’s philosophy on tax risk management is to balance the prevention of unnecessary disputes with tax authorities that may give rise to reputational risk and to preserve investor value. In this regard, the Group will seek to:

- Having strong technical support for tax positions, including opinions from external advisors,
- Clear explanation and documentation of those positions, especially facts and business substance;
- Provide assurance to the Board that the existing tax risk management framework will allow relevant tax questions to be considered as part of every commercial decision relating to each transaction;
- Document controls and processes that exist to mitigate potential risks;
- Maintain strong compliance procedures ensuring accurate and complete tax returns.
- Reduce identified tax risks, thereby assisting the Group’s compliance with the regulator recommendations and Revenue Authority guidelines;
- Maintain good working relationships with tax authorities.

In assessing the risk, it is important to determine whether the likelihood and consequences of the risk occurring have been considered and documented.
1.5 Tax Risk Classification

Tax risk assessment adopts the following low, medium, and high categories. These risk assessment categories are consistent with the Group’s Risk Matrix. The tax risk level classifications below contain both qualitative and quantitative factors.

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<tr>
<th>Tax Risk</th>
<th>Description</th>
<th>Risk Owner</th>
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| Low      | A Low Risk classification generally applies where:  
  - There is an actual or potential instance of non-compliance with taxation laws and the tax at risk is less than RM100,000; and  
  - The application of the tax law to the facts is straightforward; and  
  - On policy or practical grounds, the Revenue Authorities are unlikely to take a contrary position to that adopted by the Group; and  
  - There is little risk of reputational damage accruing to the Group. | FCs and the Business Units                      |
| Medium   | A Medium Risk classification is usually appropriate where:  
  - There is an actual or potential instance of non-compliance with taxation laws and the tax at risk is at least RM100,000 but less than RM500,000; and  
  - There is some material uncertainty concerning the application of the law by Revenue Authorities; and  
  - There is complexity concerning the application of the law to the facts; and  
  - The situation involves some reputational risk. | Finance & Marketing Director                   |
| High     | A High Risk classification applies where:  
  - There is an actual or potential instance of non-compliance with taxation laws and the tax at risk is greater than RM500,000; or  
  - There is significant complexity concerning the application of the law to the facts; or  
  - There is some material uncertainty concerning the application of the law by Revenue Authorities; or  
  - There is a reasonable likelihood of adverse legislative change; or  
  - The transaction is of strategic importance to the Group; or  
  - The transaction involves significant reputational risk. | Finance & Marketing Director and Audit Committee |

Risk treatment involves identifying the range of options for treating risk, assessing those options, preparing risk treatment plans and implementing them. The Risk Owners identified above are to develop a plan to manage the tax risks identified, commensurate with the risk classification level.

1.6 Assessing Risk

a) Every year, as part of the financial audit process by the external auditors, the internal risk systems and outputs are reviewed for each operational unit.
b) Income Tax reporting is to be outsourced to external tax advisors.
c) Any significant internal transaction or restructure is to be reviewed for tax purposes by external advisors.
1.7 Tax Planning

Acceptable Tax Planning

In relation to Acceptable Tax Planning, tax is an important factor in many business decisions and tax planning in support of commercial activity and optimisation of returns for investors is normal and appropriate. However, the Group should not engage in tax planning that goes beyond support for genuine commercial activities.

Aggressive Tax Planning

The Group will not engage in Aggressive Tax Planning, as defined by the OECD as:

- Planning involving a tax position that is tenable but has unintended and unexpected tax revenue consequences; or
- Taking a tax position that is favourable to the taxpayer without openly disclosing that there is uncertainty whether significant matters in the tax return accord with the law.

Management will review all proposed transactions or arrangements as part of the Group’s established transaction approval procedures and in line with the appropriate escalation in order to ensure that the Group does not engage in Aggressive Tax Planning.

As a broad guide, transactions or arrangements exhibiting the following feature or features may be considered to be Aggressive Tax Planning and will be closely reviewed by Management.

- transactions that have little or no economic substance
- transactions bearing little or no pre-tax profit which rely on anticipated tax reduction to produce a significant post-tax profit
- transactions involving contrived, artificial, transitory, pre-ordained or commercially unnecessary steps
- transactions involving unnecessary layers of complexity
- transactions which have material economic terms that are inconsistent with market norms
- transactions which provide the Group with compensation that appears substantially disproportionate to the services provided or investment made
- transactions where the Group’s personnel are incentivised solely on the tax saved
- transactions which in substance produce unintended multiplication of tax benefits in different jurisdictions

1.8 Certainty of Tax Positions and Level of Sign Off Required

It is acknowledged that tax positions and the risks associated with these can be uncertain. However, the Group will balance considered tax planning with appropriate tax risk management by adopting valid and supportable positions and maintaining awareness of other prevailing views and risks.
1.9 **External Advisors**

*Who Can Engage External Advisors*

The Finance & Marketing Director will determine if internal or external advice is required. If external advice is recommended, the Finance & Marketing Director will manage the process of briefing advisors and obtaining the advice.

The choice of external tax advisor will generally be at the discretion of the Finance & Marketing Director.

*When To Engage External Advisors*

External advisors are to be engaged to prepare the Group’s tax provision calculations and for the preparation and lodgement of the Group’s income tax return.

The Individual Company’s Finance Function will generally undertake its other ordinary tax compliance obligations and only seek external advice as required (as directed by the Finance & Marketing Director). As noted above, internal tax functions are to be reviewed by external advisors every two years.

Typical transactions or events which would require external advice include:

- Any new and significant arrangement that involves the Individual Company and third parties;
- Undertaking of offshore investments or transactions
- Debt or equity restructures
- Material transactions, such as business restructures
- Tax controversy elements apply/a Revenue Authority is scrutinising a matter
- The tax treatment adopted is not supported by general guidance/advice available from the Revenue Authority
- The Finance Function does not have the resources or capabilities to adequately deal with the issue
- Significant transactions or events

If matters are particularly complex, sensitive or material it may be appropriate to obtain a second opinion or a Ruling from a Revenue Authority.

*Significant Transactions*

An event (such as a transaction, issue or risk) will be significant if it markedly affects the Group’s compliance, operational, financial or strategic outcomes or processes. For example, an event may be significant if any of the following apply:

- Public knowledge of a dispute of the position taken by the Group would cause a negative impact on the reputation of the Group and/or the position taken is likely to lead to litigation
- It results in a tax outcome that varies from industry patterns or past performance of the Group
- It involves third parties to the Group
- It results in a considerable variation between economic and tax performance
1.10 Reporting Obligations and Timing

The Finance & Marketing Director will report on general tax items to the Audit Committee on a biannual basis. The reporting will highlight the compliance, operational, financial and strategic tax attributes for the Group.

Reporting by the Finance & Marketing Director to the Board will be on an ‘exceptions’ (i.e. more frequently than annual) basis:

i. if an identified risk is rated as high; or
ii. a transaction is regarded as significant,

1.11 Management of Key Tax Processes

It is incumbent on the Finance & Marketing Director to design, document and implement strong internal controls as well as policy and procedure manuals. This includes specific tax policies detailing legislation, compliance and administration.

The Finance & Marketing Director is responsible for the development and maintenance of internal controls as well as policy and procedure manuals that consider major transactions and strategies, taking into account any changes in tax law.

1.12 Document Retention and Management

Good document management and record retention is fundamental to tax risk management as it will assist the Group to:

- meet compliance and other legal obligations applicable to the Group
- enable review (internal or Revenue Authority) of processes and decisions
- retain the corporate memory and its narrative history
- respond in a timely and efficient manner to information requests from Revenue Authorities
- demonstrate the cost and impact of your business
- help research and development activities

UP Group is required to keep all records that evidence and explain its tax position and the transactions it enters into that are relevant for the purposes of taxation legislation.

Records must be kept for a minimum of seven years and can only be destroyed at a later time if the Finance & Marketing Director or FCs are satisfied that those records are unlikely to be required in proving UP Group’s position in a tax dispute.

Before any document is to be made available to the Revenue Authority in response to audits/investigations/examinations, those documents must first be reviewed by the Group legal counsel or an External Advisor for potential claims for Legal Professional Privilege or other evidentiary protections (legal or administrative) which may protect them from mandatory disclosure.
1.13 Training and Awareness

The Finance & Marketing Director is responsible for arranging training for key people in the Finance Departments to enable them to own and manage tax risk.

1.14 Review Cycle

It is recommended that this Policy be reviewed annually by the Finance & Marketing Director who will propose any changes, if appropriate to the Board. This Policy will be revised from time to time and revisions will be circulated promptly.

1.15 Non-compliance

The oversight of the Group’s adherence to this Policy is the responsibility of Finance & Marketing Director. The Finance & Marketing Director will report material non-compliance with the policy, by exception to the Audit Committee.