

# Risk Management

## Overview

For over a quarter of a century, the risk management process at Chemoil has evolved through various stages. The risk management function at Chemoil is designed to align processes with the core objective of increasing shareholder value. We believe that the key components of corporate risk management approach are robust and comprehensive processes devised to identify, measure, control, monitor and report risks. The process is reinforced by a rigorous system of internal controls.

Chemoil's business is "Delivering Energy". The distribution nature of the business requires successful integration of the supply chain operations. Our business model revolves around maximizing the margins extracted from the distribution supply chain operations. Such a model facilitates a naturally-hedged position against the most important financial risk – price volatility.

## Structure

The governance structure for risk management at Chemoil consists of three broad levels. Our risk management department consists of all the members of the Chemoil team taking responsibility for managing different aspects of the risk. The risk management department reports to The Executive Risk Management Committee (ERMC) which comprises the CEO, CFO, VP Supply and Distribution and the Head of Risk Management. The ERMC reports to the Board of Directors.



### Process

The risk management process at Chemoil follows the top-down approach. Risk identification followed by the assessment process falls under the broad umbrella of business objectives. We segregate acceptable risks from unacceptable risks. Acceptable risks are taken up with specific limits and boundaries. Unacceptable risks are either insured or hedged.

### Features

#### Segregation of roles

Successful risk management depends on clear segregation of roles between the strategic risk takers, tactical risk takers and risk facilitators. Our strategic risk takers set the strategy and determine the nature of risks that our Group will take. They represent the highest levels of authority in the company (Board of Directors, Management). Our tactical risk takers are responsible for decision-making at the operating level. Such decisions are made within the scope of the broad parameters laid out by the strategic risk takers. Our risk managers facilitate communication up and down the organization from strategic to tactical risk takers in an independent manner.

#### Independent functioning

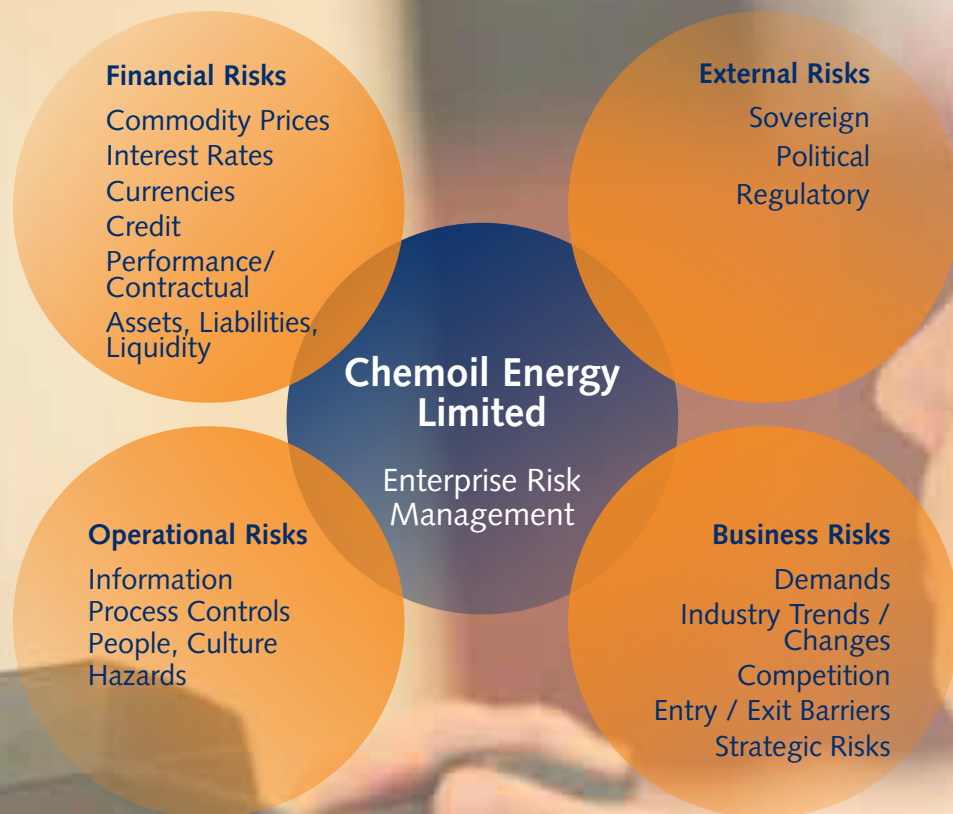
Chemoil's risk management department operates with complete independence in order to ensure that the company's operations are in line with risk management policies and procedures. Information pertaining to business as well as risk evaluation is acquired through independent channels. The business functions at Chemoil are divided into front office, middle office and back office functions. Risk management forms part of our middle office functions, thereby establishing proper control infrastructure, maintaining the Group's overall risk exposure and performing analytical roles as well.

#### "Real-time" and "Round the clock"

Risk management operations are carried out at our various global offices wherever trading, supply and marketing activities are conducted. This enables real-time monitoring of risk exposures as well as spontaneous management reporting. Such an arrangement not only provides active risk reporting but also assures our senior management that the gap between potential deviation and rectification is narrowed to a great extent. Also, due to the fact that the core risk management team is situated at a central "hub" in India, risk management activities are conducted round the clock and across all time zones between the central hub and our global offices.

## Risk Management (cont'd)

### Framework



### Recent Developments

In 2007, Protiviti (a wholly-owned subsidiary of the NYSE-listed Robert Half International Inc.), a leading risk consultancy and advisory firm, conducted an independent risk audit of Chemoil. Protiviti reported that our group has a system in place for identifying, measuring, monitoring and reporting the risks related to our trading transactions and that our risk management function is organizationally and operationally independent of the trading activities. This ensures that there is a process to ensure that reports emanating from the information system are validated with external evidence and disseminated daily to our senior management.

Protiviti also identified some areas for improvement including: enhancements to risk management policies and procedures, improved formalization of business processes, counterparty maintenance, risk reporting format and process, and improvements to the key risk management software application. We have implemented some of these recommendations and it is our intention to address all the recommendations in a phased manner.

In the latter part of 2007, we started focusing in the field of quantitative techniques. With the help of an outsourced analytics group, we are building mathematical models that are aimed to cater to Chemoil's various business needs. Risk management is the primary focus of these efforts, which also address topics like portfolio design and optimization. The agenda

also includes a tailor-made 'probabilistic risk measure' model for Chemoil, which is more sophisticated than the conventional 'deterministic risk measures' in use today. We hope to implement these state-of-art techniques in 2008.

As part of our constant effort to improve our systems and processes, we have adopted solutions that will upgrade our existing trading and risk management platforms. These solutions are designed to meet the existing and future needs of our business. Some of the features include online viewing of our inventory and trade positions, counterparty balances, risk exposures and MTM values. It will also allow us to manage approvals, authorizations and limits pertaining to traders, positions, counterparties and credit. Probabilistic risk measures will be embedded into these systems.

Our initiatives on the risk management area include restructuring measures that address risk control and risk reporting needs. In the new structure, risk control activities designed at the back office operations level handle trade verifications, confirmations and settlements. The mid-office operations of the risk reporting group are responsible for exposure and P&L reporting. This sub-group will also lead the efforts in deploying the new risk measures, monitor them constantly and report in an independent fashion.

We are confident that the results of these endeavors will together provide a robust risk management structure and continue our constant improvement in decision making capabilities for the business.