sensitive information to its shareholders via SGXNET on a non-selective basis. Financial and other performance data is given for the Group as well as business units where appropriate, to give shareholders a better insight into the Group’s performance. The date of the release of quarterly results is disclosed two weeks prior to the date of announcement through SGXNET. On the day of announcement, the financial statements as well as the accompanying press release and presentation slides are released onto the SGX-ST website as well as on the company website at www.sembcorp.com. Thereafter, a briefing or teleconference by management is jointly held for media and analysts. For first half and full year results announcements, results briefings are concurrently broadcast live via webcast.

Following the release of financial statements or price-sensitive developments, investor relations officers are available by e-mail or telephone to answer questions from shareholders and the media as long as the information requested does not conflict with the SGX-ST’s rules of fair disclosure.

Greater shareholder participation at General Meetings (Principle 15)

The company encourages shareholder participation at General Meetings. Information on shareholder meetings is disseminated through notices released via SGXNET and published in local newspapers, as well as through reports or circulars sent to all shareholders. All registered shareholders are invited to participate in shareholder meetings. The company’s Articles of Association allow all shareholders the right to appoint up to two proxies to attend and vote on their behalf. The company also allows CPF investors to attend General Meetings as observers.

Voting in absentia by mail, facsimile or e-mail is currently not allowed as such voting methods would need to be cautiously evaluated for feasibility to ensure that there is no compromise to the integrity of the information and the authentication of the shareholders’ identity.

At General Meetings, every matter requiring approval is proposed as a separate resolution. Shareholders present are given an opportunity to clarify or direct questions on issues pertaining to the proposed resolutions before the resolutions are voted on. The board and management are present to address these questions and obtain feedback from shareholders. The external auditors are also present to assist the board. Minutes of shareholder meetings are available on request for registered shareholders.

For further details on Sembcorp Industries’ communications with its shareholders, please see the Investor Relations chapter of this annual report.

DEALINGS IN SECURITIES

The company has adopted a Code of Compliance on Dealing in Securities, which prohibits dealings in the company’s securities by its directors and senior management for two weeks prior to the announcement of the company’s quarterly results. Directors and employees are also expected to observe insider trading laws at all times even when dealing in the company’s securities within the permitted trading period.

INTERESTED PERSON TRANSACTIONS

Shareholders have adopted an Interested Person Transaction (IPT) Mandate in respect of interested person transactions of the company. The IPT Mandate defines the levels and procedures to obtain approval for such transactions. Information regarding the IPT Mandate is available on the company’s website, www.sembcorp.com. All SBUs are required to be familiar with the IPT Mandate and report any such transaction to the company. The Group Reporting and Policies Department maintains a register of the company’s interested person transactions in accordance with the reporting requirements stipulated by Chapter 9 of the SGX-ST Listing Manual. Information on interested person transactions for 2008 may be found in the related item under the Supplementary Information section of the financial statements in this report.

The Group manages risk under an overall strategy determined by the board of directors, supported by the board-level Risk Committee and the Internal Audit department. Formed in August 2003 to assist the board of directors, the Risk Committee, comprising three directors, reviews and enhances the effectiveness of the Group’s risk management plans, systems, processes and procedures. The Risk Committee also reviews Group-wide risk policies, guidelines and limits as well as risk exposure and risk treatment plans.

ENTERPRISE RISK MANAGEMENT

The Group has established an Enterprise Risk Management Framework to standardise the risk management methodologies within the Group. In line with Sembcorp’s commitment to deliver sustainable value to its shareholders, the objective of the Enterprise Risk Management Framework is to provide guidance to the operating units in implementing a comprehensive and consistent approach to identifying and managing the risks that they face. The Enterprise Risk Management Framework applies to the action of all employees of the Group and is implemented at each operating unit. Within this framework, critical and major risks of the Group and the operating units are identified and assessed to determine the appropriate type of risk treatment plans to be implemented and which are to be monitored at the Group level as well as by each strategic business unit (SBU).

The Enterprise Risk Management Framework sets out a systematic and ongoing process for identifying, evaluating, controlling and reporting risk, comprising the following key elements:

- Identification and assessment of all risks.
- Formulation of risk management strategies.
- Design and implementation of risk management and mitigation action plans.
- Monitoring and reporting of risk management performance and risk exposure levels.
- Continuous improvement of risk management and mitigation action plans and capabilities.

These processes are put in place to manage and monitor the Group’s risk management activities on a regular and timely basis.

SYSTEM OF FINANCIAL DISCIPLINE

Since 2003, a systematic approach has been in place for Sembcorp Industries and its subsidiaries and associates, to ensure financial discipline across the Group. We have set up a self-check, review and certification...
process called the System of Financial Discipline for all subsidiaries to confirm their commitment to and compliance with a prudent financial discipline framework. The process provides for management at various levels in the SBUs to systematically review and ensure compliance with the requirements of new accounting standards and the treatment of transactions, while ensuring that acceptable accounting policies are followed. It allows early identification of areas of potential exposure that can be addressed to minimise adverse impact to the Group as well as ensure the adequacy of provisions made in the accounts.

SBUs’ operating and finance heads are required to review, report and ensure adequate provisioning for project losses, asset impairment, significant long outstanding debtors, significant inter-company balances, contingent liabilities, fraud incidents and any transactions and/or events with material impact or potential material impact on the SBU’s financial results. These financial impacts, if any, are reported on a quarterly basis to Sembcorp Industries and accounted for in the interim accounts of the respective SBU.

SBUs are also required to complete the review and certification of financial discipline for revenue recognition, cost recognition, profit or loss recognition, liabilities recognition, assets recognition, consolidation and internal controls.

WHISTLE-BLOWING

Since 2005, Sembcorp Industries has had a whistle-blowing policy and procedures, which provide employees with well-defined and accessible channels within the Group through which they may, in confidence, raise concerns about possible improprieties in matters of business activities, financial reporting or other matters to the Audit Committee. This arrangement facilitates independent investigation of such matters for appropriate resolution.

INTERNAL AUDIT

The Group also has a Group Internal Audit department, which focuses on providing an independent resource and perspective to both the board and the Audit Committee on the processes and controls that help to mitigate major risks.

MITIGATION STRATEGIES

The Group has identified the following types of risks:

a. Financial and counterparty / credit risk
b. Operational risk
c. Investment risk
d. Compliance and legal risk
e. Interested person transaction risk
f. Human resource risk

a. Financial and counterparty / credit risk management

The Group’s activities expose it to a variety of financial risks, including changes in funding and liquidity risks, interest rates, foreign exchange risks, commodity risks and counterparty / credit risks.

To manage these risks, the Group’s treasury policies and financial authority limits are documented, reviewed periodically and communicated to the Group’s entities. The policies set out the parameters for management of Group liquidity, counterparty risk, foreign exchange and other transactions and financing.

The Group utilises approved financial instruments to manage exposure to interest rate, foreign exchange and commodity price risks arising from operational, financing and investment activities. The commodities involved basically include fuel oil, coal and natural gas. Transactions such as foreign exchange forwards, interest rate swaps, commodities swaps, purchase of options and contracts for differences are used, as appropriate, to manage these risks. It is the Group’s overall Treasury Policy that transactions for speculative purposes are strictly not allowed. Transactions are allowed only for hedging purposes based on the underlying business and operating requirements. Exposure to foreign currency risks is also hedged naturally where possible.

The financial authority limits seek to limit and mitigate operational risk by setting out the threshold of approvals required for the entry into contractual obligations and investments.

Liquidity risk

The Group manages its working capital requirements with a view to balance the risk of non-availability of funding, the cost of funding and an optimal level of liquidity appropriate to the operating environment and expected cash flow of the Group. Working capital requirements are maintained within the credit facilities established and are adequate and available to the Group to meet its obligations.

Interest rate risk

The Group’s policy is to maintain an efficient and optimal interest cost structure using a mix of fixed and variable rate debts and long-term and short-term borrowings. The Group enters into interest rate swaps to minimise its interest rate risk. A minimum of 50% of the Group’s loan portfolio having fixed interest rates is targeted for the Group.

Foreign exchange risk

The Group operates globally and is exposed to foreign currency exchange rate movements, primarily for the US dollar, pound sterling, euro, Australian dollar and renminbi. Such risks are either hedged by forward foreign exchange contracts in respect of actual or forecasted net currency exposure or hedged naturally by a sale or purchase of a matching asset or liability of the same currency and amount. No speculative foreign exchange transactions are allowed.

Commodity risk

The Group hedges against fluctuations in commodity prices that affect revenue cost and exposure. Exposure is managed via swaps, purchase of options, contracts for differences and fixed price and forward contracts.

Contracts for differences are entered into with appropriate counterparties to hedge against adverse price movements on the sale of electricity. Exposure to price fluctuations arising on the purchase of fuel is managed via fuel oil swaps, where the price of fuel is indexed to a benchmark fuel price index, for example the Singapore High Sulphur Fuel Oil (HSFO) 180-CST.

For precious metal commodities, such as gold, exposures to fluctuations in price are hedged through the use of forward contracts or purchase of options that fix the purchases at an agreed price. The quantum of commitment is based on actual or forecasted requirements.

Counterparty / Credit risk

The Group monitors its exposure to credit risk arising from sales to trade customers and default risks from suppliers and contractors on an ongoing basis. Credit evaluations are done on these counterparties from time to time. The Group generally deals with pre-approved customers, suppliers, contractors and financial institutions with good credit rating. On a case to case basis, the Group will require additional securities when dealing with counterparties of lower credit standing. At balance sheet date, except as disclosed, there were no significant concentrations of counterparty / credit risks with any single counterparty.

b. Operational risk management

Operational risk, which is inherent in all business activities, is the risk of potential financial loss and/or business instability arising from failures in internal controls, operational processes or the systems that support them.

It is recognised that operational risk can never be entirely eliminated and that the cost of minimising it may outweigh the potential benefits. Accordingly, the Group manages operational risk by focusing on risk management and incident management. The Group has also put in place operating manuals, standard operating procedures, delegation of authority guidelines and a regular reporting framework, which encompasses operational and financial reporting. The framework provides for management at various levels in the SBUs to systematically review and ensure compliance with the requirements of new accounting standards and the treatment of transactions and ensures that acceptable accounting policies are followed. It allows early identification of areas of potential exposure, which can be addressed to minimise adverse impact to the Group as well as ensure the adequacy of provisions made in the accounts. To reinforce the implementation of the Group’s risk strategy by the operating units, independent checks on risk issues are undertaken by the Internal Audit department. Where appropriate, this is supported by risk transfer mechanisms such as insurance.

Insurance

It is not practicable to insure every insurable risk event to the fullest extent as the insurance market may lack the capacity, both as to breadth and extent of

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coverage, and in some cases external insurance is simply unavailable or is not available at an economical price. The Group regularly reviews both the type and amount of insurance coverage that it buys, bearing in mind the availability of such cover, its price and the likelihood and magnitude of the risks involved.

During the year, the Group arranged a global insurance programme for property damage, business interruption and public liability for its Utilities operations in Singapore and the UK under the advice of established global insurance broker and risk adviser Marsh (Singapore) and maintained insurance levels deemed appropriate in the light of the cost of cover and risk profiles of the businesses.

The Group has also established a wholly-owned captive insurance subsidiary, Sembcorp Captive Insurance (Captive), which is advised and managed by Marsh captive insurance subsidiary, Sembcorp Captive Insurance with applicable laws and regulations lies with the

environmental law. The responsibility of compliance law, competition law, consumer protection and affect results, particularly in the areas of corporate and future changes in regulation that may adversely is accompanied by a comprehensive risk assessment and management's proposed mitigation strategies.

The Group has internal control procedures to ensure that IPTs are conducted at arm’s length and on normal commercial terms that are not prejudicial to the interests of minority shareholders.

The Group's annual internal audit plan incorporates a review of all IPTs for the relevant financial year.

The Audit Committee periodically reviews Group Internal Audit’s IPT Reports to ascertain that the guidelines and procedures on IPTs have been complied with. The review includes the examination of the nature of the IPTs and relevant supporting documents or other such information deemed necessary by the Audit Committee. If a member of the Audit Committee has an interest in an IPT, he or she abstains from participating in the review and approval process of that IPT.

f. Human resource risk management

In order to develop, support and market the products and services offered by the Group and to grow our businesses internationally, it is necessary to hire and retain skilled and professional employees with the relevant expertise. The implementation of the Group’s strategic business plans could be undermined by failure to recruit or retain competent key personnel, the unexpected loss of such key senior employees or failure in the Company’s succession planning.

In this respect, the Group places great emphasis on establishing comprehensive human resource policies for the recruitment, compensation and development of staff. This ensures that the Group’s human assets, its skilled workforce and competent senior management, are nurtured and retained, so that the Group's competitive edge is preserved. The board’s Executive Resource & Compensation Committee has oversight of the Group’s remuneration policies and oversees management, development and succession plans for key management positions. Further details on the Executive Resource & Compensation Committee as well as on Sembcorp’s human resources management may be found at pages 58 and 71 to 74 of this annual report.