

Embedding risk management in the business

Our aim is to gain a deep understanding of the principal risks we face at all levels of the business and to focus management attention on effective mitigation of the most critical risks.

Our risks

The last year has continued to highlight the dynamic nature of the markets in which G4S operates. The geo-political situation in the Middle East has been very volatile. Global economic recovery has been highly variable. G4S also continues to face the operational and health and safety risks which are particular to the security business, along with the financial control and commercial risks common to all multinational companies.

How we manage our risks

Our risks are captured in a global risk reporting information system. These risks are reviewed at least annually by the operating companies, with more material risks being reviewed quarterly. The group Executive Risk Committee and board Risk Committee review the most significant risks on a regular basis, and the board regularly reviews the overall impact of these major risks on the group's activities.

"2014 has seen us make significant strides in improving our risk management approach. 2015 is about embedding this in our operations across the world."

John Connolly
Risk Committee Chairman

What we did in 2014

The improvements to our risk management processes have continued during 2014. The quarterly Regional Risk and Audit Committees are now well established and similar committees have been established in the larger countries. A new Governance Risk and Control (GRC) information system has been implemented and good progress has been made in transitioning countries from the previous risk management system. The new contract management approval and broad risk-based contract review process has been embedded effectively in the UK&I region. A quarterly financial contract review process has been implemented globally.

The board has provided greater formality and detail concerning its risk appetite, linking it more explicitly to the group's principal residual risks and a structured risk universe. This detailed risk appetite statement has been shared with all the Regional Risk and Audit Committees and they have provided positive feedback on it. During 2015 the document will be shared more widely with individual countries and business units and increasingly used to inform prioritisation of risk mitigation activities.

Alastair James, who joined G4S in 2013 as Group Director of Risk and Programme Assurance, has now been appointed Group Director of Risk and Audit. We will continue to have separate internal audit and risk management teams reporting to Alastair but we will ensure that these processes are appropriately integrated.

What we will do in 2015

We will complete the transition of all countries to using the new GRC tool for risk management.

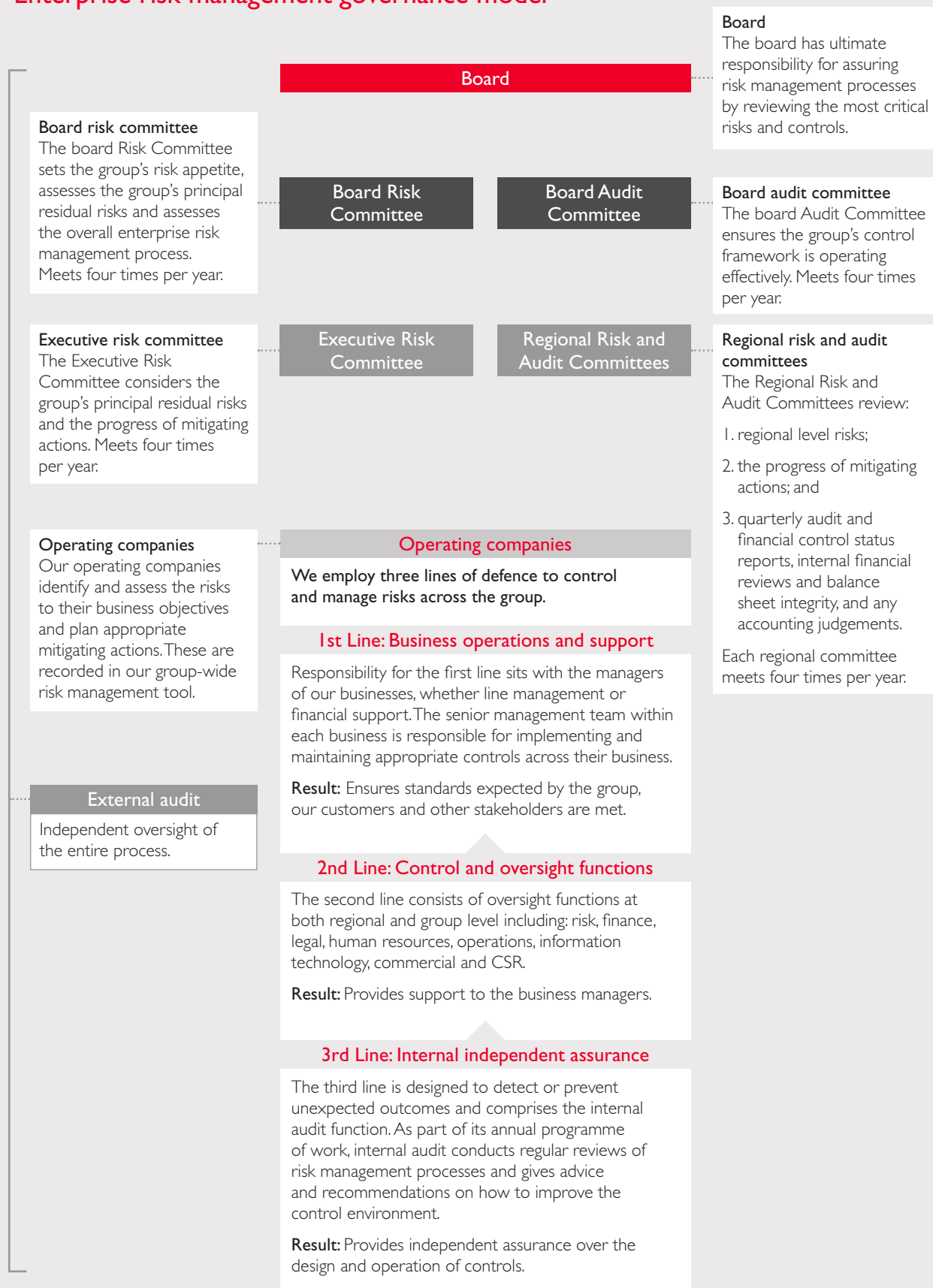
We will migrate existing group control standards self-assessments as well as Group Internal Audit to the GRC tool from the separate platforms which support them currently. This will enable a much greater consistency of reporting and a much tighter link between control effectiveness and risk assessment.

We will embed the newly formulated board risk appetite into the business and use it to drive prioritisation of risk mitigation plans.

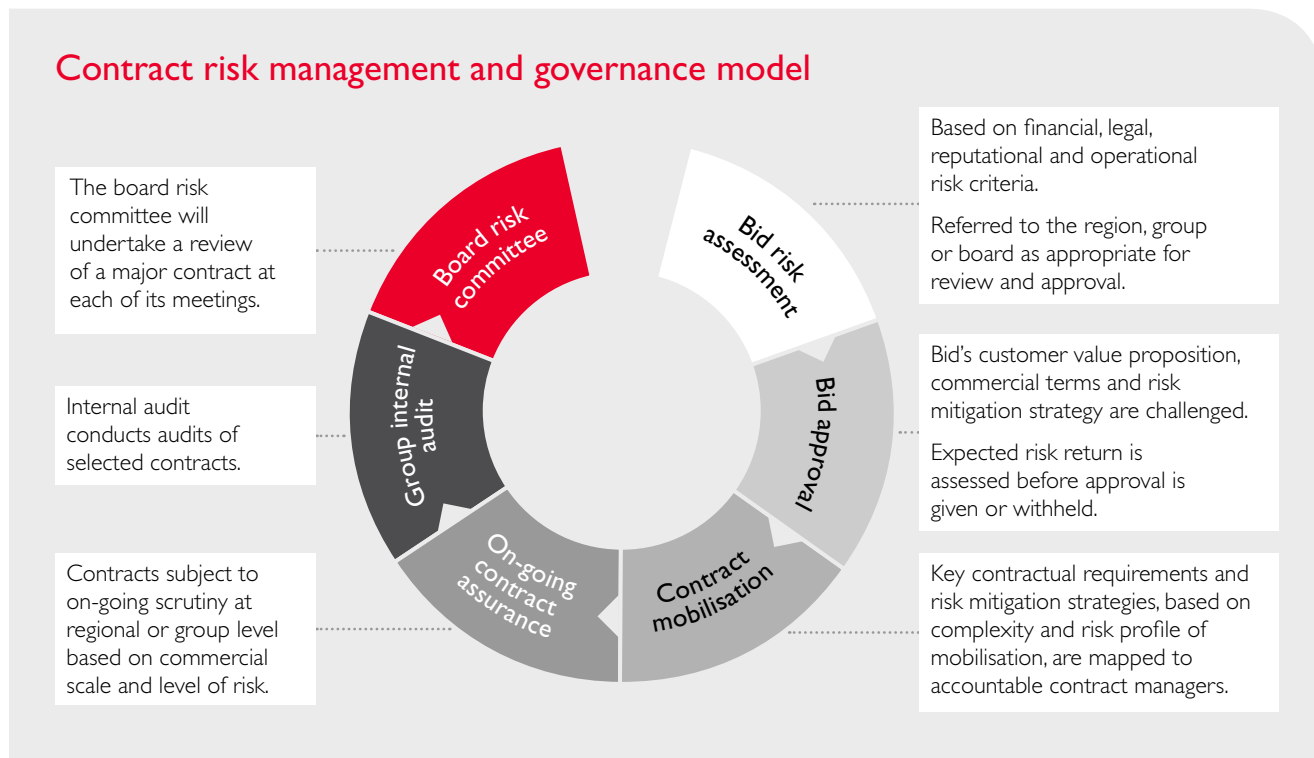
The contract risk management processes that have been successfully implemented in the UK will be extended globally. We will work to harmonise and simplify contract sign-off processes to ensure that they are effective without being a barrier to sales success and revenue growth.

As new processes and systems stabilise there will be an increasing focus on ensuring quality of risk assessments and progress of planned mitigating actions.

Enterprise risk management governance model



Contract risk management and governance model



What are the key risks faced by G4S?

During February 2015, the Regional Risk and Audit Committees met to agree the regional principal residual risks. These meetings were facilitated by group risk management and identified the risks to each region's strategic business objectives and to on-going business operations. The meetings were informed by the country level risks recorded in the group's risk management systems.

Group risk management and the CFO consolidated these risks and identified common themes and regional risks which were material to the group.

These group principal residual risks were reviewed and approved by the Executive Risk Committee and the Risk Committee of the board.

The group's principal residual risks must be considered in the context of the board's risk appetite, which can be summarised as follows:

G4S has a higher risk appetite with regard to growing and transforming its business.

- G4S operates in high risk lines of business in which our core competence and value add is managing those risks effectively. We should be willing to take on such business when we have the expertise to deliver and achieve a good commercial return on the risk we are accepting from our customers.

There are many opportunities for growth:

- Broadening our service provision with existing customers;
- Taking existing services into new countries;
- Bringing new high value add services to market that build on our core competencies and brand; and we should be ambitious in seeking out and pursuing these opportunities.

There are many opportunities to improve the productivity of the business (see pages 24 to 27) and we should set ambitious programmes of change and improvement.

However in delivering this agenda of change and growth we need to manage the risks we are taking on effectively:

- By thoroughly assessing the risks of major contracts; applying the best resources and our best expertise; and hence putting in place mitigation strategies which will control the risks to a commercially acceptable level;
- By applying commercial and financial discipline and controls to manage our growth portfolio; and
- By applying effective programme and project management to our change agenda.

Principal risks

Link to Strategic Priorities



Transform our culture through our people and values



Invest in organic growth and customer service



Make our organisation more productive



Actively manage our portfolio and performance



Embed disciplined financial and risk management

Key

Increased risk

Reduced risk

No change

Health and Safety (H&S)



Risk description

The provision of integrated security services, often in hostile or dangerous circumstances across such a broad diversity of countries presents particular health and safety challenges. The protection of our staff, people in our care and third parties, including the public, is of utmost importance. We believe that accidents are preventable and that "zero harm" is an appropriate goal. We put safety first and prioritise the wellbeing of our employees, setting the benchmark for health and safety across the industry.

The principal health and safety risks are work-related attacks and road traffic accidents. In 2014, 41 (2013: 49) employees lost their lives. We are committed to strengthening our health and safety systems, processes and cultures.

Fatalities and serious injuries to our staff impact not only the individuals concerned, but also their families and loved ones.

Movement since 2013

We added Safety first as a core value for

the group. We appointed a group head of health and safety to provide leadership to our existing network of health and safety professionals across the group. We have introduced an enhanced Health and Safety (H&S) management system which has further developed our capabilities and processes. This has included increasing the personal responsibility borne by country Managing Directors for incident reporting and investigation of serious injuries, and an enhanced safety leadership training course for senior management. We have rolled out a road safety programme called Driving Force Rules and strengthened governance around firearms management.

Mitigation priorities for 2015

Compliance with our core H&S standards will continue to be monitored and periodically audited, with reviews of performance at a regional, group and board level via the CSR Committee. Management incentives are aligned to safety best practice. Detailed assessments of H&S practices in a number of high-risk countries will be undertaken, with implementation of the

resulting action plans being personally monitored by the country or business leader. This 'Step Up' initiative will be part of a broader program, encompassing the roll out of safety leadership training to managers across the group, as well as implementation of a process whereby business leaders report and take ownership for follow up, close out and sharing of lessons learnt for any serious work-related incidents. We will continue to develop our road safety toolkits, and the Service Excellence Centres will continue to develop our mitigating strategies with regard to attacks on our people. Our Health and Safety management system will be augmented with the introduction of toolkits and templates to support implementation in local businesses, and we will review the training for our H&S practitioners across the group to ensure they are equipped to implement these enhanced procedures. An enhanced IT system for incident reporting will be implemented and self-assessments of H&S control compliance will be integrated into the risk management and audit IT system.

Culture and Values



Risk description

G4S provides security to people, premises and valuable assets. In its care and justice services businesses it also provides services which interact with detainees, victims of crime, those on state assistance, vulnerable people and other members of the public. This requires our staff to conduct themselves with the utmost integrity. We operate in more than 110 countries around the world with a diversity of local and national cultures. These factors mean that having a strong set of corporate values that unite the organisation deeply embedded in our culture is of particular importance.

If we fail to behave in accordance with the high standards that we set ourselves, there is a risk that we will not deliver on our commitment to customers, and fail to comply with legislation and international standards. We may also compromise the safety and security of our employees and the assets or people that we are protecting.

This can lead to penalties, failure to renew contracts and ultimately reduced profitability and damage to our global brand and reputation.

Movement since 2013 ✓

We have completed a corporate renewal programme which has been assessed by the UK government. The G4S values were re-launched globally, with the addition of the Safety First value and an emphasis on delivering long-term sustainable value for customers, employees and shareholders.

We have continued to embed our human rights framework, based on the UN Guiding Principles on Business and Human Rights, into the group's practices, such as our risk and compliance systems and processes.

Corporate governance has been enhanced through the Enterprise Risk Management process and introduction of Regional Risk and Audit Committees. Leadership training

has been undertaken, and management performance incentives explicitly linked to all of the values were implemented.

Mitigation priorities for 2015

On-line management training will be implemented covering all of the G4S values. Demonstration of the values will continue to be integral to management performance contracts in 2015. Improved whistleblowing processes are also being implemented.

A values self-assessment programme will benchmark managers' views of performance versus the group values and a global employee and management survey being undertaken this year will provide essential feedback on how the values are working in practice across the organisation.

People



Risk description

We are a people business and we take great care to ensure that we employ the best people to deliver quality services to our customers. We employ 623,000 people world-wide, and are the largest security solutions provider in the world. This means we have expertise in screening and training, which together with our integrity and trustworthiness is an important factor in why customers choose G4S.

In a global and diverse business such as ours, there are inherent risks associated with recruiting, motivating, developing and training employees on a large scale, as well as appropriately rewarding and retaining our critical talent and ensuring effective succession in management roles. Screening is also a particular challenge in some territories which lack supporting infrastructure from the relevant authorities. In these territories we identify alternative measures which are approved by group HR to mitigate this risk as much as possible.

Failure to recruit, retain, motivate and develop key managers, sales

professionals and front line staff can affect customer service, customer retention and sales growth, impacting our financial performance.

Movement since 2013 ◇

G4S' human resource processes are well established and effective. During 2014 we appointed a significant number of new individuals to management positions in regions and countries around the globe. This has included recruitment from a range of high quality companies both within and outside the security sector, as well as the promotion of internal talent. We have also invested significantly in strengthening our sales resource. In a low-margin, low-salary business there will always be challenges in retaining staff, and in particular we experience this as a challenge in Africa and Europe.

Mitigation priorities for 2015

On 1 July 2015 Irene Cowden will retire as group HR Director. She will be succeeded by Jenni Myles, who since 2011 has been the HR Director for North America and Latin America, having been with G4S since 1998.

In 2015 our management incentives will be further reviewed to ensure they are competitive, motivational and drive the right behaviour, in line with our values and business objectives. Common talent review processes will be cascaded throughout the organisation, supplemented by the introduction of new leadership development programs. This will strengthen our succession plans and support retention of key talent. To help employee retention at all levels of the organisation, the global employee and management surveys will be undertaken in the first half of the year, providing rich insight into our employees' opinions. This will assist in identifying priority areas for action, which will be implemented and tracked across the remainder of the year. The recruitment of operational employees will be augmented by sharing best practices across the group and providing detailed guidance and oversight to ensure appropriate screening standards are met.

Brand and Reputation



Risk description

We provide our customers across the world with a wide range of high quality, well controlled services. Nevertheless the nature of the group's activities means that we can face high inherent reputational risks related to the countries in which we operate, the services we provide, the customers and suppliers we work with, the people in our care and our interactions with members of the public with whom our colleagues come into contact.

Our reputation can be damaged when we fail to meet our own standards or the expectations of our key stakeholder groups. Service failures or behaviour by G4S or its partners which does not meet those standards can result in adverse publicity and damage to the group's reputation.

Movement since 2013 ✓

In the UK, we have significantly improved our relationship with central government following some high-profile issues which

were raised in 2013, and we have since won new contracts. Globally we have implemented a process for reviewing all business opportunities with regard to our values and the reputational risks they bring. This enables us to make appropriate decisions whether or not to bid. There were material opportunities during 2014 which we decided not to bid for.

On occasion, services we provide meet significant challenges which exceed our reputational risk appetite, at which point we look for alternative options, which may result in non-renewal of existing contracts or disposal of certain businesses.

Mitigation priorities for 2015

We are embedding human rights due diligence processes and reputational considerations into our systems for evaluating new market entries or bidding for new contracts. We are also reviewing and auditing our performance on human rights in existing markets which are

considered to be high risk. Customer satisfaction monitoring is being implemented across the group.

We are promoting G4S values and communicating our desired behaviours with colleagues across the group; engaging proactively with ethical and sustainability ratings agencies and analysts; and increasing our dialogue with customers on high profile contracts and issues. We have invested in an enhanced corporate media team to develop relationships with and educate commentators and journalists; and are implementing a programme of political risk management and engagement to continue to build relationships with politicians and regulators.

We are also enhancing our whistleblowing and case management processes, to ensure that employees can raise issues of ethics to the highest level of the organisation and to enable us to identify trends and emerging reputational risks.

Major contracts



Risk description

The group has a number of long term, complex, high-value contracts with multi-national, government or other strategic customers. The group's growth strategy includes a greater focus on higher value, and more technology-rich services. This will increase the complexity and uniqueness of customer requirements and contracts.

For such contracts there are risks to the group accepting onerous contractual terms; mobilising contracts well; transitioning effectively from mobilisation to on-going contract management; delivering to contractual requirements; and managing complex billing arrangements, contract change control and sub-contractors.

Failure to ensure effective contract take-on, mobilise successfully and manage complex contracts effectively throughout their lifecycles can impact the group's liabilities, customer satisfaction, reputation, revenue, cash flow, and profitability.

Movement since 2013 ✓

We have established Group and Regional Investment Committees. In the UK, we have implemented a major contract approval process with oversight from these committees; strengthened the contract on-boarding process; and rolled out a 360° contract review of all aspects of our most significant contracts. A quarterly financial review of the top 200 contracts across the group has been implemented. Regional legal counsels

and regional finance directors now report directly to the group legal counsel and group CFO, providing greater independence. Group internal audit has recruited a specialist contracts auditor to audit both individual major contracts and also the effectiveness of the processes described above.

Mitigation priorities for 2015

The new major contract approval, and 360° contract review processes implemented in the UK during 2014 will start to be rolled out globally in 2015.