

Risk management and principal risks

Risk management strategy

The Management Board, under the supervision of the Supervisory Board, has the overall responsibility for ensuring that SUSE's activities comply with applicable legislation, regulatory requirements and internal policies.

The Management Board decides on the organizational structure for risk management within the Group and on the allocation of resources for the Group's internal control system and the Group's risk management system.

The Supervisory Board monitors the effectiveness of the risk management system.

The internal control system and the risk management system that the Management Board oversees are designed to identify potential events that could negatively impact SUSE, its reputation and its financial performance. To help achieve this, SUSE has established appropriate systems for internal control and risk management to ensure compliance across the Group.

SUSE's accounting control system is designed to ensure that all business transactions are accurately accounted for on a timely basis and that reliable data on SUSE's financial position is always readily available. There is a clear assignment of responsibilities within the Finance function and within each individual team within the Finance function.

SUSE's internal control system is an integral component of its risk management strategy. In connection with its accounting and financial reporting, the internal control system's purpose is to ensure compliance with applicable laws, the principles of proper accounting, International Financial Reporting Standards as adopted by the EU and with the standards set by the Group as a whole. SUSE identifies, assesses and mitigates any risk with a direct influence on its financial reporting.

SUSE actively monitors any actual or planned changes in accounting standards and, where necessary, seeks the advice of external experts to understand the impact of such changes. This helps to reduce the risk of accounting misstatements, particularly in relation to complex issues or where judgment is uncertain.

Group Treasury is responsible for setting the Group's financial risk management objectives and policies including hedging policy. Further details of

specific types of financial risk and how they are managed is provided in Note 29 to the Consolidated Financial Statements.

The financial statements of the Group and SUSE S.A. are subject to external audits. SUSE is currently establishing an independent Internal Audit function which will further strengthen the internal control environment.

Independent reviews of financial data are an integral part of the internal control framework. This ensures that potential errors are identified on a timely basis, accounting standards are complied with and financial reporting is robust.

The risk management system seeks to provide the Supervisory Board and the Management Board with an overview of risks to help support their decision making. The risk management system aims to ensure that potential risks are identified early on, assessed and mitigated quickly and comprehensively and then managed on an ongoing basis.

SUSE's risk management system is based on the following six features:



Risk management and principal risks *continued*

The Management Board regularly updates the Supervisory Board on the risks facing the SUSE business and the mitigants in place to address such risks. The Supervisory Board supervises and monitors the effectiveness of the risk management system and provides advice on any other risks that SUSE faces and any mitigants that could be implemented.

The Management Board is also supported by the Senior Leadership Team which is responsible for identifying risks facing the business, updating the Management Board and the Audit Committee and then overseeing the implementation of any necessary mitigants.

In addition, and as explained in more detail on pages 90 to 91 of the Corporate Governance section, the Supervisory Board, the Management Board and the Senior Leadership Team have established a number of committees, including an Audit Committee, a Nomination and Remuneration Committee and a Risk and Compliance Committee to review, monitor and manage risks facing SUSE. In particular, one of the duties of the Audit Committee is to assess and monitor the effectiveness of SUSE's internal control system, its risk management system and its internal audit system and to ensure compliance with applicable law and regulation.

Identifying principal risks

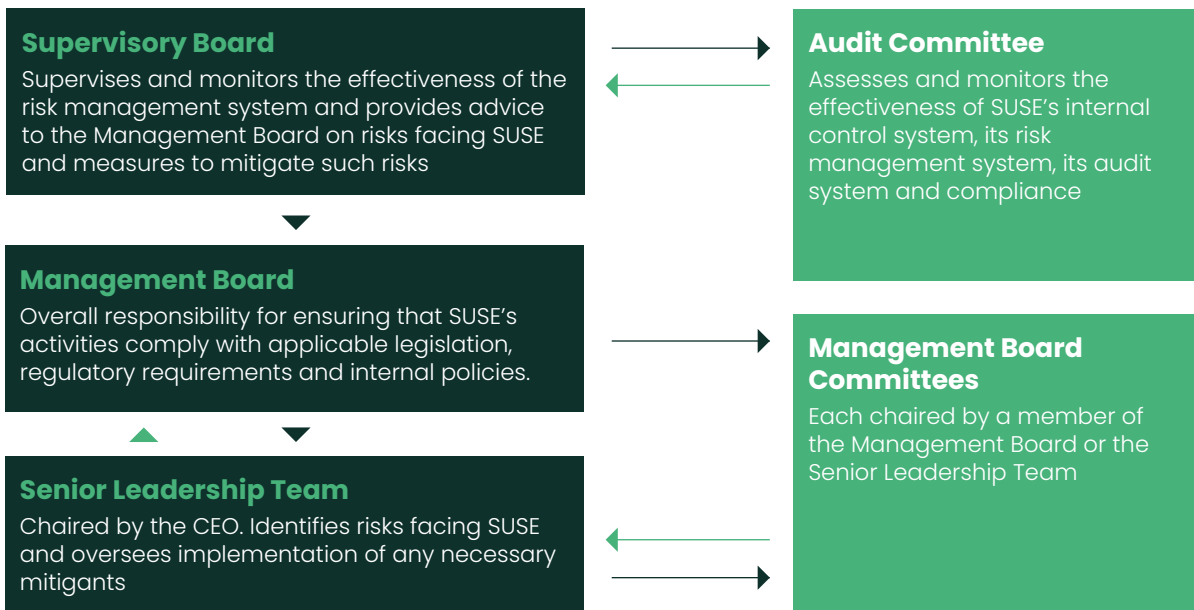
To prepare for the IPO, SUSE, with support from external advisers, undertook an exercise to record the main risks facing the SUSE business. This exercise identified 50 risks, which included a range of strategic, operational, compliance and reporting risks, as measured according to their likelihood of occurrence and impact. This exercise also helped to verify the risk factors that were included in the prospectus for the IPO.

All risks were assessed with and without considering existing and planned mitigation measures, i.e. inherent risks and residual risks.

The top 10 risks were identified and the assessment of such risks, on an inherent and residual basis, was then shared with the Supervisory Board and the Management Board. SUSE will refresh its review of the risks facing SUSE on a half-yearly cycle working in collaboration with the respective risk owners.

The current top 10 risks that SUSE has identified are listed out on pages 79 to 83, together with a list of the existing measures in place to mitigate such risks, as well as the planned measures in place to further mitigate such risks.

Risk governance structure



Assessment of principal risks

All identified risks will be assessed half-yearly on the basis of the likelihood of their occurrence and their potential impact on SUSE.

With respect to the likelihood of a risk occurring, the following measures are considered:

Level	Rating	Percentage
5	Almost certain	>80%
4	Likely	60% – <80%
3	Possible	40% – <60%
2	Unlikely	20% – <40%
1	Remote	0% – <20%

With respect to the impact of a risk, the following measures are considered:

Level	Rating	Financial impact	Liability	Reputation	Operations
V	Major	>\$30 million	Major criminal sentence – personal liability, e.g. board member	Long-term international negative attention	Significant long-term interruption or shut-down of more than one business operation
IV	High	≤\$30 million – >\$5 million	Minor criminal sentence – personal liability, e.g. board member	Short to medium-term international negative attention	Significant short-term interruption or shut-down of a significant business operation
III	Medium	≤\$5 million – > \$500k	Significant administrative offence – no personal liability	Short to medium-term regional negative attention	Medium-term interruption or closure of significant parts of business operations
II	Low	≤\$500k – > \$100k	Minor administrative offence – no personal liability	Medium-term local negative attention	Short-term interruption or closure of parts of business operations
I	Insignificant	Insignificant	No personal liability or sentence	No or short-term local negative attention	Short-term interruption of insignificant parts of business operations

Mitigation, management, monitoring and reporting

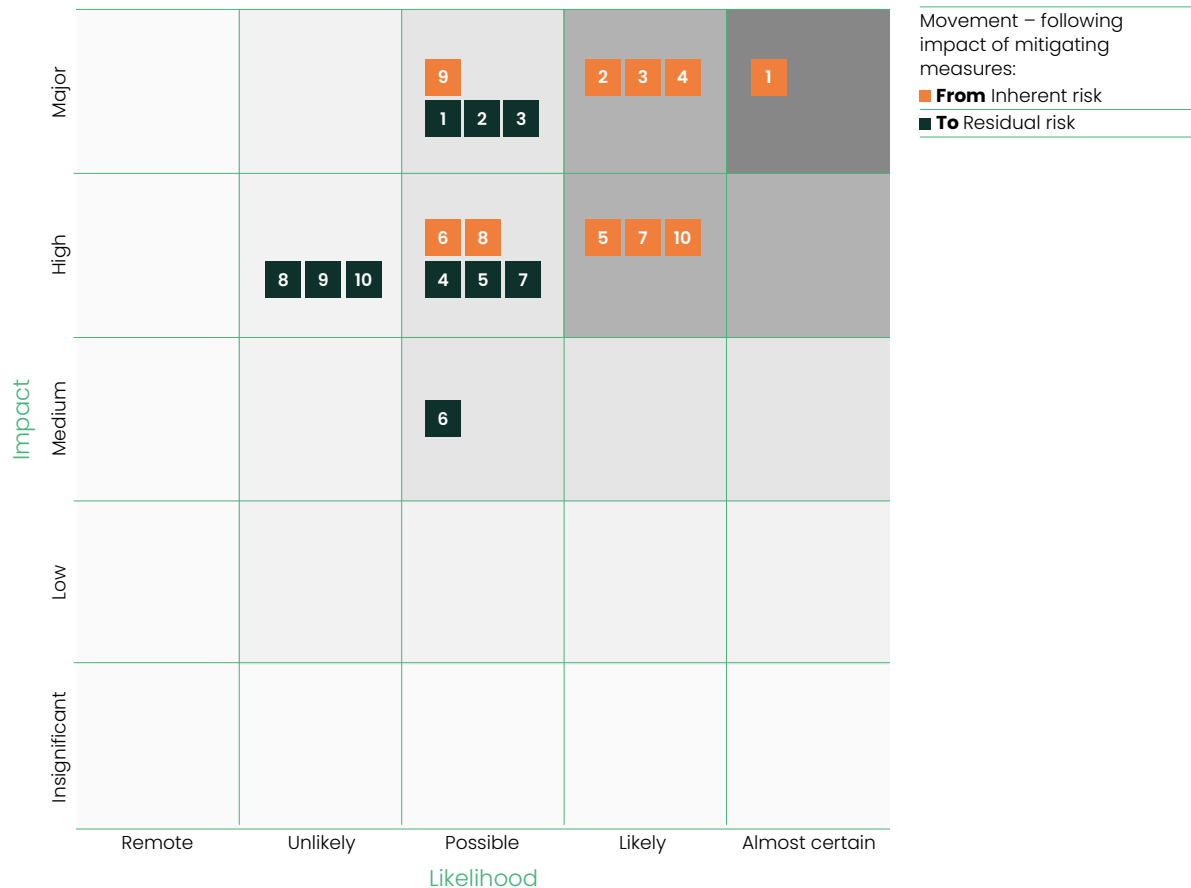
Suitable risk-mitigating measures and controls are developed and implemented by the Senior Leadership Team or individuals who directly report to the Senior Leadership Team. Risks are then managed and monitored on an ongoing basis by such individuals. On a half-yearly basis, the top 10 inherent and top 10 residual risks are shared with, and reviewed by, the Management Board and the Supervisory Board.

SUSE's top 10 risks

The heat map below sets out SUSE's top 10 risks, as of 31 October 2021, as measured on an inherent and residual basis.

This heat map was shared with the Management Board and the Supervisory Board and formed part of their review of the ongoing risks facing SUSE and the measures that are in place to mitigate such risks.

Inherent risks and residual risks – heat map



Topic	
1 Cyber	6 Global economic and geopolitical uncertainty
2 Strategic relationships	7 Innovation and reacting to market trends
3 Product defects and liability	8 Technology infrastructure
4 Governance and compliance	9 Acquisition strategy
5 People	10 Competitors

Topic	Description	Mitigation
<p>1 Cyber</p> <p>Gross/Net Impact Major</p> <hr/> <p>Gross/Net Likelihood Almost certain/Possible</p> <hr/> <p>Ownership CFO Office (IT)</p> <hr/>	<p>Cyber attacks are increasingly prevalent and sophisticated. SUSE has experienced a number of cyber attacks and is likely to experience more in the future.</p> <p>A cyber attack could lead to significant operational disruption for SUSE that would prevent it from operating for an unspecified period of time.</p> <p>The security measures that SUSE has in place relating to its products and business operations, including through third-party service providers, may not prevent security breaches or data loss.</p> <p>A cyber attack, security breach or data loss could lead to reputational damage, a loss of trust in SUSE's products with customers choosing alternative providers, costly legal disputes, legal and regulatory fines and class actions.</p>	<p>The cybersecurity team has been expanded with a dedicated VP of Information Security hired as global Chief Information Security Officer. The team increased from 1 FTE to 14 FTE with a dedicated product security team.</p> <p>SUSE has formed an IT and Cyber Security Committee to assess current and future cyber security risks and assess SUSE's defenses.</p> <p>SUSE has instructed a third party to carry out a review of its security controls, cyber security framework and security perimeter. That same third party has been contracted to support SUSE implementing the processes and protections necessary to operate in accordance with ISO best practice guidance by the end of FY22.</p> <p>SUSE has introduced a Business Continuity and Disaster Recovery pilot and incident response retainer to detect, respond and recover from cyber security incidents.</p> <p>Appointed an expert cyber security adviser who sits on the IT and Cyber Security Committee.</p>
<p>2 Strategic relationships</p> <p>Gross/Net Impact Major</p> <hr/> <p>Gross/Net Likelihood Likely/Possible</p> <hr/> <p>Ownership CFO Office (Finance)</p> <hr/>	<p>SUSE's success depends on its ability to continue to establish and maintain strategic relationships with industry leading cloud service providers ("CSPs"), IT hardware original equipment manufacturers ("OEMs"), independent IT hardware ("IHVs") and independent software vendors ("ISVs") and system integrators ("SIs") to help SUSE to attract and retain a large customer base. Many of SUSE's strategic partners have engineered and certified that their technologies run on or are compatible with SUSE's offerings, e.g. SAP HANA. SAP could open up certification to additional vendors and reduce the value of this partnership.</p> <p>Some of SUSE's strategic partners offer competing products and services and have their own sales forces and channels that they could use to sell such products and services. SUSE uses a variety of different indirect distribution methods for its offerings, including channel partners such as CSPs, distributors, embedded technology partners, OEMs, IHVs, ISVs and SIs. SUSE relies, to a significant degree, on these channel partners to select, screen and maintain relationships with its distribution network and to distribute SUSE's offerings in a manner that is consistent with applicable law, regulatory requirement and quality standards.</p>	<p>SUSE has long-standing relationships with industry-leading companies, such as SAP, and its products are embedded within their offerings. As mentioned in the "Innovation and reacting to market trends" section, SUSE continues to ensure that its products are relevant so that it is an attractive Group to partner with.</p> <p>SUSE also has focused sales teams that sell SUSE's products outside of SUSE's relationships with CSPs, OEMs, IHVs, ISVs and SIs.</p>

Topic	Description	Mitigation
<p>3 Product defects and liability</p> <p>Gross/Net Impact Major</p> <p>Gross/Net Likelihood Likely/Possible</p> <p>Ownership Engineering & Innovation</p>	<p>As SUSE’s products are open source, much of the code is developed by independent third parties over whom SUSE exercises no direct supervision or control. Despite quality control and testing procedures, errors have been and may continue to be found in SUSE’s offerings after deployment.</p> <p>If errors are discovered then SUSE may incur significant expenditures and devote significant technical resources to analyze, eliminate or work around any such errors. Errors or defects in SUSE’s products may cause system failures, security breaches, loss of data or performance issues for SUSE’s customers who may bring claims for damages against SUSE. Such errors or defects may lead to existing and future customers choosing not to use SUSE’s products.</p> <p>Agreements with customers generally contain provisions that seek to limit SUSE’s exposure but such provisions may not be effective or enforceable.</p>	<p>Peer review of open source software code, as well as SUSE’s own internal review, means that it is difficult to hide malicious code.</p> <p>SUSE has a contracting framework and infrastructure in place that seeks to manage risk and limit SUSE’s exposure to potential product liability claims. SUSE is developing a contract management tool to enhance its ability to review, negotiate and monitor customer contracts.</p>
<p>4 Governance and compliance</p> <p>Gross/Net Impact Major/High</p> <p>Gross/Net Likelihood Likely/Possible</p> <p>Ownership CFO Office (Legal and IR)</p>	<p>SUSE’s activities are subject to various applicable laws, rules and regulations in the various jurisdictions in which it operates or sells its products. As a listed company, SUSE is also subject to more onerous corporate governance and disclosure requirements.</p> <p>SUSE’s compliance processes and controls may not be sufficient to effectively prevent or detect inadequate practices, fraud and violations of law or group-wide policies or violations of sanctions, trade controls and bribery laws. Employees may not understand what internal controls and policies are in place, why they are in place and their importance.</p> <p>Any violations of these laws and regulations could result in fines, reputational damage, criminal sanctions against SUSE, its officers or its employees and prohibitions on its conduct of business.</p> <p>SUSE’s share price and its reputation in the market is, to some extent, dependent on the successful delivery and execution of its investor relations program.</p> <p>If SUSE fails to successfully deliver and execute its investor relations program this could lead to an unfavorable reaction from shareholders, and the market more generally, causing reputational damage to its management and a loss of confidence in SUSE and its share price.</p>	<p>SUSE has rolled out a governance process that involves regular meetings of the Supervisory Board, the Management Board, the SLT, the Supervisory Board committees and the committees that report to the Management Board or the SLT to monitor the ongoing risks to the business.</p> <p>SUSE has refreshed many of its Group policies, including on Code of Business Ethics, Anti-Bribery and Corruption, Insider Dealing and Market Abuse, Share Dealing and Whistleblowing, to ensure strong governance and manage regulatory obligations. An independent reporting hotline has also been introduced and SUSE has refreshed its training on Anti-Bribery and Corruption.</p> <p>The CFO office has brought in additional resource to handle the increased regulatory obligations on SUSE and to assist its communication with shareholders. In particular, an IR director has been appointed, and Numis has been appointed as SUSE’s broker. New appointments have also been made in the Legal and Company Secretarial teams.</p>

Topic	Description	Mitigation
<p>5 People</p> <p>Gross/Net Impact High</p> <hr/> <p>Gross/Net Likelihood Likely/Possible</p> <hr/> <p>Ownership HR</p> <hr/>	<p>SUSE's employees are its key asset and it is heavily reliant on those employees for its continued success.</p> <p>SUSE is an ambitious and rapidly growing business, operating in a highly competitive global market place. Its ability to successfully deliver on these ambitions depends on retaining, motivating and attracting current employees who have the attributes and skills to allow SUSE to continue to grow.</p> <p>Competition in the technology industry for qualified employees with relevant skills and experience, especially sales and technical employees, is intense. SUSE's competitors may directly target its employees or SUSE may be unable to retain key employees and attract new employees.</p> <p>As the global economy continues to open up post-Covid, SUSE will not be immune to global dynamics and shifts in employee patterns, including the "Great Resignation" post-Covid.</p> <p>SUSE uses remuneration as an important retention tool and its recent IPO has caused share options to vest for a significant number of its employees, with no retention period built in. A number of senior employees with such vested share options have already resigned and it is possible that further such resignations may follow in the immediate to short term.</p> <p>Attrition rates, combined with planned additional headcount needs, create a significant risk that recruitment will not match the requirements of the business.</p>	<p>SUSE pays its employees competitive salaries that are benchmarked against external competitors. SUSE carries out an annual salary review to reward strong performance and ensure salaries remain competitive. The majority of employees are offered bonuses that are triggered on the basis of SUSE's success.</p> <p>Many employees also receive share-based awards to incentivize their performance and align their interests with SUSE's.</p> <p>All employees receive a competitive benefits package, including pension and health insurance.</p> <p>SUSE focuses on a number of health and well-being initiatives, and has a Health & Safety Committee and a Covid-19 Committee to oversee and implement such initiatives. The health, safety and well-being of employees is a standing agenda item at meetings of the Supervisory Board.</p> <p>SUSE also circulates regular Pulse surveys to employees to assess job satisfaction, views of SUSE and well-being.</p> <p>Management frequently updates employees on the performance of SUSE and its future prospects through Group wide communications.</p> <p>SUSE promotes a culture of openness and collaboration and encourages personal development among its employees with annual reviews and development programs.</p>
<p>6 Global economic and geopolitical uncertainty post Covid</p> <p>Gross/Net Impact High/Medium</p> <hr/> <p>Gross/Net Likelihood Possible</p> <hr/> <p>Ownership CFO Office (Finance)</p> <hr/>	<p>While SUSE continues to benefit from a strong recovery and performance in global stock markets (since March 2020), there is always a risk of an economic downturn or uncertainty. Economies are facing supply chain issues, inflationary pressures and the "Great Resignation". These may all impact demand for SUSE's products.</p> <p>The short, medium and long-term effects of Covid-19 on the global economy are still uncertain – there are likely to be further issues that emerge from the Covid-19 pandemic in the next few years and these may have a negative impact on SUSE's business. For example, the global economy is feeling the effects of another wave of Covid that is causing many countries to enter into lockdown.</p> <p>As part of its growth strategy, SUSE intends to continue expanding its geographical presence, including its sales and marketing activities. Part of this growth strategy includes expanding SUSE's business into China and this may prove incompatible with SUSE's core business focus in the US and its work with the US government. SUSE may find that it is unable to carry out business in certain parts of the world without hampering its business elsewhere.</p>	<p>SUSE is a well-capitalized business with strong cash flows and relatively low levels of leverage.</p> <p>The Supervisory Board, the Management Board and the Senior Leadership Team spend a significant amount of time preparing a rigorous budget for each financial year, analyzing SUSE's forecast figures and reviewing SUSE's strategic planning for the short and medium term.</p> <p>In the event of an economic downturn, SUSE has available to it a full range of cost reducing measures that it would be able to execute at relatively short notice.</p>

Topic	Description	Mitigation
<p>7 Innovation and reacting to market trends</p> <p>Gross/Net Impact High</p> <hr/> <p>Gross/Net Likelihood Likely/Possible</p> <hr/> <p>Ownership Engineering & Innovation</p>	<p>SUSE's continued success relies on its ability to adapt to rapidly changing technologies and user preferences, to predict user preferences and industry changes, to continue to provide value to our customers, to adapt our offerings to evolving industry standards and to improve the performance and reliability of our offerings.</p> <p>The success of new and enhanced offerings depends on, amongst other things, SUSE's ability to invest significant resources in research and development to enhance existing offerings and introduce new offerings in a timely manner and successfully promote such offerings and manage the risks associated with those offerings.</p> <p>SUSE's ongoing success also depends on its continued investment in new business strategies and initiatives that complement its strategic direction and technology road map.</p>	<p>SUSE promotes a culture of innovation to continually improve product offerings. SUSE's Chief Operating Officer, Chief Customer Officer, President Engineering & Innovation and Chief Technology & Product Officer are all members of the SLT that is chaired by the CEO and they are in regular contact with the Management Board.</p> <p>SUSE's open source innovation model allows for continuous review and enhancement of open source software solutions.</p> <p>As well as organic growth, SUSE is pursuing inorganic growth to react and pre-empt market trends, as highlighted by its acquisitions of Rancher and NeuVector during FY21.</p>
<p>8 Legacy technology infrastructure</p> <p>Gross/Net Impact High</p> <hr/> <p>Gross/Net Likelihood Possible/Unlikely</p> <hr/> <p>Ownership CFO Office (IT)</p>	<p>SUSE relies on its technology infrastructure and the technology infrastructure of third parties for many of its internal functions, including selling SUSE's products, supporting SUSE's partners, fulfilling orders and billing, collecting and making payments and supporting the open source software SUSE's customers use under support agreements with SUSE.</p> <p>SUSE's technology infrastructure may be vulnerable to damage or interruption as a result of vulnerabilities and viruses, software errors, denial of service attacks, terrorist attacks, power loss and telecommunication failures.</p> <p>SUSE is working to improve and upgrade the quality, reliability and security of its legacy technology infrastructure, including its data centers. If any of SUSE's data centers suffer from an outage, SUSE may not have the ability to build, integrate, develop, deliver and deploy key products like SLES to customers.</p>	<p>SUSE has developed and tested a business continuity plan for critical legacy technology infrastructure.</p> <p>SUSE has established a new, offsite back up service where data has been encrypted and stored.</p> <p>SUSE is also working to upgrade its legacy technology infrastructure and in FY22 will introduce a new backup and data recovery solution.</p>

Topic	Description	Mitigation
<p>9 Acquisition strategy</p> <p>Gross/Net Impact Major/High</p> <hr/> <p>Gross/Net Likelihood Possible/Unlikely</p> <hr/> <p>Ownership Corporate Development</p>	<p>Part of SUSE’s growth strategy is inorganic growth through planned acquisitions and during FY21 it completed the acquisitions of Rancher and NeuVector.</p> <p>As SUSE looks to continue to grow through targeted acquisitions, SUSE may choose the wrong targets that do not fit with SUSE’s business model and/or wider market trends and do not result in the growth or synergies that it expected.</p> <p>SUSE may also struggle to integrate acquired companies and products into the SUSE business, overpay for targets or inherit unforeseen liabilities from targets.</p>	<p>SUSE has carried out a strategic review with external advisers, the Supervisory Board and the Management Board to assess SUSE’s strengths and weaknesses and market trends.</p> <p>SUSE has a Corporate Development team that has 10 to 15 opportunities under review at any one time.</p> <p>SUSE carries out rigorous due diligence on potential targets, undertaken both internally and by external advisers.</p> <p>The M&A Committee reports to the Management Board and the Supervisory Board on merits of proposed transactions and the transaction terms.</p> <p>SUSE sets up a dedicated integration team to integrate a newly acquired business into SUSE.</p>
<p>10 Competitors</p> <p>Gross/Net Impact High</p> <hr/> <p>Gross/Net Likelihood Likely/Unlikely</p> <hr/> <p>Ownership CFO Office (Finance)</p>	<p>The enterprise software industry is rapidly evolving and intensely competitive. SUSE’s competitors may respond more quickly to market trends and their products may provide better performance or include additional features. SUSE is the second largest participant in the market but is much smaller than its main competitor.</p> <p>Smaller competitors could merge and create larger and potentially stronger competitors in the markets that we operate in. There are limited technology barriers to entry as open source software may be easily modified and redistributed.</p> <p>Competitive pressures could affect the prices that we are able to charge customers and result in reduced profit margins and/or potential loss of market share.</p> <p>Hyperscalers like Amazon Web Services, Google Cloud Platform and Microsoft Azure already create their own version of related enterprise software industry offerings and could compete head-to-head with SUSE.</p>	<p>As mentioned in the “Innovation and reacting to market trends” section, SUSE monitors customer requirements, market trends and the offerings of other suppliers and continues to update its offerings to respond to customer requirements.</p> <p>SUSE is one of the few independent open source companies that does not require customers to lock in to SUSE’s products.</p> <p>In October 2021, SUSE acquired NeuVector, Inc. to enhance SUSE Rancher, SUSE’s container management platform, bringing end to end security. This acquisition will provide cross selling opportunities to SUSE’s existing customer base.</p> <p>SUSE also provides a level of integration, technical support, software updates, partner and security certifications to customers that they are unable to achieve in-house or from SUSE’s competitors.</p>