



# REPORT OF THE RISK MANAGEMENT COMMITTEE

The Board is pleased to issue the following report on the Risk Management Committee and its activities during the financial year ended 31 December 2017.

## Composition of Risk Management Committee and Meetings

The Risk Management Committee (RMC) comprises three (3) members, all of whom are Non-Executive Directors.

Following the corporate exercise undertaken by the Group, Tan Sri Datin Paduka Siti Sa'diah binti Sh Bakir resigned from the Committee on 28 December 2017 and was replaced by Dato' Hajah Normala binti Abdul Samad on even date.

A total of four (4) meetings were held during the financial year. The status of directorship and attendance record of each of the members are as follows:

Name of Directors and Status	No. of Meetings Held
Dato' Azmi bin Mohd Ali <b>Chairman, Non-Independent Non-Executive Director</b>	4/4
Dato' Seri Ir. Dr. Zaini bin Ujang <b>Member, Independent Non-Executive Director</b>	4/4
Tan Sri Datin Paduka Siti Sa'diah binti Sh Bakir <b>Member, Independent Non-Executive Director</b> <i>(Resigned w.e.f 28 December 2017)</i>	4/4
Dato' Hajah Normala binti Abdul Samad <b>Member, Non-Independent Non-Executive Chairman</b> <i>(Appointed w.e.f. 28 December 2017)</i>	0/0

## ACTIVITIES DURING THE YEAR

### Risk Reporting

Quarterly reports to RMC highlighting the Group's Risk Profile to enable Board and Management to focus on, appraise and consider key risks affecting the Group's businesses and operations and the system of internal control necessary to manage and mitigate such risks. The RMC reviewed the top risks for the Group and its business divisions. The reports highlight the movements of risk ratings as well as the progress of treatment plans that were identified to mitigate the risks.

The top risks for 2017 are in the following areas:

1. Operational Risk

The management of the operational risk (such as those relating to health and safety, production, distribution, compliance) is closely monitored by respective Risk Owners, with risk mitigation plans proposed and implemented. Continuous Risk and Control Self-Assessment (RCSA) activities are conducted in all Divisions to create a risk-awareness culture, which will ensure greater understanding of the importance of risk management and ensure that its principles are embedded in key operational processes. The RCSAs provide reasonable assurance that all risks are identified and addressed. In total seven (7) RCSAs were conducted which covers all Divisions; Pharmaceuticals, Chemicals and Polymers.

Chemical facilities are inherently complex with various hazards. These risks are closely managed through the implementation of Safety, Health and Environment (SHE) programmes. In respect of this, Chemicals Division presented to the RMC a study on Environmental and Safety as well as pertinent risk issues and SHE initiatives undertaken in protecting all CCM's businesses/ sites from potential disaster.

2. Project Risk

All projects that require the approval from the Finance and Investment Committee (FIC), is subjected to risk assessments, where the risk registers resulting from the assessment together with the mitigation plans are mandatorily tabled as part of the projects' proposals. Project risk updates post implementations of the projects are tracked and reported as part of the risk management reporting process.

3. Competition Risk

The Group continue to review current business status against its competitors and market. Strategies are developed, reviewed and updated to ensure its relevance in maintaining CCM's competitive position. These strategies are explained in the Group Managing Director's Management and Analysis.

4. Financial and Liquidity Risk

The Group is exposed to various financial risks relating to credit, liquidity, foreign currency, interest rates and exchange rates. The Group's risk management objectives and policies coupled with the required quantitative and qualitative disclosures relating to its financial risks are explained in the financial statements.

5. Culture Building

Risk management culture is continuously inculcated throughout the organisation through continuous monitoring and planned risk review sessions by Group Risk Management. A Risk Awareness Campaign was conducted throughout the CCM Group to increase the awareness on Risk Management; and seven (7) RCSA activities were carried out in 2017 to ensure the application of Enterprise Risk Management (ERM) in day-to-day business operations.



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### 6. Emerging Risk Monitoring

Assessment and monitoring of emerging risk was started in April 2016 as part of our commitment towards proactively strengthening controls in the changing business climate. Seventeen emerging risks were taken from Global Risk Report 2016. The report is based on the annual Global Risks Perception Survey, completed by almost 750 members of the World Economic Forum's global multi-stakeholder community. News and reports of the selected risks were tracked weekly and mapped against the proximity to CCM and frequency of occurrence. This assessment highlights the emerging risks that may have impact on the Group's businesses and operations to enable Management to proactively develop internal control necessary to manage these risks. The emerging risk that had been identified to have potential impact on the Group are 'Water Crisis' by Pharmaceuticals Division and 'Cyber Attack' by IT department in Berhad. Controls have been developed to mitigate these risks.

### 7. Review on Specified Matters

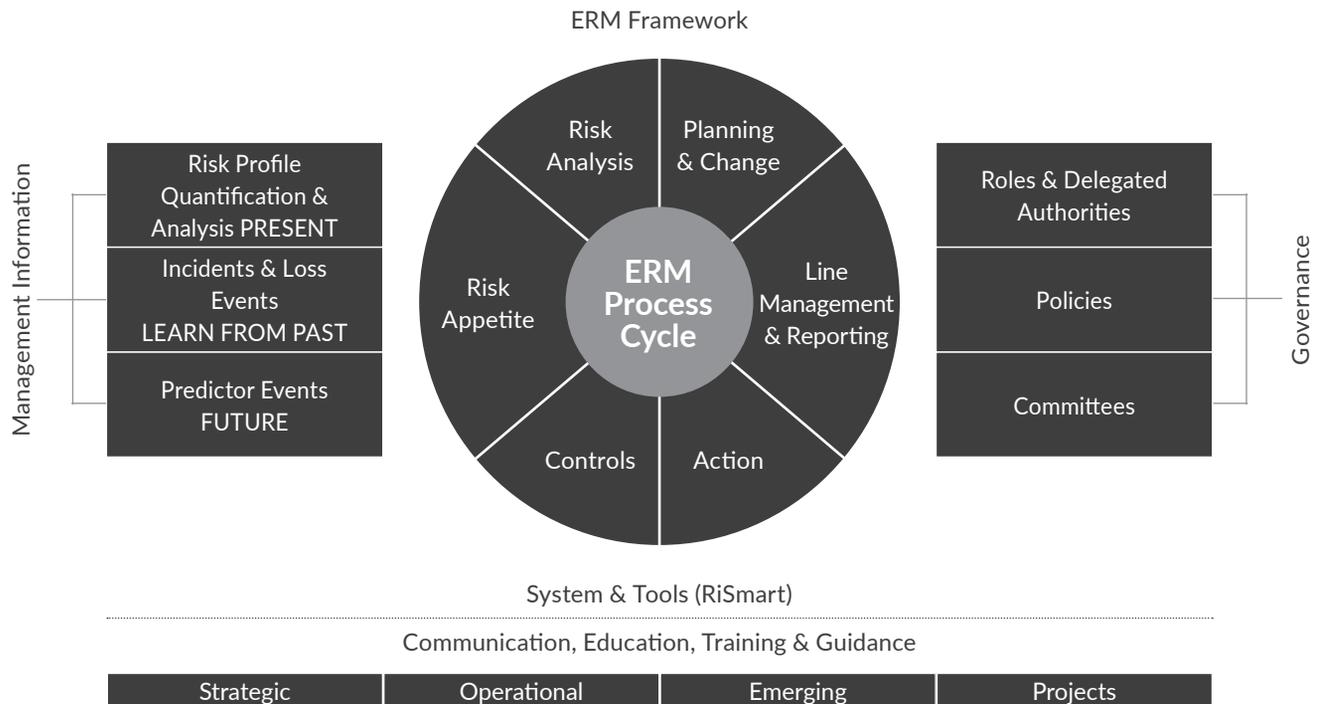
Group Risk Management had initiated review of the current state of CCM Group's Network Infrastructure and penetration test on the entire network infrastructure to benchmark against industry best practice and to counter / mitigate any potential risks that may arise.

In addition, Group Risk Management had also reviewed specified matters on CCM Fertilizers Sdn. Bhd. in relation to the rehabilitation work and Stack Demolition at the Shah Alam plant.

## RISK MANAGEMENT FUNCTION

The Group's Risk Management Committee (RMC) is supported by an in-house risk management function i.e. Group Risk Management (GRM). GRM provides risk advisory and supports various Boards, Executive and Division Risk Committees in the Group on all matters of Enterprise Risk Management (ERM).

The ERM framework defines the policy and objectives and sets the risk reporting structure. The framework structure includes risk profiling of current and historical risk information to anticipate probable future exposures. The framework ties into the Group's governance policies and guidelines via deliberations at various risk committees. The framework operates within the context of Strategic, Operational, Emerging and Project risks categories.



The RMC receives reports from the Executive Risk Management Committee (ERMC) which is chaired by the Group Managing Director and comprises Senior Management of the Group. The ERMC is assisted by the Divisional Risk Committees whose role is to identify, mitigate and manage risks within their businesses. The ERMC retains the overall risk governance responsibility and risk oversight of the Group and its subsidiaries. The ERM structure is summarised below:

**Enterprise Risk Management Reporting Structure**



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The Group adopts ISO 31000 guidelines in its risk management processes, whereby the Group has established its external and internal context for its risk management activities, and conducted risk identification, analysis, evaluation and treatment, with continuous monitoring, review, communication and consultation. Risks events are analysed in terms of its likelihood of occurrence and significance of their consequences, where an approved Risk Matrix is used to ensure consistent practice throughout the Group.

Risk Matrix

		CONSEQUENCES				
		→				
LIKELIHOOD ↑	High	High High	Extreme	Extreme	Extreme	
	Moderate	High	High High	Extreme	Extreme	
	Minor	Moderate	High	High High	Extreme	
	Trivial	Moderate	Moderate	High	High High	
	Trivial	Minor	Moderate	High	High High	