Risk Ready?

Analysis of European listed companies

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Preface

A rapidly-changing risk landscape filled with opportunities and threats is moving to encompass alternative business models and new strategic frameworks.

Marsh has undertaken a project aimed at analysing the risk panorama in Europe and the study's findings offer unique insights for Risk Managers.

The report exhaustively analyses listed companies' annual reports and reviews what they publicly declare as the principal risks. These have been prioritised based on their frequency and the Top 10 risks section illustrates them both at a European aggregate level and from an industry standpoint, with a focus at country level.

The ranking of risks – via an acute analysis of each company's risk perception – is explained by a context analysis in terms of geopolitical changes, new regulatory frameworks, technological advances, trends across European economies, and industries' chief investment areas. This ensures external factors are taken into consideration – meaning every risk and its accompanying ranking can be better understood and monitored.

A deeper knowledge of the context where companies operate, together with an accurate analysis of the internal risk factors, can act as a significant lever for Risk Managers, potentially enabling them to recognise their competitors' strategies and define how to manage the threats within their organization.

I trust this report will give you a degree of practical guidance on current risk scenarios dominating organisations while acting as a useful tool from which to garner a broader viewpoint of the European scene.

Siegmund Fahrig
CEO
Marsh Continental Europe

Executive Summary

In the European climate of rapid changes in its social, economic, technological and regulatory environment, businesses require solid risk management frameworks in order to maintain a competitive advantage.

Companies, understanding the importance of risk management, are including broader overviews of their collective risk perception in their annual reports. Of course, this has mainly begun in order to comply with International Accounting Standards and Financial Reporting Standards (IAS/IFRS) and to the effective application of Corporate Governance Codes required by the national Stock Exchanges for its listed companies. However, the level of disclosure is increasing – and including a good level of analysis of non-financial risks, partially due to the introduction of the Non-financial Reporting Directive (2014/95/EU) and to the relevance that non-financial risks and those connected to sustainability are having for consumers and institutional investors.

The annual reports, indeed, highlight that financial risks, including liquidity, credit and fluctuations of exchange rates/interest rates, are the most significant to organizations in Europe. As the majority of the companies are addressing their financial stakeholders, this — together with the above mentioned mandatory financial risks disclosure — can be considered the main reason behind the high rank of financial risks. The annual reports in this study also show that operational risks such as legal and compliance (concerning the threat resulting from violations of laws, regulations, codes of conduct, or organizational standards of practice) and – close to the bottom of the chart — human capital risk (connected to the importance of investing in people) are in the top 10 concerns of these organizations.

Further, uncertainty relating to the economic, political, financial and geopolitical environment, as well as growing regulatory risk, are worrying to EU companies.

Strategic risk is another key point in the annual reports; companies feel that failures in strategy design could be dangerous to business activity, while reputational risk – often connected to failure in the strategy process — is at the bottom of the top 10 European list.

As expected, due to the significant growth of digitalization, the introduction of GDPR and the occurrence of large-scale cyber attacks, the threat of cyber risk from both internal and external weaknesses is a key concern for companies in EU.

Managing health/safety & environmental risk, including topics such as sustainability, is also becoming a top priority for companies, with many now including sections on sustainability in their annual reports.

The level of disclosure is increasing, including a good level of analysis of non-financial risks

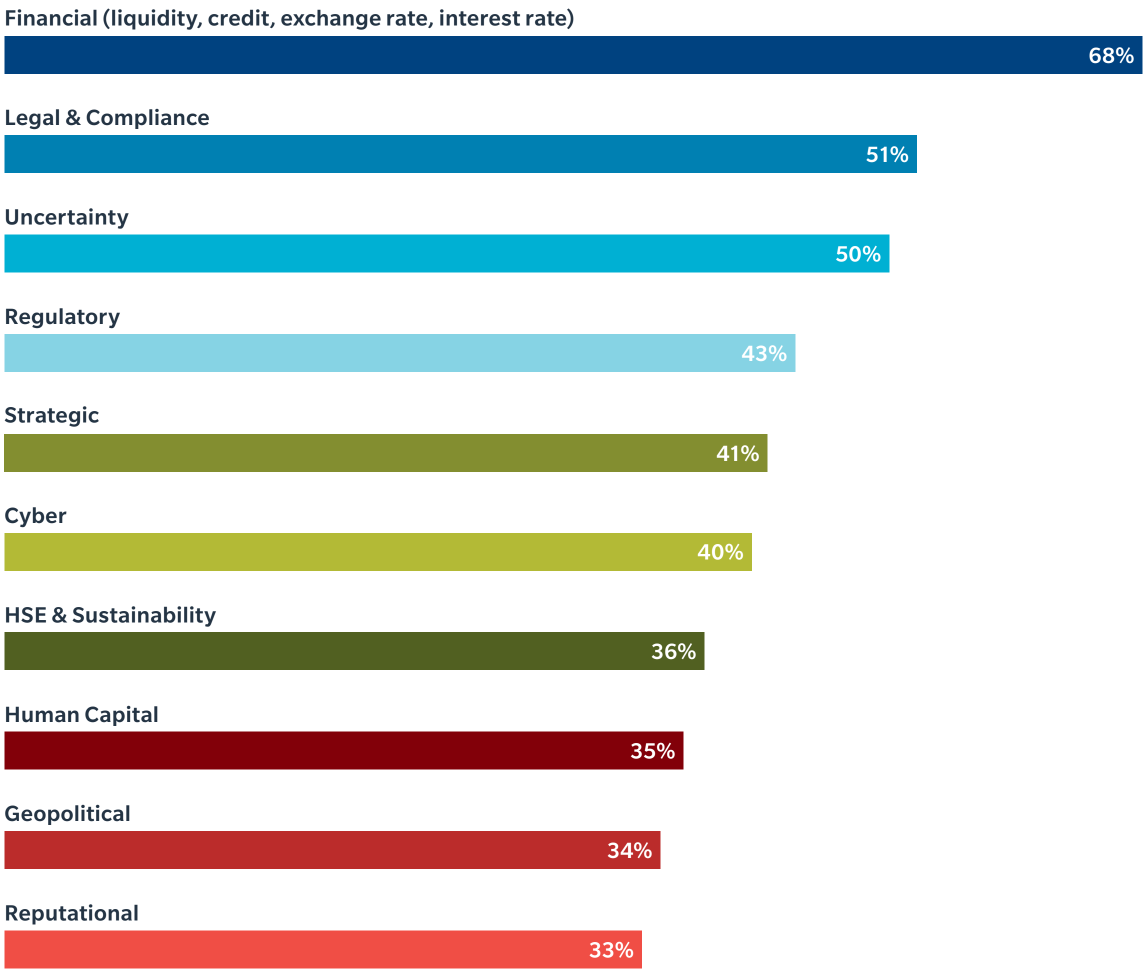
Top 10 Risks European Analysis

This study analyses the Risk Management section of the 2018 annual reports of 550 listed European companies in order to identify their top perceived risks. The companies span 29 countries and are classified into 13 industries.

The reported risks were classified in line with the Marsh Risk Inventory*; the frequency of perceived risks at European aggregate level, industry level and country level were then reviewed and the outcomes used to rank the risks.

Top 10 Risks – European Aggregate Results

Type of Risk **% Risk perception (# 550 EU companies)**



**Marsh Risk Inventory is a risk classification by Marsh Italy made up of four main risk categories and twenty-eight sub-categories (see Methodological Note on page 27)*

1ST

Financial Risks

A weaker macro-economic environment in some countries and the implementation of new types of insolvency proceedings in other countries have confirmed in 2018 the upward trend of global insolvencies that began in 2017. This has made credit risk a main concern.

Furthermore, shareholders are less prepared to invest their capital because of the persistent macro-economic uncertainty and geopolitical instability. Therefore, in a context where the credit risk is highly perceived (meaning banks – also on the grounds of a stricter regulation – are quite limited in granting loans) and finding shareholders is not easy, companies with high fixed costs and large amount of stocks have to carefully plan liquidity and their cash flow needs. This happens especially in industries whose businesses closely depend on the supply chain or global and complex business models — such as Manufacturing, Food & Beverage or Infrastructure / Construction / Cement.

In addition, when considering companies that purchase many of their components abroad with different currencies (such as Automotive, Fashion or Life Sciences / Pharmaceuticals / Chemicals), the risk of exchange rate fluctuation rises.
In spite of the above, some countries like UK and Denmark are not considering financial risks among their top 3 risks.

FINANCIAL RISKS INCLUDE THE FOLLOWING:

Liquidity Risk: where the company may not be able to honor its commitments or unwind or settle a position due to the market environment or idiosyncratic factors, within a given timeframe and at a reasonable cost.

Interest Rate Risk: unfavorable change in interest rates, with particular reference to long-term loans, which expose the company to the risk of changes in cash flows.

Exchange Rate Risk: impact of exchange rate fluctuations, of the currencies in which a company transacts, on its profit and equity.

Credit Risk: the possibility of a third party not complying with their payment obligations, creating credit losses and NPL (not-performing-loans).

2ND

Legal & Compliance Risk

Businesses are under pressure from regulators and stakeholders to minimize exposure to this risk area. Laws, regulations, codes and practice are becoming more and more complex. Companies are dedicating major resource and attention to compliance in order to avoid violations, which could affect their financial, organizational and reputational standings.

In addition, the sanctioning system has become more stringent over recent years and has moved towards the personal responsibility of the company's top managers and administrators.

Consequently, "non-conformity", and in turn "public attention" (mass media, clients and investors), are subjects that are increasingly concerning boards of directors and boards of statutory auditors.

A vital development in this area has been the GDPR (General Data Protection Regulation), the most significant change in data privacy regulation in 20 years.

This Regulation has fundamentally reshaped the way in which data is handled across every industry. Organizations that are not compliant to the GDPR system could face heavy fines.

For companies operating in the Media & Communication and Financial Institutions industries, where there is a high quantity of information and daily flow of data, risk of non-compliance with GDPR rules is very high.

At a country level, Germany and Denmark are particularly worried about this risk, ranking it in 1st position.

3RD

Uncertainty Risk

For over a decade, notable disasters and macro dynamics have amplified economic, political and financial uncertainty worldwide. Now, our economies are more subjected than ever to shocks and threats.

Cyclical industries, like the Automotive one, are particularly susceptible because of these global tensions. Many European Financial companies highlighted these ongoing concerns over the next five years: growing political instability in several European countries; trade wars; economic fluctuations; unstable rates and, more generally, difficulties in finding financial resources.

Moreover, some enterprises, whose strategies are to enlarge their core businesses through acquisition, struggle against political and economic variables, which influence their opportunities to grow negatively. To protect their businesses – and reduce potential losses - companies may decide to conduct their operations in different, less volatile markets. By doing so, they can reduce some risks – recessions, lower consumer demand, changes in legislation – and the resulting negative impact on their business.

This study confirms the state of uncertainty that all the companies – with no exclusion – are living in and it highlights how all the analyzed industries are worried about the possible consequences on their business if they are not able to properly manage the uncertainty.

4TH

Regulatory Risk

Due to the international operations of the companies examined, the majority of them are subject to complex legislative dynamics. Consequently, regulatory risk (related to any potential mutation in laws and regulations that could adversely affect a company’s business model) is mostly perceived by global companies, mainly based in Italy, Germany, Belgium and Switzerland, which hold relevant foreign direct investments.

This risk, ranked 4th overall, appeared in roughly half of the annual reports considered in the sample.

The Media & Communications industry ranks this risk amongst the top 3. Other highly exposed industries are Power and Utilities. As they both have close links to environmental and social landscapes, they are extremely susceptible to legislation in these areas.

Further, environmental, social and governance factors are being considered by many jurisdictions. Authorities are committed to enhancing legislation related to these to these themes and are considering the adoption of new standards, such as the Global Reporting Initiative (GRI) Standards, to disclose their non-financial results.

5TH

Strategic Risk

Strategic risk management is defined as the process of identifying, assessing, and managing risks and uncertainties that could inhibit an organization's ability to achieve its strategic objectives. In an environment characterized by highly disruptive macro events, high volatility and growing digitalization, it has become absolutely essential for companies to make accurate long-term strategic plans.

In the Fashion industry, strategic risk holds 1st position; this is probably due to the importance of product positioning and product differentiation: multinational brands must follow trends year-on-year in order to improve sales and stay relevant.

Strategic risk is also highly ranked in Entertainment industry and other fast-moving consumer-related industries: this is likely because it is a mutable industry influenced by client behavior and preferences.

Therefore, it is fundamental to plan accurate strategies to constantly innovate when launching new products.

An efficient corporate management has to focus on transversal risks that could affect different market segments and also different business units within the same company. Managing risk effectively helps to create value by taking advantage of uncertainty and volatility to maximize gains and improve competitive positioning.

6TH

Cyber Risk

Driven by the frequency and severity of high-profile incidents, such as the 2017 NotPetya attack, cyber risks and threats increased significantly among organizations' top priorities.

In recent years there has been a drive to invest in the latest technology. While this investment can bring massive benefits, it also introduces cyber security issues. The increasing scale of reported data breaches and security failings confirms the extent of the cyber risk that all organizations face.

This study shows how organizations are becoming more and more cognizant of and concerned about this threat. Cyber risk has moved beyond data breaches and privacy concerns to sophisticated schemes that can disrupt entire businesses, industries, supply chains and nations, costing the economy billions of dollars and affecting companies in every industry. The real cost of cyber security failures goes beyond the initial monetary impact — there are lots of qualitative and long-lasting costs that make it more difficult to quantify. The hard truth organizations must face is that cyber risk can be mitigated, managed, and recovered from, but it cannot be eliminated.

According to the analysis results, this risk ranks 6th overall and it appears in roughly half of the annual reports analyzed and among all the 13 Industries. Cyber risk is a key concern for the Power industry. Other industries highly exposed are Technology and Media & Communications.

At country level, cyber holds the first position in UK and is among the top 3 risks in Denmark . The risk of cyber-attack is growing exponentially as the opportunities presented by technology and improved systems connectivity continue to evolve and expand.

TYPES OF CYBER ATTACK

Cyber risk can be categorized into four different kinds of attack: *Internal Malicious*, which are deliberate acts of sabotage, theft or other wrongdoing committed by employees/insiders; *Internal Unintentional*, caused by human errors; *External Malicious*, these are premeditated attacks from outside parties; *External Unintentional*, which are similar to the internal unintentional.

7TH

Health, Safety, Environmental (HSE) & Sustainability Risk

While Health and Safety is a well-known perceived risk (particularly personal hazards or injuries, and also "pure" Environmental risk), executives, investors, lenders, and regulators are now turning their attention to sustainability risk.

HSE risk is closely connected to sustainability, which is currently under the global spotlight. Sustainability-related issues range from climate change and the depletion of natural resources to workers' rights and skills, corporate brand and customer demand. With respect to this risk, companies should aim to reach both environmental sustainability and social sustainability, aiming to safeguard and promote health and safety in the workplace, and respect for the environment.

Some business activities may adversely affect the environment and certain vulnerable groups, despite being compliant with all legal and regulatory requirements.

With regard to the environment, organizations should look for continuous improvement in performance by investing capital together with human and technological resources for monitoring, reducing their environmental impact and encouraging the environmental commitment of its stakeholders. To this end, companies should consider their entire supply chain, measure the environmental footprint of their main products / services, and whenever possible apply principles inspired by eco-design and the circular economy.

Regarding employees, more and more attention is given to the wellness, health and safety of workers and the communities impacted by the organizations.

Nowadays, organizations have to look at sustainability as an essential added value that people are searching for — both in working and personal life.

This means that sustainability does not simply revolve around significant attention to the environment, but also embeds concerns for social themes. Human rights and basic necessities should be attainable by all people, meaning access to sufficient resources in order to keep their families and communities healthy and secure. Healthy communities have just leaders who ensure personal, labor and cultural rights are respected, and all people are protected from discrimination, particularly within the work environment.

This risk was mentioned by 194 of the 550 studied companies. At an industry level, HSE & sustainability risk is primarily perceived by the Food & Beverage industry. Other industries highly exposed are Manufacturing, Infrastructure / Construction / Cement, and Power.

Norway (with high attention to Health and Safety on workplace and Corporate Social Responsibility) and UK (probably influenced by the UK Climate Change Committee establishment) both show a high perception of this risk compared to other countries.

8TH

Human Capital Risk

Human capital is needed to achieve goals, develop and remain innovative. Companies can invest in human capital for example through education and training enabling improved levels of quality and production. Other possible commitments for employers involve apprenticeship programs, educational bonuses and benefits, family assistance and funding college scholarships.

Human capital risk lies in skill gaps and shortages, poor succession planning, and transient workforces and their potential to interrupt business processes or disrupt supply chains.

This risk is exacerbated by social, economic, and political tensions.

The study shows that 189 Companies highlighted human capital risk within their annual reports. Industries like Entertainment and Infrastructure / Construction / Cement ranked this risk the highest. Other industries highly exposed are Media & Communications and Technology.

With today's economy shifting towards a knowledge economy, the importance of the right human capital is growing rapidly.

9TH

Geopolitical Risk

In recent years, several countries around the globe have moved towards isolationism and protectionism, creating hurdles on the course to globalization set at the beginning of this century.

EU companies risk being significantly impacted by Brexit, which could alter how the bloc trades with the UK and what rules and laws the UK needs to adhere to in relation to the EU.

Many companies, such as manufacturers and retailers, have been stockpiling ingredients or finished products, fearing a shortage of goods and additional disruption to already extremely lean supply chains. The UK Warehousing Association (UKWA) has reported increased demand for capacity and a shortage in warehousing space close to major cities as companies are increasing warehousing capacity in an effort to ensure stocks do not run low.

Routing via different ports of entry will also change logistics arrangements. In the longer-term, concerns about additional bureaucracy or delays at ports may encourage firms to keep more stock at warehouses in the UK and overseas than they normally would. The above issues raise questions as to how this changes the risk profile of the organization. Geopolitical risk was mentioned by 190 Companies from 29 European Countries. Manufacturing is the industry perceiving this risk the most. Other industries concerned about this risk are Automotive and Fashion.

With the uncertainty still surrounding Brexit, it is imperative that businesses keep their eyes on the potential impact that this change will have on risk and insurance issues. There are some key areas companies should be considering, including:

- Market volatility: this will likely be experienced.
- GDP growth and regulatory uncertainties: these may deter foreign direct investment to the UK in the short-term.
- People issues: this will impact workforce strategy, particularly regarding talent availability. Some EU workers are anxious about the impact of Brexit and are opting to leave the UK. If such workers prove difficult or more expensive to replace, organizations could face declining numbers of employees, which could affect the ability to run parts of a business, or to take on and/or complete projects, which could have a negative impact on revenues.
- Passporting issues: if passporting rights – the ability for financial services firms based in one EU country to operate in another without setting up a new legal entity – are not resolved, banks (both UK and EU-domiciled) may be required to set up additional operations or headquarters elsewhere, with revenues travelling accordingly. Changes in the legal and regulatory environment: this could add complexity and cause confusion – and weaknesses.

10TH

Reputational Risk

Reputational risk derives from the negative perception of the company by customers, suppliers, supervisory authorities due to external disclosure of information that highlights fraudulent behavior, unlawful acts of management, employees, external collaborators, associates or unions; interruption of company processes; or production of incorrect outputs (product recall/quality product).

Sometimes, this information can compromise in an irremediable way the social credibility, competitiveness and reliability of the products/services of an economic activity. Therefore, a negative perception of the company's image by the stakeholders may lead to huge decrease in earnings or capital.

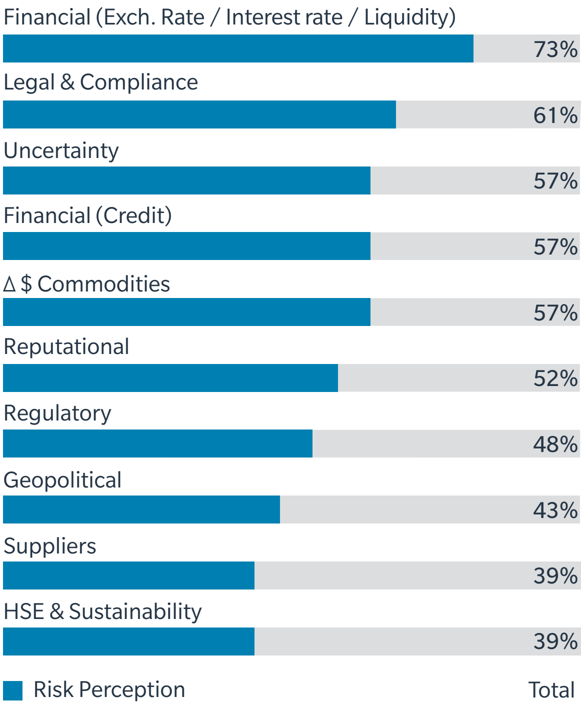
The widespread sensitivity of top managers to these issues can be better understood if we refer to the rapid evolution of social networks and mass media that companies on a global scale need to cope with.

The risk is perceived by the vast majority of the industries of this study (including Automotive, Fashion, Food & Beverage and Financial Institutions).

However, only 33% of the overall companies mention reputational risk in their disclosure. This could be due to the intangible nature of the risk. Adding to this, companies are not able to quantify the financial impact that the reputational risk can have on their business due to the lack of standardized measures.

Top 10 Risks – Industry Analysis

Automotive



In the Automotive industry, the highest perceived risk relates to the exchange rate fluctuation. This is linked to the fact that Automotive companies produce and purchase many of their components abroad, often in countries with different currencies.

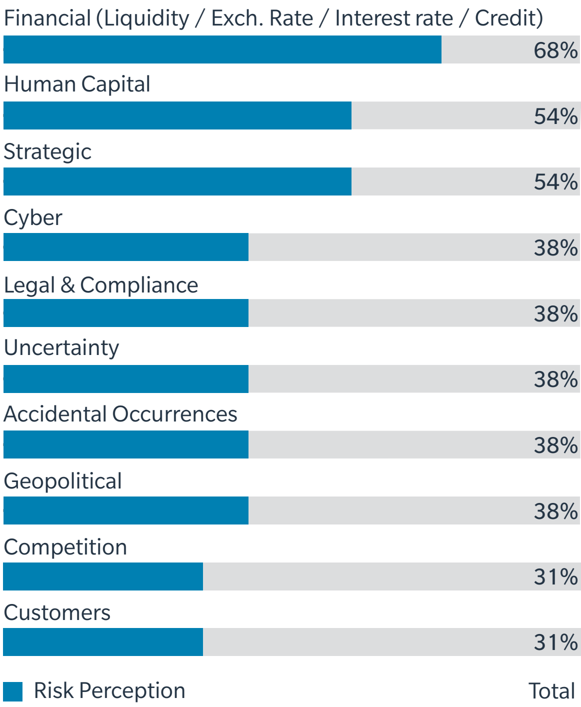
Moreover, these organizations are particularly worried about compliance themes, uncertainty of the global context and changes in regulation that could negatively impact the business model.

Also the risk of product recall has significantly increased with the consequent worsening of reputational risk perception.

Although Automotive companies purchase components in emerging markets, they seem not to be particularly sensitive to geopolitical risk: over the years they have become familiar with this type of risk and their company size acts as a buffer against these tensions and macro trends in these new markets.

Risks associated with HSE & Sustainability and suppliers are considered with lower frequency. Nonetheless, it clearly appears from the reports that these are crucial factors for consideration during the strategy definition.

Entertainment

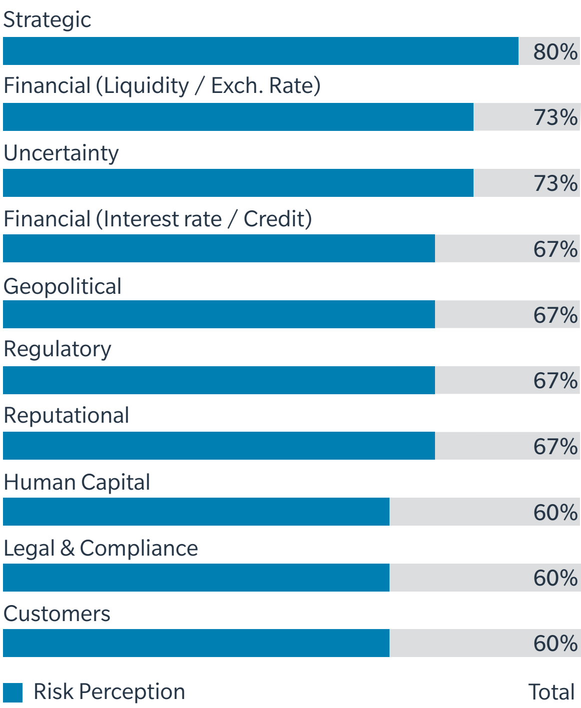


A number of the firms in this group operate within the hospitality industry and are more heavily impacted by exchange rate risk — largely due to the level of international activity. This is likely why this risk holds the number one ranking.

Human capital loss is also a worry to this group of companies, given its distinct service needs and high turnover.

Cyber and legal & compliance risks do not rank in the top 3, despite the large amount of personal customer information and sensitive data handled by these companies.

Fashion



Strategic risk is the leading one amongst Fashion companies. With a more conscious which was referenced by 80% of all the companies analyzed. With a more conscious consumer, firms have to adjust their operating models and processes to meet their needs.

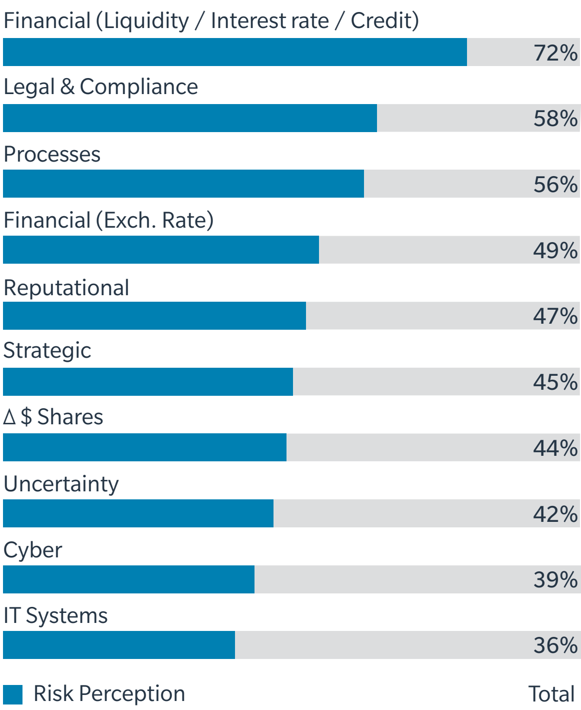
All French and Italian companies analyzed reference both strategic risk and the reputational risk. In this industry, having a negative brand image is particularly significant and is likely to have a substantial impact on sales for retailers and end customers.

With the industry's migration towards fast Fashion over the years and increasing consumer demand in the US and Asia, firms are more susceptible to exchange rate risks related to outsourcing and export-flows.

The exchange rate risk was referenced by 100% of the firms based in Italy, Switzerland and Sweden, and 90% of firms based in France.

While it is highly-ranked on the list, the impact of geopolitical risk is being underestimated in some countries (for example, Italy).

Financial Institutions



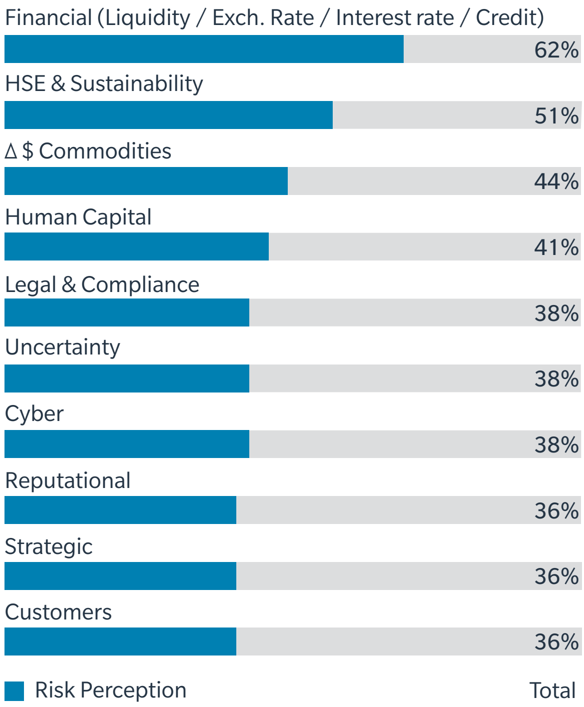
It is no surprise that the "traditional" risks (such as credit, liquidity and interest rates) are most frequently referenced by commercial banks, investment banks and asset management funds. Though the Financial Institutions (FI) industry is continuously evolving, the approach to risk has remained somewhat traditional, with financial, legal & compliance and processes receiving the most references respectively.

Nevertheless, the FI industry is embracing new advancements like Artificial Intelligence (AI), robotics and blockchain in order to lower costs and improve the customer experience. These positive factors, however, are counterbalanced by potential negative aspects such as macro-economic uncertainty and stricter regulation (at EU level). Uncertainty like Brexit means FIs need to adopt new strategies, such as relocation of headquarters.

Fashion industry

The changing nature of the industry is drawing more attention to strategic risk, which was referenced by 80% of all the companies analyzed

Food & Beverage



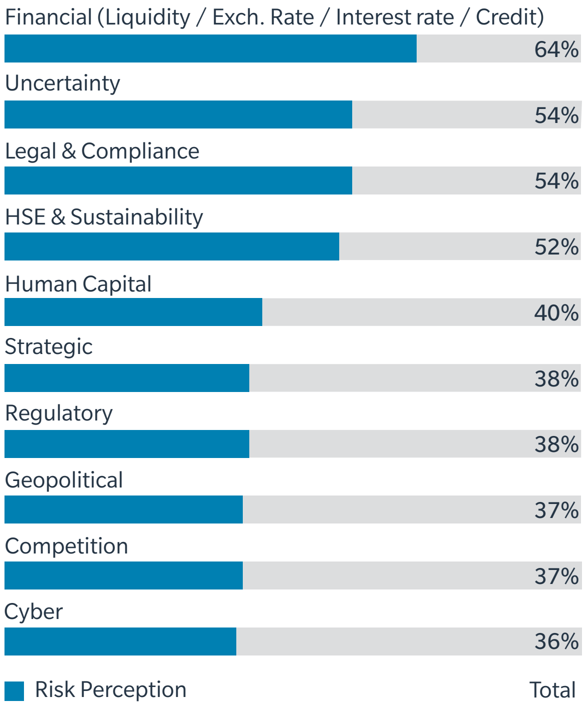
In 2018, Food & Beverage was the largest manufacturing sector in terms of turnover, value added and employment, making it one of the world's most dynamic industries.

The key risks facing this industry are financial. Both exchange rate risk and liquidity risk were referenced in the vast majority of the analyzed company reports.

The changing industrial climate makes this industry particularly challenging and risky. Food production now and in the future is likely to be negatively affected by both land degradation and climate change. Moving forward, land will have to be managed more sustainably so that, for example, it releases much less carbon than at present: peatlands will need to be restored by halting drainage schemes; meat consumption will have to be cut to reduce methane production; food waste will have to be reduced.

Recessions, lower consumers' demand and legislation all feed into uncertainty in this sector.

Infrastructure / Construction / Cement



Beside the "traditional" financial risks, this industry is most concerned about risks related to legal & compliance and environmental themes.

Companies in this industry have to adhere to a variety of national and international laws, particularly in relation to competition and anti-trust measures.

Moreover, several contractual obligations and regulatory observations are necessary to obtain highway concessions. Failure to comply can result in any type of penalty, fee or disruption to the businesses processes.

Companies also identify environmental risks relating to waste management, climate change (e.g. CO_2 and greenhouse gas emissions) and storage of certain hazardous substances in some production sites.

Aggressive commercial policies, development of new products / new technologies, increase in production capacity by competitors: these factors can lead to an increase in the level of competition on prices.

Food & Beverage industry

Food production now and in the future is likely to be negatively affected by both land degradation and climate change

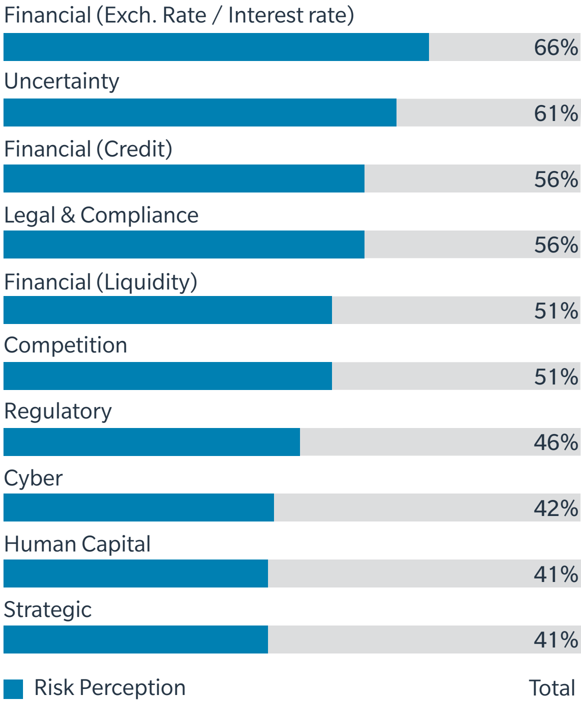
Life Sciences / Pharmaceuticals / Chemicals

Nowadays, the emergence of personalized medicine, exponential technologies, disruptive competitors, expanded delivery sites, and revamped payment models is injecting uncertainty into the global Life Sciences / Pharmaceuticals / Chemicals economy and increasing the urgency for organizations to define how to remain relevant and financially viable. Notwithstanding, in the first 6 months of 2019, the revenues of this industry increased significantly, driven by the shared factors of aging and growing populations, developing market expansion, clinical / technological advances and rising labor costs.

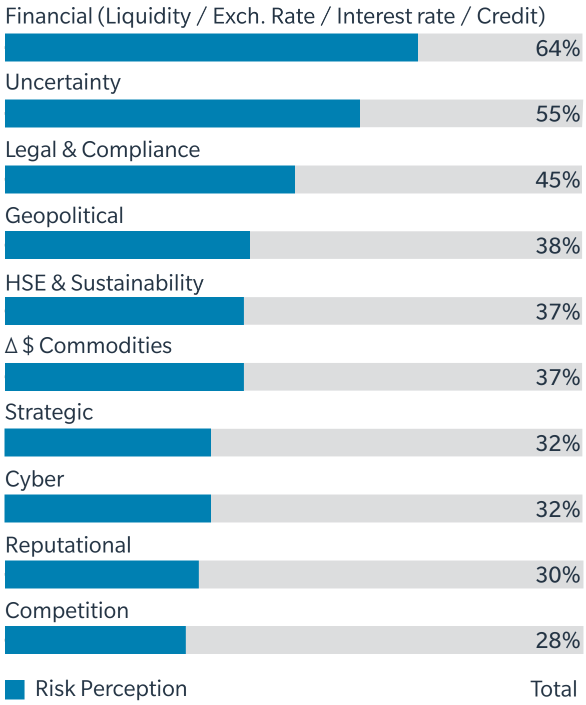
This study found that the industry (composed by companies mainly based in Germany, Denmark and Switzerland) is significantly sensitive to financial risks, in particular to the interest rate risk. Furthermore, due to the large volumes of international trade, companies in this cluster are very sensitive to exchange rate risk.

In Europe the macroeconomic landscape in which companies operate is characterized by uncertainty due to a combination of slowing economic growth, political instability, trade tension and volatile stock market. Uncertainty about global and regional economic events and conditions may result in a reduction in the volume and size of transactions. For example, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations, as the UK determines which EU laws to replace or replicate. Indeed, 61% of the firms analyzed in this industry are sensitive to uncertainty risk.

The need to compete effectively and meet labor market demands — focusing on the competence, experience and performance of its employees — makes human capital as a key factor.



Manufacturing



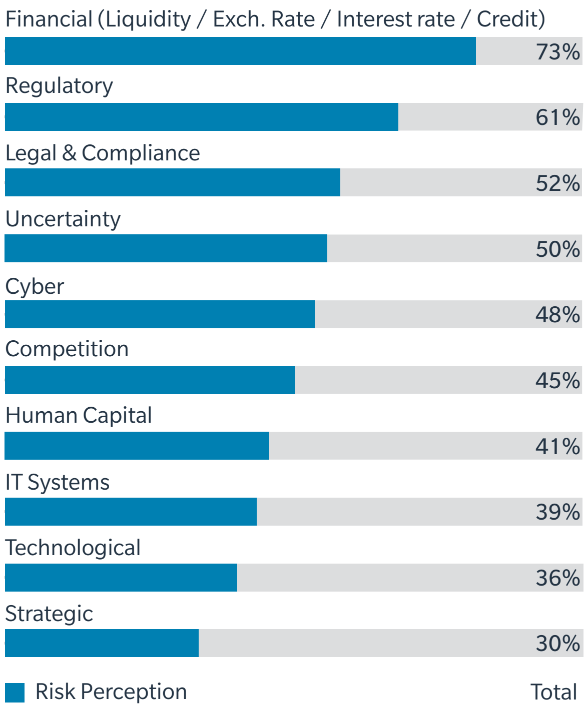
In line with the general European risk trend, this industry is heavily concerned by financial risks: prudent management of liquidity risk, accurate actions in limiting the credit risk and the impact of exchange rates fluctuations are mentioned in the annual reports of the analyzed companies.

The Manufacturing industry is constantly evolving thanks to technological advancements that create new opportunities, but also new threats, such as cyber attacks, ranked 6th overall.

At the same time, the authorities that regulate the market continue to set increasingly challenging goals and political uncertainties are making the global supply chain increasingly complex.

Failure in managing HSE & sustainability issues is one of the first top 5 risks for manufacturers, also following the general increasing attention to health and safety on workplace.

Media & Communications

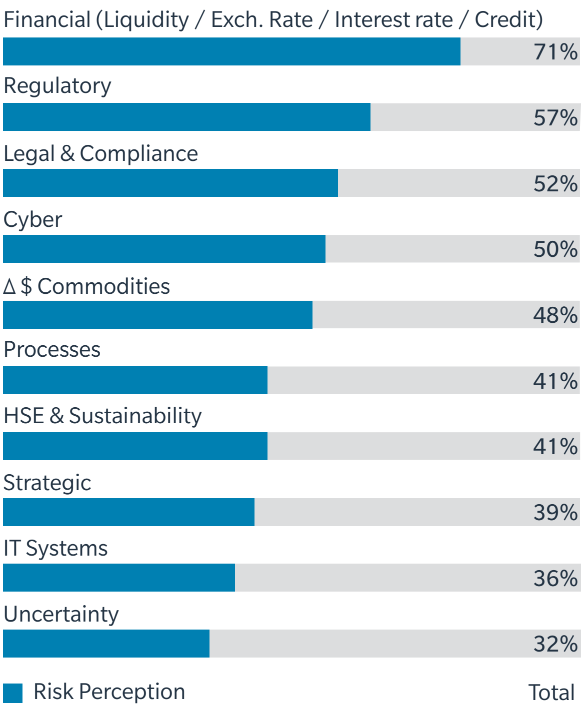


Within the annual reports, financial risks are featured far more than cyber risk even though technological and digital instruments playing an integral role to the flow of communications. Similarly, technological risk do not feature in the top 5.

The Media & Communications industry is highly sensitive to developments in technology and legislation, and enterprises have to keep up-to-date with changes to data protection legislation, particularly relating to General Data Protection Regulation.

Some companies indicate concern that the growth in technology is outpacing capability among the industry’s workforce. Others were more focused on the impact of changing legislation.

Power

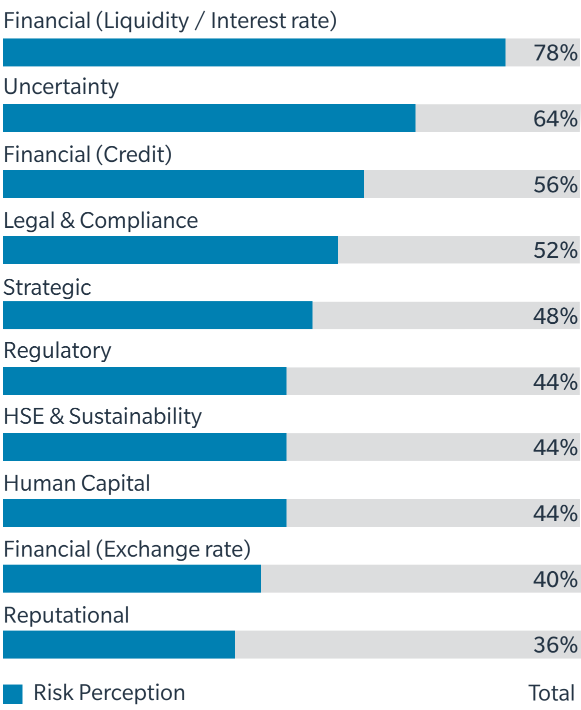


The Power industry risk chart is in line with the general European trend on financial risks and legal & compliance theme. A great deal of importance is handed to regulatory risk given that Power firms are subject to a wide set of governmental and international laws and rules: unexpected changes may result in the necessity to adopt new processes and technologies.

The topic of non-compliance is worrying half of the featured companies as failures in this area may result in financial penalties and possibly even additional sanctions.

Key pressure points for this sector include risks relating to expansion, M&A and organic growth strategy implementation.

Real Estate



With regard to Real Estate, different countries are at different stages of market expansion: Mature markets (Germany, Switzerland, Netherlands); Emerging markets (France, Italy, Spain); Return markets (UK). Currently, macro factors such as the structure of interest rates and trends in GDP (connected to financial risks and uncertainty) have the greatest impact on the Real Estate market.

The second ranked risk in the study is the external risk of uncertainty which is influenced by the cyclical trend of the industry — in fact, the macro-economic uncertainty represents the first obstacle in purchasing material assets for European investors.

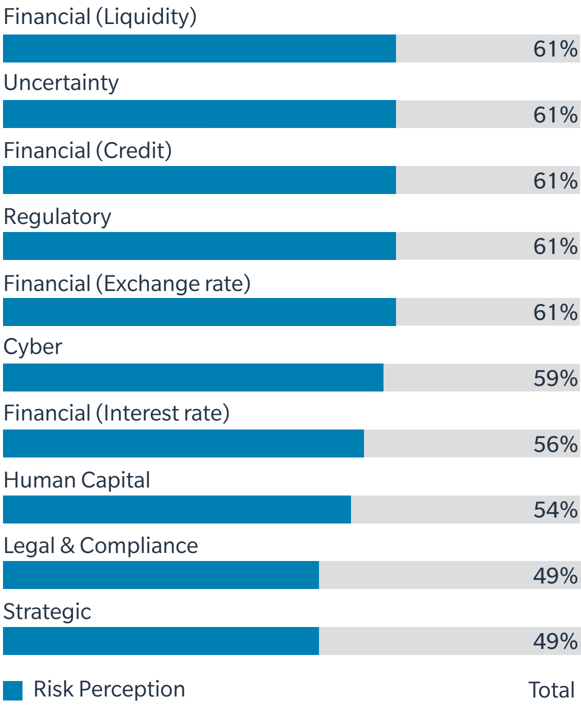
Due to the fact that companies in this industry are extremely subject to the risk of legal disputes, legal & compliance risk is referenced by more than half the firms.

Reputational risk — although this is the last risk in the top 10 — appears to be relevant, as long as the perceived image of a Real Estate player can work as a commercial lever for clients/investors.

Technology industry

As the digital landscape grows, it will create a complex, evolving environment. The use of sophisticated tools increases the potential threat to security

Technology

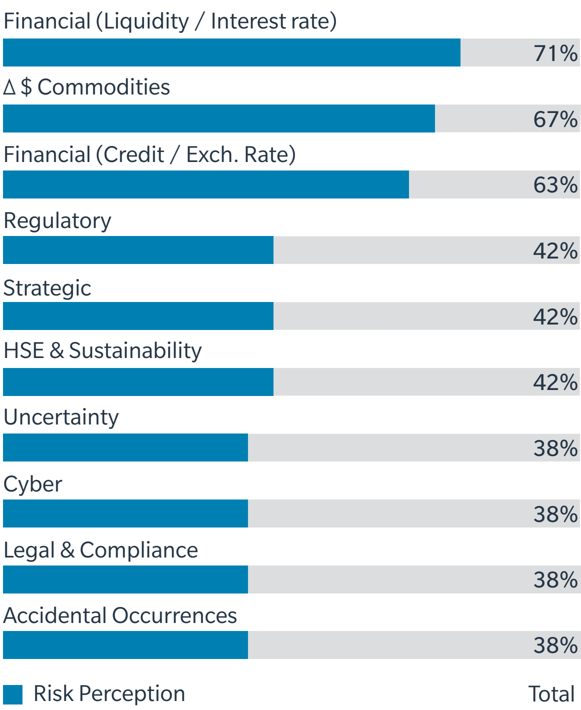


The Technology industry has a homogeneous perception of the various types of risk. There is no one specific risk more feared than others.

As the digital landscape grows, however, it will create a complex, evolving environment. The use of sophisticated tools increases the potential threat to security and this could explain the high rank of cyber risk.

Interestingly, Technological and IT Systems risks – the most representative/traditional risks for this industry – are not present in the top 10 risks, and had marginal referencing (respectively 37% and 32%).

Utilities



New technologies are modifying the traditional top-down centralized system of generation, transmission, distribution and sales. The sector is evolving into a far more distributed interactive and interconnected ecosystem. These changes along with new players — plus the greater interaction between service providers and customers — now characterize the energy market.

Furthermore, EU countries are adopting tighter, more binding energy targets that are also making regulatory risk more than relevant.

This industry is characterized by activities and materials that could be dangerous to the environment; this could be the reason why HSE & sustainability risk is highly perceived.

Top 10 Risks - Country Analysis

Top 10 Risks - Country Analysis

This section will show how company results from an array of European countries compare to the overall European aggregate top 10.

Each graph shows how every single risk of the European Top 10 chart is positioned in terms of frequency (%) in the 11 countries with the highest number of companies analyzed. It is interesting to see how financial risks are the most significant in all countries, apart from the following exceptions:

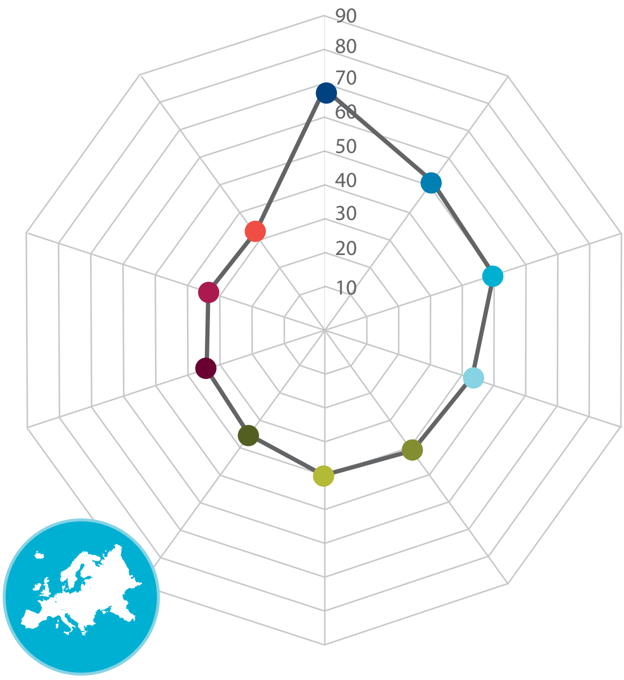
- UK, where cyber risk ranks first. It also ranks in the top 3 in Denmark, Belgium and The Netherlands
- Germany and Denmark, where legal & compliance worries companies the most
- Belgium, where regulatory risk is leading the top 10
- Failure in strategy ranks high in Denmark, France (2nd position in both countries) and Finland (3rd)
- Particular attention has been paid to the topics of HSE & sustainability in the UK, France, Finland and Belgium.

While there is great deal of common ground amongst the countries, certain risks pertinent to particular countries do come to the fore in our analysis.

The comparison between the European average and the country-by-country breakdown enables readers to gain valuable insight not just into the overall regional picture but also each country's individual risk ranking.

EUROPEAN AGGREGATE RESULTS

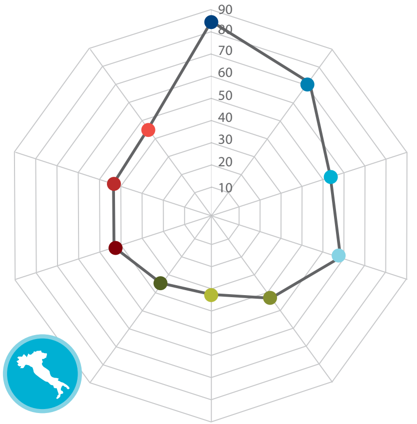
% RISK PERCEPTION | #550 EU COMPANIES



Financial	68%	
Legal & Compliance	51%	
Uncertainty	50%	
Regulatory	43%	
Strategic	41%	
Cyber	40%	
HSE & Sustainability	36%	
Human Capital	35%	
Geopolitical	34%	
Reputational	33%	

HIGHLIGHTS PER COUNTRY

% RISK PERCEPTION



ITALY

Financial	85%
Legal & Compliance	71%
Uncertainty	54%
Regulatory	59%
Strategic	44%
Cyber	33%
HSE & Sustainability	35%
Human Capital	43%
Geopolitical	43%
Reputational	46%

IT Rank
1
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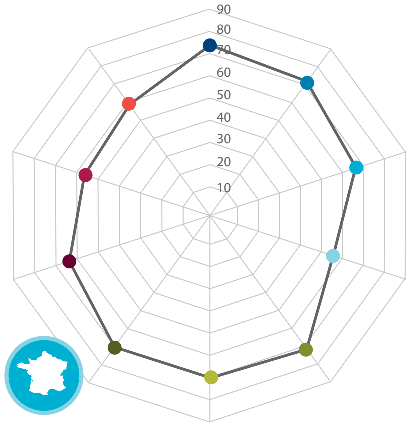
% RISK PERCEPTION



FRANCE

Financial	73%
Legal & Compliance	72%
Uncertainty	67%
Regulatory	57%
Strategic	72%
Cyber	70%
HSE & Sustainability	70%
Human Capital	65%
Geopolitical	57%
Reputational	59%

FR Rank
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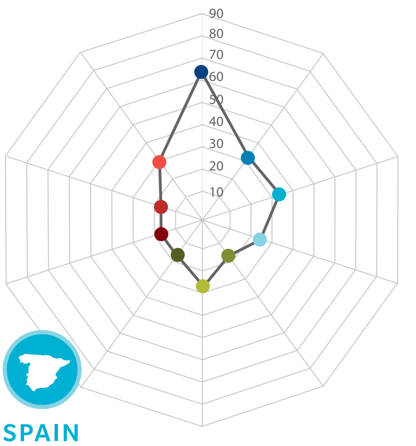
% RISK PERCEPTION



SPAIN

Financial	63%
Legal & Compliance	32%
Uncertainty	32%
Regulatory	23%
Strategic	17%
Cyber	28%
HSE & Sustainability	17%
Human Capital	19%
Geopolitical	19%
Reputational	30%

ES Rank
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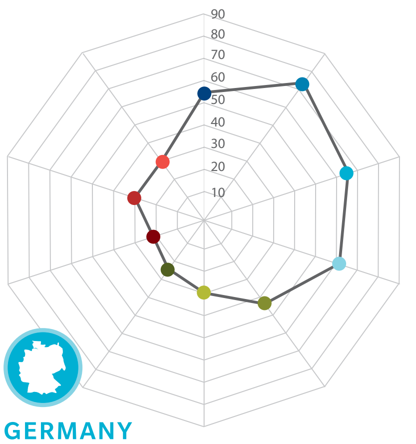
% RISK PERCEPTION



GERMANY

Financial	54%
Legal & Compliance	73%
Uncertainty	66%
Regulatory	61%
Strategic	45%
Cyber	30%
HSE & Sustainability	25%
Human Capital	23%
Geopolitical	30%
Reputational	30%

DE Rank
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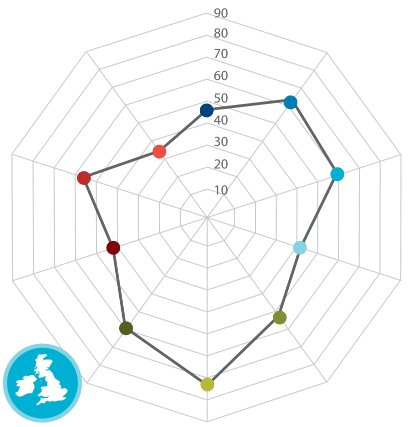
% RISK PERCEPTION



UK

Financial	46%
Legal & Compliance	62%
Uncertainty	60%
Regulatory	42%
Strategic	53%
Cyber	73%
HSE & Sustainability	60%
Human Capital	42%
Geopolitical	56%
Reputational	36%

UK Rank

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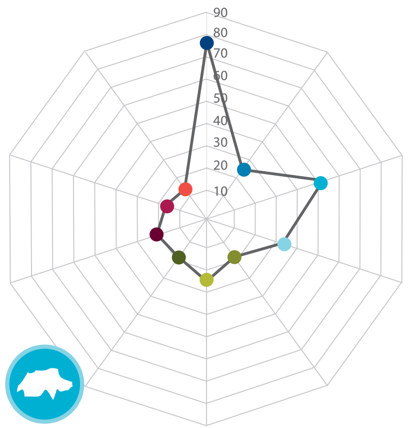
% RISK PERCEPTION



SWITZERLAND

Financial	75%
Legal & Compliance	25%
Uncertainty	52%
Regulatory	33%
Strategic	19%
Cyber	25%
HSE & Sustainability	19%
Human Capital	21%
Geopolitical	17%
Reputational	15%

CH Rank

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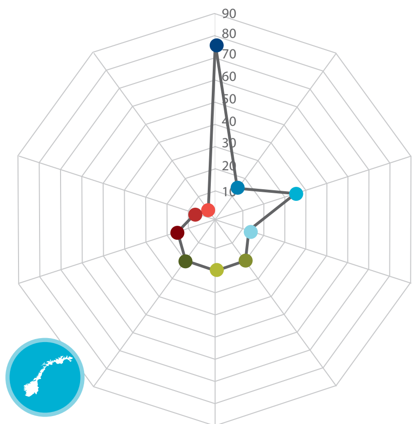
% RISK PERCEPTION



NORWAY

Financial	77%
Legal & Compliance	13%
Uncertainty	33%
Regulatory	13%
Strategic	10%
Cyber	20%
HSE & Sustainability	20%
Human Capital	17%
Geopolitical	7%
Reputational	3%

NO Rank

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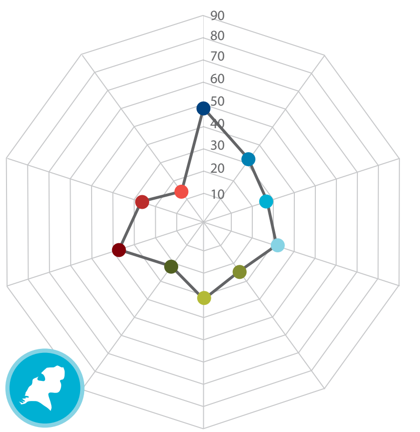
% RISK PERCEPTION



THE NETHERLANDS

Financial	49%
Legal & Compliance	22%
Uncertainty	18%
Regulatory	31%
Strategic	24%
Cyber	31%
HSE & Sustainability	22%
Human Capital	37%
Geopolitical	18%
Reputational	16%

NL Rank

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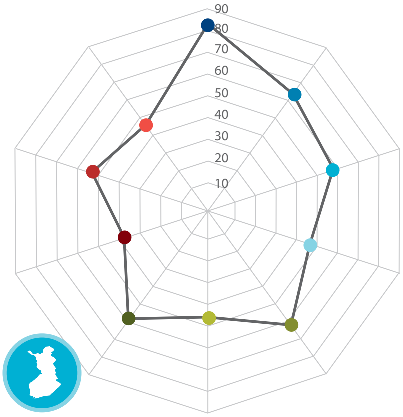
% RISK PERCEPTION



FINLAND

Financial	82%	
Legal & Compliance	66%	
Uncertainty	59%	
Regulatory	47%	
Strategic	63%	
Cyber	47%	
HSE & Sustainability	59%	
Human Capital	38%	
Geopolitical	53%	
Reputational	47%	

FI Rank
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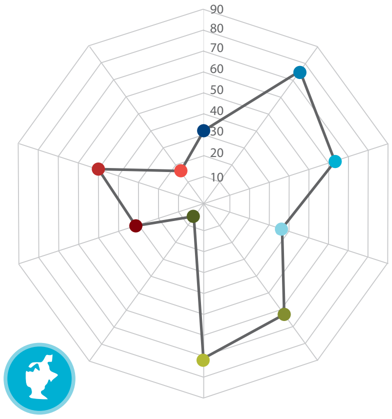
% RISK PERCEPTION



DENMARK

Financial	31%	
Legal & Compliance	75%	
Uncertainty	63%	
Regulatory	38%	
Strategic	63%	
Cyber	71%	
HSE & Sustainability	8%	
Human Capital	33%	
Geopolitical	50%	
Reputational	17%	

DK Rank
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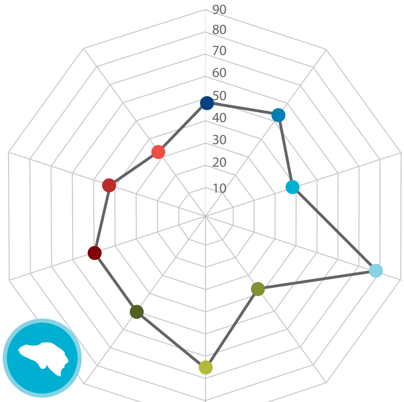
% RISK PERCEPTION



BELGIUM

Financial	49%	
Legal & Compliance	54%	
Uncertainty	38%	
Regulatory	79%	
Strategic	38%	
Cyber	67%	
HSE & Sustainability	50%	
Human Capital	50%	
Geopolitical	42%	
Reputational	33%	

BE Rank
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*While this last section of the report shows how each of the top 10 European risks is perceived in the first 11 Countries, most of them have additional categories of interest in their top 10 lists – these are highlighted in the table below:

Country	Unique Categories
Belgium	*no additional categories of interest in the top 10*
Denmark	*responsiveness (38%); technological (38%); intellectual property (38%)*
Finland	*Δ $ commodities (66%); processes (50%)*
France	*it systems (63%); competition (59%)*
Germany	*processes (57%); it systems (48%); Δ $ commodities (34%); competition (32%)*
Italy	*processes (48%); competition (46%)*
Norway	*Δ $ commodities (30%); processes (13%); Δ $ shares (13%); accidental occurrences (13%)*
Spain	*competition (23%); processes (21%)*
Switzerland	*processes (25%); Δ $ shares (21%)*
The Netherlands	*Δ $ commodities (20%)*
UK	*competition (44%)*

Conclusion

Although financial risks are still the most significant to organizations in Europe, companies are slowly moving their attention towards non-financial stakeholders and emerging risks.

The prevalence of financial risk disclosure is still connected to a more established regulation and international reporting standards environment. The growth of disruptive macro trends, which cause high volatility and instability, are leading many companies to deeply rethink and redesign their business models.

Latest regulations (e.g. Non-financial Reporting European directive (2014/95/EU)) and the importance that both consumers and institutional investors are giving to sustainability and other non-financial topics, are making the planning of long-term business strategy and the identification of related risks and opportunities a matter of urgency. This is achieved through enhanced and integrated risk management frameworks.

We believe that within a relatively short time frame, integrated reports will include a broader disclosure of non-financial risks and a more sophisticated analysis of financial risks. The analysis conducted at an industry level reveals that the level of disclosure on emerging risks - such as cyber, HSE & sustainability and strategy - is increasing increasing relentlessly among all industries examined.

For example, cyber risk is highly perceived in industries with high digitalization and technological investments, such as Media & Communications, Technology, and Financial industries; this ties in to the increased regulation in these areas.

Risks connected to HSE & sustainability are mainly worrying industries where today the focus on environmental themes and social responsibility issues is acute, such as Food & Beverage, Infrastructure / Construction / Cement industry, Manufacturing, and Utilities industries.

Failure in strategy is also an emerging theme that holds first position in Fashion industry, probably due to the high importance of dynamic strategy in product position and differentiation. Also risks connected to reputational damages find a place among the main concerns of some industries, like Automotive, Food & Beverage and Fashion.

From a demographic standpoint, the single EU countries generally confirm the European aggregate top 10 chart positioning in terms of risks. We find some exceptions in Germany and Denmark, where legal & compliance risk is worrying the listed companies the most. Uniquely, the UK ranked cyber risk at first position.

Cyber risk is also mentioned in the Top 3 risks in countries like Denmark and Belgium. UK, Norway, Denmark, and Belgium seem to shift more towards non-financial risks, lowering interests in financial and traditional risks, if compared to other European countries.

The companies seem to be more cognizant about the strategic importance of adopting an Enterprise Risk Management (ERM) framework, even if they are still at the beginning of their implementation process. The diffusion of ERM is still not homogenous, some companies have already adopted sophisticated ERM frameworks, however it seems that the embedding of best practices is still in development.

Awareness and implementation of ERM frameworks will increase together with a wider disclosure of emerging non-financial risks.

Risk Management is experiencing significant momentum, something that can be witnessed in the results of this study.

Methodological Note

This Study aims to assess the risk scenario in Europe, evidencing the main trends in risks per industries and geographic areas.

In total, 29 European countries have been selected (Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Norway, Poland, Portugal, Romania, Slovakia, Spain, Sweden, Switzerland, The Netherlands, United Kingdom). Below are the main steps of the study:

The number of companies per each country have been selected based on the weight of each Country GDP on the European aggregate GDP.

A total of 550 European companies were selected from the respective sites of the National Stock Exchange on the basis of:

Correspondence of national ISIN to the respective stock exchange Country.

Highest Market Capitalization.

The companies have been then categorized into 13 Industries.

The Risk Management section of each annual report of the 550 companies has been analyzed and each single risk has been classified according to the Marsh Risk Inventory - a risk classification by Marsh Italy made up of four main risk categories and twenty-eight sub-categories:

A. external, risks deriving from variables exogenous to the company, like for example economic-political instability, regulatory context changes, increase in competition, threat of cyber attacks, changes in client preferences and other external factors that could adversely impact the activity of the organizations.

B. strategic, risks related to strategy definition and/or implementation process, or risks arising from failure to rapidly react to the change in the market scenario and reputational risks.

C. financial, risks related to financial market volatility (interest rates, exchange rates, related to commodities and securities price), to the portfolio receivables, to liquidity management.

D. operational, risks related to people, processes, systems and compliance of the business with law provisions and other applicable regulations.

The frequency of each risk was calculated, data elaborated both at industry and at Aggregate European level.

Analysis of the results and main findings.

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