RISK MANAGEMENT POLICY

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A. OBJECTIVES

The Risk Management policy is designed to achieve the following objectives:

- Identifying risks that could disrupt the company's business operations
- Managing risks through improvements in the company's work/business processes
- Preparing for potential disasters that could disrupt or halt the company's operations and ensuring swift restoration of all work processes to normal conditions.
- Transferring high-risk exposures to insurance companies when they exceed the Company's risk tolerance.
- Determining risks that the Company can manage internally.

B. SCOPE

This policy is designed for use within the environment of PT Astra Agro Lestari Tbk. and its subsidiary companies to effectively manage risks across various areas including:

1. Business processes implemented
2. Operational assets
3. Business continuity
4. Human resources

C. DEFINITION

Risk

Refers to the uncertainty of an event occurring that could lead to economic loss.

Insurance

a. Insurance or coverage is an agreement, in which the insurer binds itself to the insured, upon receiving a premium, to provide compensation for loss, damage, or loss of profit that may be suffered due to an uncertain event (Article 246 of the Commercial Code).

b. It involves a transfer of risk from the first party (the insured) to another party (the insurer)
c. In the event of a transfer, it shall be governed by legal regulations and universally accepted principles and doctrines agreed upon by both parties.

Business Continuity Plan

The Business Continuity Plan (BCP) is a framework that oversees:

a. Implementing preventive measures to minimize the impact of disasters on company operations.
b. Executing response measures promptly when a disaster occurs
c. Ensuring continuous operations of the Company's activities.
d. Establishing procedures for restoring the Company's operations to normal levels.

Self-Insurance

Self-insurance is the act of assuming risk after gaining confidence that process improvement is working well, preventive measures in BCP are effectively implemented, based on the experience of low or non-existent risk, and based on the consideration/calculation that the cost of recovery is much lower than the premium that must be paid.

D. RISK MANAGEMENT

Risk management involves:

1. Activities to identify potential risks and assess their impact on the company's business operations. This process is carried out by referencing the scope mentioned above. The analysis is structured into 3 key risk analysis tables:

    - **First**, Risk Register. This table examines all of the company's business processes. It outlines the risk subjects, including the analyzed business scope, risks faced, the impact of these risks, and mitigation strategies to address the risks **(Form-01 Risk Register).**

    - **Second**, Risk Sharing Analysis. This table focuses on risks that can be transferred to insurance companies. It outlines the risk subjects, including the business process and its activities, assets related to the business process, inherent risks of these assets, mitigation efforts, the insurance policy utilized, and the insurance company involved **(Form — 02 Risk Sharing Analysis).**

    - **Third**, Disaster Impact Analysis. This table examines the potential impact of disasters on business processes. It outlines the risk subjects, including production location, potential threats posed by disasters, anticipated loss events, the impact of these events on the Company's business operations, and inherent risks involved **(Form — 03 Disaster Impact Analysis).**

The Risk Registers are compiled by the Risk Management Team in collaboration with functional units at the Head Office and Sites. Risk mitigation is executed by line management, and controlled by functional management and Internal Audit. The Risk Register is reviewed once a year.

Through thorough analysis, the company has identified several key risks in its operations:

a. Business Risks include:
   - Risks associated with the procurement of goods, whether through partners or self-sourced, such as goods not reaching their destination due to criminal activities (e.g., theft), damage during transit, or loss in transit due to accidents or disasters.
   - In the sale of the company's products, whether delivered by the company or collected by consumers, the risks include goods not reaching their destination due to criminal activities (e.g., theft), damage during transit, or loss in transit due to accidents or disasters.
   - Risks associated with the construction of the company's business facilities (e.g., factory, housing, etc.) by third parties include the failure of construction work completion due to builder negligence, economic fluctuations leading to increased raw material prices, changes in government policies, natural disasters, or other unforeseen circumstances.
   - Risks associated with the use of the company's production equipment include potential damage from regular wear and tear, natural disasters, or the impact of damage to other objects.

   The impacts of the above risks on the company's business operations include:

   - Disruption/termination of the company's operations
   - Loss of customer trust
   - Investment losses
   - Economic losses

b. Risks on Assets. The company's assets include plantations, buildings, machinery, infrastructure facilities, heavy equipment, vehicles, inventory, and cash. The identified risks include:
   - Plantation assets are subject to risks of damage or destruction from fire, disease, theft of seedlings or fruit, and natural disasters.
   - Building assets are subject to risks of damage from fire, natural disasters, civil unrest, and structural failures.
   - Machinery assets are subject to risks of fire, explosions, structural failures, natural disasters, and theft.
   - Infrastructure facility assets are subject to risks of damage from vehicle accidents, heavy equipment accidents, natural disasters, or design flaws.
   - Heavy equipment assets are exposed to losses from theft, accidents, natural disasters, fire, and civil disturbances.
   - Vehicle assets are exposed to losses due to theft, accidents, natural disasters, or structural failures.
   - Inventory assets, including production supplies and finished goods, are subject to risks of fire, theft, or damage from natural disasters.

- Cash assets are subject to the risk of theft.

The impacts of the above risks on the company's business operations include:

- Disruption/termination of the company's operations
- Loss of customer trust
- Investment losses
- Economic losses

c. Risks on People. The identified risks associated with the workforce employed by the company include:
   - Illness due to disease outbreaks or other factors
   - Death due to work accidents, natural disasters, or illness

   The impacts of the above risks on the company's business operations include:

   - Disruption/termination of the company's operations
   - Loss of customer trust
   - Investment losses
   - Economic losses

d. The identified risks on Third Party Liability include:
   - Pollution from production processes
   - Pollution from finished products (e.g., CPO spills on roads)
   - Company products containing materials hazardous to human health

   The impacts of the above risks on the company's business operations include:

   - Disruption/termination of the company's operations
   - Loss of customer trust
   - Investment losses
   - Economic losses

2. Risk Mitigation Activities

   To address the risks mentioned above, the following measures can be implemented:

   a. Process improvements, or business performance improvements through:
      - Updating trade terms that secure the company's goods, including terms of goods received at destination, appropriate insurance coverage terms for transit and asset development risks.
      - Updating SOPs and work procedures to enhance company performance while avoiding risk impacts.
      - Updating employment contracts that safeguard the company's interests without unfairly disadvantaging partners, ensuring work is conducted properly.
      - Fostering effective and efficient work practices through programs such as Quality Control Circle (QCC), Quality Control Project (QCP), Suggestion

System (SS), Project Improvement (PI), Best Practice (BP), aligning with the Astra Management System for Activity Management.
  - Research activities.

b. Business Continuity Plan, a framework to anticipate disasters and outline steps for recovering to normal business operations. Therefore, a BCP includes:
   - Organizational structure
   - BCP activation mechanism
   - Recovery Time Objective
   - Disaster Recovery Plan

c. Risk Sharing, transferring high-risk scenarios to an insurance company.
   - The risks transferred to the insurance company may still manifest despite the implementation of Process Improvements and Business Continuity Plans. The likelihood of these risks materializing remains high, and if they do, they could potentially disrupt the company's operations and lead to financial losses that weigh heavily on the company.
   - The insurance company receiving the transferred risk shall be bonafide and reputable, identifiable through its business scale, adequate portfolio for the policy being purchased, reputable reinsurance support, and good customer service programs.
   - Risks are transferred using the co-insurance principle to apply the principle of risk spreading. It is possible to obtain insurance coverage from a single insurance company if the specific characteristics of the insurance product can only be met by that particular insurer.

d. Risk Acceptance-Self Insurance.
   - Self-insurance is a viable option when risks can be managed through Process Improvements and a Business Continuity Plan. This strategy is typically chosen when the likelihood of incidents is low, loss records are minimal or non-existent, and the financial impact is lower than paying insurance premiums.
   - The company's resource management team consistently implements Process Improvement and adheres to the Business Continuity Plan in a sustainable and principled manner.

Risk management as described above is schematically illustrated as follows: