

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board is committed to nurture and preserve throughout the Group a sound system of risk management and internal controls and good corporate governance practices as set out in this Statement on Risk Management and Internal Control, made in compliance with Paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and guided by the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers.

BOARD'S RESPONSIBILITY

The Board acknowledges its responsibility for maintaining a sound risk management framework and internal control system to safeguard the shareholders' investments and the Group's assets, as well as to discharge its stewardship responsibility in identifying principal risks and ensuring the implementation of an appropriate risk management and internal control system to manage those risks in accordance with Principle 6 of the Malaysian Code on Corporate Governance.

The Board continuously reviews the adequacy and effectiveness of the Group's risk management and internal control system which has been embedded in all aspects of the Group's activities and reviews the processes, responsibilities and assesses for reasonable assurance that risks have been managed within the Group's risk appetite and tolerable ranges.

Notwithstanding, the Group's internal control system by its nature can only reduce rather than eliminate the risk of failure to achieve business objectives, such systems can only provide a reasonable but not absolute assurance against material misstatement, loss or fraud.

The Board has received assurance from the Chief Executive Officer & Managing Director ("CEO & MD") and the Chief Financial Officer that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control framework of the Group.

KEY RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES

The Group has a well-defined organisational structure with clearly delineated lines of accountability, authority and responsibility to the Board, its committees and operating units. Key processes have been established in reviewing the adequacy and effectiveness of the risk management and internal control system including the following:

- A Management Committee ("MC") was established to manage the Group's operations in accordance with corporate objectives, strategies, policies, key performance indicators and annual budgets as approved by the Board;
- The Audit Committee of the Group, with the assistance of the Risk Management Committee, perform regular risk management assessments and through the Internal Audit Department, review the internal control processes, and evaluate the adequacy and effectiveness of the risk management and internal control system. The Audit Committee also seeks the observations of the independent external auditors of the Group;
- The Risk Management Committee ("RMC") was established to oversee and perform regular reviews on the Group's risk management processes. The RMC is chaired by the Group's CEO & MD and includes representatives from operations, as well as from the relevant Head Office operations support departments. The RMC reports to the Audit Committee on a quarterly basis where key risks and mitigating actions are deliberated and implemented;
- The Internal Audit Department ("IAD") of the Group's holding company IJM Corporation Berhad performs internal audits on various operating units within the Group on a risk-based approach based on the annual audit plan approved by the Audit Committee. The IAD checks for compliance with policies and procedures and the effectiveness of the internal control system and highlights significant findings of non-compliance in the quarterly Audit Committee meetings of the Group; and
- The Nomination & Remuneration Committee ("NRC") assists the Board to review and recommend appropriate remuneration policies for Directors and senior management to ensure that their remuneration is commensurate with their performance. The NRC also reviews and recommends candidates to the Board of the Company. The Securities and Options Committee administers options, regulates and approves the securities transactions in accordance with established regulations and by-laws.

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Key Elements of the Risk Management and Internal Controls

- Clearly documented standard operating policies and procedures to ensure compliance with internal controls, laws and regulations, which are subjected to regular reviews and improvement, have been communicated to all levels;
- Established guidelines for recruitment, human capital development and performance appraisal to enhance staff competency levels have been disseminated to all employees;
- Clearly defined levels of authority for day-to-day business aspects of the Group covering procurement, payments, investments, acquisition and disposal of assets;
- Top down communication of company values such as the Group's charter, including statements of vision, mission and core values, code of ethics and conduct, corporate disclosure policy as well as avenues for whistle blowing;
- Regular and comprehensive information are conveyed to the Board and its committees covering finance, operations, key performance indicators and other business indicators such as economic and market conditions at their monthly or periodic meetings;
- Annual budgets are prepared to monitor actual versus budgeted and prior period's performance with major variances being reviewed and management actions taken as necessary; and
- Periodic company briefings with analysts are conducted to apprise the shareholders, stakeholders and the general public of the Group's performance whilst promoting transparency and open discussion.

RISK MANAGEMENT FRAMEWORK

The RMC principally develops, executes and maintains the risk management system to ensure that the Group's corporate objectives and strategies are achieved within the acceptable risk appetite of the Group. Its reviews cover responses to significant risks identified including non-compliance with applicable laws, rules, regulations and guidelines, changes to internal controls and management information systems, and outputs from monitoring processes.

A risk map addressing the risks to the achievement of strategic, financial, operational and other business objectives, using quantitative and qualitative aspects to assess their likelihood and impact, and the controls for assuring the Board that processes put in place continue to operate adequately and effectively, is prepared annually. As the business risk profile changes, new areas are introduced for risk assessment.

The Group's Head Office considers the risks associated with the Group's strategic objectives and overall risk appetite which are not addressed by the operations level. The consolidated risks and the mitigating actions are reported to the RMC before being presented to the Audit Committee on a quarterly basis.

The Group has in place insurance coverage where it is available on economically acceptable terms to minimise related financial impacts.

The Group identified major risk areas of concern and mitigating actions were undertaken within appropriate timeframes. The management of the Group's significant risks identified for the financial year 2017 is outlined below:

Risk 1: Market Risk Management

Risk 2: Credit and Liquidity Risk Management

Risk 3: Operational Risk Management

Market Risk Management

Market risks refer to the risks resulting from economic and regulatory conditions and the inherent cyclical nature of the business.

The Group has expanded its operations to Indonesia. The expansion entails added risks given their different operating and economic environments. Nevertheless, the Group continues to monitor the identified market risks whilst it continues to complete its expansion project.



Pre-Board meeting discussion of Independent Directors

Commodity risks & foreign exchange exposures

Commodity risk arises from the volatility of commodity prices including currency fluctuations. The Group manages such risk with the following measures:

- Constant monitoring of the commodity prices to determine the appropriate timing to transact sales;
- Selling using the Malaysian Palm Oil Board's average price mechanism;
- Hedging through forward sales or crude palm oil pricing swap arrangements; and
- Close monitoring of pricing trends of major oils and fats.

The Group manages foreign exchange exposures by monitoring their movement and would enter into forward foreign exchange contracts or cross currency swap contracts when there is a need. Borrowings are kept to an acceptable level.

Regulatory risks

The Group's businesses are governed by relevant laws, regulations, standards and licenses. The Group manages the regulatory risks with the following measures:

- Be updated with the new requirements by attending seminars, conferences and training programmes organized by experts such as Bursa Malaysia, PricewaterhouseCoopers, etc.;
- Implementing appropriate policies, procedures, guidelines, and contracts management; and
- Maintaining regular communication with the authorities to ensure regulatory compliance at all times.

In addition, the legal department of the Group's holding company provides legal input on compliance with applicable laws and regulations, including on business and operational matters.

Credit and Liquidity Risk Management

These risks arise from the inability to recover debts in a timely manner which may adversely affect the Group's profitability, cash flows and funding. The Group minimises such exposures with the following measures:

- Assessing the creditworthiness of potential customers before granting credit limits and periods;
- Close monitoring of collections and overdue debts; and
- Ensuring effective credit utilisation to keep leverage at a comfortable level.

Operational Risk Management

Operational risks arise from the execution of a Group's business including risks of inadequate skilled workforce, adverse climatic conditions, systems and equipment failure and overcapacity situations.

Inadequate skilled workforce risk

Similar to other companies in the industry, the Group faces a common challenge in the form of inadequate skilled labour due to the difficulty in recruiting skilled workers. To mitigate the risk of slowdown in operations especially harvesting, various measures as follows are being carried out by the Group to attract more skilled workforce:

- Working with the industry fraternity to improve the availability of labour;
- Upgrading the living quarters of guest workers complete with amenities including electricity and water, medical care, crèche, education centres, recreational and sports facilities in phases;
- Entering into partnership with NGOs such as the Humana Child Aid Society Sabah to provide education to the children of guest workers with the intention of retaining the workers; and
- Reviewing the remuneration benefits of workers from time to time to stay competitive

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Adverse weather risk

During the financial year, the Group's crop productivity continued to be affected by the pro-longed dry weather.

To mitigate the effect the Group continued to ensure the following measures are being carried out and in place:

- Employing good agronomic and estate practices as per the operating manual;
- Carrying out water conservation and irrigation measures to ensure its oil palms receive adequate water;
- Deepening reservoirs, where possible, to increase water storage capacity with the objective of irrigating the surrounding fields; and
- Ensuring appropriate agricultural training for its cadets and field staff.

Disaster Recovery Planning

With threats of Management Information System ("MIS") failure and other potential hazards such as fires, floods, earthquakes and major equipment failures, amongst others, the continuity of business operations is of a major concern to the Group.

In line with that, the Group has in place adequate backup and recovery procedures.

Regular incident management drills including on basic fire safety are conducted to ensure that our employees are familiar with the planned emergency responses and crisis management plans.

ANNUAL AND QUARTERLY RISK ASSESSMENT REVIEWS

During the financial year, the Group conducted their annual comprehensive risk management and internal control system reviews and accordingly, proposed changes to their risk management and internal control

processes, which were assessed by the RMC and reported to the Audit Committee.

The Group identified major risk areas of concern which included the economic slowdown, fluctuating exchange rates and commodity prices, and mitigating actions were undertaken within appropriate timeframes. In addition, the Group performed the quarterly risk assessment updates and reported to the Audit Committee in a timely manner.

For the financial year under review and up to the date of issuance of this statement, the Board is pleased to state that the Group's system of risk management and internal control was rated overall as satisfactory, adequate and effective for the Group's purpose. There have been no significant weaknesses, material losses, contingencies or uncertainties identified or resulting from the reviews.

The Group will continue to monitor all major risks affecting the Group and take the necessary measures to mitigate them and enhance the adequacy and effectiveness of the risk management and internal control system of the Group.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised 2015) issued by the Malaysian Institute of Accountants. RPG 5 (Revised 2015) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

This Statement on Risk Management and Internal Control is made in accordance with the resolution of the Board of Directors dated 30 June 2017.



Directors visit to the Indonesian operations