Enhanced risk management underpins the successful delivery of our strategy

Risk management

The Board of Directors is responsible for risk management and internal controls, supported by the Audit Committee and informed by the executive Risk Committee. The Board defines risk appetite and monitors the management of significant risks to ensure that the nature and extent of significant risks taken by the Company are aligned with overall goals and strategic objectives. The Risk Committee supports the Board and the Audit Committee in monitoring the exposure through regular reviews and has been delegated responsibility for reviewing the effectiveness of risk management processes and controls. The Internal Audit function was outsourced to PwC during 2015 to enhance the levels of resource and expertise available to the Group in specific areas, although its activities remain under the direction of the Executive team. The function assists the Risk Committee by advising management on improvements to the overall risk management framework, facilitating the risk review process and providing independent experience and input to the process.

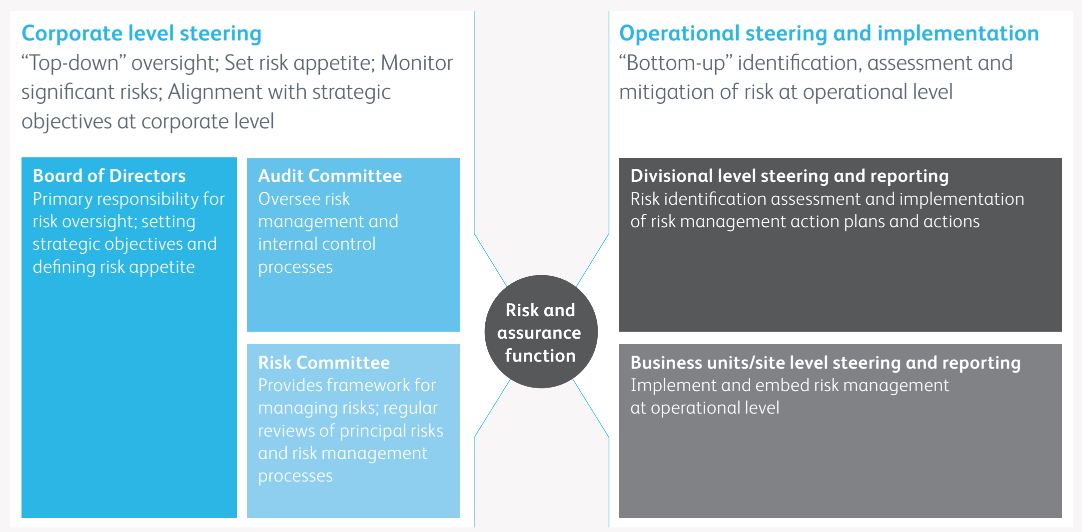
Risk management processes and internal control procedures are established within business practices across all levels of the organisation. Risk identification, assessment and mitigation are performed both "bottom up" with more detailed assessment at operational level, as well as through "top down" assessment of strategic and market risk at the executive management and Board level.

Risk management and internal controls provide reasonable but not absolute protection against risk. Risk appetite is not static and is regularly assessed to ensure it continues to be aligned with goals and strategy.

Risk profile

New and existing risks were identified and assessed during 2015. Executive management, the Risk Committee and the Board of Directors performed further analysis to prioritise these risks, with a focus on those principal elements posing the highest current risk to the achievement of the Company's objectives or the ongoing viability of the business. Risks

Our risk management framework



assessed as higher priority are consolidated onto a Risk Heat Map. Risks included on the heat map are monitored more closely by the Group, recognising that whilst these "top risks" represent a significant proportion of the Group's risk profile, executive management and the Risk Committee continue to monitor the entire universe of potential risks to identify new or emerging threats as well as changes in risk exposure.

Risk management enhancements

In the last Annual Report, two particular issues were highlighted as having increased the overall risk profile of the business during 2014, namely poor forecasting processes and slower than anticipated progress in implementing the Group's Operational Improvement Plan. In 2015, our risk monitoring processes have identified good progress in delivering improvements in both of these areas during the course of the year, as a result of targeted mitigation. This improvement was also seen across other risk factors, including Health & Safety management and on specific Financial risks (in particular Cash and Liquidity Management). Indeed, the analysis of the Group risk heat map identified a notable reduction in the number of "red" and "amber" risks overall, based on the specific mitigations that have been put in place during the course of the past year. It is recognised, however, that the risk relating to "Economic Downturn", which was specifically incorporated into the risk register during 2015 increased during the second half of 2015 and that continued attention was required on "Strategic Engagement", given the fact that the Group is only just moving into the second year of its new strategic direction. A further change in the way the Group operates its risk management processes during 2015 relates to the period of time over which key risks are assessed, which is now undertaken on a three year timeframe, to align with the time period selected by the Board for the "viability" statement set out below.

Viability statement

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over the period to December 2018, taking into account the Group's current position and the potential impact of the principal risks and uncertainties set out on pages 24 and 25 of the Directors' Report. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2018.

The Directors have determined that the period to December 2018 represents an appropriate period over which to provide the viability statement as this aligns with the business cycle including product development and order intake trends.

The Directors have taken the view that it is reasonable to assume (based on indications of interest received from the Group's existing relationship banks and the wider banking community) that the Group will be able to refinance its existing facility agreements on materially equivalent terms or better in advance of the maturity date of August 2017.

Whilst the Directors have no reason to believe the Group will not be viable over a longer period, given the inherent uncertainty involved, the Directors believe that this presents investors and other key stakeholders with a reasonable degree of confidence while still providing a longer-term perspective.

In making this statement, the Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, the underlying mitigation planning, the assessment of future performance, solvency and liquidity, and the Group's internal controls environment.

In making the assessment of the Group's viability, the Directors have stress tested the Group's financial projections for the period covered by the viability statement, testing it for "business as usual" risks, (such as profit growth and working capital variances) and severe but plausible events (occurring both individually and in unison), as well as a "reverse" stress-test to understand the conditions which could jeopardise the future viability of the Group. The Group's wide geographical and sector diversification helps minimise the risk of serious business interruption or catastrophic reputational damage. Furthermore, the business model is structured so that the Group is not overly reliant on any single customer, market or geography.

Whilst 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.

Link to strategy	Risk description	Potential impact	Mitigating action
	General		
1 6	General economic downturn Reduction in demand and orders	Decelerating sales growth affecting operating profit	– Monitor the wider economic conditions of our geographical markets – Timely financial reporting to monitor performance and provide a basis for corrective action when required – Ongoing optimisation of our cost base
	Commercial		
1 2 6	Contractual risks Potential liabilities from defects in performance-critical products that often operate in extreme environments	Reputational impact Deterioration in customer relationships Liability claims Reduction in revenues, profitability and cash generation	– Quality control procedures and systems in place and appropriate levels of insurance carried for key risks – Group guidelines on acceptable levels of contractual liability are reinforced
1 2 6	Pricing and margin pressures Potential price down in contracts	Reduction in revenues, profitability and cash generation	– Good communications with customers to ensure understanding of their circumstances (eg design improvements)
2 3 6	Research and development Delay in new product development which is intended to support revenue growth	Increased cost in product development Delay in achieving projected revenues Inability to meet the latest requirement due to step change in technology	– Close collaboration with key customers – Active monitoring of costs and milestones – Target R&D more effectively – Implementation of standard project management disciplines
	Operational		
1 4 6	Health and safety Risk of a health and safety incident in the workplace	Potential injury to employees or visitors Regulatory action and legal claims Reputational impact Reduction in profitability	– Enforce a zero tolerance attitude for safety related incidents at all levels – Three year roadmap put in place to strengthen health and safety compliance, including external audit; locally developed specific initiatives put in place – Incident reports regularly reviewed by the EMB – Continued training to raise awareness and regular audits of facilities

Link to strategy	Risk description	Potential impact	Mitigating action
	Operational		
5	People and capability Ability to attract and retain high quality and capable people	Loss of key personnel Potential business disruption Breakdown of communication and misalignment	– Remuneration structure designed to support retention – Succession planning processes embedded within the businesses – Campaigns to increase performance and development of communication between managers and employees to ensure alignment on objectives – Develop feedback loop utilising surveys to encourage regular objectives and performance discussions
1 2 4 6	Supplier resilience Potential failure of critical suppliers	Product delivery delays; inability to meet customer commitments Reduction in revenues, profitability and cash generation	– Regular review of key supplier financial health and product quality – Monitoring of relevant commodity and precious metals pricing – Review of spend patterns to identify opportunities
	Legal		
1 2 3 4	Legal and regulatory compliance Intentional or inadvertent non-compliance with legislation including laws and regulations covering export control, anti-bribery and competition	Reputational impact Civil or criminal liabilities leading to significant fines and penalties or restrictions being placed upon our ability to trade Reduction in revenues, profitability and cash generation	– Cross-division export compliance group established and anti-bribery programme in place – Approach involves risk assessment, policy, training, review and monitoring – Whistle-blower process in place to ensure issues can be raised, investigated and managed

Key

1. Market leading position 2. Enhanced customer focus 3. Targeted and efficient R&D spend 4. Operational efficiency
5. A lean, agile and learning organisation 6. Financial discipline and performance management