

600 Group AGM Questions, 22 December 2020

Q1 – Market developments

Over recent years globalisation of the economy has led to increased complexity and lengthening of manufacturing supply chains as manufacturers have sought to procure components at the lowest cost. The coronavirus pandemic caused considerable disruption to these global supply chains and some manufacturers suffered difficulties in sourcing components. This may result in companies reviewing their supply chains and may create expansion opportunities for component suppliers located geographically closer to their end markets. Does the company expect to see any uplift in the machine tools market resulting from manufacturers seeking to reduce dependency on long supply chains and source components closer to home?

Reply

Whilst there may be some element of changes in supply chains these will be very gradual and uplift in volumes in the short term will be driven more by recovery from the Pandemic and satisfying pent up demand.

Q2 – climate risk management

A warming climate is expected to result in an increase in severe weather events, including severe rainfall events. During the year the company reported an exceptional charge of \$0.8m related to property flooding resulting from just such an event.

In the United States, hurricanes are expected to produce more rainfall and to travel more slowly, resulting in extreme rainfall totals in individual locations. This has already been observed with the impact of hurricane Harvey in Houston in 2017, where rainfall of up to 60” was observed in places. Nonetheless, the company has chosen to open an office in Florida, one of the most hurricane-prone states. The reference to severe weather in the risk register published in the annual report relates only to Taiwan.

- What analysis has the board conducted of the potential for the company to be negatively impacted from a changing climate, and what adaptations have been identified and implemented to mitigate that risk?
- Has the board assessed the flood risk for each of its sites, and put in place appropriate risk mitigation and business continuity plans?
- What consideration was given to the risk from severe weather prior to making the decision to open an office in Florida?
- Will the board commit to discussing climate risk at a board meeting at least once each year and update the risk register as appropriate, ensuring that consideration of the risks associated with a changing climate is integrated into all business decisions?

Reply

As noted in the Audit Committee report in the Annual Report, the budget process along with the annual insurance renewal are both used to consider risks which are then monitored and adapted as required throughout the year by means of regular monthly management meetings and scheduled conference calls between the Executive Directors and divisional management teams. Flood and storm risks are just two of those areas considered. Risk mitigation measures and contingency planning are put in place to cover risks and adequate insurance cover taken where risks cannot be entirely eliminated.

Whilst Orlando Florida does have some severe weather, the risks of operating there are outweighed by the benefits of being in what is considered to be the centre of photonics technology in the USA with access to first class labour and facilities.