

Towards building a sustainable enterprise, the SPC Group has over the years established a robust corporate governance and risk management framework. The Group is positioned to overcome the difficulties ahead.

In 2008, SPC strengthened its enterprise risk management (ERM) framework to ensure a more robust approach to managing the Group's business risks.

Risk Committee

SPC's Enterprise Risk Management Committee (ERMC) was established in 2002 and its principal functions were to identify and measure the enterprise-wide risk profile of the SPC Group; monitor the administration of risk mitigation efforts and costs; and report the residual risks to the Executive Committee (ExCo). The ERMC also recommended and/or advised the ExCo on the appropriate risk parameters which the SPC Group should operate within as well as monitored the implementation of the Board and ExCo decisions on the mitigation efforts and risk parameters.

Since its formation, the ERMC has established a comprehensive ERM framework and identified significant enterprise risks which are regularly measured, mitigated, monitored and reported to the ExCo.

In January 2008, the Board established a Risk Committee (RC) comprising members of the Board to enhance the ERM framework and processes as well as provide oversight of SPC's risk policies, profile, mitigation strategies and treatment.

In April 2008, SPC established a separate Risk Group headed by the CRO. The CRO assists the RC in the review, evaluation and oversight of SPC's risk policies, profile and mitigation strategies to manage both

identified and unanticipated risks. The Risk Group is tasked with the development of an integrated risk management framework to ensure that organisational best practices in risk controls and mitigation initiatives are implemented.

The RC endorsed the review of the Operational Risk Management (ORM) by the Risk Group across SPC's business, operational and financial activities. The ORM review will generate a register identifying the risks, mitigation plans, monitoring and reporting of risk management performance. High impact risks will be escalated to the RC.

Risk Committee

The RC comprises Dr Audrey Chin (Chairperson), Mr Geoffrey John King and Mr Cheng Hong Kok.

The responsibilities of the RC include the following:

- Review and guide the SPC Group in formulating its enterprise risk policies;
- Review the SPC Group's risk profile and mitigation strategies including risk limits;
- Review the effectiveness of the SPC Group's risk management system to ensure that a robust risk management system is maintained for both identified and unanticipated risks;
- Review and guide the SPC Group in establishing processes to effectively identify, evaluate and manage significant enterprise risks;
- Review reports and recommendations of the ERMC and the Chief Risk Officer (CRO);
- Provide a forum for discussion on key risk issues;
- Report to the Board on the work of the RC during the year;
- Obtain the advice or assistance of experts, advisers or consultants qualified in ERM and related fields;
- Delegate any of its powers within its terms of reference as listed above from time to time as the RC may deem fit;
- Perform such other functions as the Board may determine.

Enterprise Risk Management Committee

With the formation of the Risk Group, the CRO was appointed Chairman of the ERM. Members of the ERM include the CEO and the group heads of the various business and service units. The updated terms of reference of the ERM were approved in April 2008. The ERM meets at least once a quarter to review risk issues.

The objectives of the ERM include:

- Formulate SPC's risk policies for endorsement by the RC;
- Report SPC's risk profile, exposure and mitigating strategies to the RC;
- Analyse SPC's risk categories, occurrences and mitigating actions;
- Cascade the risk management process and actions to all departments;
- Recommend best methods of risk management;
- Prepare regular reports for the SPC management and the RC;
- Recommend internal sanctions for non-compliance with risk mitigation steps;
- Obtain the services of ERM experts, advisers or consultants, where required.

Four ERM meetings were held in 2008. Pertinent issues relating to the SPC Group's enterprise risks were discussed. These included the financial crisis, oil price volatility, hedging activities as well as the increased exploration and production activities. The risk profiles and mitigation actions were reviewed and revised accordingly. Top risks were identified in terms of probability of occurrence and financial impact, both before and after mitigation efforts.

Environment, Health, Safety and Security Committee

The Environment, Health, Safety and Security (EHSS) Committee provides quarterly reports to the ERM.

The goals of the EHSS Committee are:

- Promote EHSS awareness at the workplace;
- Investigate potential hazards and dangerous occurrences at the workplace;
- Participate in examining the cause of workplace incidents;
- Report any unsafe act, unhealthy condition or practice at the workplace;
- Raise any EHSS concerns at the workplace during the committee meetings;
- Communicate with employees on EHSS matters;
- Participate in EHSS related training;
- Share relevant EHSS information within SPC.

The EHSS Committee conducts its quarterly meetings with representatives from all business and service units. At these meetings, the members review and share EHSS issues including EHSS awareness and exercises.

(For a full EHSS write-up, please see page 60)

Market Risk Steering Committee

Since 2001, the SPC Group had in place a Mark to Market Committee (MTMC) which monitors the risks pertaining to crude oil and petroleum product inventory exposures and hedging activities covering both downstream and upstream. In 2007, the ERM formed the Market Risk Steering Committee (MRSC) which provided oversight of the MTMC to ensure the activities are in compliance with SPC's risk appetite, policies and procedures. The activities of the MRSC are reported regularly to the ERM and to the AC.

The objectives of the MRSC are:

- Review SPC's market price risk exposure of sales, purchases, trading and inventory activities. This includes reviews of mark to market reports, market outlook, price volatility, volumetric exposure, and portfolio stress testing and remedial actions;
- Oversee the implementation of controls and the reporting of risk exposure activities. This includes the appraisal of policies, procedures and processes, evaluation of methodologies and valuation models, and the implementation of actions;
- Ascertain compliance to established policies, procedures and processes;
- Promote an open dialogue culture for the identification of risk exposure activities;
- Review any other matters that will impact the market valuation of SPC's business.

Business Risks

The SPC Group faces various business risks which may impact its operations and earnings. Some major risks are briefly described here.

1. Competition Risks

SPC faces significant competition in its diverse business operations. These risks include competition for access to purchase crude oil supply for its refinery, chartering of shipping tankers for the transportation of crude oil and petroleum products, competition for markets for the sale of its crude oil, natural gas and petroleum products as well as competition for access to oil and gas reserves.

2. Crude Supply Disruption Risk

SPC's refining operations are dependent on the supply of crude oil. Any supply disruption may have an impact on SPC.

3. Drilling and Development Risks

The ability to explore and discover commercial oil and gas reserves as well as to develop the reserves into production is vital to SPC's upstream growth and sustainability.

4. EHSS and Liability Risks

SPC engages in the extracting, refining, transporting, handling and marketing of oil and gas. It is therefore exposed to a spectrum of EHSS risks in its daily operations. These include procedural non-compliances, pollution, incidents, natural disasters and pandemic diseases. Depending on the cause and severity of the incidents, the occurrence of any such event may have an impact on SPC.

5. Financial Risks

Financial risks faced by SPC in its business include credit risks, counterparty risks, foreign exchange risks and interest rates risks.

6. Oil Price and Refining Margin Risks

SPC's earnings are subject to risks from changes in the prices of crude oil, natural gas and petroleum products, as well as refining margins risks.

7. Operational Resource Risk

The availability of skilled employees, new technologies and information technology infrastructure is essential to the successful implementation of SPC's corporate strategies.

8. Partners' Risk

Some of SPC's business and projects are conducted with external joint venture partners. The competencies and actions of these partners may impact SPC's performance.

9. Political Instability and Regulatory Risks

SPC's operations such as the E&P activities may be affected by political instability and changes in regulatory and tax regimes in the countries where SPC operates.

10. Reserve Estimation Risks

The estimation of potential oil and gas resources and reserves involves qualitative professional judgment based on the available geological, reservoir, technical and economic information. Such estimates may vary as more geological and reservoir information becomes available, when economic condition changes or when new technology for improved recovery becomes commercially viable. The actual performance of the reservoir may also deviate from the model used for reserves estimation.