

Enterprise Risk Management

Risk management and oversight is under the purview of SembCorp Industries' Board of Directors. In August 2003, the Board Risk Committee (BRC) was formed to assist the Board of Directors to review and enhance the effectiveness of the risk management plans, systems, processes and procedures of the Group. The BRC also reviews the Group-wide risk policies, guidelines and limits, as well as the risk portfolio and treatment plans.

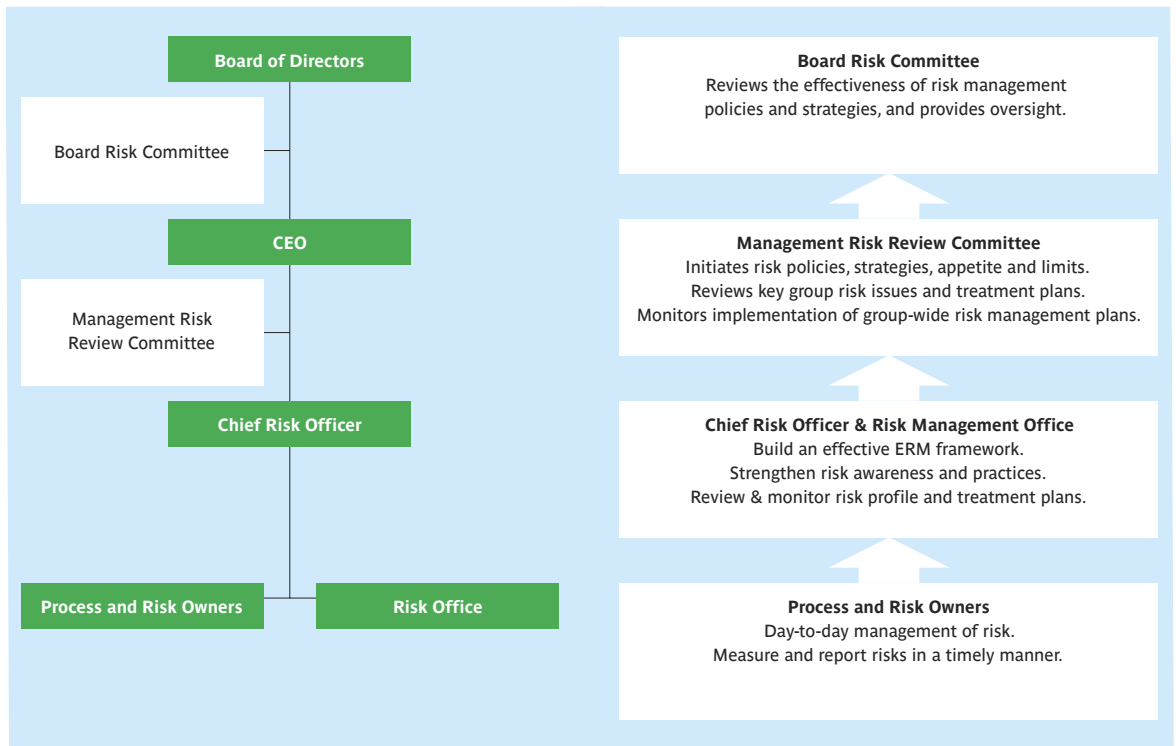
Supported by Group Risk Management, a Senior-Management level Risk Review Committee at the Company is responsible to drive the development and

implementation of the Enterprise Risk Management (ERM) framework throughout the Group. This management committee also initiates the review of Group-wide risk profiles, risk management policies, practices and capabilities in its effort to create a strong risk management culture within the Group.

ERM Oversight Structure

The ERM oversight structure established by SembCorp Industries is illustrated below:

SembCorp Industries' ERM Oversight Structure



The ERM oversight structure at each of the Group's Strategic Business Units (SBUs) is generally aligned to that of SembCorp Industries'.

ERM Framework

In 2004, as part of the plan to deliver sustainable value, a high-priority initiative to implement a coherent ERM framework throughout the Group was carried out. This ERM framework provides an integrated and systematic approach to addressing and managing the business risks that might affect the achievement of the business objectives. Making risk management a strategic priority enables the Group to strike the right balance between risk and reward, which is fundamental to profitable growth.

Risk Management Process

A systematic and on-going process for identifying, evaluating, controlling and reporting risks was adopted, consisting of the following steps:

- a) Assessment of business risks;
- b) Formulation of risk management strategies;
- c) Design and implementation of risk management action plans to execute risk management strategies;
- d) Monitoring and reporting the risk management performance of the business process and risk levels; and
- e) Continuous improvement of risk management action plans and capabilities.

The SBUs are individually responsible to identify and evaluate the relevant risks associated within their respective business operations and processes. They also ensure that such risks are effectively managed through appropriate actions and management reports. To this end, the SBUs have set up their respective Board and Management Risk Committees to provide the necessary oversight and to implement appropriate risk mitigation measures.

Major ERM Initiatives

During the course of 2004, SembCorp Industries, in collaboration with its SBUs, implemented the following major ERM initiatives across the Group:

- a) Created platforms for raising awareness and sharing knowledge through
 - Group-wide Chief Risk Officers Forum
 - Risk Workshops and Risk Roundtables;
- b) Embedded risk management practices into business operations and processes, such as
 - Business development and new investment proposals
 - Business reporting;
- c) Reviewed risk management policies, procedures, limits and capabilities; and
- d) Reviewed critical business processes and controls across the Group with respect to
 - Worksite safety
 - Engineering, Procurement, Construction and Commissioning (EPCC) project works.

For these important areas, the BRC directed Senior Management to conduct a review of worksite safety and project risk management across the Group, to ensure that a sound system of internal controls and robust risk management process exists. A task force in SembCorp Industries worked closely with the SBUs' line management and Chief Risk Officers to collate and review existing practices and controls for worksite safety and EPCC projects. Meetings were then held for SembCorp Industries' Management Risk Review Committee and thereafter, the BRC, to provide inputs to further strengthen the existing policies, processes and controls. Following this, the risk management guidelines were then formalised at the respective SBUs.

SembCorp Industries remains fully committed to dedicating time, funds and resources to building and strengthening our risk management processes and practices. With this constant push, our managers and employees will be well poised to anticipate the level of risks that our businesses are facing in times of uncertainties and be able to respond to external environmental changes in a timely and effective manner.