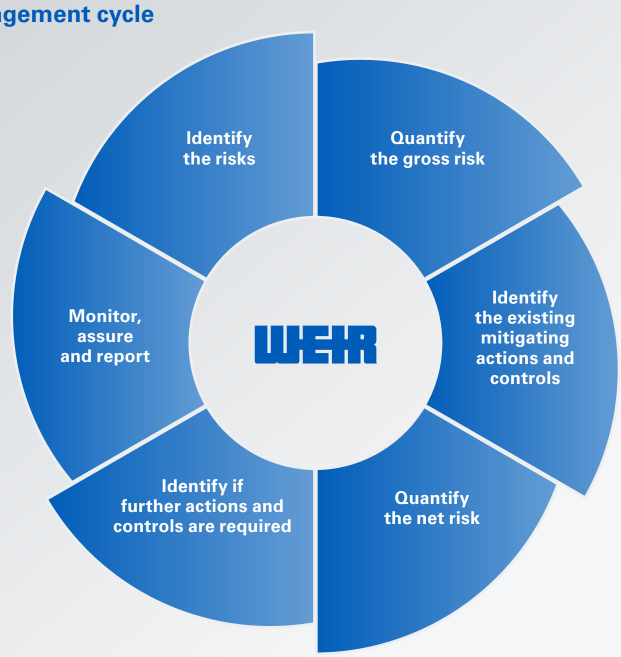
Risk Review
Managing risk effectively

We operate in a complex global environment, where opportunities come with corresponding risks. Our objective is to allow our people to be decisive, so we can take advantage of attractive opportunities whilst ensuring we are not exposing the organisation to excessive risk.

Risk management cycle



The risk agenda

During the year, the Board has reviewed the effectiveness of the systems of risk management and internal control and conducted a robust assessment of the principal risks affecting the Group in line with the Risk Appetite Statement. These activities meet the Board's responsibilities in connection with Risk Management and Internal Control set out in the UK Corporate Governance Code.

The aim of the Risk Appetite Statement remains to highlight the risks that we should be willing to take, as well as those which are unacceptable. The statement includes a series of risk assertions which are aligned to our strategy, together with the risk parameters within which we expect our people to work. The risk appetite is all of the risk assertions and the parameters taken together. The parameters can apply to more than one risk assertion, and therefore the individual risk assertions should not be read in isolation. Compliance with the Risk Appetite Statement is monitored through the Group's functional and front line controls including oversight and reporting mechanisms. The Board will continue to review and update the Risk Appetite Statement on an annual basis.

Details of the review of the internal control and risk management systems undertaken during the year are contained in the Audit Committee Report on page 88.

Risk management

The management of risks is at the core of the internal control framework. We have a risk management policy which defines how we expect risks to be identified, assessed and managed throughout the organisation.

Risks are assessed, and quantified, in terms of impact and likelihood of occurrence, both before and after control mitigation. Assessing the gross risk before control mitigation allows the business to review the relative impact of the existing controls by comparing the gross and net risk assessment. This also allows the business to avoid wasting resources on mitigating controls and actions which have a negligible impact on the risk assessment.

The specific risks identified across the business generally fall under one of the categories within the 'Risk Universe' as shown below.

Risk universe

Strategic risk

- Industry and market volatility.
- Technological advances or disruption.
- Pricing pressures.
- Acquisitions and mergers.
- Planning and resource allocation.

Hazard risk

- Political and social instability.
- Natural disasters and other major incidents.
- External and internal fraud and corruption.

Operational risk

- People.
- Delivery and supply chain.
- Quality.
- Commercial.
- Communication.
- IT.

Compliance risk

- Laws and regulations.
- Code of Conduct.
- Safety, Health and Environment.
- Governance.
- Intellectual property.

Financial risk

- Financial management.
- Credit.
- Debt and interest rates.
- Foreign exchange.
- Accounting and reporting.
- Taxation.

Not all risks are controllable or foreseeable, a key example being natural disasters. Our response to such risks is having controls which lessen the impact to our business should they occur. For example, in the case of natural disasters, we have controls in place to reduce the risk of harm to our people, as well as response planning protocols, with clear accountability, to minimise disruption to operations and our customers.

Risk Appetite Statement

The Weir Group is strategically positioned in markets with good long-term growth prospects. We will pursue ambitious growth targets, and we are willing to accept a higher level of risk to increase the likelihood of achieving or exceeding our strategic priorities, subject to the parameters below.

Risk assertions	Risk parameters
1. Organic growth We will rigorously pursue divisional organic growth strategies to meet our market growth objectives.	Investment of resources will be consistent with divisional strategies and expected divisional compound annual growth rates over five year plans.
2. Mergers and acquisitions (M&A) We will actively pursue M&A opportunities that enhance our strategic platform subject to meeting investment criteria.	Post-tax returns should exceed our cost of capital within three years of the acquisition.
3. Returns and profitability We will not pursue growth at all costs, and expect high margins, strong returns on capital and working capital discipline together with cash generation.	Short term margin dilution is acceptable in gaining market entry but over the cycle we aim for top quartile operating margins and returns on capital.
4. Capital allocation We will encourage capital expenditure in pursuit of our growth ambitions subject to Internal Rate of Return (IRR) hurdles and capital structure targets.	Local country cash flow projections for investment appraisal purposes discounted at country specific rates to account for risk weighted returns.
5. Capital structure We are prepared to use leverage in pursuit of our growth agenda and will actively seek low cost debt to fund the Group but, recognising cyclicality in our end markets, will maintain significant headroom against our financial covenants.	We will seek to maintain the ratio of net debt/EBITDA below two times (current financial covenants 3.5 times) and will retain adequate headroom within our debt facilities at all times.
6. Reputation and brand image We will avoid/manage situations or actions that could have a negative impact on our reputation and brands. We aim to be transparent with all of our stakeholders unless prejudicial to our collective interests.	No tolerance for breaches of: • Legislative/statutory requirements. • Weir Code of Conduct. • International sanctions. • Delegated authority levels. • Group and divisional policies.
7. Safety, Health and Environment (SHE) We will not undertake or pursue activities that pose unacceptable hazard or risk to our people, the communities in which we operate, or the broader environment.	• No tolerance for breaches of Weir Group Safety, Health and Environment Charter. • Active community and environmental engagement is expected.
8. Country presence We are prepared to enter new countries which offer opportunities for growth consistent with our overall strategy. We will not enter, or will exit, countries which present a high risk of harm to our people, damage to our reputation, or breach of international sanctions.	No tolerance for breaches of: • Legislative/statutory requirements. • Weir Code of Conduct. • International sanctions. • Delegated authority levels. • Group and divisional policies.
9. Innovation We will invest in technology, research and development to innovate our customer offering allowing us to maintain and expand our market share.	Target research and development spend of 2% of revenues.

Risk Review continued

The impact of risks is quantified across a range of factors including: financial; strategy; reputation; people and property; ability to perform services; regulation; safety, health and environment; and investors and funding. The risk management policy includes defined criteria for each risk impact factor, supporting a consistent measurement approach. Risk management takes place at the grassroots level, for example in individual projects, all the way up to Group level assessments, thereby providing an integrated bottom-up and top-down approach to risk management.

Ultimately, the Board is responsible for the Group's risk and internal control framework. It has set out the decisions, and hence the level of risk, which can be delegated to the Group Executive, divisional and operational company management without requiring escalation. This is articulated in a series of Group policies and delegated authority matrices, as well as the parameters within the approved Risk Appetite Statement. The Board and committee structure can be viewed on page 76.

The bottom-up risk reporting approach requires key risks identified, and reported, at project level to be escalated to the operating company management, which in turn may be escalated to divisional management, and ultimately to the Risk Committee and the Board. This is achieved through risk dashboard reports, which are maintained at operating company, divisional and Group levels. The dashboards provide a summary of the major net risks at each respective level, as well as a summary of the key mitigating controls and actions, and further control actions required.

The Risk Committee monitors quarterly risk dashboard reports from the divisions. In addition, the Risk Committee has oversight of the Group Risk Dashboard, along with a routine review of key controls identified to manage each risk and the sources of controls assurance, providing an update to the Board at each Board meeting. The Board obtains assurance over risks and risk management through the internal control framework. More information on the internal control framework can be found within the Corporate Governance Report on page 68 and within the Audit Committee Report on page 88.

Risk responsibilities and reporting

Role and responsibilities

The key roles and responsibilities for risk management are set out below.

First line of defence

Second line of defence

Third line of defence

Group	Risk management responsibilities
Board Overall responsibility for the Group's risk management and internal control frameworks, and strategic decisions within the Group.	• Annual review and ongoing monitoring of the effectiveness of the risk management and internal control frameworks. • Annual review of the Group's risk appetite. • Principal risks presented in every CEO report. • On a bi-annual basis, receive a report from the Risk Committee which sets out the current assessment of each principal risk, the effect of mitigating controls on each risk, the direction of travel of each risk versus the prior year, the extent to which each could potentially impact the Group's strategic goals and any relevant findings relating to significant control failings or weaknesses which have been identified. • Functional deep dive reports on each principal risk are summarised in the biannual report. • Taking decisions in accordance with the delegated authority matrices.
Audit Committee Delegated responsibility from the Board to review the effectiveness of the Group's risk and internal control frameworks.	• Annual assessment of the effectiveness of the risk management and internal control frameworks. • Review of reports from the internal and external auditors. • Review of the results from the six-monthly self-assessment compliance scorecards.
Group Executive Executive committee with overall responsibility for managing the Group to ensure it achieves its strategic objectives.	• Managing risks which have the potential to impact the delivery of the Group's strategic objectives. • Monitoring business performance, in particular key performance indicators relating to strategic objectives. • Taking strategic decisions in accordance with the delegated authority matrices. • Escalating issues to the Board as required.
Risk Committee Management committee responsible for governance of the Group's Risk Management Policy and Framework.	• Review of the design and operation of the Group Risk Management Policy and Framework. • Identification and assessment of the key risks facing the Group, identification of the key controls mitigating those risks and identification of further actions where necessary. • Review of the Divisional Risk Dashboards, considering the appropriateness of management's responses to identified risks and assessing whether there are any gaps. • Reporting key Group and divisional risks to the Board.
Chief Executive's Safety Committee Safety Committee with responsibility to set and monitor the Group's SHE principles, priorities and actions.	• Executive Committee representation to drive improvements in our safety performance throughout the Group.
Excellence Committees Engineering Safety, Health and Environment Finance HR Group Information Services Value Chain Management committees with representatives from across the Group in their respective areas of focus. The committees govern activities and performance in the individual functional areas.	• Monitoring the management of key risks across the Group associated with the respective remits of the Excellence Committees. • Monitoring performance and compliance with Group objectives, policies and standards related to the respective remits of the Excellence Committees. • Taking decisions in accordance with the delegated authority matrices. • Escalating issues to the Group Executive as required. • Reviewing the results from relevant assurance activities.
Divisional management Responsible for managing the businesses within the divisions to ensure divisional strategic objectives are achieved and there is compliance with Group policies and standards throughout their division.	• Managing risks which have the potential to impact the delivery of the division's strategic objectives. • Monitoring performance and compliance with Group objectives, policies and standards within the divisions and with regard to the outputs from the Excellence Committees. • Taking decisions in accordance with the delegated authority matrices. • Escalating issues to the Group Executive as required. • Reviewing the results from relevant assurance activities.
Operating company management Responsible for ensuring company objectives are achieved and business activities are conducted in accordance with Group policies and standards.	• Managing risks which have the potential to impact the delivery of their company's strategic objectives. • Monitoring performance and compliance with Group objectives, policies and standards within their company. • Taking decisions in accordance with the delegated authority matrices. • Escalating issues to divisional management and Excellence Committees as required. • Reviewing the results from relevant assurance activities.

Risk Review

Principal risks and uncertainties

As in any business, there are risks and uncertainties which could impact the Group's ability to achieve its objectives in the future. The Group's risk management and assurance framework is designed to make this less likely by clearly identifying and seeking to mitigate key risks.

Strategy

- People
- Customers
- Technology
- Performance

Risk Trend

- Increasing
- Decreasing
- No change

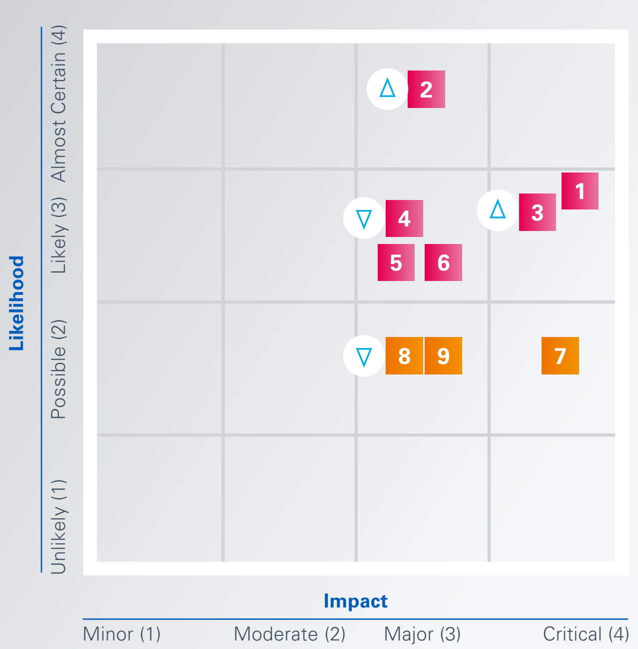
Viability Statement

The Board has conducted a robust assessment of the principal risks, alongside the Risk Appetite Statement set out on page 47, meeting the Board's responsibilities in connection with Risk Management and Internal Control detailed in the UK Corporate Governance Code. Each of the principal risks is assigned an owner from amongst the Board or Group senior management team and is either a standing agenda item at each Board meeting or subject to formal periodic review by the Board. A summary of principal risks and the Group's mitigating controls is presented at every Board meeting.

The Directors reviewed the Group's risk register, reassessed the validity of the principal risks identified in the prior year and considered whether any new principal risks have emerged or a risk is no longer considered a principal risk. The identified principal risks were subjected to a detailed assessment based on the following considerations:

- Severity of each risk;
- Existence and effectiveness of actions and internal controls which serve to mitigate the risk;
- The overall effectiveness of the Group's control environment, including assurance and any identified control weaknesses or failings; and
- The extent to which each of the principal risks could impact upon the Group's viability, in financial or operational terms, due to their potential effects on the business plan, solvency or liquidity.

The principal risks set out on pages 51 to 55 are those which we believe to have the greatest potential to impact our ability to achieve the Group's strategic objectives or which have the greatest potential impact on the Group's solvency or liquidity.



Key

1 Technology and innovation
2 IT security and continuity
3 Value Chain Excellence
4 Political and social
5 Ethics, governance & control
6 Staff recruitment, development & retention
7 Market Volatility
8 Safety, Health & Environment (SHE)
9 Contract risk

High risk
Medium risk

Mapping our risks

As part of the risk dashboard assessments we map our risks in terms of likelihood and impact, based on a defined rating of 1 (unlikely or minor) to 4 (almost certain or critical). Likelihood ratings are defined based on the period in which we expect that a risk could materialise; impact ratings consider factors including strategic; financial; reputational; regulatory; people and property; and safety, health and environment.

All risks are assessed, including an assessment of any emerging risks, each time the risk dashboards are reviewed. The risk trend is monitored over time and further mitigating controls identified where appropriate. Consideration is also given to the relative priority of each risk in the overall risk dashboard.

Risk Review: Principal risks and uncertainties

Technology and innovation

Failure to innovate or to react to emerging technology developments, and therefore fail to ensure that the business continues to deliver sustainable and attractive solutions for our customers.

Impact on strategy

Why we think this is important

The strength of our business is built upon a history of delivering innovative and sustainable solutions for our customers. If we fail to keep abreast of market needs or to innovate solutions, we are at risk of losing market share to our competitors and lowering margins as demand will reduce.

How we are mitigating the risk

Our existing research and development initiatives within the business, at Weir Advanced Research Centre, are enhanced through partnerships with certain leading universities around the world. These partnerships are designed to help the Group develop game-changing solutions to our customers' challenges.

We devote skilled resource to reviewing and responding to developing technologies, with our agreements with specialist external parties to develop Internet of Things (IoT) technology.

Engineering strategies are in place at Group and divisional levels with strategic innovation arenas defined as part of the innovation strategy.

Changes during 2017

The pace of technological innovation continues to increase as we and our competitors seek to provide customers with solutions that improve the efficiency of their operations.

Recognising the strategic importance of technology and innovation we recruited a Chief Technology Officer during the year to define the Group's Technology Vision and Strategy.

Further information on progress made in this area is set out in the Products and Technology section of the Sustainability Review on page 57.

Risk trend

Risk Review: Principal risks and uncertainties continued

IT security and continuity

Failure to maintain business systems or technical infrastructure that serves the business needs.

Failure to successfully execute changes to these business systems or technical infrastructure; together with failure to minimise disruption and maintain business as usual activity during technical infrastructure or business system changes.

Failure to adequately protect the business operations from cybercrime.

Impact on strategy

Why we think this is important

Up-to-date data allows us to make informed decisions about our business. Therefore, we require reliable and efficient IT systems and infrastructure to provide our data requirements. Breaches of our IT security could have serious consequences for our business, including: interruption to business operations; and loss of intellectual property and other sensitive data.

The Group is investing in a significant IT transformation programme. If this is not managed effectively, the consequences could include interruption to business operations if data is unavailable due to unsuccessful execution of change, impacting our ability to compete and our reputation in the market.

At present, the Group's principal exposures to cybercrime relate to the misappropriation of cash and data. Our revenue streams are largely protected as our products are not currently electronic in nature and we do not, as a rule, transact over the internet.

How we are mitigating the risk

We have an IT Governance Framework with a focus on structured change management techniques, including setting project governance levels in line with risk.

Policies, procedures and baseline standards in relation to cyber risk and IT security more generally are continuously updated and rolled out to operations. A programme of user training in relation to cyber risk is in place.

All security related incidents are reported to the Group Executive.

Changes during 2017

IT security and continuity continues to be a matter of strategic priority for the Group in an environment of ever increasing cyber security threats. Progress to strengthen the Group's defences in this respect is being made through our IT Next programme.

We continually review the effectiveness of our key IT security controls in consultation with external experts. There is regular reporting of unplanned outages and potential security breaches, with lessons learned across the Group.

Security Incident Responder teams monitor our various security systems.

Risk trend

Value Chain Excellence

Failure to achieve Value Chain Excellence improvements and the associated reduction in costs and enhanced flexibility.

Impact on strategy

Why we think this is important

If we fail to improve our value chain management, we risk:

- Losing the opportunity to invest capital into alternative value creating opportunities;
- Damaging our reputation and as a consequence losing customers and market share;
- Losing market position if the Group fails to demonstrate to customers the value of our products and services;
- Incurring penalties as a result of late delivery contractual clauses;
- Reducing margins by incurring unnecessary additional costs associated with late remedial actions taken to avoid missing delivery targets; and
- Failing to respond to market upturns or downturns quickly enough to respond to market demand or manage costs.

How we are mitigating the risk

Regular KPI monitoring of the value chain throughout the organisation.

The Group's operations are implementing Value Chain Excellence initiatives amongst other business improvement objectives.

Established Centres of Excellence drive cost savings, efficiencies and enhance delivery standards whilst maintaining quality.

The Group's forward purchase commitments are being closely monitored to manage inventories at levels appropriate to market conditions.

Our credit risk management procedures are under continuous appraisal and review.

We regularly monitor market activity to ensure we remain competitive.

Changes during 2017

Value chain remains an area of strategic focus for the Group. Value chain improvements continue to be recognised year on year as the Group realises benefits from its focused approach to these matters.

An updated and more focused VCE model has been successfully introduced.

A programme of Value Chain Excellence initiatives has been operating throughout the Group to drive value chain improvements.

All businesses now complete VCE self-assessments, including value stream segmentation, model design and improvement project identification.

Initiatives to expand production in best-cost locations are reviewed and the procurement function continues to drive cost and quality improvements through the Group's supply chain.

Risk trend

Strategy

People Technology
Customers Performance

Risk Trend

Viability Statement

Political and social

Adverse political action, or political and social instability, in territories in which we operate may result in strategic, financial or personnel loss to the Group.

Impact on strategy

Why we think this is important

We operate across the globe and therefore have to work within a wide range of political and social conditions. Adverse events may occur in the territories in which we operate that may require us to act swiftly to protect our people and our property and regulatory changes could impact our competitiveness. We need to be flexible and able to anticipate such issues.

Expansions into new territories are only undertaken after rigorous assessment of the risks, including the social and political situation within the territory.

How we are mitigating the risk

Regular review of market attractiveness.

Monitoring travel by Weir employees to higher risk locations in accordance with the Weir Group travel policy.

External expert risk assessments and regular monitoring in higher risk locations.

Contingency plans and exit strategy planning.

Our strategic planning assists in forecasting potential political and social instability in regions.

Proactive monitoring of evolving policy and development of contingency plans as situations materialise.

Changes during 2017

The US has approved significant corporate tax reform. The new US tax code will significantly change the tax profile of the Group's US operations and provide opportunities for the Group resulting from a lowering of the US Federal Tax rate. We will continue to respond to any further US tax clarifications this year.

We continue to monitor the direction of Brexit negotiations and any potential impacts directly on our UK manufacturing base.

Risk trend

Ethics, governance and control

Interactions with our people, customers, suppliers and other stakeholders are not conducted with the highest standards of integrity which devalues our reputation.

Impact on strategy

Why we think this is important

We are unwilling to accept dishonest or corrupt behaviour from our people, or external parties acting on our behalf, whilst conducting our business. If we fail to act with integrity, we are at risk of:

- Reputational damage leading to a loss of customers;
- Increased scrutiny from regulators;
- Legal action from regulators including fines, penalties and imprisonment; and
- Exclusion from markets important for our future growth.

We expect all areas of the business to do the right thing and conduct business in compliance with procedures, applicable laws, Weir Group operating policies and the highest ethical standards.

How we are mitigating the risk

The Code of Conduct, supplemented with Group policies on related topics, provides a clear benchmark for how we expect our business will be conducted.

Regular training is provided using a range of mechanisms including Town Hall style sessions, online and induction training.

The financial control framework is continually monitored for effectiveness.

Internal Audit's remit includes regular review of the anti-bribery and corruption and financial controls across the Group. The Group Legal team is responsible for monitoring compliance with the Code of Conduct.

A Whistleblower hotline is available to all members of staff. Reports are investigated on a timely basis and summary reports provided to Group Executive and Board.

Changes during 2017

The governance and legislative environment in which the Group operates continues to evolve and become more complex. We routinely review operations in geographies where ethical standards may not be as well established as in other countries.

The Group has reinforced its commitment to high standards of ethics and governance through the Code of Conduct and completed a programme of training for key individuals.

Risk trend

Risk Review: Principal risks and uncertainties continued

Staff recruitment, development and retention

Failure to recruit, develop or retain key management and staff may lead to disruption to the Group's operations, functions and processes.

Impact on strategy

Why we think this is important

Our people represent our biggest asset and failure to attract, develop and retain key management and staff would have a detrimental impact on the Group's ability to deliver our key strategic objectives.

As markets improve we need to continue to recruit high quality staff building on existing capability while recruiting skilled expertise in the right areas of the business and at the right time.

How we are mitigating the risk

Promotion of the Weir Group Values & Behaviours, Code of Conduct and HR Policies sets the standards and expectations for all our staff, reinforcing our stated commitment to attracting and retaining the very best people.

High performer assessments are undertaken to identify and develop our very best talent.

Succession plans are in place and periodically reviewed for all of our key management.

Personal Development Plans are set and reviewed for the effective development of all of our staff.

We continue to offer competitive compensation and benefits packages.

Personal development programmes including Weir University and the Weir Leadership Programme are open to participation by high potential staff members and these continue to attract high calibre individuals.

Changes during 2017

A new Chief People Officer was appointed during the year and tasked with the identification of key strategic priorities for Weir's go-forward people strategy for the Group.

Senior Leadership and Regional Conferences were held during 2017 focused on the delivery of the four strategic pillars.

Our new ENERGY performance development framework was introduced during the year.

Risk trend

Market volatility

Changes in key markets, including commodity prices affecting mining and oil and gas, have an adverse impact on customers' expenditure plans. This may include delaying existing expenditure commitments. As markets improve we may fail to effectively upscale operations to meet customer needs.

Impact on strategy

Why we think this is important

We need to remain sufficiently flexible to allow us to anticipate downturns, to allow us to adjust our operations accordingly, and equally to meet growth in demand when our customers' markets are buoyant and therefore capital investment is high. Otherwise, we are at risk of incurring unnecessary costs during downturns, and not maximising our potential for growth in buoyant markets.

In challenging market conditions, our value chain risks are increased. These are described in more detail on page 52.

How we are mitigating the risk

We maintain regular engagement with our customers to understand their needs and challenges, and ensure our business is appropriately aligned.

Improved demand planning and forecasting including Sales and Operations Planning within VCE.

Our strategic planning utilises extensive market intelligence to assist in forecasting opportunities and dips in markets.

We maintain contingency plans for downturns.

Changes during 2017

Our core markets have seen continued improvements during the year, with customers planning for higher activity levels. We continue to focus on technology development, customer relationships and Value Chain Excellence to meet increasing demand from our key sectors.

Risk trend

Strategy
People
Technology
Customers
Performance

Risk Trend

Viability Statement

Safety, Health and Environment (SHE)

Failure to adequately protect our people and other stakeholders from harm associated with a breach in SHE standards.

Impact on strategy

Why we think this is important
We operate in hazardous environments, and therefore have a fundamental duty to protect our people and other stakeholders from harm whilst conducting our business. As well as the personal impact on our people resulting from a failure to meet this obligation, we would also be at risk of:

- Reputational damage leading to a loss of customers;
- Legal action from regulators, including fines and penalties; and
- Exclusion from markets important for our future growth.

How we are mitigating the risk
The Weir Behavioural Safety system is in place to reduce the risk of safety incidents.

In addition, there are initiatives to prevent the most common accident types. The Weir global SHE standards are continually reviewed.

The SHE Excellence Committee is responsible for monitoring performance and compliance with Group objectives, policies and standards relating to SHE.

The Chief Executive's Safety Committee met 12 times during the year, committed to achieving the highest of SHE standards.

There is a formal SHE assurance programme with issues escalated as required through the reporting structures.

Changes during 2017
The Group continues to set higher benchmarks for SHE compliance and roll out cohesive programmes to address SHE risks and drive safe and sustainable working practices.

Improved SHE incident reporting tools have been piloted and rolled out across the Group to provide visibility and responsive actioning of any SHE related issues.

Risk trend

Contract risk

Failure to adequately manage contract risk and, as a result, commit to obligations which the Group is unable to meet without incurring significant unplanned costs.

In addition, failure to follow Group policies and procedures may lead to commitments without the desired level of contractual protections.

Impact on strategy

Why we think this is important
We operate in an increasingly complex and competitive environment where customers are not only highly focused on price and service but are also more challenging in contract negotiations.

As we offer a broader range of products and services to our customers, including those that are more technologically advanced, we risk exposing the Group to reputational and financial loss should our contract acceptance, negotiation and approval processes fail to protect the Group accordingly.

How we are mitigating the risk
The Group has policies and procedures for contract acceptance and approval.

These are under continuous review and improvement to ensure they are adequate for current and future circumstances.

The tools and training available to employees responsible for contract management are similarly under continuous review.

Changes during 2017
Contract management continues to be an area of focus for the Group, given the competitive environment. Group policies and procedures continue to be reviewed and refreshed to provide employees with improved tools to assist them in their contract training and management activities.

Risk trend

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group over a three year period, taking into account the Group's current position and the potential impact of the principal risks documented on pages 50 to 55 of the Annual Report. 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 period to 31 December 2020.

The Directors have determined that a three-year period to 31 December 2020 is an appropriate period over which to provide the viability statement. The Group's key markets are by nature cyclical and therefore, while the Group operates a five-year strategic planning process, market cyclicality and the related lack of visibility over commodity prices, in particular, indicate that a period of three years is appropriate. We believe that this approach presents the Board and readers of the Annual Report with a reasonable degree of confidence over this longer term outlook.

The strategic plan is a bottom up analysis prepared annually and submitted to the Board for consideration. The output of this plan is used to perform central debt and headroom profile analysis, which includes a review of sensitivity to 'business as usual' risks, such as profit growth, working capital variances and return on capital investment. This analysis, in conjunction with the current year results and 2018 Budget, provides the basis for the viability model on which we have overlaid a number of severe, but plausible events, to reflect our risk assessment.

In making this statement, the Board carried out a robust assessment of the principal risks facing the Group, including those that could threaten its business model, future performance, solvency or liquidity.

While the review has considered all the principal risks identified by the Group, the following risks were focused on for enhanced stress-testing: market downturn, major site and customer shocks, significant loss of market share in key markets and regulatory shock. The resulting scenarios were modelled as a series of individual one-off 'shocks', in combination with commodity price based market downturn scenarios. Refer to page 50 for the Group's principal risks, specifying those risks considered during this review.

The geographical and sector diversification of the Group's operations helps minimise the risk of serious business interruption or catastrophic damage to our reputation. While the Group remains exposed to the cyclicality of the markets in which it operates, it continues to have a strong balance sheet that provides capacity in which to operate. In addition, our ability to flex our cost base to reflect our existing markets – as evidenced by our recent cost reduction programmes – protects our viability in the face of adverse economic conditions and / or additional risks highlighted.

While this review does not consider all of the risks that the Group may face, the directors consider that this stress-testing based assessment of the Group's prospects is reasonable in the circumstances of the inherent uncertainty involved.