Managing And Mitigating Risk In PT Pertamina (Persero) to balance Aggressive Growth Strategies with Prudent Risk Management Frameworks

Jakarta, 26th February 2013
AGENDA

Vision and Mission

Where are the Risks?

Enterprise Risk Management

Financial Risk Management
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

Leading company in South East Asia

Global: 2018 - 2022

Top 15 World Companies

National: 2008 - 2012

Regional: 2013 - 2017
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

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<th>Category</th>
<th>Risks</th>
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<tr>
<td><strong>Corporate</strong></td>
<td>- Volatility in prices of crude oil, natural gas and refined products</td>
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<td>- Uncertainty of market dynamics for oil and gas</td>
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<td>- Subject to be controlled by Government of Indonesia as State-owned Enterprise</td>
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<td><strong>Upstream Operations</strong></td>
<td>- Reserves estimation</td>
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<td>- Exploration risk and production risk activities in domestic and foreign countries</td>
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<td>- Failure to receive SKK Migas and other government approval on a timely basis</td>
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<td><strong>Downstream Operations</strong></td>
<td>- Compete with other oil and gas companies in connection with downstream operations and PSO mandate</td>
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<td>- Repairs, maintenance and turnarounds at refineries</td>
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<td>- Depend on chartered vessels to distribute our cargo</td>
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<td><strong>Oil, Gas and Geothermal Industry</strong></td>
<td>- Environmental regulations in Indonesia and in other countries</td>
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<td>- Increased regulation by governments and governmental agencies</td>
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<td><strong>Indonesia</strong></td>
<td>- Regional or global economic changes and political and social situation in Indonesia</td>
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<td>- Earthquake zone, labor activism</td>
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<td>- Downgrades of credit ratings of Indonesia and Indonesia companies</td>
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<td>- Indonesian accounting standards differs from other countries e.g. US</td>
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Internal and external factors influence the occurrence of risk 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
An integrated organization is part of Pertamina’s commitment to implement a strategic risk management system.
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.

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

World Class National Energy Company
Why We Need to Implement ERM

1. Minimize potential losses, optimizing profit and create corporate values

2. Reduce unacceptable performance

3. Increase and enhance Stakeholders’ confidence level

4. Implement best practice of Good Corporate Governance

5. Integrate risk management under one vision

6. Embed risk culture as part of corporate culture

7. Be aware of and respond to environment volatility

Implementation of integrated risk management system benefits Pertamina in several aspects that enhancing internal and external performance.
During the 5 years ERM implementation, Pertamina has succeed to develop Risk Awareness system and several milestones for corporate governance achievement.
**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.
Financial Risk as part of the scope of ERM system is managed in three areas: Credit, Market and Liquidity Risk.
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.