

# Risk management



**In 2018, we undertook the important task of implementing a Crisis Management Plan. We ensured that all operating companies have the resources and action plans to respond to any Brexit outcome in March 2019.”**

**Nicholas Anderson**  
Chair of Risk Management Committee



## Our approach and appetite for risk

We recognise risk as an inherent part of our business operations and we approach risk with the same deliberate, strategic consideration as other aspects of the business. The Risk Management Committee monitors our risks, in particular those identified as principal risks, on an on-going basis, while the Board is responsible for the overall stewardship of risk management and internal control. Using the information and evaluations obtained from our regular top-down and bottom-up reviews, alongside the Committee-led principal risk appetite ratings, the Committee creates an effective system for monitoring, planning and developing a Group-wide approach and culture regarding risk. General Managers of our operating units are directly involved in the risk assessment process. The evaluations of the Committee, including the appropriate levels of risk, are communicated to all Group companies.

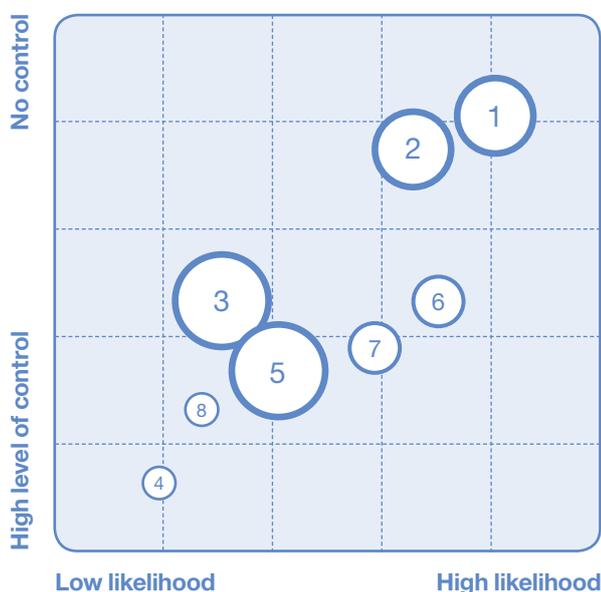
The on-going monitoring and engagement contributes to the Group’s risk register and the management of risks. Both the risk register and the principal risks are dynamic and fluid. They provide a reflection of current conditions across the Group and guidance for on-going monitoring and mitigation activities.

## What important developments occurred in 2018?

In addition to the on-going monitoring and review of developing risks, the Committee took the following actions during the year:

- Top-down risk review – the Committee determined that the responses were satisfactory and that Group companies have in place countermeasures to mitigate the Group’s principal risks;
- Risk register and principal risks – the top-down review informed the annual review of the risk register;
- Risk Appetite Statement – the Committee reviewed and confirmed the statement which can be found on page 85;

## Risk likelihood, control and impact



The Committee’s analysis of the principal risks affecting the Group, before mitigation, is set out in the adjacent diagram.

### Key

1. Economic and political instability
2. Significant exchange rate movements
3. Cybersecurity
4. Failure to realise acquisition objectives
5. Loss of manufacturing output at any Group factory
6. Breach of legal and regulatory requirements (including ABC laws)
7. Loss of critical supplier
8. Health, safety and environmental risks

### Further reading

The numbers relate to the principal risks.

[See pages 30-33](#)



Potential impact of the risk

- Modern Slavery Statement – the Committee approved the revised statement which can be found on the Group website, [www.spiraxsarcoengineering.com](http://www.spiraxsarcoengineering.com);
- Crisis Management Plan – the Committee formalised a crisis management plan. Further information can be found on pages 84 and 86; and
- Group Head of Internal Audit – Dan Harvey joined the Committee in December 2018 improving oversight of risk across the Group.

### How is the Group preparing for the impacts of Brexit?

The Committee continued to oversee and implement its Brexit preparedness strategy in 2018, with significant activity occurring in the latter part of the year. These actions, which will continue into 2019 as necessary, include the following:

- Purchasing of pre-determined additional raw stock to be held at UK manufacturing sites;
- Organising UK manufacturing schedules to complete and deliver additional finished goods to key Group companies in advance of the 29th March 2019 Brexit deadline;
- Assessing and updating costs associated with a “no deal” scenario;
- On-going communication with sales companies to confirm stock build.

Additionally, the Committee identified the potential impacts of Brexit on both customer and supplier contracts. The Group Legal Team is co-ordinating with Group companies to address those issues and mitigate any potential negative impacts, and the Committee will monitor that process.

The 2019 Plan takes into account the Profit & Loss and working capital impacts of Brexit for at least the initial six months of 2019.

### What, if any, risks do climate change present to the Group?

As a leading provider of thermal energy solutions, many of our products and services increase the energy efficiency of our customers’ processes, meaning that we play a role in climate change mitigation. As awareness of climate change increases, this creates opportunities for us to support our customers in meeting their energy and carbon reduction goals. Nevertheless, like all businesses, climate change increases certain risks, especially those related to extreme weather events. We seek to mitigate this risk by annually mapping weather related and other physical risks by geographic location, and ensuring that we have appropriate insurance cover in place. Our regional manufacturing capability, strategic duplication of manufacturing, and the local holding of stock by our sales companies serve to reduce the risk of disruption should an extreme weather event disrupt our supply chain in any given location. Lastly, we also take steps to proactively manage our own carbon footprint, by monitoring and managing energy use and reducing our carbon emissions intensity.



### What are the key areas of focus for 2019?

In 2019, the Committee will undertake a bottom-up risk review, as well as the annual review of the risk register. The issues surrounding climate change will take a significant share of the Committee’s attention: the Committee will be conducting a more in-depth review of the related risks and opportunities in order to formulate and implement appropriate targets and governance mechanisms to focus business activity across the Group.

#### Further reading

More information on the Group’s approach to risk, including risk appetite, along with the roles, responsibilities and actions of the Risk Management Committee.

[See pages 86-89](#)

Our Viability Statement.

[See page 89](#)

Our Going Concern Statement.

[See page 122](#)

# Risk management continued

The table below sets out the Group's principal risks and describes the links to strategy, the mitigation measures and the appetite for each risk. The year-on-year change column sets out the direction of change from 2017.

The table includes those risks which we have identified as currently most relevant to the Group.

**Key**

**Year-on-year change**

-  Increased risk
-  No change to risk
-  Decreased risk

**Link to strategy**

- Direct link
- Indirect link
- No link

**Risk appetite ratings defined:**

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**Very low** Following a marginal-risk, marginal-reward approach that represents the safest strategic route available.

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**Low** Seeking to integrate sufficient control and mitigation methods in order to accommodate a low level of risk, though this will also limit reward potential.

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**Balanced** An approach which brings a high chance for success, considering the risks, along with reasonable rewards, economic and otherwise.

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**High** Willing to consider bolder opportunities with higher levels of risk in exchange for increased business payoffs.

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**Very high** Pursuing high-risk, unproven options that carry with them the potential for high-level rewards.

Principal risk and why it is relevant	Year-on-year change	Key mitigation, sponsor and explanation of change	Risk appetite rating	Rationale for rating
<b>1. Economic and political instability</b>				
<b>Link to strategy:</b> <span style="border: 1px solid #0070C0; border-radius: 50%; padding: 2px 5px;">1</span> <span style="border: 1px solid #0070C0; border-radius: 50%; padding: 2px 5px;">2</span> <span style="border: 1px solid #0070C0; border-radius: 50%; padding: 2px 5px;">3</span> <span style="border: 1px solid #0070C0; border-radius: 50%; padding: 2px 5px;">4</span> <span style="border: 1px solid #0070C0; border-radius: 50%; padding: 2px 5px;">5</span> <span style="border: 1px solid #0070C0; border-radius: 50%; padding: 2px 5px;">6</span>				
<p>The Group operates worldwide and maintains operations in territories that have historically experienced economic or political instability. This type of instability, which includes the uncertainties of regime change, creates risks for our locally based direct operations and broader risks to credit, liquidity and currency.</p>		<ul style="list-style-type: none"> <li>Operations in accordance with Group Treasury Policy</li> <li>Externally-facilitated scenario planning</li> <li>Strong internal controls, including internal audit and appropriate insurance</li> <li>Resilient business model</li> <li>Well spread business by geography and sector</li> </ul> <p><b>Executive sponsor:</b> Nicholas Anderson</p> <p><b>Change:</b> No change</p>	<ul style="list-style-type: none"> <li><input type="radio"/> Very high</li> <li><input checked="" type="radio"/> <b>High</b></li> <li><input type="radio"/> Balanced</li> <li><input type="radio"/> Low</li> <li><input type="radio"/> Very low</li> </ul>	<p>We have the background and know-how to successfully manage the unique challenges in economically and politically unstable territories. We are willing to accept these challenges where opportunities for growth are substantial.</p>
<b>2. Significant exchange rate movements</b>				
<b>Link to strategy:</b> <span style="border: 1px solid #0070C0; border-radius: 50%; padding: 2px 5px;">1</span> <span style="border: 1px solid #0070C0; border-radius: 50%; padding: 2px 5px;">2</span> <span style="border: 1px solid #0070C0; border-radius: 50%; padding: 2px 5px;">3</span> <span style="border: 1px solid #0070C0; border-radius: 50%; padding: 2px 5px;">4</span> <span style="border: 1px solid #0070C0; border-radius: 50%; padding: 2px 5px;">5</span> <span style="border: 1px solid #0070C0; border-radius: 50%; padding: 2px 5px;">6</span>				
<p>The Group reports its results and pays dividends in sterling. Operating and manufacturing companies trade in local currency. With sales companies in nearly 50 countries and manufacturing spread across the globe, the nature of the Group's business necessarily results in exposure to exchange rate volatility.</p>		<ul style="list-style-type: none"> <li>Maintain spread of manufacturing across currency areas</li> <li>Consideration of exchange rate exposures in manufacturing strategy</li> <li>Forward cover where appropriate and in line with Group Treasury Policy</li> <li>Focus on reducing manufacturing cost</li> </ul> <p><b>Executive sponsor:</b> Kevin Boyd</p> <p><b>Change:</b> This risk has increased</p>	<ul style="list-style-type: none"> <li><input type="radio"/> Very high</li> <li><input type="radio"/> High</li> <li><input checked="" type="radio"/> <b>Balanced</b></li> <li><input type="radio"/> Low</li> <li><input type="radio"/> Very low</li> </ul>	<p>We take a balanced view of this risk: the risk arises as a direct result of our global presence, but our geographic spread means we are not wholly dependent on any one currency.</p>

Principal risk and why it is relevant	Year-on-year change	Key mitigation, sponsor and explanation of change	Risk appetite rating	Rationale for rating
<b>3. Cybersecurity</b>				
Link to strategy: <a href="#">1</a> <a href="#">2</a> <a href="#">3</a> <a href="#">4</a> <a href="#">5</a> <a href="#">6</a>				
Cybersecurity risks include risks from malware, accident, statutory and legislative requirements, malicious actions and other unauthorised access by third parties.		<ul style="list-style-type: none"> <li>Global assessment of IT environment against UK cyber essentials framework and prioritising actions for improvement</li> <li>Deploying security tools to limit impact and spread of ransomware</li> <li>Initiating new centrally managed Firewall environment</li> <li>Further strengthening of security for centrally managed systems for heightened protection and consistency</li> </ul>	<input type="radio"/> Very high <input type="radio"/> High <input type="radio"/> Balanced <input type="radio"/> Low <input checked="" type="radio"/> Very low	Concerns of potential impact on the business, in addition to the important considerations surrounding protection of personal data, reinforce our commitment to implement and maintain robust security measures across the Group.
<b>Executive sponsor:</b> Shaun Mundy				
<b>Change:</b> No change				
<b>4. Failure to realise acquisition objectives</b>				
Link to strategy: <a href="#">1</a> <a href="#">2</a> <a href="#">3</a> <a href="#">4</a> <a href="#">5</a> <a href="#">6</a>				
Whilst the Group mitigates this risk in various ways, including through comprehensive due diligence, professional advisers and contractual protections, amongst others, there are some variables that are uncontrollable or difficult to control, such as economic conditions, culture clashes and employee movement. Therefore, these could impact acquisition objectives.		<ul style="list-style-type: none"> <li>Regular review of acquisition criteria in line with strategic plan</li> <li>Board approval of integration plans for major acquisitions</li> <li>Scrutiny of targets and implementation plans by external advisers and internal key players</li> <li>Use of retainer/escrow to provide protection against warranty claims</li> <li>Use of insurance as protection against seller breach and non-disclosure</li> <li>Ensuring valuation models show healthy return on investment</li> <li>Regular monitoring of performance by the Board against the approved investment case</li> </ul>	<input type="radio"/> Very high <input type="radio"/> High <input type="radio"/> Balanced <input checked="" type="radio"/> Low <input type="radio"/> Very low	Thorough planning and proper due diligence can mitigate many of the potentially risky aspects of an acquisition. Implementation plans must be well-developed and carefully pursued to achieve the full strategic and financial benefits.
<b>Executive sponsor:</b> Kevin Boyd				
<b>Change:</b> At the end of 2018 this risk had decreased as a result of progress with our robust integration plans for Gestra and Chromalox				
<b>5. Loss of manufacturing output at any Group factory</b>				
Link to strategy: <a href="#">1</a> <a href="#">2</a> <a href="#">3</a> <a href="#">4</a> <a href="#">5</a> <a href="#">6</a>				
The risk includes loss of output as a result of natural disasters, industrial action and accidents. Loss of manufacturing output at any important plant risks serious disruption to sales operations.		<ul style="list-style-type: none"> <li>Investing in modern flexible machining</li> <li>Capacity planning and holding stock in sales companies</li> <li>Conducting audits/inspections</li> <li>Annual Risk Assessments and business continuity planning</li> <li>Reviewing and maintaining appropriate insurance cover</li> <li>Continuing commitment to employee policies, ensuring satisfactory benefits and regular communication with all employees</li> </ul>	<input type="radio"/> Very high <input type="radio"/> High <input type="radio"/> Balanced <input checked="" type="radio"/> Low <input type="radio"/> Very low	Whilst we have mitigated this risk through a geographic spread of factories, calculated replication of capacity and management of stock, the potential negative consequences to the Group and its customers warrants a low appetite for this risk.
<b>Executive sponsors:</b> Jay Whalen, Mike Sutter and Ian Farnworth				
<b>Change:</b> No change				

# Risk management continued

Principal risk and why it is relevant	Year-on-year change	Key mitigation, sponsor and explanation of change	Risk appetite rating	Rationale for rating
<b>6. Breach of legal and regulatory requirements (including ABC laws)</b> <span style="float: right;">Link to strategy: <a href="#">1</a> <a href="#">2</a> <a href="#">3</a> <a href="#">4</a> <a href="#">5</a> <a href="#">6</a></span>				
<p>We operate globally and must ensure compliance with laws and regulations wherever we do business. As we grow into new markets and territories, we must continually review and update our operations and procedures, and ensure our employees are fully informed and educated in all applicable legal requirements. This is particularly important with respect to anti-bribery and corruption (ABC) legislation. Breaching any of these laws or regulations could have serious consequences for the Group.</p>		<ul style="list-style-type: none"> <li>• On-going global monitoring of commercial arrangements and agreements, with appropriate professional advice</li> <li>• Established procedures to maintain accreditations</li> <li>• Group-wide ABC training and whistle-blowing hotline</li> <li>• Group Litigation Report and on-going monitoring of cases</li> <li>• Regular updates on Corporate Governance and Stock Exchange rules</li> <li>• GDPR compliance plan implemented</li> <li>• Conducting supplier audits</li> <li>• Engaging suppliers to commit to compliance with the principles of the Supplier Sustainability Code</li> </ul> <p><b>Executive sponsor:</b> Andy Robson</p> <p><b>Change:</b> No change</p>	<ul style="list-style-type: none"> <li><input type="radio"/> Very high</li> <li><input type="radio"/> High</li> <li><input type="radio"/> Balanced</li> <li><input type="radio"/> Low</li> <li><input checked="" type="radio"/> Very low</li> </ul>	<p>We respect the laws, rules and regulations of the jurisdictions in which we operate and believe we have a duty to comply with those requirements.</p>
<b>7. Loss of critical supplier</b> <span style="float: right;">Link to strategy: <a href="#">1</a> <a href="#">2</a> <a href="#">3</a> <a href="#">4</a> <a href="#">5</a> <a href="#">6</a></span>				
<p>This risk is concerned with the impact of the loss of a critical supplier that could lead to logistical difficulties and delayed deliveries.</p>		<ul style="list-style-type: none"> <li>• Identifying alternative supplies in advance and developing dual source supply</li> <li>• In-sourcing production</li> <li>• Changing specifications</li> <li>• Raising orders on an expedited basis</li> <li>• Conducting supplier audits</li> <li>• Engaging suppliers to commit to compliance with the principles of the Supplier Sustainability Code</li> </ul> <p><b>Executive sponsor:</b> Ian Farnworth</p> <p><b>Change:</b> This is a new principal risk and is highlighted because of Government policy changes in Brazil and China</p>	<ul style="list-style-type: none"> <li><input type="radio"/> Very high</li> <li><input type="radio"/> High</li> <li><input type="radio"/> Balanced</li> <li><input checked="" type="radio"/> Low</li> <li><input type="radio"/> Very low</li> </ul>	<p>Whilst the loss of a critical supplier would present logistical difficulties and cause delays, the impact would be limited in terms of the number of products and customers affected. Nevertheless, the potential impacts on customer service warrant a low appetite for this risk.</p>

Principal risk and why it is relevant	Year-on-year change	Key mitigation, sponsor and explanation of change	Risk appetite rating	Rationale for rating
<b>8. Health, safety and environmental risks</b>				
Link to strategy: <a href="#">1</a> <a href="#">2</a> <a href="#">3</a> <a href="#">4</a> <a href="#">5</a> <a href="#">6</a>				
A major health, safety or environmental incident could cause total or partial closure of a manufacturing facility. As a premium provider of safety critical products, a breach of these requirements would also have reputational consequences for the Group.		<ul style="list-style-type: none"> <li>• All manufacturing locations report monthly on health and safety issues</li> <li>• Board review of HSE items at every Board Meeting</li> <li>• Role of Group EHS Executive and appointment of EHS Officers in all major Supply and Sales sites</li> <li>• Enhanced training programmes, keeping the focus on health, safety and the environment</li> <li>• Site visits conducted by Group EHS Director and Group EHS Executive where practices are reviewed and improvement opportunities identified</li> </ul> <p><b>Executive sponsor:</b> Ian Farnworth</p> <p><b>Change:</b> This risk has reduced due to increased investment in HSE programmes, including 87,671 training units undertaken by employees across the Group in 2018</p>	<input type="radio"/> Very high <input type="radio"/> High <input type="radio"/> Balanced <input type="radio"/> Low <input checked="" type="radio"/> Very low	We take seriously the health and safety of our employees, customers and all related stakeholders. We continually strive to put in place policies and procedures to improve performance and ensure on-going compliance with HSE legislation.

### As a result of the top-down review, the following points were agreed by the Risk Management Committee:

- Economic and Political Instability to remain as ranked first;
- Loss of Manufacturing Output at any Group Factory to be ranked fifth rather than third;
- Cybersecurity to be ranked third rather than fifth;
- Breach of Legal and Regulatory Requirements (including ABC Laws) to be ranked sixth rather than seventh;
- Loss of a Critical Supplier raised to a principal risk;
- Solution Specification Failure no longer a principal risk, but will continue to be monitored on the Risk Register; and
- The year-on-year change for each principal risk assessed and updated.

# 4. Audit, risk and internal control continued

## Risk Management Committee

**Nicholas Anderson**  
Chair of Risk Management Committee



### Committee role and responsibilities

The Committee oversees the management and control of significant risks affecting the Group. The Committee ensures that the Group has risk management policies and procedures, including those covering project governance, sanctions and embargoes, crisis management, human rights, business continuity and business management.

The Committee's responsibilities include:

- using top-down and bottom-up reviews, understanding the risks facing the Group;
- determining our appetite for risk;
- accepting and managing within the businesses those risks which our employees have the skills and expertise to understand and leverage; and
- identifying appropriate risk mitigation techniques and countermeasures.

### Meetings

The Committee met three times in 2018. A summary of the Committee's activities throughout the year is below.

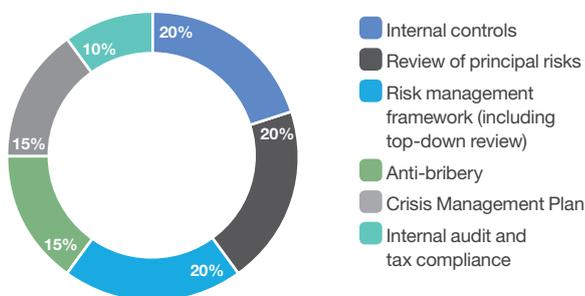
### Members

Our Risk Management Committee comprises:

	No. of meetings attended/ total no. meetings held	Attendance %
<b>Nicholas Anderson (Chair)</b>	3/3	100%
<b>Kevin Boyd</b>	3/3	100%
<b>Neil Daws</b>	3/3	100%
<b>Jay Whalen</b>	3/3	100%
<b>Jim Devine</b>	3/3	100%
<b>Mike Sutter</b>	3/3	100%
<b>Andy Robson</b>	3/3	100%
<b>Dan Harvey<sup>1</sup></b>	1/1	100%

<sup>1</sup> Joined the Committee on 1st December 2018

### How the Committee spent its time



### Key Risk Management Committee activities 2018

#### April

- Reviewed proposed Crisis Management Plan
- Agreed to key actions related to crisis management

#### August

- Reviewed the top-down risk summary
- Confirmed risk countermeasures in place at Group operating companies

#### December

- Updated and approved the risk register, based on the top-down review
- Updated the principal risks
- Approved recommendations for Brexit preparedness
- Approved the appointment of the Head of Internal Audit as a Committee member

## Chair's review of 2018

### Summary of key focus areas 2018

In keeping with the goals set for the year, in 2018 the Committee formalised its Crisis Management Plan. In conjunction with that process, the Committee undertook the additional tasks of designating incident officers for each of the businesses, agreeing to organise media training for senior management and arranging to place a public relations firm on retainer.

The Committee completed its biennial top-down review of risks, and updated the Group risk register accordingly. The Committee also continued to monitor the on-going Brexit negotiations, and approved specific preparedness actions for a potential "no deal" Brexit.

### Anti-Bribery and Corruption (ABC)

The Group has continued to reinforce the message of zero tolerance for bribery and corruption within its businesses. In 2018, that message was strengthened by the improvement and expansion of our online ABC training. This new ABC training is hosted by the Spirax Sarco Academy as part of the Group Essentials training module, which also provides training to employees on a range of fundamental topics, such as Group Values, H&S and cybersecurity. The reach of this training has also been expanded so that each employee with an email address is required to complete the course.

By the end of 2018, the new training was available in eight key languages, with an additional eight languages to follow in early 2019. In 2018, 1,346 employees completed the new ABC course, with an additional 487 employees completing the ABC training under the existing course.

The Group also uses an independent, third-party whistle-blowing hotline to enable employees to anonymously report any unethical, illegal or otherwise concerning conduct. Additionally, in line with our Gifts, Entertainment and Hospitality Policy, we maintain an online gift register, where employees record gifts so as to ensure our conduct is in keeping with our highest ethical expectations and within the law.

Further updates on whistle-blowing and ABC can be found in our Sustainability Report on page 60.

### Modern Slavery Statement

The Group has updated its Modern Slavery Statement to reflect the Group's Values and the interplay between those Values and our commitment to the mission behind the UK Modern Slavery Act. The updated Statement also tracks our progress in incorporating our new acquisitions into our Global Excellence in Supply Chain Initiative. The 2018 Statement can be found on the Group's website, [www.spiraxsarcoengineering.com](http://www.spiraxsarcoengineering.com), under Sustainability (Supply Chain).

### Identifying emerging and principal risks

We have a robust risk management process in place through which we identify, evaluate and manage the principal risks and emerging risks that could impact the Group's performance.

During 2018, we reviewed the Group's exposure to risk using a top-down approach. Following this process, the Committee reviewed and confirmed the robustness of the countermeasures that Group companies have in place to mitigate the principal risks in the Group risk register. Our principal risks and the results of the 2018 review are set out in the Strategic Report on pages 30 to 33.

### Monitoring effectiveness:

#### (i) Risk management systems

The Committee is responsible for reporting to the Board the risks facing the Group and the countermeasures related to those risks. To fulfil that responsibility, the Committee oversees the Group's risk management processes and procedures, with reliance on the Audit Committee for oversight of the Group companies. Further, the Committee is charged with the on-going monitoring of sufficient and effective mitigation plans for relevant risks at each Group operating company and business group.

Each operating company is required to undertake a formal review, at least once a year, of the risks which impact, or have the potential to impact, its business. The reviews are consolidated into Group-wide risk reports which are maintained and reviewed by the Committee on a regular basis. Additionally, the risk management processes are monitored on an on-going basis via internal and external audits of Group companies. Senior managers have full accountability of the risk management within their businesses.

The governance structure provides three lines of defence in the Group's risk management, as illustrated on page 88.

#### (ii) Internal control systems

Since 2013 the Group has employed a specific on-going review process for identifying and managing risks faced by the Group. The process includes assessment of the effectiveness of all material controls, including financial, operational and compliance controls, as well as risk management systems. The review confirms that proper accounting records have been maintained, that financial information used within the business is reliable and that the preparation of the Consolidated and Company Financial Statements and the financial reporting process comply with all relevant regulatory reporting requirements.

## 4. Audit, risk and internal control continued

### Risk Management Committee continued

Every year, via a self-certification questionnaire, General Managers and Finance Managers of every Group company are required to self-certify compliance with the policies, procedures and minimum requirements for an effective system of internal controls. The Committee uses this information, as well as information from the top-down and bottom-up risk review processes, to have meaningful and on-going oversight of risks across the business.

Whilst internal controls are not an absolute assurance against material misstatement or loss, the Board believes the regular cycle of review paired with internal monitoring provides a commercially sound approach to protect the Group from the risks that are a necessary part of its operations. As required by the UK Listing Authority, throughout the year and up to the date of the publication of the Annual Report, the Group has complied with the Code provisions on internal controls.

#### (iii) Internal audit

The Group's standard policy regarding internal auditing is that each operating company is audited once every five years (most more frequently). Operating companies located in higher risk territories are audited more frequently, and businesses acquired by the Group are subject to internal audit within six months of completion.

The internal audit system is a crucial part of the risk management process. These internal audits are conducted by experienced, qualified accounting staff from principal operating companies and a professional auditing firm, BDO International. Additionally, in 2018 the Head of Internal Audit recruited a full-time team member to support the function.

Audit reports are made to the Audit Committee and the Board as a whole. The Committee has ensured compliance with centrally documented control procedures on such matters as capital expenditure, information and technology security and legal and regulatory compliance.

### Risk Appetite Statement

Risk is an inherent part of business and, in order to achieve our business aims, we must accept certain risks. We seek to implement a balanced approach to risk, ensuring that our resources are protected while still pursuing opportunities to accelerate and deliver growth.

The decision to take opportunity-based risks should, to the greatest extent possible, be deliberate and calculated.

### Three lines of defence

#### First line of defence

- The business is responsible for the identification, control and management of its own risks

#### Second line of defence

- The Risk Management Committee, with the Audit Committee, ensures that the risk and compliance framework is effective so as to facilitate the monitoring of risk management with on-going challenge and review of the risk profile in the business

#### Third line of defence

- Internal audits provide independent testing and verification of compliance with policies and procedures and monitoring of follow-up actions where required.

We aim to confirm that the level of risk is commensurate with the strategic and economic benefits the risk might bring; we evaluate our ability to control the risk or mitigate its effects, should that risk materialise; and we always assess the potential ethical considerations arising from knowingly accepting some level of risk.

An informed and well-considered process is crucial to any decision to accept risk. The Committee has undertaken a thorough evaluation process to determine an appropriate risk appetite rating for each principal risk. These are set out in detail on pages 30 to 33.

In summary, the Group has a very low appetite for risks that could lead to violations of health, safety and environmental legislation, or to breaches of legal and regulatory requirements.

In contrast, the Group has a high risk appetite in relation to economic and political instability; with decades of experience in successfully managing operations in volatile markets, we have the control procedures in place to handle the challenges that come with those risks and we appreciate that without taking risks in new, albeit sometimes unstable, territories we would miss out on valuable opportunities for growth.

As an organisation we are risk aware, but not risk averse. We continually monitor and assess the risks facing the Group and evaluate our ability to control them and mitigate their effects. Focusing on our strategic objectives, we evaluate our risk appetite and decisions to accept risk in a way that will ensure the on-going financial health of the Group.

## Viability Statement

The Directors have assessed the viability of the Group over a three-year period, taking into account the Group's current financial position, business strategy, the Board's risk appetite and the potential impacts of the principal risks, outlined on pages 30 to 33 of the Strategic Report, and the Risk Appetite Statement on page 88. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31st December 2021.

The Board believes that a three-year viability assessment period is appropriate as the timeframe is covered by the Group's rolling financial forecasts; takes into account the nature of the Group's principal risks, a number of which are external and have the potential to impact over short time periods. While the Board has no reason to believe that the Group will not be viable over a longer period, given the inherent uncertainty involved, the Board believes that a three-year period presents readers of the Annual Report with a reasonable degree of confidence while still providing a longer-term perspective.

In making their assessment, the Directors completed a robust assessment of the principal risks facing the Group, as set out pages 30 to 33 of the Strategic Report, including those that could threaten its business model, future performance, solvency or liquidity, and undertook sensitivity and stress testing to determine the potential impacts of the occurrence of one or more of the principal risks on sales, profit, margin and cash.

In addition to completing an impact assessment of the principal risks, the Directors considered the probability of occurrence of the principal risks, the Company's ability to control them and the effectiveness of mitigating actions.

The Group's resilient business model has proven strong and defensive in the long term and has enabled the business to prosper, even in challenging market conditions. The diversity of our end user markets and customers, broad product range, wide geographic spread, high replacement revenue streams and large base of installed equipment worldwide, together with our effective direct sales business model, enhances the viability of the Group in the face of adverse economic conditions and/or political uncertainty, as does our ability to self-generate business through identifying solutions to our customers' difficult process challenges and our ability to adjust our cost base.

Whilst no Board can ever fully foresee all possible risks facing the business in the future, the Directors are of the view that a robust assessment was undertaken of the severe but plausible scenarios that may feasibly impact upon the business over the next three years. We have also assumed that our various finance facilities will continue to be available. Furthermore, the Board remains confident in the Group's risk management process and the risk mitigation actions taken to address identified risks.

A number of scenarios were developed from the Group's principal risks, and the impact on future viability of the two most severe but plausible scenarios happening simultaneously, was assessed. The scenarios being major economic/political instability and a significant breach of legal and regulatory requirements. This analysis demonstrated that even in these extreme circumstances, the Group maintains its viability. In addition to this impact assessment, the Directors also considered the probability of occurrence of the principal risks, the Company's ability to control them and the effectiveness of mitigating actions. No viability issues resulted.

Brexit is a focus of the Committee and an update on activity and actions taken to mitigate the impacts of Brexit on the Group are detailed in the Strategic Report on page 29. Further disclosure on actions taken relating to Brexit are included in the Governance Report on page 69. The risks arising from a "no deal" Brexit were considered as part of the viability assessment, but the impact on future viability was not considered as significant.

Whilst the viability of the Group has been assessed over a three-year period, the Directors have also assessed the prospects of the Group over the longer term. Disclosures relating to the longer term are set out on the inside cover of the Annual Report: Engineering sustainable growth, and in Our business model on pages 12 to 15.

### Committee focus for 2019

- Continue to monitor and update preparedness plan for Brexit
- Full assessment of the impact of climate change
- Bottom-up risk review

#### Nicholas Anderson

Chair of Risk Management Committee