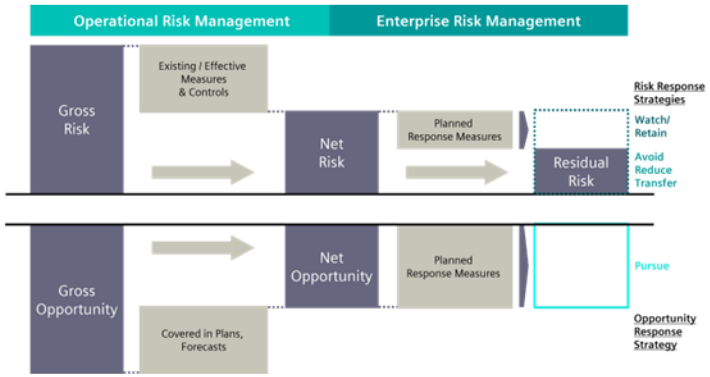
ERM Methodology – Overview in a Nutshell

Version 2026

ERM Basic Principles



- The **ERM process always considers the Net Risk** (after existing and already effective measures & controls)
- The assessment needs to be **performed for the reporting unit** (e.g., Business, Service & Governance Unit, Lead Country)
- The impact and likelihood have to be **assessed over a period of three years**
- The impact has to be assessed from a **quantitative** or **qualitative perspective** (whatever is highest)
- The assessment should reflect the **likelihood that the risk occurs with the previously defined impact**

Description

„The risk that …

Cause → R&O → Effect

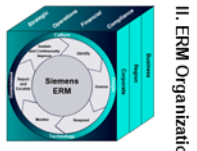
resulting in …"

Framework

I. ERM Categorization

II. ERM Organization

III. ERM Process



ERM Matrix

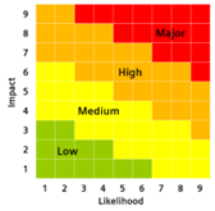
A **Risk / Opportunity** is the potential loss / gain caused by an event (or series of events) that can adversely / positively affect the achievement of the company's business objectives

Impact: Potential effect on the entity's objectives, if the risk materializes (e.g., compared with latest strategic plans)

Likelihood: Probability that a given risk occurs with the previously defined impact

Exposure Score = 2x Impact + Likelihood

Exposure Score	Exposure Level
≥ 21	Major
< 21	High
< 15	Medium
< 9	Low



ERM Impact Scales

Scale	9	8	7	6	5	4	3	2	1
Category	Major		Significant		Moderate		Minor		Marginal
Risks & Opportunities – Financial	> €150m pre-tax profit	> €125m - ≤ €150m pre-tax profit	> €100m - ≤ €125m pre-tax profit	> €80m - ≤ €100m pre-tax profit	> €60m - ≤ €80m pre-tax profit	> €40m - ≤ €60m pre-tax profit	> €20m - ≤ €40m pre-tax profit	> €10m - ≤ €20m pre-tax profit	≤ €10m pre-tax profit
Risks & Opportunities – Business Objectives	Major impact on business objectives		Significant impact on business objectives		Moderate impact on business objectives		Minor impact on business objectives		Marginal impact on business objectives
Risks & Opportunities – Media	Extensive / persistent national and international media / social media coverage with major impact on reputation		Media / social media coverage with significant impact on reputation		Limited media / social media coverage with moderate impact on reputation		Limited local media coverage with minor impact on reputation		Very limited media coverage
Risks – Regulatory Bodies	Requires investigation by external authorities / regulatory bodies and / or costly legal actions		Requires limited investigation by external authorities / regulatory bodies and / or legal action		Reported to external authorities / regulatory bodies and requires internal investigation		Triggers internal investigation and review		Triggers limited internal investigation and review
Risks – Management Time	Extensive (> 20%) senior management time and attention needed to resolve		Significant (> 10 - ≤ 20%) senior management time and attention needed to resolve		Moderate (> 5 - ≤ 10%) senior management time and attention needed to resolve		Some (≤ 5%) senior management time and attention needed to resolve		No senior management intervention

Likelihood

Scale	9	8	7	6	5	4	3	2	1
Category	Certain		Probable		Likely		Possible		Unlikely
Likelihood	≥ 90%	≥ 80%	≥ 70%	≥ 60%	≥ 50%	≥ 40%	≥ 30%	≥ 20%	< 20%

Response Strategy

Risk	Reduce	Watch	Retain	Avoid	Transfer	Opportunity	Pursue

SIEMENS