RISK MANAGEMENT

Our approach

We recognise that effective management of risk is essential to the successful delivery of our strategic objectives. As such, risk management is built into our day-to-day activities and forms an integral part of how we operate.

The Group has a well-established process, which delivers visibility and accountability for risk management across our businesses. This process forms part of the Group's overall internal control framework.

Risk management process

Our approach to risk management combines a granular bottom-up assessment of day-to-day operational risk (managed by the businesses) with a top-down assessment of those risks that are most significant at the Group level (managed by the Executive Risk Committee and reviewed by the Audit and Risk Committee).

Business unit risk management

Each business undertakes a detailed assessment of risk across their markets, processes and operations, including a consolidation of any emerging risks that should be formally evaluated. We operate Audit and Risk Committees for each of our businesses. These Committees, which meet quarterly, represent a key component of the second line of risk management (see page 57) in respect of internal and external audit matters, internal control, risk management, and other areas of compliance.

A formal risk register is reviewed and finalised in each respective business Audit and Risk Committee and submitted to the Group, with each risk assessed in terms of gross and net impact and likelihood. Key mitigations, both planned and existing, have formal owners and are subject to regular operational review as well as independent assurance where appropriate.

Group risk management

Group oversight of risk management is conducted through the Executive Risk Committee whose purpose is to ensure appropriate management of the Group Principal Risks and to oversee the operation of the Group's Enterprise Risk Management framework. The Executive Risk Committee is supported by the Risk and Control function, who enable the risk management process and act as a centre of excellence as part of the Group's second line activities, consistent with the four lines of risk management model described on the following page.

The Executive Risk Committee, together with the Audit and Risk Committee, performs a continuous top-down assessment of risk throughout the year, informed by the approach established at each of the businesses. The aim of this process is to identify those Group Principal Risks that represent the most significant threat to the achievement of the Group's performance against its strategic objectives and/or those risks that are more suitably assessed, monitored and mitigated centrally. In addition, the Board carries out a robust assessment of the Group's principal and emerging risks on an annual basis.

An owner is assigned to each Group Principal Risk, which is formally assessed in terms of its gross and net severity, a risk appetite is defined, and mitigations are identified within the four lines of defence framework. Each risk is subject to a formal assessment by the Executive Risk Committee during the year and the suite of Group Principal Risks is reviewed twice yearly by the Audit and Risk Committee.

Our risk management approach includes the consideration of emerging risks, whether they be operation-specific or broader in scope, such as climate change and environmental matters or developments in artificial intelligence. Further details on how climate-related risks are managed are provided on page 145.

In 2023, we saw the level of gross risk remain heightened across our Principal Risks, with a further increase in respect of market/financial shock as a result of greater uncertainty in external markets. After taking into account existing controls the Board concluded that no changes to the net risk ratings were required in 2023.

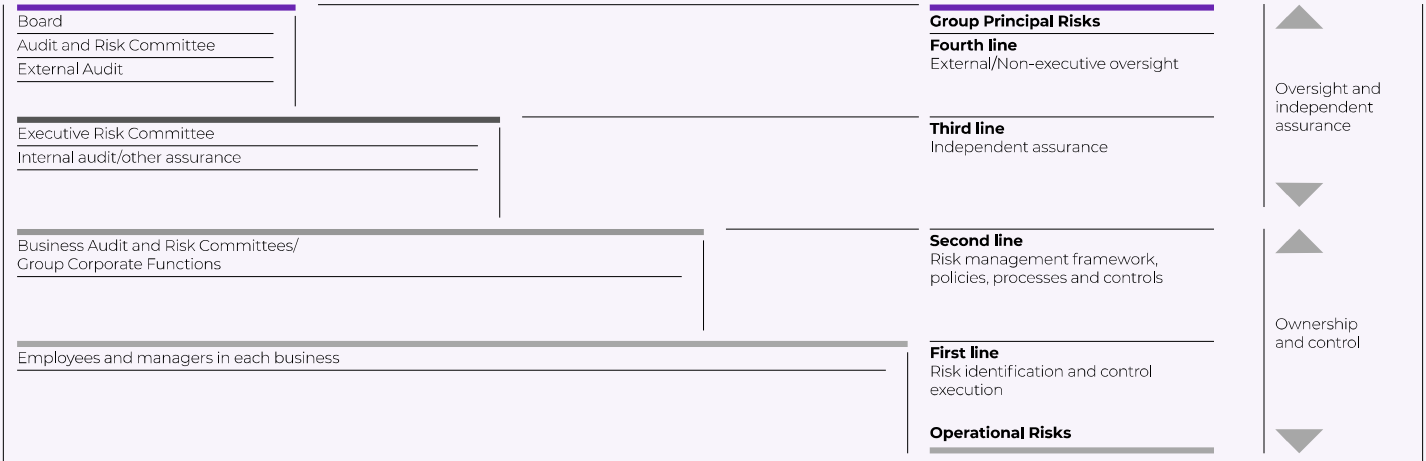
In 2024, we continue to believe that the level of gross risk remains heightened, and we have seen changes in gross and net risk in a number of areas:

- Gross risk in respect of strategic transformation has increased as a result of the significant acquisitions made during the course of the year. However, existing controls and specific mitigating actions in relation to integration of those acquisitions and in respect of ongoing business transformation projects means that there is no increase in net risk.
- Gross compliance risk increased because of the increased volume of regulation including in relation to cyber and export control. Net compliance risk has increased as a result although actions are in place to continue to improve our compliance programmes.
- We consider the gross and net risk in respect of market/financial shock to have decreased as economic indicators continue to reflect a more favourable and stable environment and as result of controls enhancement.
- Gross climate risk increased as a result of the continued emergence of external reporting requirements and the trend towards ESG-based tariffs. Notwithstanding the increased gross risk, the net risk rating has been reassessed from moderate to low in view of the increased clarity on the transition impacts on the Group and the strengthening of our controls framework, particularly in relation to the monitoring of physical risk to our business.

All of these risks are subject to Executive oversight and formal assessment, and we continue to review the effectiveness of existing controls over those risks and to identify and execute further actions where appropriate in order to manage our net exposure.

FOUR LINES OF RISK MANAGEMENT

The Group has in place a four lines risk management model



First line
The first line is responsible for the identification of all risks in the 'risk universe' of each business unit. This risk awareness informs the control environment (the first line is primarily responsible for the execution of key controls), specific mitigations and is a key consideration in driving business decisions.

Second line
The second line is responsible for the risk management framework that the first line operates within. This includes the development of a standardised approach to identifying and reporting risk, an internal control framework aligned to those risks, and a suite of policies to ensure the consistent application of business processes and controls. The second line is also responsible for monitoring the performance of first line activities and for taking a holistic view of risk, to determine which risks are of principal importance to the Group.

Third line
The third line is responsible for providing assurance over the effectiveness of the Group's risk management and internal control framework. This is most commonly undertaken by internal audit on behalf of the Audit and Risk Committee and Board of Directors.

Fourth line
The fourth line is the Audit and Risk Committee, Board of Directors and external audit, providing independent, external, and/or non-executive oversight across the entire risk management framework, holding accountable those responsible for all activities within the three lines of defence.

PRINCIPAL RISKS AND UNCERTAINTIES

Our principal risks

Risk assessment scale[1]
– Very low
– Low
– Moderate
– High
– Very high

Risk appetite
– Highly cautious
– Cautious
– Balanced
– Opportunistic
– Highly opportunistic

Change in rating
↑ Increase
⊖ No change
↓ Decrease
✳ New risk

1. The combined impact and likelihood of a risk occurring, net of mitigation activities.

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
High

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, business transformation programmes and other growth initiatives, R&D, technology and digitising our offering.

Mitigation
– Remuneration Policy aligned to incentivise delivery of the strategy
– Deployment of SBS
– Continued review of acquisition/merger pipeline, integration, processes and capability
– Structured implementation plans for business transformation projects
– Regular reviews to track strategy execution and business transformation projects
– Vitality Index tracking R&D effectiveness
– Structured approach to delivering business transformation
– Business Audit and Risk Committees
– Global employee engagement programme

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 an ever-evolving landscape of information security threats, both internal and external, that are continuously growing in sophistication and unpredictability. In light of the persistence 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. Geopolitical tensions, the ever-changing regulatory landscape and technology advances such as generative AI introduce new and evolving risks that necessitate constant vigilance.

Mitigation
– Information security and data privacy policies and a well-defined security controls framework
– Cyber risk assurance undertaken by internal audit
– Continued focus on 'cyber fitness' training across the Group
– Regular Board, and Audit and Risk Committee reviews
– Continued strengthening of IT systems
– Regular cyber-attack simulation exercises and penetration tests
– Systems in place to immediately isolate identified threats
– Cyber threat intelligence services and brand monitoring