

## Principal risks and uncertainties

# Managing our principal risks



### Risk assessment scale\*

- Very low
- Low
- Moderate
- High
- Very high

\*The combined impact and likelihood of a risk occurring, net of mitigation activities

### Risk appetite

- Highly cautious
- Cautious
- Balanced
- Opportunistic
- Highly opportunistic

### Change in rating

- ▲ Increase
- ◄► No change
- ▼ Decrease
- \* New risk



## Strategic transformation

### Definition

Failure to successfully deliver the Group Strategy for Sustainable Growth.

### Link to strategy

- Great businesses
- Aligned to structural growth markets
- Customer centricity
- Investing in Growth
- Operational Excellence

### Risk assessment

Moderate

### Change in rating



### Risk appetite

Balanced

### Impact

Our day-to-day activities are inherently aligned to the successful achievement of the Group's strategic objectives. Nevertheless, we recognise the importance of specifically managing some of the more transformative elements of strategic execution as a Principal Risk. These elements include mergers and acquisitions, growth initiatives including capital investment, R&D, technology and digitising our offering.

### Mitigation

- Remuneration policy aligned to incentivise delivery of the strategy
- Deployment of the Spectris Business System
- Continued review of acquisition/merger pipeline, integration processes and capability
- Regular reviews to track strategy execution
- Business Audit and Risk Committees



## Cyber threat

### Definition

Failure to appropriately protect critical information and other assets from cyber threats, including external hacking, cyber fraud, demands for ransom payments and inadvertent/intentional electronic leakage of critical data.

### Link to strategy

- Customer centricity
- Operational excellence

### Risk assessment

High

### Change in rating



### Risk appetite

Cautious

### Impact

Our businesses face both internal and external information security risks, the nature and complexity of which are constantly changing, becoming more sophisticated and unpredictable. With the introduction of data privacy regulatory requirements, and a continuing trend of high-profile information security breaches occurring across a wide range of businesses, the Group takes a necessarily proactive and cautious approach to safeguarding its information assets.

### Mitigation

- Information security and data privacy policies and controls
- Cyber risk assurance undertaken by Internal Audit
- Online and face-to-face awareness and 'cyber fitness' training
- Regular Board and Audit and Risk Committee reviews on cyber threat
- Continued strengthening of IT systems
- Cyber-attack simulation exercise undertaken at the Executive level
- Intelligence services to gain a deeper understanding of threat landscape to Spectris

## Principal risks and uncertainties continued



### Compliance

#### Definition

Failure to comply with laws and regulations, leading to reputational damage, substantial fines and potential market exclusion.

#### Link to strategy

- Customer centricity
- Operational Excellence

#### Risk assessment

Moderate

#### Change in rating



#### Risk appetite

Cautious

#### Impact

We operate in many jurisdictions and, as a consequence, are subject to wide-ranging laws and regulations, including export controls, data privacy, fair competition and anti-bribery and corruption. Any compliance failure by the Group or its representatives could result in civil or criminal liabilities, leading to significant fines and penalties or the disqualification of the Group from participation in government-related contracts or entire markets.

#### Mitigation

- Strong cultural alignment to the Spectris value of 'Be true'
- Global implementation of new Code of Business Ethics
- Formal compliance programme including policies, procedures and training
- Contract review and approval processes
- Investment in experienced compliance professionals



### Geopolitical

#### Definition

Material adverse changes in the geopolitical environment putting at risk our ability to execute our strategy. Includes trade protectionism, punitive tax/regulatory regimes, and general heightened tension between trading parties or blocs.

#### Link to strategy

- Aligned to structural growth markets
- Customer centricity
- Investing in Growth

#### Risk assessment

High

#### Change in rating



#### Risk appetite

Balanced

#### Impact

We operate in a range of end markets around the world and may be affected by political or regulatory developments in any of these countries. Material adverse changes in the political environment in the countries in which we operate have the potential to put at risk our ability to execute our strategy. We continually monitor the geopolitical landscape and develop response plans accordingly.

#### Mitigation

- Event monitoring and horizon scanning
- Working groups and sub-committees to limit the impact of materialising risks, including Executive Export Controls Committee
- Operate in a broad spread of geographical markets and end users
- Response planning
- Maintain a strong balance sheet



### Market/financial shock

#### Definition

Material adverse changes in market conditions, such as economic recession, inflation, increased interest rates, sudden negative investor sentiment and currency fluctuation.

#### Link to strategy

- Great businesses
- Aligned to structural growth markets
- Customer centricity
- Investing in Growth

#### Risk assessment

High

#### Change in rating



#### Risk appetite

Balanced

#### Impact

As a public company, and one that conducts business in a large number of markets, we recognise the global or local impact that a recession or period of instability could have on the Group. As with political risk, we are limited in our ability to reduce the likelihood of such events, but with careful monitoring and response planning we can ensure that the potential impact is restricted.

#### Mitigation

- Market monitoring and horizon scanning
- Maintain a strong balance sheet
- Operate in a broad spread of geographical markets and end users
- Response planning
- Cost saving opportunities identified by SBS and regular review of pricing to mitigate impacts of cost inflation

Principal risks and uncertainties continued



## Talent and capabilities

**Definition**

Failure to attract, retain, and deploy the necessary talent to deliver Group strategy.

**Link to strategy**

- Great businesses
- Customer centricity
- Investing in Growth
- Operational Excellence

**Risk assessment**

Moderate

**Change in rating**



**Risk appetite**

Balanced

**Impact**

The Group needs to attract, develop, motivate and retain the right people to achieve our operational and strategic targets. Effective talent management is essential to successfully delivering our current business requirements and strategic goals, and to realising the full potential of our businesses. Therefore, failure to leverage talent and capabilities could significantly impact the successful execution of our strategy. The three broad areas of focus are leadership, engineering and entry level roles.

**Mitigation**

- Structured recruitment and succession processes for senior Group talent
- Full deployment of Workday HR system with recruitment, performance and talent management processes
- Annual organisation capability review process
- Appropriate incentives with benchmarking at all levels
- Global employee engagement programme
- Leadership development programmes to ensure development of talent pipeline



## Business disruption

**Definition**

Failure to appropriately prepare for and respond to a crisis or major disruption to key operations either across the Group, in a key region/location, or via a critical supplier.

**Link to strategy**

- Operational Excellence

**Risk assessment**

Low

**Change in rating**



**Risk appetite**

Cautious

**Impact**

The nature of our geographically diverse and segmented businesses provides a degree of natural hedging from Group-wide disruption arising from a major event, be it a physical disaster at a major site, or a global external event, such as the COVID-19 pandemic. However, we acknowledge the importance of proactively ensuring a consistent and effective business continuity management process across the Group.

**Mitigation**

- Common policy and enhanced standard for business continuity planning across the Group in progress
- IT disaster recovery plans
- Testing plans
- Risk identification and monitoring
- Effective internal and external communications



## Climate change

**Definition**

Failure to respond appropriately, and sufficiently, to climate change risks or failure to identify the associated potential opportunities in assisting others manage their climate agendas.

**Link to strategy**

- Aligned to structural growth markets
- Customer centricity
- Investing in Growth
- Operational Excellence

**Risk assessment**

Moderate

**Change in rating**



**Risk appetite**

Balanced

**Impact**

The transition and physical risks present in climate change have the potential to impact the medium and long-term success of our business through market regulation and additional taxes, the changing macro-economic landscape and the potential physical impact on our operations. We see the potential for additional sales opportunities as well as increased costs and investment.

**Mitigation**

- Strategy built around sustainable growth
- Agreed action plan to meet Net Zero targets validated by the Science Based Targets initiative
- Board and Executive oversight of sustainability performance as well as progress against Net Zero roadmap
- Geographical diversity of businesses and supply chain
- Climate physical risks monitored and reported by each business
- Aligning strategy with current and emerging sustainability thematic