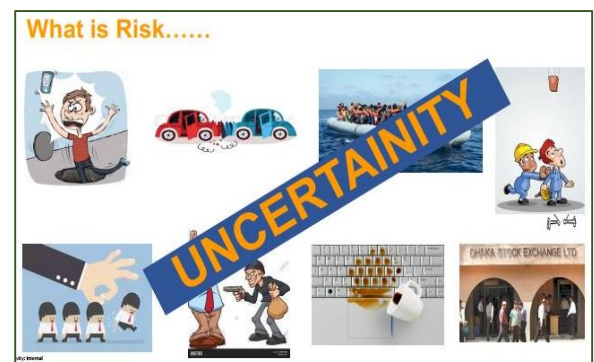


‘Political and Regulatory Risks’ in which leads to the negatively impacted to the Oil based Industry like Saudi Aramco:

Analysis over the Public Petroleum and Natural Gas Company named ‘**Saudi Aramco**’ in the aspect of company’s inherent and residual risk.

These associated risks covers the five major risks; **political and regulatory risk, geological risk, supply and demand risks, cost Risks, price Risk** in a petroleum and natural gas based company.

As we know the risk; a process to identify, assess, manage, and control potential events or situation to provide reasonable assurance regarding the achievement of the organization’s objectives. Also, risk is the possibility of an event occurring that will have an impact on the achievement of the company’s objectives.



I have picked up the risk from the above mentioned risks; political and regulatory risk is the most influential for an entity which leads to jeopardize the company’s overall objectives.

Political and Regulatory Risks embedded in the Oil based Industry; Saudi Aramco:

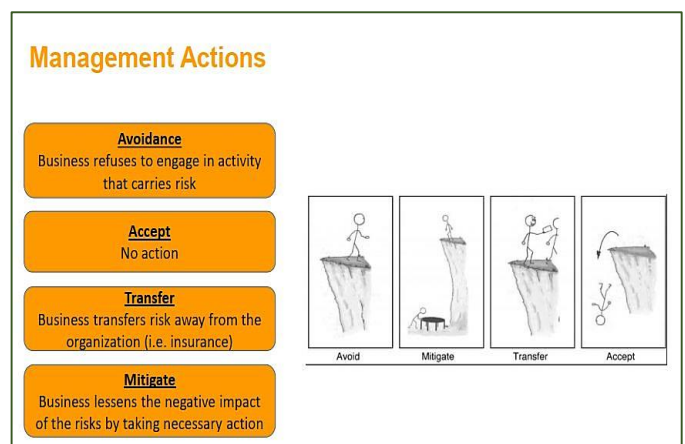
The objective of this study was to define the unsurpassed way to enumerate the political and regulatory risks in the oil based industry. To scrutinize if these risks should be included in the cash flow or quantified in the weighted average cost of capital, we used an imagined case studies of assessment and production (A&P) and refining in Saudi Aramco. The oil industry is a good case study for this type of analysis because it is more vulnerable while emerged the government interferences. Proposed findings indicate that, in general, changes in oil rules cause only small increases in the country risk and beta (therefore in the weighted average cost of capital) but generate great volatility in the cash flow. Although the political and regulatory risks are considered market risk (i.e. have the potential to affect the whole economy) and should be quantified in the weighted average cost of capital equation, our results indicate that the option to insert these risks

directly in the cash flow produce better results when compared to adding a spread in the weighted average cost of capital.

The initial way that politics can affect oil is in the regulatory sense, but it's not necessarily the only way. Characteristically, an oil and gas company is covered by a range of regulations that limit where, when and how extraction is done. This interpretation of laws and regulations can also differ from state to state. That said, political risk generally increases when oil and gas companies are working on deposits abroad.

Political risk can be obvious, such as developing in countries with an unstable dictatorship and a history of sudden nationalization, or more subtle, as found in nations that adjust foreign ownership rules to guarantee that domestic corporations gain an interest. An important approach that a company takes in mitigating this risk includes careful analysis and building sustainable relationships with international oil and gas partners—if it hopes to remain in business for the long run. Oil and gas companies tend to prefer countries with stable political systems and a history of granting and enforcing long-term leases. However, some companies simply go where the oil and gas is, even if a particular country doesn't quite match their preferences. Numerous issues may arise from this, including sudden nationalization and/or shifting political winds that change the regulatory environment. Depending on what country the oil is being extracted from, the deal a company starts with is not always the deal it ends up with, as the government may change its mind after the capital is invested, in order to make more profit for itself.

Political risk mitigation is the final step in political risk analysis and completes the political risk picture in which performed by the top management of the company. The picture is inserted at the right side;



As such, risk mitigation can be seen as a part of risk management. Mitigation is a vital step in political risk analysis. If risk is high it does not necessarily mean that foreign companies should not invest. Political risk can in some instances be sufficiently managed and can subsequently lead to increased opportunities which are included below;

- Evaluating risk exposure relating to achievement of the organization's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Evaluating the quality of performance of external auditors and the degree of coordination with internal audit.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.