

Risk management

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 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 are directly involved in the risk assessment process and 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 preparation.

What important developments occurred in 2017?

The Committee regularly reviews the principal risks, potential impacts, mitigation and prevention planning. It also assesses developing issues that have the potential to become principal risks. The following actions have been undertaken during the year:

Principal risks

The Committee performed a bottom-up review of the principal risks, assessing responses from Group companies. In light of these responses and the Committee's internal considerations, we updated our principal risks to reflect changes to the risks affecting the Group. The changes are set out on pages 32 to 33.

Risk appetite

The Committee confirmed the current Risk Appetite Statement, which is set out on page 83.

Modern Slavery Act

A statement has been approved by the Board and is available on our website, www.spiraxsarcoengineering.com.

Group suppliers are required to abide by the principles contained within the statement. Compliance is monitored through our Global Excellence in Supply Chain Initiative.

Regular updates

The Group Executive Committee regularly reviews the risk register, to determine if the risks are still current, and the Board is provided with updates.

How is the Group preparing for the impacts of Brexit?

The Group is continuing to plan and assess its approach to the impacts of Brexit as negotiations progress. The Group has already conducted scenario planning exercises to prepare contingency plans and lay the groundwork for future actions, including risk-mitigation and identifying and capitalising on potential opportunities. Our Brexit plan has 11 areas of focus, each with an individual sponsor, to ensure adequate attention is given to the various challenges and opportunities stemming from the Brexit process. Whilst activities to date have primarily involved monitoring developments, the Group will begin to step-up the implementation of the plan in 2018, beginning with specific impact assessments regarding tariffs and exchange rate impacts, which will be conducted in the first quarter.

What are the key areas of focus for 2018?

In 2018 we will be developing, testing and implementing a Crisis Management Plan across the Group.

2018 will also be a significant year with regard to Brexit. We will continue to monitor on-going Brexit negotiations and apply or adjust our planned response accordingly, as explained more fully above.



“In 2017, the Committee conducted a bottom-up review of risks, incorporating views from across the Group to update our approach to risk assessment. In 2018, we will be developing a crisis management plan and will continue to monitor and plan for Brexit-related issues.”

Nicholas Anderson,
Risk Management Committee Chairman

What due diligence processes does the Group employ to pursue Group objectives? What has been the impact of these activities?

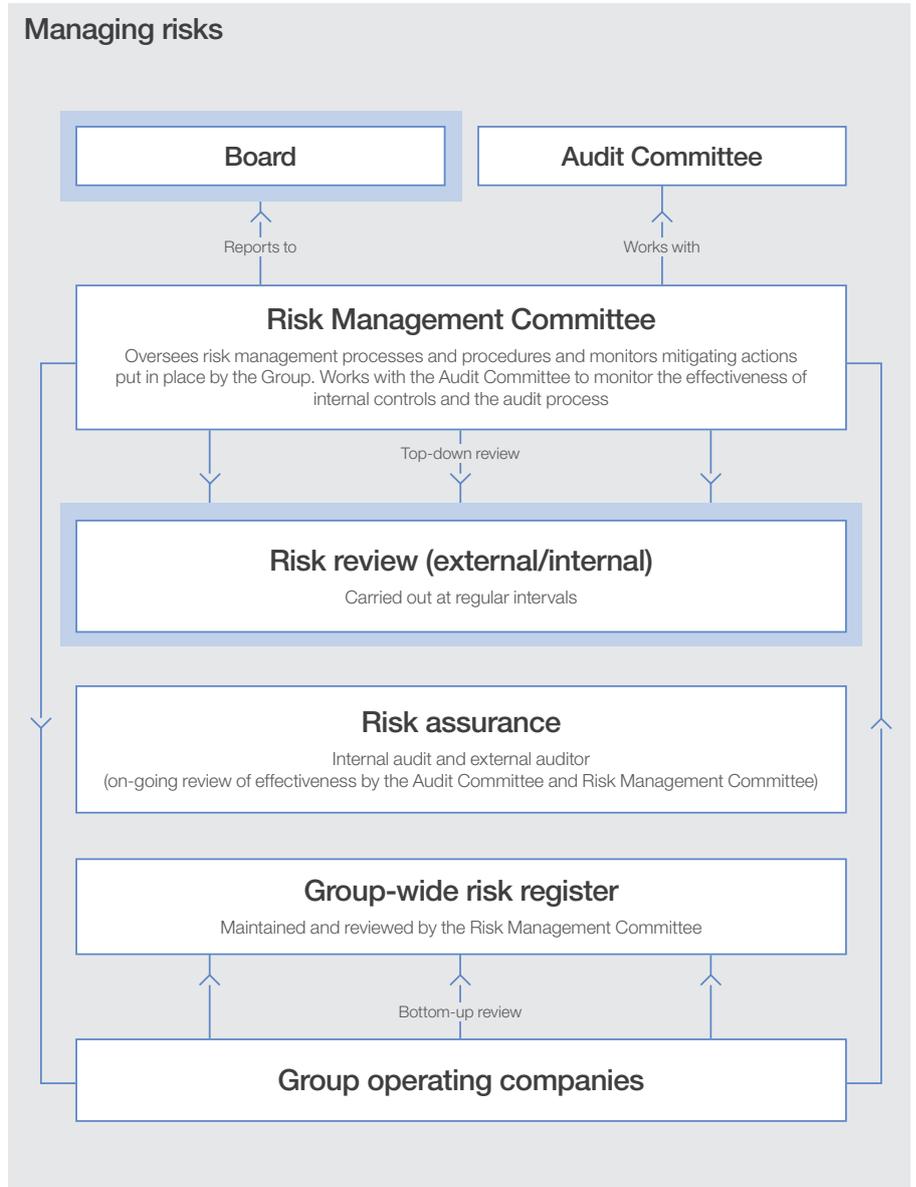
The Group is continuing its work in the Global Excellence in Supply Chain Initiative, which puts in place a monitoring mechanism to oversee our own operations and help ensure our suppliers operate in compliance with our Supplier Sustainability Code (Code). This direct engagement with suppliers is critically important to guard against violations of standards with respect to the protection of individuals, communities and the environment. The Code further addresses one of our principal risks – Health, Safety and Environmental (HSE) Risks – and has had a significant impact by not only setting supplier standards, but also engaging operating companies across the Group to bring these issues to the forefront of the business.

Due diligence, undertaken prior to each Group acquisition, is a key process to ensure that acquisition objectives – another principal risk – and non-financial objectives are achieved. In addition to financial and legal considerations our acquisition due diligence approach thoroughly investigates anti-bribery and corruption issues, potential business ethics concerns and HSE matters to ensure that any business that becomes part of the Group is upholding our values and governance standards.

Pages 81-83 of the Governance Report provide further information on the Group's approach to risk, including risk appetite, along with the roles, responsibilities, and actions of the Risk Management Committee.

Page 80 contains our Viability Statement and page 111 our Going Concern Statement.

Managing risks



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.

The numbers relate to the principal risks outlined on pages 32 to 33.

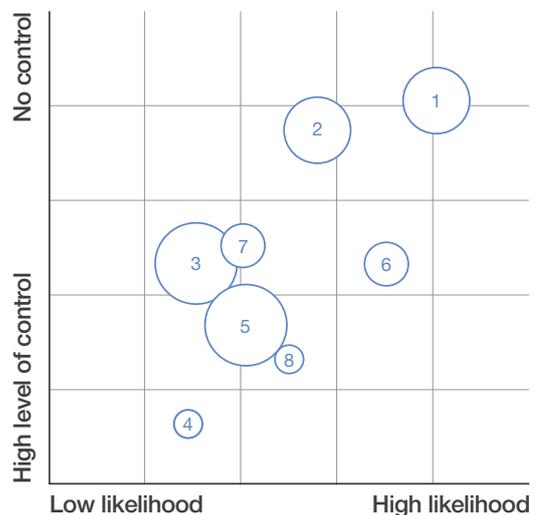
Key

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



Potential impact of the risk

For details of the principal risks see pages 32-33



Risk management *continued*

Principal risks

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 2016.

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

Principal risk and why it is relevant	Year-on-year change	Key mitigation, sponsor and explanation of change	Risk appetite rating	Rationale for rating	Link to strategic themes (pages 22-27)						
1 Economic and political instability											
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.	→	<ul style="list-style-type: none"> Operations in accordance with Group Treasury Policy Externally-facilitated scenario planning Strong internal controls, including internal audit and appropriate insurance Resilient business model Well spread business by geography and sector <p>Executive sponsor: Nicholas Anderson Change: No change</p>	<ul style="list-style-type: none"> <input type="radio"/> Very low <input type="radio"/> Low <input type="radio"/> Balanced <input checked="" type="radio"/> High <input type="radio"/> Very high 	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.	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> </tr> <tr> <td>4</td> <td>5</td> <td>6</td> </tr> </table> <p> <input checked="" type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link </p>	1	2	3	4	5	6
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2 Significant exchange rate movements											
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.	→	<ul style="list-style-type: none"> Maintain spread of manufacturing across currency areas Consideration of exchange rate exposures in manufacturing strategy Forward cover where appropriate and in line with Group Treasury Policy Focus on reducing manufacturing cost <p>Executive sponsor: Kevin Boyd Change: No change</p>	<ul style="list-style-type: none"> <input type="radio"/> Very low <input type="radio"/> Low <input checked="" type="radio"/> Balanced <input type="radio"/> High <input type="radio"/> Very high 	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.	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> </tr> <tr> <td>4</td> <td>5</td> <td>6</td> </tr> </table> <p> <input checked="" type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link </p>	1	2	3	4	5	6
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3 Loss of manufacturing output at any Group factory											
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"> Investment in modern flexible machining Capacity planning and holding stock in sales companies Conducting audits/inspections Annual Risk Assessments and business continuity planning Review and maintain appropriate insurance cover Continued commitment to employee policies, ensuring satisfactory benefits and regular communication with all employees <p>Executive sponsors: Jay Whalen and Ian Farnworth Change: No change</p>	<ul style="list-style-type: none"> <input type="radio"/> Very low <input checked="" type="radio"/> Low <input type="radio"/> Balanced <input type="radio"/> High <input type="radio"/> Very high 	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.	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> </tr> <tr> <td>4</td> <td>5</td> <td>6</td> </tr> </table> <p> <input checked="" type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link </p>	1	2	3	4	5	6
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4 Failure to realise acquisition objectives											
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. The Group also has comprehensive integration implementation plans, developed with independent consultants, which are being successfully rolled out.	↑	<ul style="list-style-type: none"> Regular review of acquisition criteria in line with strategic plan Board approval of post-acquisition plans for major acquisitions Full scrutiny of targets involving local lawyers, accountants, and key internal players/operating units Use of retainer/escrow to provide protection against warranty claims Use of insurance as protection against seller breach and non-disclosure Ensuring valuation models show healthy return on investment Regular monitoring of performance by the Board against the approved investment case <p>Executive sponsor: Kevin Boyd Change: With the recent major acquisitions of Aflex, Gestra and Chromalox, this risk has increased.</p>	<ul style="list-style-type: none"> <input type="radio"/> Very low <input checked="" type="radio"/> Low <input type="radio"/> Balanced <input type="radio"/> High <input type="radio"/> Very high 	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.	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> </tr> <tr> <td>4</td> <td>5</td> <td>6</td> </tr> </table> <p> <input checked="" type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link </p>	1	2	3	4	5	6
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Risk appetite ratings defined:

Very low

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

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.

Balanced

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

High

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

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	Link to strategic themes (pages 22-27)						
5 Cybersecurity											
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"> Global assessment of IT environment against UK cyber essentials framework and prioritising actions for improvement Deploying security tools to limit impact and spread of ransomware Initiating new centrally managed Firewall environment Further strengthening of security for centrally managed systems for heightened protection and consistency <p>Executive sponsor: Shaun Mundy</p> <p>Change: This is a new risk on the risk register and the Committee is monitoring this risk in line with the issues set out therein.</p>	<ul style="list-style-type: none"> <input checked="" type="radio"/> Very low <input type="radio"/> Low <input type="radio"/> Balanced <input type="radio"/> High <input type="radio"/> Very high 	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.	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> </tr> <tr> <td>4</td> <td>5</td> <td>6</td> </tr> </table> <ul style="list-style-type: none"> <input checked="" type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link 	1	2	3	4	5	6
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6 Solution specification failure											
Total solutions demand understanding of customers' complex technical requirements and there is risk involved in pursuing new opportunities in engineering systems design, installation and servicing. Failure could result in disruption and loss to a customer's production line.	↑	<ul style="list-style-type: none"> Extensive internal and field testing of new products prior to launch Continuing capital investment in the latest manufacturing technology Centres of responsibility established to maintain product control Established testing policy and procedures at Group manufacturing sites Quality procedures ensure that manufactured quality meets these standards <p>Executive sponsors: Jay Whalen and Ian Farnworth</p> <p>Change: With the newly acquired businesses, the Group will be handling larger, more complex, orders thereby increasing this risk.</p>	<ul style="list-style-type: none"> <input type="radio"/> Very low <input checked="" type="radio"/> Low <input type="radio"/> Balanced <input type="radio"/> High <input type="radio"/> Very high 	Satisfying customer requests for new, innovative products and designs is an important aspect of our business, but it must always be pursued without compromising our hard-earned reputation for quality products.	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> </tr> <tr> <td>4</td> <td>5</td> <td>6</td> </tr> </table> <ul style="list-style-type: none"> <input type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link 	1	2	3	4	5	6
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7 Breach of legal and regulatory requirements (including ABC laws)											
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.	→	<ul style="list-style-type: none"> On-going global monitoring of commercial arrangements and agreements, with appropriate professional advice Established procedures to maintain accreditations Group-wide ABC training and whistle-blowing hotline Group Litigation Report and on-going monitoring of cases Regular updates on Corporate Governance and Stock Exchange rules Continued roll out of Supplier Sustainability Code GDPR gap analysis and remediation plan <p>Executive sponsor: Andy Robson</p> <p>Change: No change</p>	<ul style="list-style-type: none"> <input checked="" type="radio"/> Very low <input type="radio"/> Low <input type="radio"/> Balanced <input type="radio"/> High <input type="radio"/> Very high 	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.	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> </tr> <tr> <td>4</td> <td>5</td> <td>6</td> </tr> </table> <ul style="list-style-type: none"> <input type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link 	1	2	3	4	5	6
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The General Data Protection Regulation (GDPR), which protects personal sensitive data, will take effect in May 2018 and we are undertaking a gap analysis to assist with a remediation plan to ensure that we are compliant with this new law as applicable across the Group.											

8 Health, safety and environmental risks											
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"> All manufacturing locations report monthly on health and safety issues Board review of HSE items at every Board Meeting Role of Group EHS Executive and appointment of EHS Officers in all major Supply and Sales sites Enhanced training programmes, keeping the focus on health, safety and the environment Site visits conducted by Group Supply Chain Director and Group EHS Executive where practices are reviewed and improvement opportunities identified <p>Executive sponsor: Ian Farnworth</p> <p>Change: This risk has reduced due to increased investment in HSE programmes, including newly-appointed EHS Officers.</p>	<ul style="list-style-type: none"> <input checked="" type="radio"/> Very low <input type="radio"/> Low <input type="radio"/> Balanced <input type="radio"/> High <input type="radio"/> Very high 	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 ensure compliance with HSE legislation.	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> </tr> <tr> <td>4</td> <td>5</td> <td>6</td> </tr> </table> <ul style="list-style-type: none"> <input type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link 	1	2	3	4	5	6
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Key

- ↑ Increased risk
- No change to risk
- ↓ Decreased risk

Following the bottom-up review, the following changes were made to the principal risks:

- Risk 1: economic and political instability – amended to ensure that we captured all our mitigation activities relating to Brexit.
- Risk 4: failure to realise acquisition objectives and Risk 5: cybersecurity – added. Risk appetite determined for these two risks.
- Risk 7: breach of legal and regulatory requirements amalgamated with breach or potential breach of ABC laws and renamed breach of legal and regulatory requirements (including ABC laws).
- Following a recent triennial valuation which saw a material reduction in the deficit, defined pension benefit deficit (previously Risk 4) was removed from the principal risks but remains on the risk register.
- The year-on-year change for each principal risk was assessed.

Accountability

Risk Management Committee

Role of the Committee

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

Summary of the key Committee activities in 2017:

- Conducted a bottom-up review of risk
- Added three new risks to the risk register
- Updated risks identified as principal risks
- Reviewed Group risk register and principal risks
- Confirmed Risk Appetite Statement
- Reviewed need for development of Crisis Management Plan
- Developed guide and Group policy regarding the criminal offence of failure to prevent facilitation of tax evasion

[Read more on pages 82-83](#)

Summary of the key areas of focus for 2018:

- On-going monitoring of risk management and internal controls
- Creation of new anti-bribery and corruption training:
 - updated programme to be rolled out across the Group
 - training to move from bi-annual to annual requirement
- Ensure continuing publication and availability to employees of third-party whistle-blowing helpline
- Develop and test Crisis Management Plan and ensure training of relevant employees

Membership and attendance

There were three meetings in 2017

Committee member	Attendance	Committee member	Attendance
 N.J. Anderson	3	 N.H. Daws	3
 K.J. Boyd	3	 J.L. Whalen	3

The following executives are also members of the Committee:

 **Jim Devine**
Group Human Resources Director

 **Mike Sutter¹**
President and CEO, Chromalox Inc.

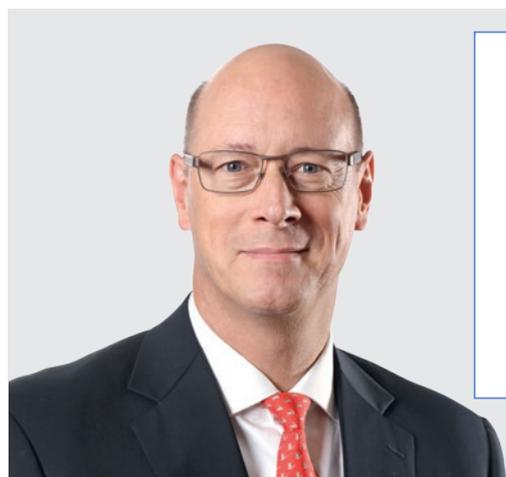
 **Andy Robson**
General Counsel and Company Secretary

How the Committee spent its time during the year



¹ Joined in July 2017 and attended both Committee meetings held after his appointment.

In addition, the Chairman of the Audit Committee attends a Risk Management Committee meeting at least once per year.



“Using the information obtained from this year’s bottom-up risk review, and viewed through the lens of the standards set by our risk appetite ratings, the Committee continued to monitor and plan for risks to the Group.”

Nicholas Anderson
Risk Management Committee Chairman

Accountability

Risk Management Committee *continued*

Responsibilities

To identify and understand the risks facing the Group

To determine our appetite for risk

To accept and manage within the business those risks which our employees have the skills and expertise to understand and leverage

To identify appropriate risk mitigation techniques and countermeasures

The risk review process

The Committee has accountability for overseeing risk management processes and procedures. This is accomplished with support from the Audit Committee. The Risk Management Committee reports to the Board on the risks facing the Group. 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 division.

The Committee employs internal controls on the risk management process, including via the external and internal audits, to ensure the Group's actions and activities are in line with Group objectives and policies. At least once a year at a local level, each operating company is required to undertake a formal review 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.

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

During 2017, we reviewed the Group's exposure to risk using a bottom-up approach, collecting information and evaluations for each Group operating company. The Committee analysed this information and updated our risk register to reflect the relevant changes, which included expanding the risks addressed in the register, as well as the assessment of and action plans for each risk. Our principal risks and the product of the 2017 review are set out on pages 32 to 33.

The Group's governance structure is set up so that there are three lines of defence within the risk management framework:

- 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; and
- 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.

This approach ensures that senior managers have full accountability for the management of risks in their specific areas.

Internal controls

An on-going review process for identifying and managing risks faced by the Group has been in place since 2013. The review covers and assesses the effectiveness of all material controls, including financial, operational and compliance controls and risk management systems. It ensures 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. The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve the business objectives.

The Board has ultimate responsibility for the effective management of risk across the Group and determining risk appetite.

The Board also has overall responsibility for the system of internal controls and for reviewing its effectiveness, whilst the role of management is to implement Board policies on risk and control.

All operating companies are required annually to complete self-certification questionnaires regarding compliance with the policies, procedures and minimum requirements for an effective system of internal controls. Self-certification is given by both the General Manager and the Finance Manager of each operation.

This system of analysing and incorporating information directly from the Group companies allows the Committee to continually assess new and changing risks in the Group's business.

Further, while 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.

With respect to Anti-Bribery and Corruption (ABC) concerns, the Group has continued to reinforce the message of zero tolerance for bribery and corruption within its business through the online ABC training. Further, representatives of the Group Legal function provided presentations to the senior management of the Group's newly acquired businesses to emphasise the significance of the ABC policies and training, as well as the whistle-blowing hotline, in developing and maintaining a commitment to ethical business practices. To ensure the ABC training remains relevant, engaging and up-to-date, we will be developing and rolling-out a new online ABC training programme in 2018.

The Group's statement regarding the Modern Slavery Act has been confirmed once again, and is set out on page 57.

Internal audit

Each of the Group operating companies undergoes an internal audit at least once every three years. Operating companies located in higher risk territories are audited more frequently.

All businesses acquired by the Group are subject to internal audit within one year from the date of acquisition. Internal audits are conducted by experienced, qualified accounting staff from principal Group operating companies and a professional auditing firm, BDO International. 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.

During 2017, the Audit Committee and Board determined that the size of the Group and the growing function of the internal audit warranted the appointment of a Head of Internal Audit. In November 2017, Dan Harvey was appointed to this role. Dan has nearly 20 years of international internal audit experience across a range of businesses in the engineering and technology sectors. A qualified chartered accountant and internal auditor, he has recently held senior audit roles at Experian and BAE Systems, and spent four years leading the internal audit and risk function at Dyson.

 [Read more on page 78](#)

“Internal audit provides valuable assurance to the Board that the Group’s key risks are being managed effectively.”

Dan Harvey,
Head of Internal Audit





Risk Appetite Statement

We recognise that 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. 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 Risk Management Committee has undertaken a thorough evaluation process to determine an appropriate risk appetite rating for each principal risk.

During 2017, we updated our risk register and amended the risks identified as the Group’s principal risks. The eight principal risks and the risk appetite ratings are set out on pages 32 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 a whole, we consider that the risk appetite ratings for the eight principal risks demonstrate that the Group has an appropriate and balanced risk appetite.

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.