

# **Managing And Mitigating Risk In PT Pertamina (Persero)**

**to balance Aggressive Growth Strategies with  
Prudent Risk Management Frameworks**

**Jakarta, 26<sup>th</sup> February 2013**



# AGENDA

**Vision and Mission**

---

**Where are the Risks?**

---

**Enterprise Risk Management**

---

**Financial Risk Management**

---

# THE WORLD IS OUR VISION



## VISION

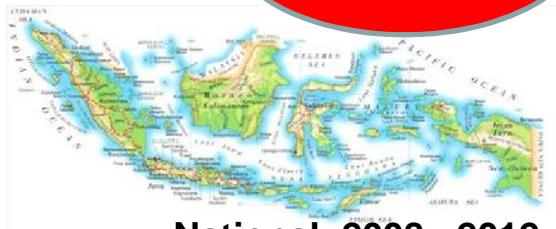
“To be world class national energy company”



## MISSION

“To carry out integrated business core in oil, gas, **renewable and new energy** based on strong commercial principles”

Leading company in Indonesia

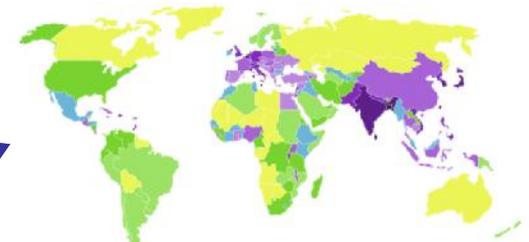


National: 2008 - 2012

Leading company in South East Asia



Regional: 2013 - 2017



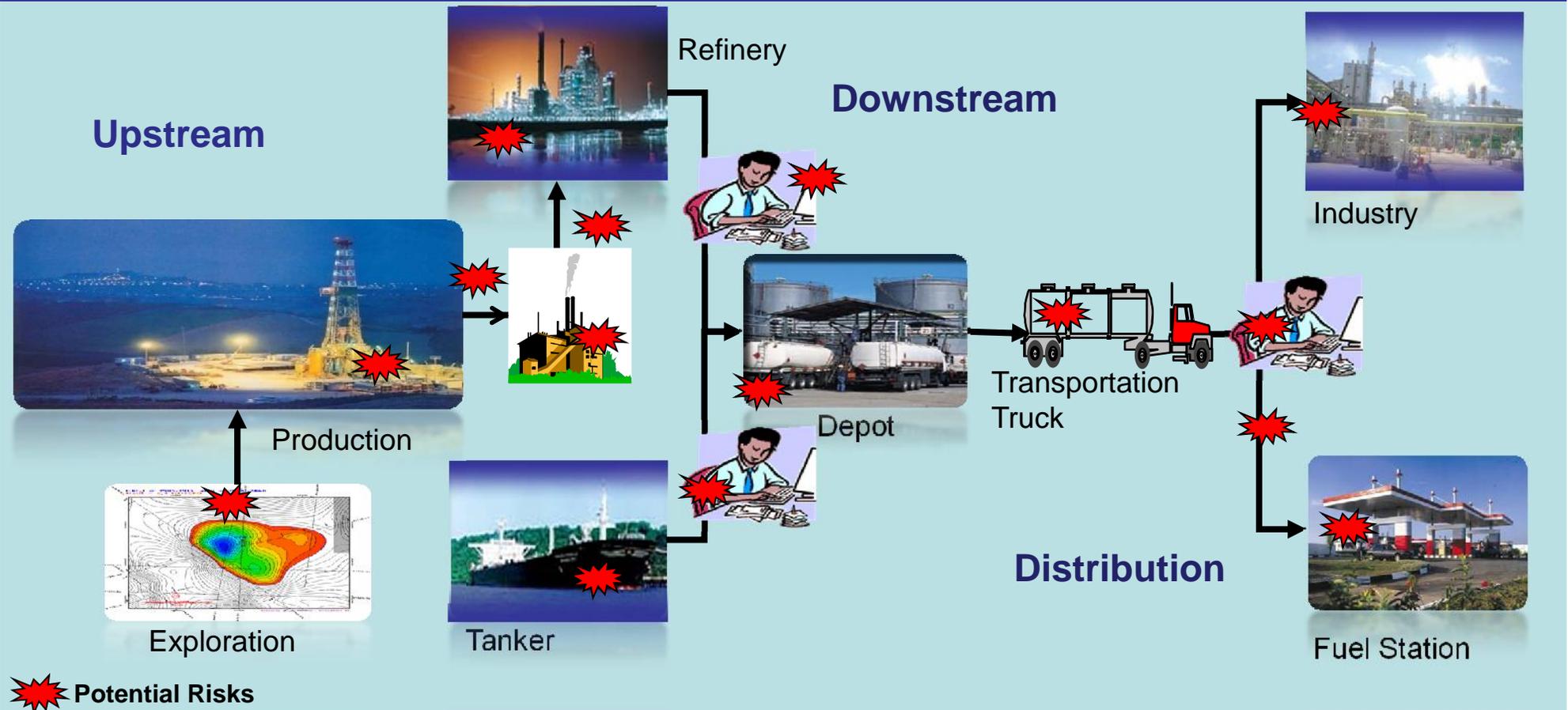
Global: 2018 - 2022

Top 15 World Companies

# WHERE ARE THE RISKS?

## Business Activities in Pertamina:

Ongoing Business: Daily Operation (exploration, production, processing, distribution, shipping)  
Business Development: Projects, Acquisitions, develop new building, farm in/farm out, etc.



The risks are embedded in our Upstream, Midstream and Downstream Operation.

# KEY RISK FACTORS

## Corporate

- Volatility in prices of crude oil, natural gas and refined products
- Uncertainty of market dynamics for oil and gas
- Subject to be controlled by Government of Indonesia as State-owned Enterprise

## Upstream Operations

- Reserves estimation
- Exploration risk and production risk activities in domestic and foreign countries
- Failure to receive SKK Migas and other government approval on a timely basis

## Downstream Operations

- Compete with other oil and gas companies in connection with downstream operations and PSO mandate
- Repairs, maintenance and turnarounds at refineries
- Depend on chartered vessels to distribute our cargo

## Oil, Gas and Geothermal Industry

- Environmental regulations in Indonesia and in other countries
- Increased regulation by governments and governmental agencies

## Indonesia

- Regional or global economic changes and political and social situation in Indonesia
- Earthquake zone, labor activism
- Downgrades of credit ratings of Indonesia and Indonesia companies
- Indonesian accounting standards differs from other countries e.g. US

Internal and external factors influence the occurrence of risk in Pertamina

# IMPLEMENTING RISK MANAGEMENT IN PERTAMINA

Pertamina's commitment to the risk management program as part of the decision making process.

- Corporate Manual / Guidelines on Enterprise Risk Management
- Board Enterprise Risk Management Commitment
- ERM Integrated System

**Risk Management Framework and risk evaluation criteria for organization environment**

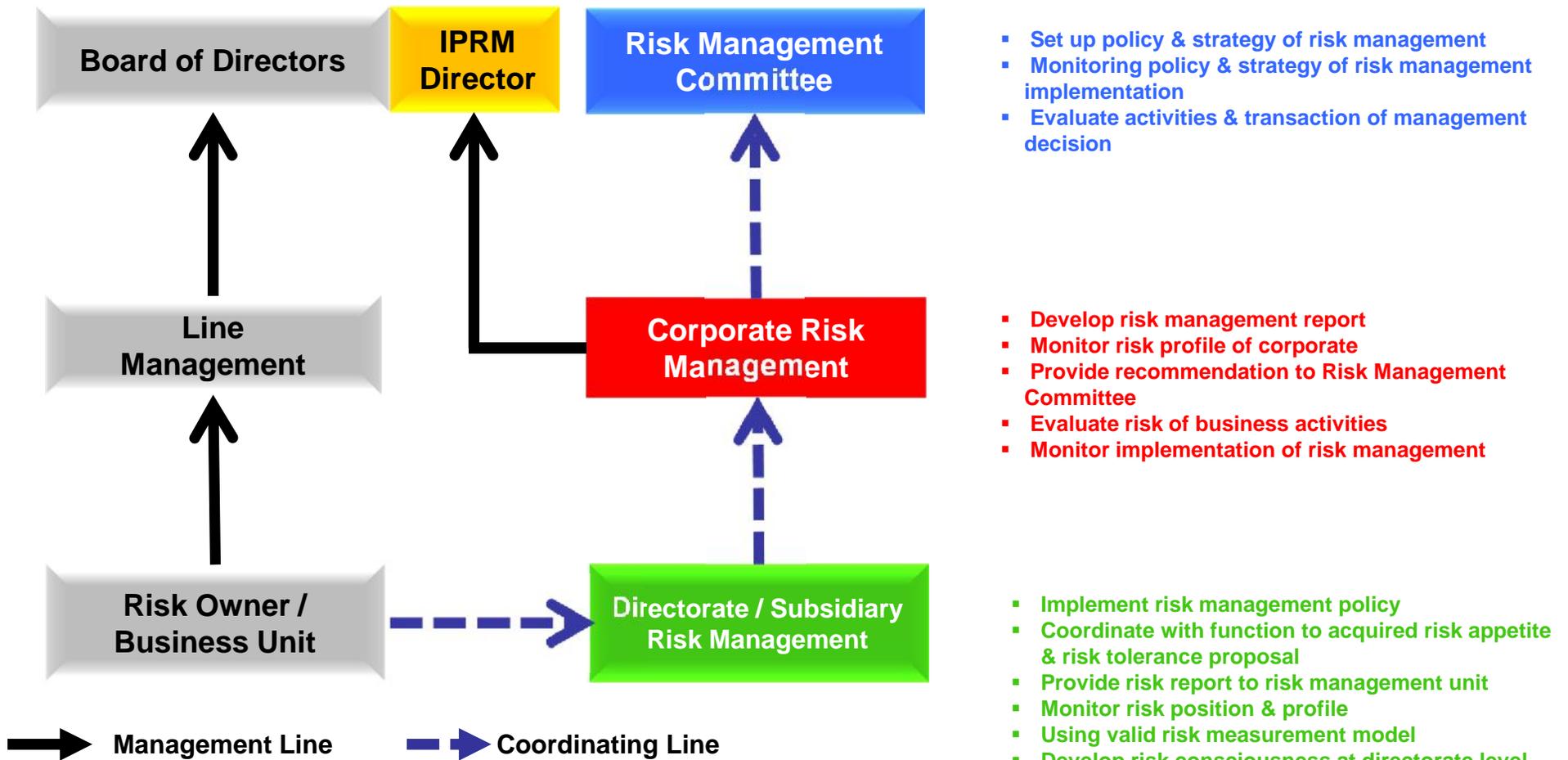
- Risk Management Organization in each directorate and subsidiaries

**External Communication and Reporting mechanism for GCG**

- ERM publishes Pertamina's Corporate Top Risk Profile every year

Pertamina commits to implement integrated risk management to support the decision making and GCG Compliance

# RISK MANAGEMENT ORGANIZATION



- Set up policy & strategy of risk management
- Monitoring policy & strategy of risk management implementation
- Evaluate activities & transaction of management decision

- Develop risk management report
- Monitor risk profile of corporate
- Provide recommendation to Risk Management Committee
- Evaluate risk of business activities
- Monitor implementation of risk management

- Implement risk management policy
- Coordinate with function to acquired risk appetite & risk tolerance proposal
- Provide risk report to risk management unit
- Monitor risk position & profile
- Using valid risk measurement model
- Develop risk consciousness at directorate level

An integrated organization is part of Pertamina's commitment to implement a strategic risk management system

# ERM STRATEGIC ROLES

In general, these are some root cause of risks in companies:

1. **Lack of Leadership Capability;**
2. **Unsupportive Corporate Culture;**
3. **Silo views in managing risks within the corporation;**
4. **Dispersed data and information;**
5. **Lack of knowledge and competency in conducting risk assessment;**
6. **Management limitations of risk awareness and lack of understanding the consequences of NOT implementing risk management within the corporation.**
7. **Views of Corporate Governance only as a corporate attribute – normative.**

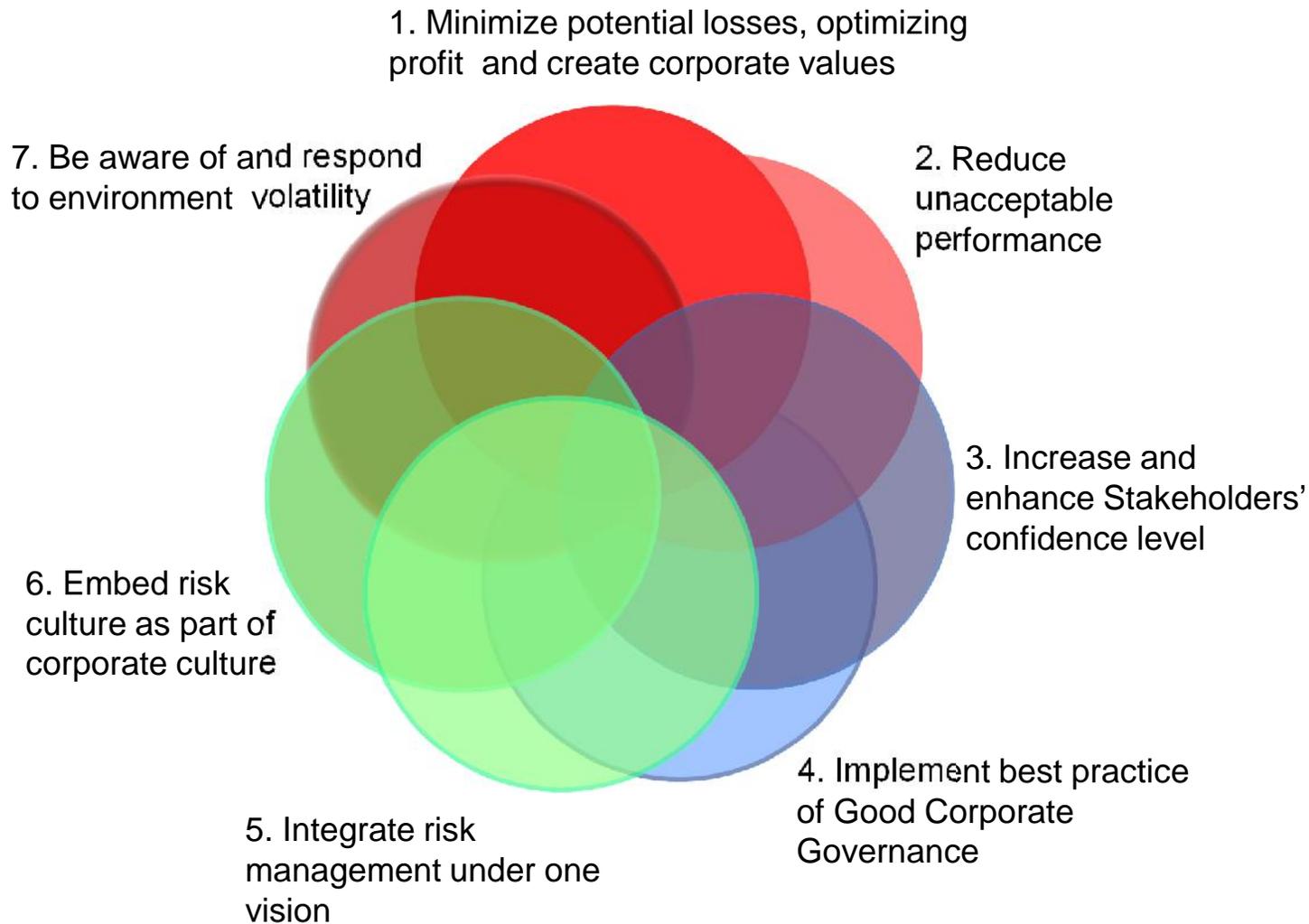


**World Class National Energy Company**



As an integrated risk management system, ERM provides strategic roles to support Pertamina vision by managing the root cause of risks

# Why We Need to Implement ERM



Implementation of integrated risk management system benefits Pertamina in several aspects that enhancing internal and external performance.

# IMPLEMENTING ERM ROADMAP



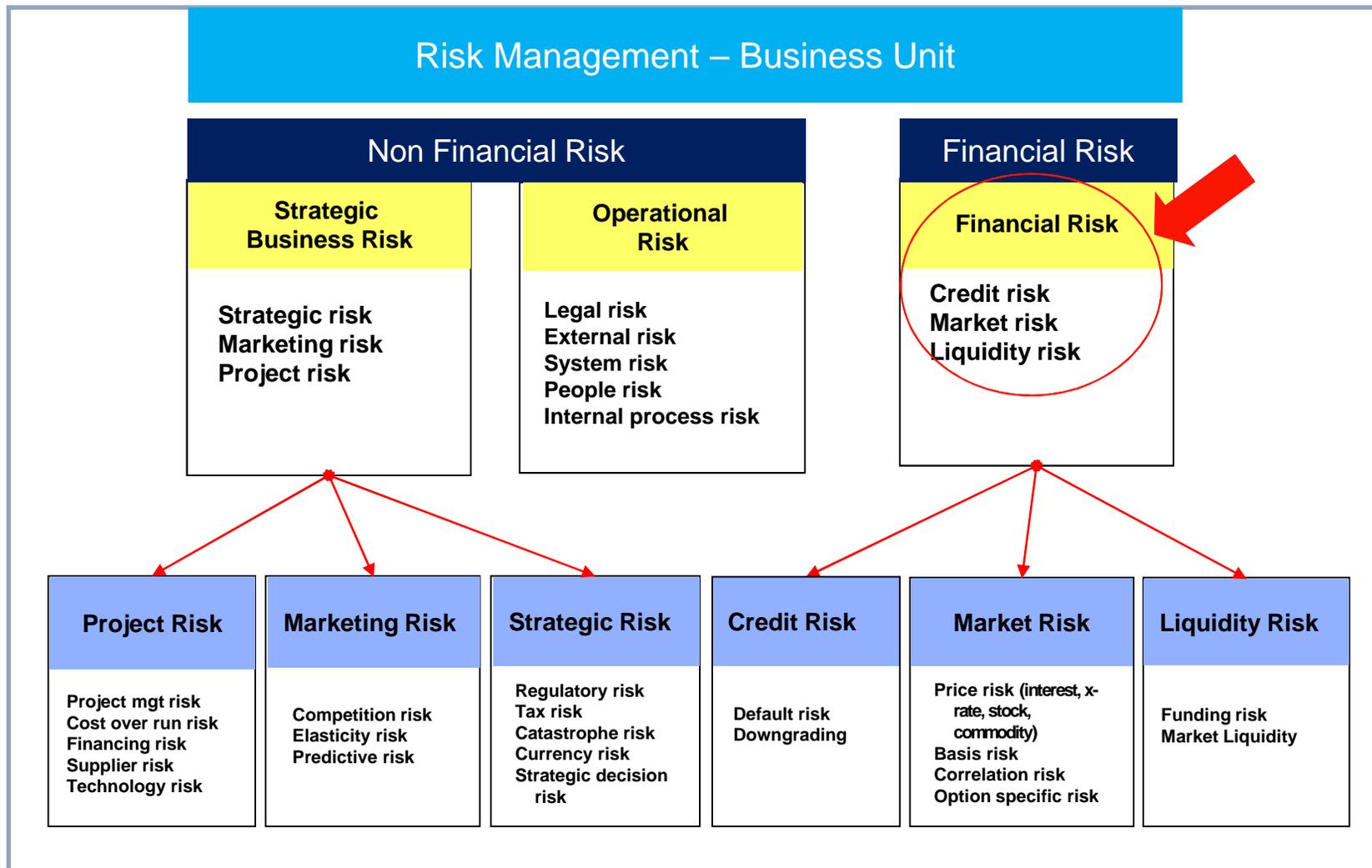
# BOD COMMITMENT

## Principles of Corporate Risk Management

1. Upholding the principles of good corporate governance by implementing enterprise risk management, aimed to achieve high shareholder values and good corporate governance;
2. Implementing ERM system and put forth: (i) Humanity – (ii) Company Reputation – and (iii) Shareholders Added Value, as fundamental framework;
3. Putting Corporate Critical Risk as high priority for concern and follow-up;
4. Carrying out maximum efforts strategically/operational-wise in mitigating critical risks to reduce exposure within the risk tolerance limits.

The BOD Commitment provides an assurance for the company to implement the risk management system in business operation

# ERM SCOPE



Financial Risk as part of the scope of ERM system is managed in three areas : Credit, Market and Liquidity Risk

# FINANCIAL RISK MANAGEMENT



Financial Risk is managed within the framework of risk management process and as result of the process, an accountable and reliable tool is decided to mitigate each potential risk events.



**Thank You**

