

## APPENDIX

### The group's principal risks and uncertainties:

A description of the principal risks and uncertainties that the company faces is extracted from pages 46 and 47 of the 2012 Annual Report and Accounts.

#### **Our risk assessment and management process**

The group operates around 160 businesses spread over more than 125 countries and across a range of product areas. Most of the risks identified below are market specific and so the diversity of the group's operations means any particular issue should have a limited impact.

#### **Price competition**

##### **Risk and potential impact to KPI**

The security industry comprises a number of very competitive markets. In particular, manned security markets can be fragmented with relatively low economic barriers to entry and the group competes with a wide variety of operators of varying sizes. Actions taken by the group's competitors may place pressure upon its pricing, margins and profitability.

##### **Mitigation**

Group management continually monitors competitor activity to ensure that the group can react quickly to any competitor actions which would directly affect the group's results.

All business plans and strategic planning includes competitor and SWOT analysis and the pricing strategy for contracts is managed through business unit and regional price approval levels. Significant price reductions require group capex committee approval.

#### **Poor operational service delivery and crisis management**

##### **Risk and potential impact to KPI**

Failure to meet the operational requirements of its customers and/or failure to respond to a crisis could significantly impact the group's reputation, contract retention and growth.

##### **Mitigation**

Group-wide operational procedures and standards for crisis management and communication are in place and adherence to them is tested in all business units. There is also a robust supervision structure which allows management to monitor the progress and delivery of the group's contracts and customer relationships.

The group crisis communications process is reviewed regularly.

#### **Inappropriate sourcing of staff**

##### **Risk and potential impact to KPI**

Poor selection processes when recruiting staff could have material implications given the critical nature of the services undertaken by the group. There could also be risks associated with any failure to carry out periodic re screening of existing employees.

##### **Mitigation**

Minimum group staff vetting standards maintained and regularly reviewed and updated.

#### **Major changes in market dynamics**

##### **Risk and potential impact to KPI**

Such changes in dynamics could include new technologies, government legislation, political or economic volatility or customer consolidation and could, particularly if rapid or unpredictable, impact the group's revenues and profitability. Security can be a high profile industry. There is a wide and ever-changing variety of regulations applicable to the group's

businesses across the world, with a recent development being an increase of restriction of foreign ownership in some countries. Failure, or an inability, to comply with such regulations may adversely affect the group's revenues and profitability.

### **Mitigation**

The group performs strategic and business planning at group, region and business unit level to ensure that specific local regulation requirements are met. Monthly business unit trading reviews ensure that market changes are identified quickly and actions taken to maintain performance and ensure that business objectives continue to be achieved.

The group also monitors local markets and engages with governments around the world to ensure adherence to regulatory requirements, to identify any restrictions that could adversely impact the group's activities and take appropriate actions.

### **Cash losses**

#### **Risk and potential impact to KPI**

The group is responsible for the cash held on behalf of its customers. Increases in the value of cash lost through criminal attack may increase the costs of the group's insurance. Were there to be failures in the control and reconciliation processes surrounding customer cash, these could also adversely affect the group's profitability.

### **Mitigation**

The group has formal systems and policies in place documenting physical security procedures and directives and adheres to a security framework to help reduce the risk of cash losses.

The group also operates a captive insurance business unit to mitigate against the financial risk of losses and attacks.

All transactions are subject to strict authorisation limits and regular reconciliations of cash balances are performed for both cash in ATMs and cash held on customers' behalf. In addition there is regular reporting of any cash losses/attacks and audits of security are performed in branches.

The group has in place regional cash reconciliation managers to increase the focus on cash reconciliations globally.

### **Financing**

#### **Risk and potential impact to KPI**

If, due to adverse financial market conditions, insufficient or only very costly financial funding were available, the group might not be in a position to implement its strategy or invest in acquisitions or capital expenditure. This includes possible bank insolvency loss of headroom particularly from movement of exchange rates, unavailability of bank, bond or other sources of financing and downgrading of the G4S credit rating. These could adversely impact G4S revenue growth and profitability.

### **Mitigation**

The group treasury department monitors and follows policies to mitigate against liquidity, refinancing and currency/exchange rate risks. Refer to note 33 to the group accounts for more details.

The group's historical main source of funding has been a revolving bank facility of £1.1bn which was renewed in March 2011 until 2016. The group has sought to diversify its sources of finance by issuing a number of private placement bonds in the US and public bonds in the UK and Europe.

These have spread out the refinancing requirements over the next ten years to ensure the group has access to sufficient funds to meet its business and strategic plans.

## **IT**

### **Risk and potential impact to KPI**

Cyber attacks and incidents on G4S and client systems and services, especially around critical national infrastructure could result in financial loss, breach of contract, legal action and reputational damage.

### **Mitigation**

The group employs IT specialists at all levels and has in place mandatory minimum security controls (relating to 35 specific controls). In addition penetration testing of networks and systems is performed regularly to ensure that key systems are robust.

### **Onerous contractual obligations**

#### **Risk and potential impact to KPI**

The group could commit to sales contracts specifying disadvantageous pricing mechanisms, unachievable service levels, unacceptable operational feasibility or delivery risk or excessive liability. This could impact its margins and profitability.

### **Mitigation**

Any new contracts entered into are subject to a defined approval process. Standard contracts are used where practicable. Non-standard contracts which expose the group to material risk are subject to risk assessment and depending on the level of risk exposure are referred for regional or group legal department review.

## **Statement of directors' responsibilities:**

The following responsibility statement is repeated here solely for the purpose of complying with Disclosure and Transparency Rule 6.3.5. This statement relates to and is extracted from page 82 of the 2012 Annual Report and Accounts. Responsibility is for the full 2012 Annual Report and Accounts not the extracted information presented in this announcement and the preliminary final results announcement.

“The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Directors' Responsibility Statement**

Each of the directors, the names of whom are set out on pages 54 to 57 of this annual report confirm that, to the best of his or her knowledge: the financial statements in this annual report have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit of the company and the group taken as a whole; and the directors' report, including the Business Review on pages 8 to 47, includes a fair review of the development and performance of the business and the position of the company and the group taken as a whole, together with a description of the principal risks and uncertainties they face.

The statement of directors' responsibilities was approved by a duly authorised committee of the board of directors on 12 March 2013 and signed on its behalf by Trevor Dighton, chief financial officer."

Peter David  
Company Secretary

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### **G4S plc**

G4S is the world's leading secure outsourcing group, specialising in outsourcing of business processes in sectors where security and safety risks are considered a strategic threat. G4S is the largest employer quoted on the London Stock Exchange and has a secondary stock exchange listing in Copenhagen. G4S has operations in over 125 countries and more than 620,000 employees. For more information on G4S, visit [www.g4s.com](http://www.g4s.com).