AN INTEGRAL PART OF DAY-TO-DAY MANAGEMENT

Our aim is to identify the principal risks we face and to focus management attention on effective mitigation of the most critical risks to achieve our strategic objectives and safeguard our reputation.

How the risk landscape has evolved

Events during 2016 have continued to highlight the dynamic nature of the global landscape in which G4S operates. Geopolitical shifts, changes in political leadership, volatility in commodity markets, terrorist events, weak economic recovery, migration in Europe and on-going instability in the Middle East have created increased risks and uncertainty and also opportunities for the security industry. G4S also continues to face operational and health and safety risks which are particular to the security business, along with the financial and commercial risks common to all multinational companies.

Our assessment is that the risk to G4S arising directly from the vote for the UK to leave the EU is not significant. We mainly operate within national boundaries and are subject to national security licensing regulations, and are relatively well positioned with around 82% of revenues outside the UK and minimal cross-border trading. However, depending on the terms of the UK's exit from the EU there might be a range of business factors that could affect our business including the availability of labour, regulations and taxation. It is also possible that continuing uncertainty during the negotiation period lowers economic growth in the UK and Europe which could affect both our customers and our competitors. We continue to monitor developments through our risk and governance framework.

What we did in 2016

During 2016, progress has been made to ensure that accountability for risk management rests with country operational business management. The Group's mandated control standards have been updated to ensure they address key risks and were simplified to facilitate compliance. These were launched Group-wide and now form part of the updated control self-assessment mechanism. Quarterly Regional Audit Committees focus on financial judgements and address internal and external audit findings, which has driven an improvement in financial control awareness and compliance. We have further embedded the enterprise risk management governance model, as detailed on page 51, across the Group.

What we will do in 2017

We will further embed the mandated control standards to ensure they operate effectively throughout the Group. Functional teams will use the results of the control self-assessment to assist countries with training and guidance as well as challenging countries to ensure controls are operating in line with their self-assessment. In addition, internal audits will test the operational effectiveness of these controls. Regional Audit Committees will continue to review, challenge and direct improvements in the performance of all control standards, financial judgements and reporting. Through continued engagement and review by country, region and Group management we will enhance the quality and timeliness of the identification of risks and the delivery of mitigating actions. During the year we will reassess the Group's risk appetite and improve the reporting of risks and use metrics to assist with risk identification.

What are the key risks faced by G4S?

As in prior years we have undertaken a bottom-up review, with countries completing a review of their risks and recording them in our Governance Risk and Control (GRC) tool together with mitigating actions as appropriate. This is combined with a top-down review from the board and Group functional leaders to ensure that the risks captured are complete and appropriately assessed. The risks are then summarised and presented to the Risk Committee for their consideration and approval. The resulting principal residual risks and the mitigating actions are outlined in the following pages. In general the level of residual risks is similar to the prior year. Any identified changes are reflected in the individual principal risks described on pages 52 to 55. For 2016 we removed the principal risk of Brand and Reputation as the risks described in that category largely duplicate risks discussed in several other principal risks. We have also removed the risk of Delivery of Core Service Lines as the key elements in that risk are more reflective of our risk of not delivering our Growth Strategy and are included in that risk for 2016.

G4S operates in high risk areas of business in which our core competence and value-add to customers is managing those risks effectively. We have a higher risk appetite for growing and transforming the business when we have the expertise to deliver and achieve a good commercial return for the risk we are accepting. In delivering our agenda of change and growth we need to manage effectively the risks we accept:

- By assessing the risks of major contracts thoroughly; applying the best resources and 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 opportunities; and
- By applying effective programme and project management to our change agenda.

ENTERPRISE RISK MANAGEMENT GOVERNANCE MODEL

BOARD

The board has ultimate responsibility for assuring risk management processes by reviewing the most critical risks and controls.

RISK COMMITTEE

The Risk Committee meets four times per year and reviews the Group's risk appetite, assesses the Group's principal residual risks and assesses the overall enterprise risk management process.

AUDIT COMMITTEE

The Audit Committee meets four times per year and ensures the Group's control framework is operating effectively.

GROUP EXECUTIVE COMMITTEE

The Group Executive Committee considers the Group's principal residual risks and the progress of mitigating actions.

REGIONAL AUDIT COMMITTEES

The committees meet four times a year and are also attended by the external auditor and review:

1. The progress of closing internal and external audit findings; and
2. Reports on status of financial controls and significant accounting judgements

GROUP AND REGIONAL ETHICS COMMITTEES

The committees are responsible for whistleblowing and investigations across the regions.

Operating companies

We employ three lines of defence to control and manage risks across the Group.

OPERATING COMPANIES AND SHARED SERVICE FUNCTIONS

Our operating companies and shared service functions identify and assess the risks to their business objectives and plan appropriate mitigating actions. These are recorded in our Group-wide risk management tool. A thorough review is conducted as part of the annual planning process with updates made in senior management team meetings and trading reviews formally twice a year. Control self-assessments against Group control standards are completed annually (bi-annually for financial control standards).

1ST LINE: BUSINESS OPERATIONS AND SUPPORT

Responsibility for the first line sits with the managers of our businesses, whether line management or support. The senior management team within each business is responsible for implementing and maintaining appropriate controls across their business.

Result: Ensures standards expected by the Group, our customers and other stakeholders are met.

2ND LINE: CONTROL AND OVERSIGHT FUNCTIONS

The second line consists of oversight functions at both regional and Group level including: risk, finance, legal, human resources, operations, information technology, commercial and CSR.

Result: Provides support to business managers.

3RD LINE: INTERNAL INDEPENDENT ASSURANCE

The third line comprises the internal audit function. As part of its annual programme of work, internal audit conducts regular reviews of risk management processes and gives advice and recommendations on how to improve the control environment.

Result: Provides independent assurance over the design and operation of controls.

EXTERNAL AUDIT

Financial reporting risks are considered as part of the external audit.

Principal risk | *Link to strategy*

HEALTH AND SAFETY (H&S)

Risk description

The provision of security services to protect valuable assets, often in hostile or dangerous circumstances, presents health and safety challenges. The business operates a large vehicle fleet in a number of countries with poor road infrastructures, increasing the risk of road traffic incidents. In 2016, 47 (2015: 46) employees lost their lives in work-related incidents.

Risk mitigation

The protection of our staff, people in our care or custody, and third parties including the public, is of utmost importance. We believe that accidents are preventable and that 'zero fatalities' is an appropriate goal. The Group has mandatory H&S controls which all companies are required to comply with. These controls cover the core requirements for businesses' management systems and are supplemented by on-line training for managers and business leaders. Formal processes, which are continuously reinforced, are in place to report, investigate, close out and share the lessons learned from serious incidents. A road safety policy applies to all businesses, a number of which also run local programmes on topics such as speed management, GPS tracking and motorcycle safety. A series of 'Golden Rules' which reflect some of the most common H&S risks are widely publicised, included in mandatory training, and failure to adhere to them is linked to our disciplinary procedures. As part of embedding best practice H&S standards and behaviour we have completed assessments of H&S practices in high-risk countries and provided further guidance to mitigate H&S risks. Good practice and progress in delivering H&S improvements are recognised and rewarded, while poor practice and insufficient progress lead to close executive scrutiny, formal performance management processes and reductions in performance related pay for business leaders as appropriate.

Mitigation priorities for 2017

We will continue to monitor compliance with the H&S controls through the annual self-assessment process and through on site reviews from local, regional and Group teams to check compliance with these controls. We will enhance the process for reporting H&S performance and introduce the tracking of high potential incidents with the aim of proactive prevention of incidents leading to injuries and fatalities.

Having recently developed a number of training programmes aimed at managers and business leaders, we will focus our attention on the content of H&S training given to front line employees and make changes as appropriate to ensure the messages about the importance of health and safety and responsibilities are consistent at all levels. We will refresh the 'Golden Rules' to ensure they remain aligned to the key H&S risks and awareness of them is reinforced. We will continue to provide guidance and intervene to support selected businesses in delivering improved health and safety performance.

CULTURE AND VALUES

Risk description

G4S provides security for people, premises and valuable assets. The Care and Justice services businesses provide services to detainees, victims of crime, people needing state assistance, and other members of the public. We operate in many different countries around the world with a diversity of local and national cultures. Having a strong set of corporate values that unite the organisation deeply embedded in our culture, is very important. 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 our colleagues, customers and other stakeholders and may fail to comply with legislation and international standards.

Risk mitigation

The Group has a strong set of corporate values which are embedded in a range of employment practices including recruitment, induction training, Group policies and performance contracts. They are communicated to employees through posters, intranet, values events, training programmes and other methods across our different markets. Our corporate values are detailed on page 3. In everything we do, no matter how challenging the circumstances, we require our people to live these values and to be prepared to Speak Out if others disregard them. Ethics steering committees at a Group level and in each region oversee the whistleblowing investigation process and provide guidance to countries on ethical matters. In the UK & Ireland we focused on building awareness of the importance of our corporate values and whistleblowing, particularly in prisons and other secure care environments. Members of our Group Executive Committee have undertaken a programme of visits to these locations to help ensure this is embedded successfully.

Mitigation priorities for 2017

To ensure widespread understanding and awareness of our revised corporate values, we have recently launched a new communications toolkit and identified a global network of values ambassadors who are responsible for communicating the values across all businesses. In addition, we are embedding the values in our processes for selecting, hiring, on-boarding, training and development of colleagues around the world. We are launching a scheme to recognise colleagues who are living the values and will share best practice case studies across the Group. This includes a new video for induction training which makes the values relevant to our day to day activities, a revised competency framework for managers so that expected behaviours and assessment of their performance is aligned to the new values, as well as on-line management training. Every opportunity will be taken to promote Speak Out in these materials so colleagues can report any concerns with behaviour that appears contrary to our values.

- People and values
- Customers and service excellence
- Growth and innovation
- Operational excellence and productivity
- Financial and commercial discipline

Principal risk

Link to strategy

PEOPLE

Risk description

In a global and diverse security business such as ours, employing over 585,000 people across around 100 countries, there are risks associated with recruiting, supervising, motivating and training employees on such a large scale, as well as rewarding appropriately and retaining critical talent to ensure effective succession in management roles. Screening is also a particular challenge in some territories which lack supporting infrastructure from the relevant authorities. While our controls are robust we still face the risk of a rogue employee not complying with our values.

Risk mitigation

The Group has mandatory human resources controls which all countries are required to comply with. These HR core standards were reviewed and re-launched during the year with appropriate training and support and are assessed through a control self-assessment process within our GRC tool. This provides visibility of compliance and monitoring of action plans to mitigate any non-compliance. In those territories where local circumstances make it impossible to comply fully with the screening and vetting elements, we identify alternative measures, approved by Group human resources, to mitigate the risk as much as possible.

We review in detail the performance and potential of approximately 3,000 managers across the Group to help identify development needs and build succession plans. We also run a regional leadership programme to nurture talented individuals early in their careers and develop them into more senior roles as they move through the organisation.

We monitor staff turnover monthly to ensure that our employee engagement initiatives are achieving desired results of improved employee loyalty and retention. During the year voluntary staff turnover reduced by 7.1%, for more details see page 15.

Mitigation priorities for 2017

We will undertake our fifth global employee engagement survey. The questions will be aligned to the revised corporate values to help businesses identify whether our employees believe the company is living up to them. The results will guide further enhancements to policies and incentive mechanisms to improve productivity, customer satisfaction, personal development and engagement. Self-assessments against the HR core standards are completed annually so progress in closing any gaps identified in the 2016 assessments and any new ones will be followed up.

MAJOR CONTRACTS

Risk description

The Group has a number of long-term, complex, high-value contracts with multinational, government or other strategic customers. For such contracts there are risks to accepting onerous contractual terms; poor mobilisation of contracts; not transitioning effectively from mobilisation to on-going contract management; not delivering contractual requirements; inaccurate billing for complex contracts; ineffective contract change management; and not managing sub-contractors appropriately.

Risk mitigation

We have strict thresholds for the approval of major bids involving both detailed legal review and senior management oversight. These are embedded into our SalesForce opportunity management tool. For our most significant contracts in the UK, we perform 360° reviews of all aspects of contract management and performance. We also perform a quarterly financial review of the top 25 and low margin contracts in each region. For our large multinational customers we have account managers who oversee performance of these contracts across relevant countries and have regular updates with these customers to ensure we deliver to contract terms. We believe the improvements made to controls in this area over the last three years have significantly reduced the risk of entering into new contracts which will become materially onerous.

Mitigation priorities for 2017

We will continue to enhance the review and approval process to mitigate further the risk of poor contracts and ensure lessons learned from underperforming contracts and those we have turned around lead to better performance and the identified issues are part of future approvals for all contracts.

LAWS AND REGULATIONS

Risk description

G4S operates in many jurisdictions globally, with complex and diverse regulatory frameworks. An additional complexity arises from the extraterritorial reach of some of the legislation to which the Group is subject.

Risks include increasing litigation and class actions; bribery and corruption; obtaining operating licences; complying with local tax regulations; changes to employment legislation; complying with human rights legislation; and new or changed restrictions on foreign ownership. Risk also arises from new or changing regulations which require modification of our processes and staff training. These can lead to higher costs from claims and litigation; inability to operate in certain jurisdictions, either through direct ownership or joint ventures; loss of management control; damage to our reputation; and loss of customer confidence.

Risk mitigation

Our policies and procedures clearly set out the requirement for all local management to comply with local laws and regulations. Group and regional leadership together with our Ethics Committees at Group and regional level provide oversight and support compliance with these policies and procedures to mitigate the risks. Group legal and regional leadership closely monitor changes in foreign ownership laws and make appropriate plans to respond. G4S continues to liaise with relevant governments and authorities to influence positively the regulatory environments in which we work.

Mitigation priorities for 2017

We will continue through Group and regional leadership to monitor for changes in laws and regulations and ensure that compliance with them is maintained in all countries. In addition we will continue to liaise constructively with governments and relevant authorities.

Principal risk | *Link to strategy*

GEOPOLITICAL

Risk description

We operate in many countries across the world, with wide-ranging government and political systems, different cultures and varying degrees of rule of law and compliance with human rights within conflict and post-conflict zones. The risk factors include political volatility, revolution, terrorism, military intervention and insurgency. The geopolitical risks we face impact us in many ways: the health and safety of our staff and customers; the continued operation of our businesses; and the ability to secure our assets and recover our profits.

Risk mitigation

We have developed a global process for assessing geopolitical risks of different countries which determines the types of customers we will serve and the types of service we will provide. We also have a great deal of experience of operating in a wide range of difficult territories. We collaborate with our local partners; conduct early risk assessments before and during security assignments; have robust operating procedures; and work closely with our local and global customers in managing the risks of operating in such environments including compliance with human rights. Our G4S Risk Management business has particular expertise in providing secure solutions in very high risk, low infrastructure environments.

Mitigation priorities for 2017

We will continue to assess and monitor geopolitical risks, including exposure to potential human rights abuses, across the high risk countries in which we operate.

INFORMATION SECURITY

Risk description

The customers, staff, suppliers and partners of G4S which entrust their sensitive and confidential business information into our care rightly expect that we will take all reasonable steps to protect it. We are at risk of cyber and physical attack by criminal organisations and individual hackers which could result in censure and fines by national governments; loss of confidence in the G4S brand and specific loss of trust by customers, especially those in government and financial sectors.

Additionally, we face the risk of disruption to service delivery from system failures, incomplete backup routines, inadequate business continuity plans and disaster recovery.

Risk mitigation

We have "defence-in-depth" technologies (i.e. multiple layers of defence) in key systems to protect business information entrusted to us. We have mandatory policies and best practice guidance for application by operating businesses across the Group. Our Minimum Information Security Controls are continually refined and updated in line with our assessment of threats. Compliance with the controls is measured through self-assessment and independently audited by group internal audit.

In 2016, G4S migrated successfully all its businesses to one unified office productivity suite, Google Cloud, covering around 65,000 employees. This further improves our control and security of email and corporate documents.

Mitigation priorities for 2017

Group IT will refine policies into standards and will continue to provide direct technical and hardware solutions to improve performance of IT systems, backup routines and resilience across the world. We will deploy appropriate IT security controls to ensure that we have the right levels of monitoring, reporting and protection of our business information.

CASH LOSSES

Risk description

There are risks in our cash business from external attacks, internal theft and poor cash reconciliation as we transport and safeguard high value cash and valuables including international shipments. We provide a wide range of cash management services including cash processing, sorting of notes for ATMs, holding funds on behalf of customers, secure storage, and a range of ATM services. Loss of cash or valuables could lead to loss of profit, increased cost of insurance and health and safety considerations for our staff and the public.

Risk mitigation

We have clearly defined standards for reconciliation and operational cash controls and have developed an e-learning 'academy' for cash reconciliation and controls to facilitate quick deployment and continued effective operation of these controls across our cash businesses. Group and regional teams monitor compliance with the reconciliation and control standards and support our cash businesses to improve them.

We also have clearly defined standards for physical cash security for our employees, vehicles and processing centres. The Group cash security function is responsible for monitoring compliance with these; for monitoring attacks and other cash losses; and for communicating lessons learned. Innovative security defence products are in use, cash box tracking, vehicle protection foam and protective boxes.

Mitigation priorities for 2017

We will continue to drive improvement in cash reconciliation and physical cash security across our cash businesses through both Group and regional teams.

- People and values
- Customers and service excellence
- Growth and innovation
- Operational excellence and productivity
- Financial and commercial discipline

Principal risk

Link to strategy

GROWTH STRATEGY

Risk description

Our growth strategy is to leverage our expertise to drive innovation in our core service lines to improve service for our customers and so increase the value of long-term customer relationships.

There are risks that we will fail to create higher value solutions that differentiate us from local commoditised competitors; that we fail to deliver our core services effectively and consistently; that we lose contracts or growth opportunities through price competition and market changes; that we fail to enter target markets successfully; that we become over-reliant on large customers; and that government legislation changes could impact on our growth potential or force exit from markets and territories.

Risk mitigation

We have best practice service delivery guidelines for both secure solutions and cash service lines and are developing a global information system supporting the end to end order to cash process in our secure solutions service lines, including finance, human resources and operational delivery.

Our development of new service offerings, particularly in electronic security and cash solutions, is focused on those centres of excellence where we have the strongest capability. We leverage our global network to offer integrated solutions internationally. In particular, our global accounts programme supports and promotes our multinational accounts and focuses selling our more specialist services such as investigations and secure logistics.

Our 'outbound' programme works with Chinese and North American multinational customers to provide services to them on a global scale. We are able to mitigate local reduction in growth opportunities through the diversity of industries and markets we serve and by leveraging our portfolio of products to offer alternative cost efficient solutions.

We also have a consistent approach across all countries to assess customer satisfaction and ensure we deliver our service commitments, key performance indicators and thus improve retention of customers.

Mitigation priorities for 2017

We will continue to invest in our business development capabilities in both people and systems. The results of understanding our customers' levels of satisfaction in how we deliver our services will be used to improve further customer satisfaction and guide how we deliver integrated solutions to existing and potential customers across all businesses.

The global information system is planned to be piloted in our UK & Ireland businesses, and then rolled out globally over a number of years. Further enhancements will be made to our business resilience mechanisms to enhance business continuity and thus mitigate the risk of interruption of service to customers.

VIABILITY STATEMENT

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the directors have assessed the viability of the Group over a three-year period, aligned with that of the Group's rolling planning cycle, taking into account the Group's current position and the potential impact of the principal risks documented on pages 52 to 55.

Planning beyond three years is seen by the Group as being of limited value due to:

- The majority of the Group's contracts being less than three years in duration;
- The correlation of demand for security services with the very volatile global economy; and
- The impact of the Group's on-going transformation programme.

The Group's prospects are assessed primarily through its bottom-up strategic planning process. The overall strategy for the Group was refreshed comprehensively in November 2013 and the board has monitored progress closely against this strategy as well as the risks to its success. The 2016 process commenced in June with each country and business unit updating its rolling three-year strategic plan and considering the risks to achievement of that plan. These plans were reviewed and refined by regional management and then by the Group Executive Committee before being reviewed by the board in October 2016. The key assumptions in the financial forecasts, reflecting the overall strategy, include:

- A continued demand for security services, as set out on page 8 of the strategic report;
- An ability to continue to drive through our productivity programmes and to flex the cost base, as set out on pages 24 to 25; and
- Continuing to improve the operating cash flow performance of the Group as set out on pages 26 to 27.

The output of this plan is used as the baseline for stress-testing covenant and headroom analysis. This analysis includes sensitivity analysis to changes in trading conditions affecting profit growth and the capital needs of the business, as well as the principal residual risks.

The vast majority of the Group's risks exist at an individual country level and are individually immaterial. The principal residual risks described on pages 52 to 55 are an aggregate view of the approximately 1,500 individual risks captured in country, region and Group functional risk registers. These wide-ranging risks are highly unlikely to crystallise simultaneously and it is therefore unlikely that such risks would have a material impact on the Group's financial position. Nevertheless, the Group has sensitised its three-year financial projections for the following risks: a) potential loss of certain of the Group's top customers; b) potential adverse changes in foreign ownership legislation resulting in cessation of material business lines; and c) potential claims from major contracts resulting in material settlement payments. The directors consider that this stress-test assessment of the Group's prospects is reasonable in the circumstances. Based on this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three financial years to 31 December 2019.