

Risk Management

The Group reviewed its top risk profile to address the tumultuous market conditions in the past year. Accordingly, risk priorities were changed in response to developments that had happened, or were still unraveling, on various fronts.

The risk organisation structure, which has served the Group well to date, continues to be relevant. At the top of the hierarchy, the Board Risk Committee provides oversight as well as checks and balances to ensure rigour in the system. At the management level, the Enterprise Risk Management Committee, comprising members from the strategic business units and corporate office, reviews the effectiveness of internal controls. Other specialist sub-committees support the Enterprise Risk Management Committee to provide depth for critical issues in their respective areas.

Reporting and information flow can be top-down or bottom-up depending on the nature of the matter which arises. This flexibility allows for the timely and effective communication between the various groups of stakeholders. The regular committee meetings continue to be a mainstay on the Group's risk management calendar, facilitating discussions and exchanges of views and ideas.

Arising from the supporting activities and discussions that led up to the annual review of the risk profile, the key risks identified were familiar ones, associated with, or inherent to, the Group's business and operations.

External Environment Risks

The global economic crisis has shown how seemingly distant or unrelated events could have devastating effects on a company plugged into the international business network. Such vulnerabilities are unavoidable and will remain so for the Group as it depends heavily on international markets.

External environment factors that are crucial to the Group's operations include the prices of oil and other commodities, the global economy and trade, the state of the global financial system, foreign exchange movements, geo-politics, government policies, the regulatory environment and pandemic outbreaks.

The crisis has left some of the Group's customers in difficulties. Recognising the symbiotic nature of business relationships, the Group showed understanding and flexibility in working together with its customers and their financiers and in extending deferred payment arrangements, when necessary and possible. Nonetheless, where a mutually beneficial resolution could not be attained, the Group exercised its contractual rights to sell the asset to recover the monies due. While the Group's vendors, contractors and suppliers have been able to fulfill their obligations, constant dialogue and monitoring remain in place to detect any warning signs and to take remedial actions.

Through the risk management process, the Group continuously monitors the business environment and assesses the relevant activities and their possible impacts on the organisation.

One such development on the local front would be the increase in foreign worker levies announced in the Singapore Budget 2010. Given the labour-intensive nature of the marine industry, it was inevitable that this would result in costs and labour implications for the Group. This is viewed, not as an insurmountable challenge, but as a catalyst in the push for higher productivity.

An emerging global trend that the Group has identified and acted upon is transfer pricing enforcement by tax authorities. With the prevalence of globalisation, the corresponding growing number of cross-border related party transactions has prompted tax authorities to protect their tax base more aggressively. This means that companies with significant cross-border related party transactions will have to comply with local authorities' requirements which include passing the arm's length test and preparing the necessary defence documentation.

As much as the Group endeavours to minimise the impact of these risks through appropriate means, the unpredictable nature of such risks and the constraints of available mitigating measures make it impossible to eliminate them completely. A trade-off approach is taken to devise practicable and economically viable solutions that reduce risks to levels that commensurate with the Group's risk appetite.

Project Management Risks

As the Group's main business activities relate to its projects, a significant proportion of the risks reside in the day-to-day operational activities of project management and construction execution. The Group's ability to deliver its projects on time or ahead of schedule, within budget and meeting quality standards, demonstrates the effectiveness of risk management elements embedded in the systems and processes. This way, contractual obligations can be met and yard defaults avoided.

Another aspect lies with third-party stakeholders such as suppliers, vendors and contractors which the Group relies on for their services and goods. Should they fail to fulfil their obligations, the Group's ability to honour its own contractual obligations to customers on a timely basis will be compromised.

This is especially so if there are limited substitutes, in particular for specialised equipment. Such shortfalls will in turn, subject the Group to claims and liabilities. While the Group continues to be reliant on third parties, the stringent selection criteria and processes coupled with constant monitoring and assessment, help to identify warning signs.

The Project Risk Management Committee, chaired by the President & Chief Executive Officer, provides a platform for the strategic business units to report and discuss project-related issues such as progress, costs, work variations, financial and contractual matters. Where circumstances allow, the strategic business units will collaborate to realise synergies such as the rationalisation of resources.

Financial Risks

The Group's wide range and scale of core businesses and supporting activities expose it to various financial counterparties and risks which are intrinsically linked to the global financial market landscape. Policies and procedures covering key areas - treasury, foreign currency hedging, credit, inter-company transactions and approval limits for various transactions - have been established and implemented throughout the Group.

These policies set out guidelines to minimise the Group's cost of capital, adverse effects of fluctuations in foreign currencies and interest rates on income and to ensure that sufficient funds are available to meet financial obligations and operational needs. To better position itself financially for any opportunities that may arise, the Group updated and upsized its current multi-currency, multi-issuer debt issuance programme from \$500 million to \$2 billion at the start of 2010.

The Finance Committee continues to look into areas of financial system integrity, regulatory reporting, accounting, risk management and compliance systems and internal and external audit issues. It is chaired by the Group Chief Financial Officer and comprises key finance personnel from the strategic business units and corporate functions of treasury, tax, internal audit and risk management.

The Group's financial risk management is discussed in detail in Note 40 to the financial statements.

Risk Management

Health, Safety, Security and Environment Risks

The Group continues to place paramount importance in promoting a safe and healthy work environment for its customers, employees, contractors and the community. This is championed by the Group HSE Committee which involves key health, safety and environment personnel from all the yards. The Group's safety performance is closely monitored and reported regularly to the management and the Board Risk Committee. It is also an integral part of the management's key performance indicators, demonstrating the concern and attention on these risks.

Human Resource Risks

The successful realisation of the Group's strategic business plans could not be possible without having the right people with the requisite qualifications, skills and expertise. Recognising this, the Group looks constantly to recruiting and retaining talent to maintain and enhance its competitive edge. In this respect, there are comprehensive human resource policies and procedures for recruitment, compensation and staff development in place.

Key risk areas include management succession, staff turnover, work-life balance and compensation and benefits. The appointment of Mr Wong Weng Sun as the new President & Chief Executive Officer, to succeed Mr Tan Kwi Kin, was in line with the Group's succession plan and leadership renewal process. The transition was smooth with Mr Tan continuing to render invaluable service to the Group in his new capacity as Senior Advisor.

Investment Risks

The Group seeks to grow its business through organic growth of its existing capabilities and activities, development of new capabilities and acquisition of business entities or operating assets. Investment activities, ranging from the identification of targets

to the undertaking of due diligence exercises, are supported by a team of experienced managers and augmented by external professionals for specialised services. Business proposals are risk assessed and evaluated by senior management before seeking final Board of Directors' approval.

Major investments that underwent the risk management process during the year were the 206-hectare New Yard Facility at Tuas View Extension; the new shipyard to be built in Espirito Santo, Brazil and setting up a presence on India's east coast through a joint-venture partnership with Kakinada Seaports.

Other initiatives

The risk-based governance programme, Control Self Assessment, was rolled out to the rest of the strategic business units following the pilot implementation by Jurong Shipyard in 2008. The aim is for eventual coverage of every key business process, in line with the Group's continual improvement of its internal controls.

Control Self Assessment requires process and control owners to assess their compliance with key controls on a regular basis, highlight deviations and formulate action plans to rectify them. Periodic reports are submitted up to the corporate office, and the processes are audited by independent parties.

Another initiative was the review of all applicable legislations, codes of practice, national standards and technical advisories. This was done to ensure that operational and compliance activities were aligned with the latest versions throughout the Group.

Going forward, horizon scanning and continuous assessment of the evolving business landscape by the management remains a top priority as the Group extends its global footprint and builds up its orderbook. The Group will continue to ensure that current risk management policies, systems and processes remain relevant and effective.

