

## Risk Management Overview

In 2019, we have continued to roll out our Risk Management process across our recently acquired businesses.

Ashfield, for the purposes of risk management is considered as three separate divisions; Commercial & Patient Solutions, Healthcare Communications, and Advisory, Sharp is considered one single division. The key risks for each division are identified and mitigation plans put in place. These key risks are amalgamated to identify the key risks of the whole organisation, known as the Group Risks. The Group Risks are reviewed by both the Senior Executive Team ('SET') and the Risk Investment and Finance ('RIF') Committee. The connected and coordinated nature of this process reduces the risk of omitting potential threats to the business.

Acquisition activity continues to support the growth of the organisation and reduce risks to its future viability. An improved integration process and an improved technology infrastructure leads to a smoother capture of the advantages brought by these acquisitions.

The prevailing themes of cyber security and talent remain centre stage in the risk profile for UDG Healthcare plc in 2019. In addition, there is increasing uncertainty generated by Brexit and international trade disputes and sanctions. Some significant initiatives are underway to mitigate the exposure to cyber-attacks. Recognising that technical solutions are only one element of mitigation, considerable effort has gone into awareness for all employees and in particular those employees who are, by nature of their roles, high risk from a cyber-attack perspective. A combination of mandatory training, screen savers, newsletters and webinars have been deployed. A cyber security update detailing near misses, incidents, if any, and prevailing themes is presented twice per year to the RIF for their assessment of adequacy. The information security team is led jointly by the Heads of IT and Compliance to ensure that the focus is based on both technical solutions and behaviours.

Talent and talent retention remains a key focus with the emphasis during 2019 being on developing specific business development skills and processes throughout the organisation as growth through business development consistently represents a high risk to the Group.

## Viability Statement

In accordance with the relevant provisions set out in the U.K. Corporate Governance Code, the Board has carried out a robust assessment of the principal risks facing the Group, including those which would threaten its business model, future performance, solvency or liquidity. The nature of, and the strategies, practices and controls to mitigate these risks are addressed in the Principal Risks and Uncertainties section on pages 49 to 51.

Using the Group's Long Term Strategic Plan, (the 'Strategic Plan') which is reviewed and approved by the Board annually, the prospects of the Group have been assessed over the three-year period to 30 September 2022. The Strategic Plan considers the market opportunities within the healthcare sector, the Group's cash flows, committed funding and liquidity positions, forecast future funding requirements, banking covenants and other key financial ratios.

The Strategic Plan is built on a business by business basis and the model is subjected to sensitivity analysis. Appropriate stress testing of certain key performance, solvency and liquidity assumptions underlying the Strategic Plan has been conducted taking account of the principal risks and uncertainties faced and possible severe but plausible combinations of those risks and uncertainties. The sensitivity analyses focused on five scenarios where changes to the economic environment or compliance issues could have an impact. These scenarios have been incorporated into the Risk Management Framework and are reviewed and managed in line with the Group's risk appetite.

These scenarios can be summarised as follows:

1. there is significant weakening of euro and sterling foreign exchange rates relative to the U.S. dollar;
2. the largest site by profit generation becomes inoperable for an extended period of time;
3. a large-scale acquisition significantly underperforms;
4. there is an imposition of price controls or price reductions in the U.S. healthcare market; and
5. a combination of both scenarios two and four above occurring simultaneously.

As a result of this assessment, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due for the next three years to 30 September 2022.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review on pages 30 to 33. In addition, Note 31 to the Consolidated Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit, currency, cash flow and liquidity risks.

The Group has considerable financial resources and a large number of customers and suppliers across different geographic areas and industries. Having assessed the relevant business risks, the Directors believe that the Group is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

## Emerging risks

In addition to the Group's existing risk management framework, the Board (through the RIF), acknowledges the requirements of the Financial Reporting Council's 2018 U.K. Corporate Governance Code (the 'New Code') applicable to the Group from 1 October 2019.

This requires the Group to carry out a robust assessment of emerging risks as well as principal risks, to explain the procedures that are in place to identify emerging risks, in the 2020 Report and onwards, and finally to explain how these emerging risks will be managed or mitigated.

A Risk and Controls Sub-Committee has been established to address, among other matters, these requirements. The Risk and Controls Sub-Committee comprises executives from across the Group and will report to the RIF on such emerging risks on a biannual basis.