THE BOARD IS COMMITTED TO NURTURE AND PRESERVE THROUGHOUT IJM PLANTATIONS BERHAD (“THE COMPANY”) AND ITS SUBSIDIARIES (“THE GROUP”) A SOUND SYSTEM OF RISK MANAGEMENT AND INTERNAL CONTROLS AND GOOD CORPORATE GOVERNANCE PRACTICES AS SET OUT IN THE BOARD’S STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL, MADE IN COMPLIANCE WITH PARAGRAPH 15.26(B) OF THE MAIN MARKET LISTING REQUIREMENTS (“LR”) OF BURSA SECURITIES BERHAD (“BURSA SECURITIES”) AND GUIDED BY THE STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL: GUIDELINES FOR DIRECTORS OF LISTED ISSUERS.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

BOARD’S RESPONSIBILITY

The Board affirms 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 B of the Malaysian Code on Corporate Governance.

The Board continually articulates, implements and reviews the adequacy and effectiveness of the Group’s enterprise wide risk management and internal control system which has been embedded in all aspects of the Group’s activities. The Board reviews the processes, responsibilities and assesses for reasonable assurance that risks have been managed within the Group’s risk appetite and tolerable ranges and to ensure that the system is viable and robust.

Recognising the everchanging risk landscape, the Group’s system is designed to effectively manage rather than eliminate the risk of failure to achieve the Group’s business objectives. Accordingly, such systems can only provide a reasonable but not absolute assurance against material misstatement, loss or fraud, and that any adverse impact arising from a foreseeable future event or situation on the Group’s objectives is mitigated and managed.

During the financial year ended 31 March 2020 (“FY2020”), 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.

During FY2020, the Risk Management Committee (“RMC”) reviewed, appraised and assessed the controls and actions in place to mitigate and manage the overall Group’s risk exposure, as well as raised issues of concerns and recommended mitigating actions. The RMC reports to the Audit Committee on a quarterly basis and as part of its monitoring activity ensures key risks are deliberated and mitigating actions are implemented. The Audit Committee presented a summary of its deliberations and decisions to the Board on a quarterly basis.

During the financial year, the adequacy and effectiveness of the system of internal controls was reviewed by the Audit Committee in relation to the internal audits conducted by the Internal Audit Department (“IAD”), as well as the control issues reported by the external auditors. The Audit Committee deliberated on the audit issues and actions taken by Management, and these deliberations have been presented to the Board.

KEY FEATURES OF RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

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.

1. Authority and Responsibility

- The Management Committee (“MC”) manages the Group’s operations in accordance with corporate strategies and business objectives, strategies, policies, key performance indicators and annual budgets as approved by the Board.
- The Audit Committee of the Company, with the assistance of the RMC, has oversight over the Group’s risk management framework, and obtains assurance through the IAD, on the adequacy and effectiveness of the risk management and internal control systems. The Audit Committee also seeks the observations of the independent external auditors of the Group, wherever required.
- The RMC oversees, performs regular reviews on risk management processes and ensures prudent risk management over the Group’s business and operations. The RMC for the Sabah operations is chaired by the CEO&MD and the RMC for the Indonesian operations is chaired by the Chief Executive Officer (Indonesia). Both RMCs comprise of representatives from operations, as well as from the relevant Head Office operations support departments. The two (2) RMCs report to
the Audit Committee on a quarterly basis where key risks and mitigating actions are deliberated and implemented.

- The Nomination & Remuneration Committee assists the Board by including but not limited to reviewing and recommending appropriate remuneration policies for Directors and senior management, reviewing succession plans, recommending candidates to the Board, and evaluating the performance of the Board as a whole and the contribution of each individual Director (including Board Committees) on an annual basis.

- The Securities and Options Committee administers options and/or shares under the employee share scheme and regulates the securities transactions in accordance with established regulations and by-laws.

2. Planning, Monitoring and Reporting

- Regular, comprehensive and up-to-date 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 periodic meetings, facilitating the monitoring of performance against the corporate strategy and business plans.

- Annual budgets are prepared for the forthcoming year and approved by the Board. These budgets are used to monitor actual versus budgeted and prior period’s performance with major variances being reviewed and management actions taken as necessary.

- Periodic company briefings with analysts are conducted to apprise the shareholders, stakeholders and general public of the Group’s performance whilst promoting transparency and open discussion.

- Annual validation of the Group’s sustainability materiality matrix was carried out at the Group level to ensure that the identified factors remained relevant and material to the business and stakeholders. Adjustments are made in line with current circumstances facing the Group.

3. Policies, Procedures and Values

- The Company’s culture reflects its core values, behaviours and decisions. These form the base of an effective risk management system and are reflected in the Company’s statements of vision, mission and core values, code of ethics and conduct, corporate disclosure policy, diversity and inclusion policy, antibribery and corruption policy as well as avenues for whistleblowing.

- 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 and are easily accessible on the Company’s intranet platform.

- 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, acquisitions and disposals of assets are reviewed periodically.

- Adoption and consistent application of appropriate accounting policies in the annual financial statements of the Group and Company, and prudent judgements and reasonable estimates have been made in accordance with the applicable accounting standards in Malaysia. Processes and controls are in place for effective and efficient financial reporting and disclosures in the annual and quarterly financial statements of the Group to give a true and fair view of the financial position and financial performance of the Group.

4. Audits

- The 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 as 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. Further details of the IAD’s functions and activities are set out in the Audit Committee Report.

- The external auditor’s annual audit strategy, audit plan and scope of work for the financial year in relation to the audit services on the Group’s financial statements as well as non-audit services, if any, are reviewed and approved by the Audit Committee. Further details on the oversight of the external auditors are set out in the Audit Committee Report.

- The Company and certain subsidiaries, which are accredited with various quality, health, safety and environment and other certifications, undergo scheduled on-site audits by auditors of the relevant industry certification bodies. The results of these audits are reported to management.
5. Risk Management

The RMC principally develops, executes and maintains the enterprise wide risk management system to ensure that the Group's corporate objectives and strategies are achieved within the acceptable risk appetite of the Group. The Group's risk management framework conforms with international guidelines of the ISO 31000 and the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Enterprise Risk Management Framework 2017. The risk management reviews cover responses to significant risks identified which would ensure the achievement of: the corporate strategies and business objectives; effectiveness and efficiency of operations; integrity of information and reporting; and compliance with the relevant laws, regulations, policies and procedures.

A risk map summarising the risks to the achievement of strategic, operational, reporting and compliance objectives, using quantitative and qualitative aspects to assess their likelihood and impact matrices, and the controls for assuring the Board that processes put in place continue to operate adequately and effectively to manage those risks to acceptable levels, is prepared quarterly.

As the business risk profile changes, new areas are introduced for risk assessment and the necessary updates are made to the existing risks.

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

**Risk Assessment Reviews**

During the financial year ended 31 March 2020, the Group conducted their risk management and internal control system reviews which were assessed by the RMC and reported to the Audit Committee at each quarter. The Group identified significant 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 2020 is outlined below:

a) **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's expanded operations to Indonesia entails added risks given its different operating and economic environment. Nevertheless, the Group continues to monitor the identified market risks whilst it continues to nurture its expansion operations to realize its potential.

**Political risks**

Political risks refer to the change of government, government decisions, reforms, events or conditions that may affect the performance of the Group's businesses such as new laws and regulations, minimum wage increases and new taxes. With the recent change of government in Malaysia in March 2020, coupled with the government-imposed movement restrictions since 18 March 2020 as part of the preventive measures in meeting the challenges posed by the Covid-19 pandemic, there may be policy modifications, changes, monetary and economic stimulus plans affecting the Group moving forward.

In addition, the Group’s Indonesian operations may be impacted by the general election outcome in Indonesia in 2019 as well as the Covid-19 pandemic and government-imposed movement restrictions in Indonesia. The Group will closely monitor and be proactive in the management of associated risks by engaging and working with the government in office to improve business, consumer and market sentiments in addition to complying with the governments’ directives to address the Covid-19 pandemic impacts.

**Commodity and Currency risks**

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

- Constantly monitoring the commodity prices to determine the appropriate timing to transact sales;
- Selling using the Malaysian Palm Oil Board and PT Kharisma Pemasaran Bersama Nusantara (‘PT KPBN’) 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 its 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 constantly assesses the impact of new laws and regulations affecting its businesses to ensure that its processes and infrastructure settings are able to operate under the new requirements.
With the change of the Malaysian government in March 2020, the Group is mindful of the government’s plans for various modifications and will take cognisance of the legal and regulatory changes being implemented in due course and will make the necessary adaptations and changes to comply with the new requirements.

New laws and regulations which have an impact to the Group during FY2020 include the following:

• LR of Bursa Securities;
• Malaysian Budget 2020 and Finance Act;
• Minimum wage increases under the Minimum Wages Order 2020;
• New Section 17A of the Malaysian Anti-Corruption Commission (“MACC”) Act 2009 on corporate liability for bribery and corruption; and
• Government-imposed movement restrictions, following the Covid-19 pandemic.

The Group manages these regulatory risks with the following measures:

• Be updated with the new laws and/or requirements by participating in seminars, conferences and trainings, both in-house and external, as presented by the authorities, experts or specialists;
• Implementing appropriate policies, procedures, guidelines, and contract management practices; and
• Maintaining regular communication with the authorities, industry, accounting, tax and legal experts to ensure compliance at all times.

The Group adopted an Anti-Bribery and Corruption (“ABC”) Policy in 2019 in view of the introduction of Section 17A of the MACC Act 2009. With effect from 1 June 2020, a commercial organisation may be found liable for acts of corruption committed by any persons associated with the organisation. Hence, during FY2020, the Group has enhanced its policies, procedures, manuals and code of conduct and ethics for employees as part of its anti-bribery and corruption system. Through the code of business conduct for third parties, these anti-bribery and corruption principles are extended to the Group’s associates, business partners and its supply chain.

The government-imposed movement restrictions are aimed at restricting mass movements and gatherings to contain the Covid-19 pandemic and break the chain of transmission. The Group has complied with the directive and has instituted new work arrangements for business continuity. As the restrictions are relaxed in phases, the Group will comply with the government directives accordingly.

b) 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.

c) Operational Risk Management

Operational risks arise from the execution of a Group’s business operations 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 harvesting operations, various measures as follows are being carried out by the Group to attract and retain skilled labour:

• Working with the industry fraternity to improve the availability of labour;
• Upgrading the living quarters of workers complete with amenities including electricity and water, as well as the provision of medical care, crèche, education centres, recreational and sports facilities in phases;
• Entering into partnerships with NGOs such as the Borneo Child Aid to provide education to the children of workers with the intention of retaining the workers;
• Encouraging local school leavers to participate in the plantation sector and to offer suitable internship programmes for undergraduates via joint ventures with universities and agricultural/labour authorities; and
• Reviewing the remuneration benefits of workers from time to time to stay competitive.

Adverse weather risk

To mitigate the effect of any pro-longed dry weather, 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 the 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 the cadets and field staff.

**Risk posed by Covid-19 virus outbreak**

Although the Malaysian Government has allowed the oil palm industry to continue to operate as it was considered as essential services to the country, the Covid-19 virus outbreak that has been declared as a global pandemic by the World Health Organisation (WHO) on 11 March 2020 had disrupted the supply chain and affected the operations of certain plantations and mills. Palm oil operations in six districts in Sabah were shut down by the state government for a period of time to contain the spread of the virus.

Whilst the Group operations were not affected by the shutdown during the period, the Group ensures the necessary procedures are put in place to manage the risk and closely monitors the situation to ensure its operations are not disrupted and it is in compliance with the regulations and rules imposed by the authorities during the movement control period.

The Group is wary of the Covid-19 pandemic and has taken the necessary steps to protect its employees, contractors and suppliers at its properties and work sites. These measures are updated from time to time and include the following: establishing crisis management teams; instituting daily precautions, inclusive of sanitisation and daily temperature readings; introducing alternative work arrangements; postponing group events and trainings; issuing travel advisory guides for business and non-business travels; and enforcing quarantine rules in accordance with the health authorities. The Group will continue to monitor the situation closely and will do whatever is necessary to protect its employees and the supply chain whilst ensuring business continuity.

d) **Disaster Recovery Management**

With the advent of cyber threats, Management Information System (“MIS”) failure and other potential hazards such as fires, floods, earthquakes and major equipment failures, amongst others, are a major concern to the Group’s continuity of business operations.

To manage the risk, the Group has put in place the necessary disaster recovery plan for its critical business system.

Regular incident management drills including basic fire safety are conducted to ensure that our employees are familiar with the planned emergency response and crisis management plans. During the financial year, the Group did not encounter any major business interruption or crisis situations.

6. **Sustainability**

Major sustainability risks have been addressed in line with the Group’s sustainability framework and business strategies emphasising key focus areas of Marketplace, Environment, Community and Workplace as elaborated in the Sustainability Report (pages 50-102).

7. **Insurance**

The Group has in place adequate and regularly reviewed insurance coverage for its business operations, assets and employees where it is available on economically acceptable terms to minimise the related financial impacts.

**REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS**

As required by Paragraph 15.23 of the LR of Bursa Securities, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with the Audit and Assurance Practice Guide (“AAPG”) 3 issued by the Malaysian Institute of Accountants. AAPG 3 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.

**CONCLUSION**

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 and safeguards the Group’s assets and shareholders’ investments, as well as the interests of customers, employees and other stakeholders. There have been no material losses, contingencies or uncertainties identified from the reviews. The Board will continue to monitor all major risks affecting the Group and will take the necessary measures to mitigate them and enhance the adequacy and effectiveness of the risk management and internal control system of the Group.

This Statement on Risk Management and Internal Control is made in accordance with a resolution of the Board of Directors dated 26 June 2020.