

A sound Enterprise Risk Management framework enables the Group to build value, deliver more and grow.

THE ERM'S PRINCIPAL FUNCTIONS

- (1) Identify, measure and monitor the enterprise-wide risks profile of the Company
- (2) Identify risk mitigation efforts, their costs, and mitigate risk appropriately
- (3) Report to the Exco the residual risk of the Company
- (4) Recommend/advise the ExCo, on the appropriate risk parameters within which the Company should operate
- (5) Monitor the implementation of ExCo's decisions on the mitigation efforts and risk parameters

ENTERPRISE RISK MANAGEMENT

A sound Enterprise Risk Management (ERM) framework enables the Group to build value, deliver more and grow while mitigating the associated risks and uncertainties appropriately.

Integral to the downstream refining business, SPC is involved in the sourcing and purchasing of crude oil, and the trading and marketing of refined petroleum products to intermediaries and end users. In addition, to deliver greater value and sustain growth, SPC has expanded its E&P activities. Consequently, SPC is exposed to a myriad of risks. Such risks need to be managed without unduly affecting the Group's profitability.

In 2007, as part of SPC's continued enterprise risk review, the Company engaged an external consultant to review

the adequacy of the SPC ERM framework and to identify new risk elements. This exercise is expected to be completed by the first quarter of 2008.

ENTERPRISE RISK MANAGEMENT COMMITTEE (ERMCM)

The ERMCM is chaired by the CEO and comprises heads of business and service units. This Committee meets at least once a quarter to review risk issues. ERM is an integral part of the Company's corporate governance framework and is essential to the Company's decision-making process. The framework ensures that there is a process in place for the Group to review and identify risks, and to then mitigate these risks appropriately.

Four ERMCM meetings were held in 2007 to discuss pertinent issues relating to the Group's enterprise risks. In particular, volatility of oil prices and refining

margins, and the expansion of the E&P portfolio have altered the Group's risk profile. The Group's risk profile and mitigation actions were accordingly reviewed and revised. Top risks were identified in terms of probability of occurrence and financial impact, both before and after mitigation.

In January 2008, the Board established a new Board Risk Committee that will have oversight of risk management in the Group. Dr Audrey Chin was appointed Chairman of this Board Committee with Geoffrey John King and Cheng Hong Kok being appointed members.

ENVIRONMENTAL, HEALTH, SAFETY AND SECURITY (EHSS) COMMITTEE

The EHSS Committee reports its activities to the ERM Committee quarterly. Information concerning EHSS issues, incidents, legislation, activities and performance are discussed and guidelines provided.

(see EHSS on page 58)

MARKET RISK STEERING COMMITTEE (MRSC)

A Mark to Market Committee (MTMC), reporting directly to the CEO was formed in 2001 to monitor the price risks inherent in trading and hedging activities. In 2005, the MTMC reported to the ERM Committee.

In 2007, the MTMC was renamed the Market Risk Steering Committee to reflect a wider role to review the Group's market risks including the price risks associated with the expanded E&P portfolio.

The MRSC ensures these activities are in compliance with SPC's risk appetite, policies and procedures. The objectives of MRSC are:

- a. Review the market price risk exposure of sales, purchases, trading and inventory activities of the Group. This review includes but is not limited to the review of mark to market reports, market outlook, price volatility, volumetric exposure as well as portfolio stress testing and possible remedial actions.
- b. Oversee the establishment of effective controls and the reporting of these risk exposure activities. This includes the appraisal of policies, procedures and processes, evaluation of the methodologies and valuation models and the implementation of adopted recommendations of the MRSC.
- c. Ascertain compliance and adherence to established policies, procedures and processes.
- d. Promote an open dialogue culture where any risk exposure activities are identified and discussed among its members.
- e. Review any other matters, as and when deemed necessary, which will impact the market valuation of the Group's activities.