

## Strategic Report

## Principal Risks and Uncertainties

Risks and uncertainties	Mitigating actions taken
<p><b>Economic, construction market and foreign exchange risks</b></p> <p><i>Comment</i> Alumasc is a UK-based group of businesses with the majority of group sales made to the construction sector in the UK, which can be cyclical in nature.</p> <p>The UK's 'Brexit' vote adds to economic uncertainty at the current time.</p>	<ul style="list-style-type: none"> <li>• Strategic positioning in markets/sectors anticipated to grow faster than the UK construction market with potential for growth through the cycle.</li> <li>• Develop international sales (particularly in North America, the Middle East and Far East).</li> <li>• Increasing sales to the more resilient building refurbishment (relative to new build) markets.</li> <li>• Increasing mix of UK sales towards the stronger London &amp; South East regional markets.</li> <li>• Development of added value systems and solutions that are either required by building regulation and/or specified by architects and engineers.</li> <li>• Develop and retain strong management teams.</li> <li>• Ensure Alumasc products are market leading and differentiated against the competition to improve specification and to protect margin.</li> </ul> <ul style="list-style-type: none"> <li>• Management has developed contingency plans to mitigate risks arising from Brexit uncertainty, including the further development of international markets in view of the recent depreciation of Sterling.</li> <li>• The group has some exposure to currency risk, particularly the Euro, following Sterling's recent devaluation. This is being mitigated by purchasing efficiencies, some selling price increases and currency hedging.</li> </ul>
<p><b>Loss of key employees</b></p> <p><i>Comment</i> Generally staff turnover is low.</p>	<ul style="list-style-type: none"> <li>• Market competitive remuneration and incentive arrangements.</li> <li>• Changes in numbers of people employed monitored in monthly subsidiary board meetings.</li> <li>• Key and high potential employees identified and monitored on a local and group basis.</li> <li>• Focused training and development programmes for high potential and key people.</li> <li>• Exit interviews held for senior people who leave the business, with learning points shared.</li> </ul>
<p><b>Product/service differentiation relative to competition not developed or maintained</b></p> <p><i>Comment</i> Innovation and an entrepreneurial spirit is encouraged in all group companies. Some 20% of sales are earned from products launched in the last three years.</p>	<ul style="list-style-type: none"> <li>• Devolved operating model with both group and local management responsible for identifying opportunities and emerging niche market trends.</li> <li>• Group-wide innovation best practice days are held annually.</li> <li>• Innovation and new product development workshops held regularly in most group companies.</li> <li>• Annual group strategic planning meetings encourage innovation and 'blue sky' thinking, with group resources allocated and prioritised as appropriate to support approved ideas.</li> </ul>
<p><b>Risk of loss of customers</b></p> <p><i>Comment</i> Generally good track record of customer retention. The group has a diversified customer base with the largest customer representing only circa 2% of group revenues.</p>	<ul style="list-style-type: none"> <li>• Develop and maintain strong relationships through regular contact and seeking always to provide superior products, systems, solutions and service.</li> <li>• Good project tracking and enquiry/quote conversion rate tracking.</li> <li>• Increasing use of, and investment in, customer relationship management (CRM) software.</li> <li>• Organisational and cultural flexibility to adapt to changing and emerging customer needs.</li> </ul>
<p><b>Pension obligations</b></p> <p><i>Comment</i> Alumasc's pension obligations are material relative to its market capitalisation and net asset value.</p>	<ul style="list-style-type: none"> <li>• Continue to grow the business so the relative affordability of pension contributions is improved over time.</li> <li>• Maintain a good, constructive and open relationship with Pension Trustees.</li> <li>• Meet agreed pension funding commitments.</li> <li>• Pension scheme management is a regular group board agenda item.</li> <li>• Use of specialist advisors on actuarial, investment and advisory matters.</li> <li>• Monitor and seek market opportunities to reduce gross pension liabilities, through, for example, transfers or partial buy outs.</li> </ul>
<p><b>Product warranty/recall risks</b></p> <p><i>Comment</i> The group has a good track record with regard to the management of these risks and does not have a history of significant claims.</p>	<ul style="list-style-type: none"> <li>• Robust internal quality systems, compliance with relevant industry standards (eg ISO, BBA etc) and close co-operation with customers in their design and specification of the group's products.</li> <li>• Group insurance programme to cover larger potential risks and exposures, where applicable.</li> <li>• Back to back warranties from suppliers, where appropriate.</li> <li>• Seek to manage contractual liabilities to ensure potential consequential losses are minimised and proportionate, and overall liabilities are capped, where possible.</li> <li>• Specific local risk management procedures in group brands that also install (as well as supply) building products (i.e. Levelux and Blackdown).</li> <li>• Internal audits of quality and supply chain and design procedures targeted at higher risk areas, particularly Solar Shading and Roofing.</li> </ul>

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<p><b>Reliance on key suppliers</b></p> <p><i>Comment</i> Whilst the group does not have undue concentration on any single or small group of suppliers, certain Alumasc businesses do have key strategic suppliers, some of whom are located in the Far East.</p>	<ul style="list-style-type: none"> <li>• Annual reviews of supplier concentration as part of strategic planning/formal business risk review process, with alternative suppliers sought and developed where practicable.</li> <li>• Regular key supplier visits, good relationships maintained and quality control checks/training carried out.</li> <li>• Regular reviews as to whether work should be brought back to the UK (or elsewhere) as economic conditions evolve, including the impact of foreign exchange rate movements.</li> </ul>
<p><b>Business continuity risks</b></p> <p><i>Comment</i> The group has not previously experienced any significant loss of operational capability causing business continuity issues. Whilst the likelihood of a catastrophic loss is low, the impact if it were to happen could be high. Particular areas of focus this year with regard to risk mitigation have been cyber security and resilience of energy supplies.</p>	<ul style="list-style-type: none"> <li>• Business continuity plans prepared at each business, having regard to specific risk factors.</li> <li>• Advice is being taken from insurers on continuous improvement of these plans.</li> <li>• IT disaster recovery plans are in place, with close to real time back up arrangements using either off-site servers or cloud technology.</li> <li>• Cyber security reviews carried out at group level and in all operating companies during the year.</li> <li>• Reviews of energy supply and contingency arrangements reviewed during the year, with back up supplies in place as needed.</li> <li>• Critical plant and equipment is identified, with associated breakdown/recovery plans, including assessment of engineering spares held on site.</li> </ul>
<p><b>Strategic development risks and change projects</b></p> <p><i>Comment</i> There are execution risks around a number of current strategic change projects, including new product launches, the relocation of Timloc to a new property in 2017 and various ERP and CRM system implementations.</p>	<ul style="list-style-type: none"> <li>• Key strategic change projects are governed by Steering Committees sponsored by the managing director of the business, with group executive director involvement, supported by independent specialist consultants where necessary (for example IT and property).</li> <li>• Project risk reviews conducted and updated regularly.</li> <li>• Project plans established and monitored monthly.</li> <li>• Project boards established. The project manager reports to the Steering Committee.</li> <li>• Use of proven, reliable software solutions and avoidance of bespoke wherever possible.</li> <li>• Careful documentation and challenge of legacy business processes prior to implementation of new systems.</li> <li>• Pre-implementation testing, training and communication, with go-live delayed if implementation risk is judged to be too high.</li> </ul>
<p><b>Health and safety risks</b></p> <p><i>Comment</i> The group has a strong overall track record of health &amp; safety performance, with the number of lost time accidents significantly reduced over the last 10 years.</p>	<ul style="list-style-type: none"> <li>• Health and safety is the number one priority of management and the first agenda item on all subsidiary and group board agendas.</li> <li>• Risk assessments are carried out and safe systems of work documented and communicated.</li> <li>• All safety incidents and significant near misses reported to board level monthly. Appropriate remedial action taken.</li> <li>• Group health &amp; safety best practice days are held twice a year, chaired by the Chief Executive.</li> <li>• Annual audit of health and safety in all group businesses by independent consultants.</li> <li>• Specific focus on improving health and safety for higher risk operations.</li> </ul>
<p><b>Credit risk</b></p> <p><i>Comment</i> The group has a generally good record in managing credit risks. Risks can be higher amongst smaller building contractor customers, who are often installers of the group's products.</p>	<ul style="list-style-type: none"> <li>• Most credit risks are insured.</li> <li>• Large export contracts are backed by letters of credit, performance bonds, guarantees or similar.</li> <li>• Any risks taken above insured limits in the Building Products division are subject to strict delegated authority limit sign offs, including group executives' sign off for uninsured risks above £50k.</li> <li>• Credit checks when accepting new customers/prior to accepting new work.</li> <li>• The group employs experienced credit controllers, and aged debt reports are reviewed in monthly Board meetings.</li> </ul>