

# **RISK MANAGEMENT**

## **PT SAT NUSAPERSADA Tbk**

### **Risk Framework and Mitigation Steps**

**The Company has identified the following key risks that may negatively impact its business:**

#### **1. We operate in a highly competitive industry**

We compete against many providers of electronics manufacturing services. Certain of our competitors have substantially greater resources and more geographically diversified international operations than we do. Our competitors include large independent manufacturers such as Celestica Inc., Flextronics International Ltd., Hon Hai Precision Industry Co., Ltd., Jabil Circuit, Inc. and Sanmina-SCI Corporation, as well as smaller EMS companies that often have a regional, product, service or industry-specific focus.

We experience intense competition, which can intensify further as more companies enter the markets in which we operate, as existing competitors expand capacity and as the industry consolidates. The availability of excess manufacturing capacity at many of our competitors creates intense pricing and competitive pressure on the EMS industry as a whole. To compete effectively, we must continue to provide technologically advanced manufacturing services, maintain strict quality standards, respond flexibly and rapidly to customers design and schedule changes and deliver products globally on a reliable basis at competitive prices.

#### **2. Our business may be impacted by natural disasters**

Some of our vendors, including our customers' factories, are located in areas which may be impacted by hurricanes, earthquakes, water shortages, tsunamis, floods, typhoons, fires, extreme weather conditions and other natural or manmade disasters.

In 2011 there were several major disasters that posed significant impact on the supply chain of EMS industry namely Japan earthquake, Tsunami and Explosion at Fukushima nuclear plant as well as flooding catastrophe in Thailand that caused raw material shortage, project delay, our customers plant temporarily shut down which end up in significant decline on our sales. We intensively coordinate with our vendors and customers to source for scarce raw material and qualify new vendors. We closely monitored the development of the situation in order to take necessary actions and precaution in accordance with the latest situation.

#### **3. We are exposed to general economic conditions, which could have a material adverse impact on our business, operating results and financial condition**

Our business is cyclical and has experienced economic and industry downturns. If the economic conditions and demand for our customers' products deteriorate, we may experience a material adverse impact on our business, operating results and financial condition. As a result, customer orders may be lower and our financial results may be adversely affected. We are exploring various business segments and diversify our customer portfolio to reduce our dependency on certain customers.

#### **4. We are exposed to the RISK of increasing in minimum wages in Batam**

Each and every year the local governors will hold a discussion forum with labor unions and business people association (Apindo) to address the annual increment of minimum wages. There will be risk where Labor unions in Batam will threaten to hold rallies or strikes as a form of their rejection of the announced workers' minimum salary set by Riau Islands Governor. The strike may impose significant impact on our overall company daily production activities and we may have to incur losses in conjunction with the labor strike. We have been working closely with government officials and related officials as well as have a diplomatic discussion with labor unions in order to maintain Batam as safe haven for industrial zone.

### **Evaluation of Effectiveness of Risk Management System**

Inherent risks include business strategy, business characteristics, complexity of the products and Company's activities, the industry in which the Company operates, as well as macroeconomic conditions. While Quality Risk Management includes risk governance, risk management framework, risk management processes, the adequacy of human resources, and the adequacy of information systems management, as well as the adequacy of the risk management system.

Management continues to conduct a review of the effectiveness and consistency of risk management activities and made recommendations to be followed-up in the future. Evaluation of the effectiveness of risk management systems is meant to minimize the ongoing risks faced by the Company in operating its business.