

Risk governance and management

As the SMS business has grown, we have continued to develop and refine our risk management approach. We provide services in a range of potentially high-risk environments and our commitment to effective risk management continues to be a primary focus. The risk management framework shown below highlights the main responsibilities for managing risks within the business.

Risk management framework



The Group Internal Audit team has worked closely with the Audit Committee, Executive Management Team and departmental teams throughout 2019 to support the embedding and continuous improvement of risk management processes and structures within the Group. This work has included facilitation of regular departmental risk update workshops, used to:

- ▶ identify new risks, review and update existing risk ratings;
- ▶ identify appropriate new mitigating actions; and
- ▶ assess progress towards completion of identified mitigating actions.

During 2019, significant progress was made towards readiness for the January 2020 launch of the EQMS quality management system, used for centrally tracking and co-ordinating Group compliance, safety, health and environment, and risk management activities and Group Internal Audit actions. Monitoring and reporting of risk to the Board and Audit Committee have been further developed alongside a number of internal audit reviews into specific risk areas within the business which have assisted risk management in those areas.

Understanding our risks

The organisational risk management framework comprises the recording and management of "top-down" strategic risks, which are discussed by the Board and Executive Management Team, as well as "bottom-up" risks, which capture potential operational issues at a departmental level. Our risk assessment model considers:

- ▶ the probability of a risk crystallising; and
- ▶ the potential impact if the risk crystallised.

These risks have been scored and placed on the risk heat map opposite, which is a matrix of probability and impact and shows our principal risks and uncertainties. Our model considers each risk from two different perspectives:

- ▶ the extent of inherent risk (before any mitigating controls or actions have been designed and implemented); and
- ▶ the extent of residual risk (after mitigating controls and actions have been successfully executed).

The heat map provides a picture of residual (mitigated) risk at the corporate level and allows us to assess the effectiveness of our internal control environment and take further action as appropriate. The matrix also enables the Group to focus the internal audit activity.

We continually evaluate our principal risks in line with our strategic priorities and the prevailing industry and market conditions. In 2019 we have further developed our risk framework, including:

- ▶ moving to an increased frequency of risk update workshops for the corporate risk register and each departmental risk register;
- ▶ enhanced and more detailed reporting to the Board of the significant strategic risks to the Group;

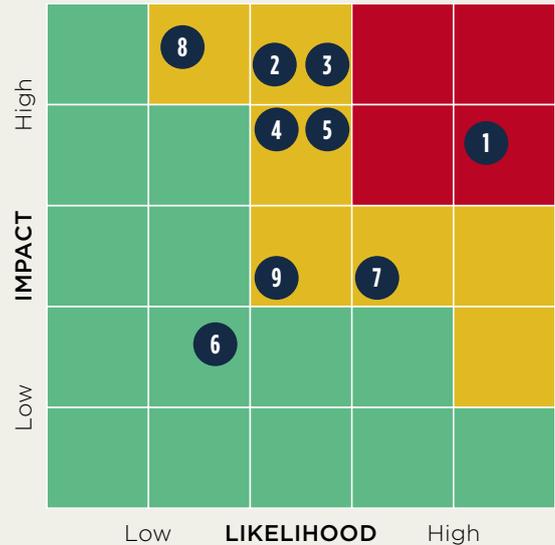
- ▶ consideration of new and emerging significant global and industry risks; and
- ▶ research on best practice in the presentation of risk information.

These processes have driven an updated view of the Group's principal risks and uncertainties in 2019.

Our principal risks

Our principal risks are assigned a red, amber or green status depending on the perceived overall severity. Risks that fall into one of these categories are treated as follows:

	Some action may be required, and risks are routinely monitored by management.
	Action is required to mitigate the risk through improved control with oversight from executive management.
	Mitigating actions are required immediately. Oversight is provided by the Board, Audit Committee and executive management directly.



All risks are assigned mitigating actions with an appropriate business owner and are supported by an executive sponsor to ensure there is a robust process for continuous improvement and accountability at senior management level. The risks captured in the heat map are in line with those identified in the prior year, although the scale of risk has been adapted in some cases as the Group has responded to changes in the environment.

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| 1 Potential breach of cyber security | 6 Funding and working capital management |
| 2 Major health and safety incident | 7 Brexit |
| 3 Speed of organisational growth (near term) | 8 Loss of required accreditations |
| 4 Business continuity - failure of critical business system(s) | 9 Potential breach of General Data Protection Regulation (GDPR) |
| 5 Critical supplier dependency | |

Coronavirus – an emerging risk

The ongoing spread and development of COVID-19 globally presents a potentially significant risk to the business, with the Group's primary concern being that of the welfare of its people, customers and the end consumer.

With immediate advised protection measures already introduced, the Group is prepared to take further mitigating steps as needed. This includes the potential closure of offices and warehouses, subject to further Government guidance, with most of the workforce able to continue to work and support the Group's customers from home, and consideration over further supporting the maintenance of a gas and electricity supply on an emergency basis for our customers under the right circumstances.

Should closures be required, the Group will ensure that all activities required to support necessary field work, and IT infrastructure that cannot be conducted remotely, can continue to be carried out. These will be supported by increased protection measures to ensure that the health and wellbeing of those field and office-based employees is protected.

The COVID-19 situation is evolving rapidly and the impact on the short-term financial performance of the business cannot be accurately quantified. However, the Group has a robust balance sheet, which will be further strengthened upon completion of the conditional disposal of a minority of the Group's meter assets for total gross cash consideration of £291m. In addition, the Group's high-quality, index-linked recurring revenue streams earned on its existing meter and data asset base should remain unaffected by the outbreak.

Management will continue to monitor developments and is prepared to respond as the situation develops further.