

### Significant judgments and issues considered by the Audit Committee

The primary judgments and issues considered by the committee in the 2017 financial statements, and how these were addressed, were:

#### ONEROUS CONTRACT PROVISIONS

##### Description

The Group delivers certain long-term outsourcing services that are complex in nature. Some of those contracts may evolve to become loss-making, such that net unavoidable losses are expected over their life. This requires determining the net present value of estimated future losses in order to calculate an appropriate onerous contract provision. The identification and measurement of such provisions require significant judgment, given the extended time periods often involved and the number of variables that are not all within the Group's control.

In particular, judgment is required in assessing the future expected revenue and costs, including: determining the expected impact of any profit improvement plans (PIPs), the level of any related lifecycle funds and the estimated costs for the remaining life of the contract, and an appropriate discount rate to apply to material future cash flows.

Details of the outcome of the assessment of contract provisions are set out in the Chief Financial Officer's Review on page 37.

##### Action taken

The committee reviewed in respect of each onerous contract, the critical assumptions provided by management and enquired about the judgments made, the robustness of the assumptions, the sensitivities to changes in the assumptions and the disclosure provided in relation to the key material judgments.

The committee also reviewed the disclosure provided in relation to these contracts, and in particular in relation to a dispute with a subcontractor in respect of one of these onerous contracts.

##### Conclusion

The Audit Committee was satisfied that the level of provisions and the related disclosures as at 31 December 2017 were appropriate.

#### COMPLIANCE WITH FOREIGN-OWNERSHIP RESTRICTIONS AND CONSOLIDATION OF UNDERTAKINGS

##### Description

In markets where foreign ownership restrictions (FORs) apply, the Group seeks to ensure that it complies with foreign ownership laws and regulations and meets the relevant accounting standards (IFRS 10). Professional advisors are typically retained to establish and maintain contractual ownership structures, which comply with local laws and regulations relating to foreign ownership.

When restrictions apply to direct share ownership, the Group also exercises influence or control through arrangements, including shareholder agreements.

FORs can limit the Group's ability to do business or invest in certain markets and could result in a loss of management control.

Consolidation of any of these entities would be at risk if the Group's ability to enforce its rights of control were to be undermined by FORs.

##### Action taken

The committee reviewed the Group's portfolio of investments in countries where FORs apply.

In addition, the board reviewed the monitoring process in place for key markets, discussed relevant changes in law and regulations, their potential impact on the Group, and, where relevant, reviewed mitigation plans.

The committee also received specific reports in relation to a number of countries.

##### Conclusion

The committee was satisfied with the Group's processes and approach to foreign ownership and consolidation of undertakings.

This will remain an area of focus to ensure that the committee remains abreast of changes in laws, regulations and standards.

## ALTERNATIVE PERFORMANCE MEASURES

### Description

The Group uses Adjusted PBITA as a consistent internal and external reporting measure of its financial performance, given that management views it as being more representative of the normal course of business and more comparable period to period. Adjusted PBITA excludes strategic restructuring costs, amortisation of acquisition-related intangible assets and specific and other separately disclosed items which the Group believes should be disclosed separately by virtue of their size, nature or incidence (see page 35 for further details). Judgment is required when defining those items to be disclosed separately and when applying the classification criteria to each period's results. Further details on separately disclosed items are set out in note 8.

### Action taken

The Audit Committee reviewed and challenged, in light of the guidance issued by the FRC in December 2013, October 2016 and November 2017, and the results of the FRC review of the 2016 Integrated Report and Accounts, the enhanced disclosures prepared by management in the 2017 Integrated Report and Accounts (pages 35 and 36) in relation to alternative

performance measures (APMs) and specific items.

The committee observed that the Group's accounting policies were being applied consistently from year to year, and considered whether specific items were being identified in line with Group policies and that these items included both debits and credits as appropriate.

The committee also reviewed information from management to satisfy itself that changes in estimates related to items that were classified as specific items were treated equally and consistently as specific items, in particular for both increases and decreases of provisions.

### Conclusion

The committee was satisfied that the Group's definition of APMs, and in particular in relation to specific and other separately disclosed items, had been applied correctly and that the designation of specific items was subject to objective and balanced criteria. The committee noted the enhanced disclosure and explanation on APMs and considered that these give a meaningful and balanced view of the operations of the Group.

## GOODWILL IMPAIRMENT TESTING

### Description

The total value of the Group's goodwill as at 31 December 2017 was £1.9bn, a significant proportion of which was generated by the merger of the security services businesses of Group 4 Falck and Securicor in 2004, which was accounted for as an acquisition of Securicor by Group 4 Falck.

The Group tests tangible and intangible assets, including goodwill, for impairment on an annual basis or more frequently if there are indications that an impairment may be needed. The impairment analysis consists of the estimation of the recoverable amount of goodwill supported by the Group's cash generating units, which requires significant judgment, primarily in relation to the achievability of long-term business plans and future cash flows. Such achievability is dependent on circumstances both within and outside management's control, in relation to the discount rates adjusted to reflect risks specific to individual assets used, and in relation to the macro-economic assumptions and related modelling assumptions underlying the valuation process.

As a result of the annual review of the carrying value of goodwill, no impairment charge to goodwill was required (see notes 4 and 18 to the consolidated financial statements). The full methodology and results of the Group's impairment testing, including an analysis of the sensitivity of goodwill to the key assumptions, are provided in note 18.

### Action taken

The Audit Committee reviewed the methodology and results of the impairment tests prepared by management.

The Audit Committee reviewed the assumptions used in relation to long-term growth, the resulting headroom and the sensitivities applied by management. In addition, these results were considered against alternative valuation bases such as reference to transactions for similar assets in similar locations, both within the Group and external to the Group.

For those businesses that are expected to be sold as part of the strategic portfolio management programme, the Audit Committee reviewed the recoverable value on the basis of expected sale price less costs to sell.

Finally, the Audit Committee considered the adequacy of the disclosures provided, particularly in respect of cash generating units where changes in key assumptions could give rise to an impairment.

### Conclusion

The committee was satisfied with the carrying value of goodwill and related disclosures as at 31 December 2017.

## TAXATION

### Description

The Group operates in around 90 countries and is therefore subject to numerous reviews by individual tax authorities in the ordinary course of business. In some countries, tax legislation is not consistently applied and under some complex contractual structures, the responsibility for tax arising is not always clear. Judgments and estimates are required to determine the appropriate amount of tax to provide for and any required disclosure around contingent tax liabilities at each period end.

Provisions for tax liabilities are estimated for existing matters under dispute with local tax authorities, as well as for matters which it is considered may be disputed by them, where it is probable that a future liability will arise. In some instances, tax reviews may result in claims being raised by tax authorities. Any claims are handled by the local legal entity in the first instance. More complex cases are reviewed by the Group tax function and provisions, where necessary, are made based on the best estimate of the likely outcome.

The Group recognises deferred tax assets in respect of temporary timing differences, mainly in relation to pension arrangements, fixed assets and carried forward losses. At 31 December 2017, total deferred tax assets were £240m (2016: £285m). Recognising such assets requires an assessment of their likely recovery through utilisation, which includes an assessment of the taxable profits expected to be made in each of the relevant jurisdictions in the future. Deferred tax assets can be affected by changes in legislation and in tax rates.

### Action taken

The Audit Committee reviewed the Group's tax strategy, including the tax report and tax risk management processes and the board approved the tax policy, which complies with the UK Confederation of British Industry's seven tax principles.

The committee also reviewed information prepared by management in relation to existing or potential tax exposures, the adequacy of the provisions recorded, their treatment and disclosure in the financial statements and emerging matters arising from the OECD's Base Erosion and Profit Shifting framework.

The committee reviewed information prepared by management supporting the recoverability of deferred tax assets, considered the period of time under which these assets would be recovered and made enquiries of the external auditor on the appropriateness of the Group's tax position. The committee reviewed the impact of the US tax reform and in particular to the recognition and re-measurement of US deferred tax assets, and reviewed the disclosure provided in this area.

### Conclusion

The committee was satisfied with the Group's approach to tax, with the assessment of recoverability of deferred tax assets and with the accounting treatment and disclosure of tax exposures.

The committee was satisfied that the disclosure provided in connection with the US tax reform was clear and appropriate.

## LAWS AND REGULATIONS

### Description

The Group operates in many jurisdictions globally, with complex and diverse regulatory frameworks. Due to such operations, the Group faces many associated risks, including increasing litigation and class actions; bribery and corruption; obtaining operating licences; complying with local tax regulations; changes to and application of employment and employee remuneration legislation; complying with human rights legislation; and new or changed restrictions on foreign ownership. Furthermore, the Group may face new or changing regulations which may require modification of its processes and staff training. Not being compliant with applicable laws and regulations can have far-reaching consequences, including higher costs from claims and litigation; inability to operate in certain jurisdictions; loss of management control; and damage to the Group's reputation.

### Action taken

During the year the committee received a report from the Group General Counsel, analysing significant areas of exposure to claims and areas where in particular labour laws and regulations are complex and there is therefore an inherent risk to the judgment made when applying those laws and regulations. For the most material items, the committee was provided with regular updates throughout the year.

### Conclusion

The committee was satisfied that the provisions booked at 31 December 2017 were appropriate. The committee was satisfied that the disclosure for the judgments made in relation to contingent liabilities was clear and appropriate.

## RISK OF ACCOUNTING ERRORS AND MANAGEMENT OVERRIDE OF INTERNAL CONTROLS

### Description

The Group operates in around 90 countries and has around 600 legal entities, with a significant number of local financial systems and processes. This leads to an inherently-diverse set of processes and controls that rely on local capabilities for implementation and execution of the controls. As set out on page 61, the Group has adopted a three-lines-of-defence model to control and manage risks across the Group.

Over the course of the last four years the Group has made significant investment in strengthening capability in finance, internal audit and risk, and has introduced additional internal controls and enhanced Group oversight to mitigate these risks. These include monthly reviews of the quality of earnings, a comprehensive internal audit plan and a regular cycle of reviews of local business unit or country balance sheets and controls.

### Action taken

The committee oversaw the progress made over embedding minimum financial controls and received

regular updates on the overall control environment of the Group, including results of internal audits, training and up-skilling of capabilities across the Group, as well as the regular reports from the external auditor and the output of the whistleblowing process.

The committee confirmed in particular that controls had been strengthened to minimise the risk of re-occurrence of control failures that required the restatement of the 2014 annual results and balance sheet in the 2015 Integrated Report and Accounts. The committee also considered progress made to reduce reliance on manual controls, by developing and integrating financial and operational systems across the Group.

### Conclusion

The committee acknowledged the progress made in relation to the strengthening of controls and the plans in place to reduce the number of systems and reliance on manual controls across the Group, but noted that, although good progress has been made to date, significant work remains to be done.

### Viability statement

At the March 2018 meeting, the committee reviewed a paper prepared by management which examined the longer-term solvency and viability of the Group. The committee tested the underlying assumptions and analysis performed by management, reviewed assurance work carried out and considered the appropriateness of the timeframe of the assessment. The committee was satisfied that the three-year period covered by the viability statement remains appropriate in that it aligns with the Group's regular business planning period, over which management has a reasonable level of confidence in its projections reflecting the life cycle of the majority of the Group's contracts, and takes account of the limited visibility on material bidding opportunities in the pipeline beyond that period. The committee also reviewed and challenged the outcome of the stress-testing of projections by management.

The committee recommended to the board that the directors confirm that they 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-year period of the assessment, as set out on page 92.

### Fair, balanced and understandable

One of the key compliance requirements of a group's financial statements is for the annual report, taken as a whole, to be fair, balanced and understandable. Guidelines on Alternative Performance Measures (APMs) were issued by the European Securities and

Markets Authority (ESMA) and have been applicable since July 2016. In addition, the FRC issued a "Frequently Asked Questions" guidance document and published the results of its thematic review on this matter in November 2017. The committee considered each of the above in assessing whether the Group's annual report was fair, balanced and understandable.

The committee reviewed a paper setting out the approach taken by management in the preparation of the annual report to ensure it met the requirements of the FRC's Code and the ESMA guidance, including the reasons for and clear explanation of the non-GAAP measures used by the Group in reporting its results for the year. The paper described the process and procedures followed and detailed the steps taken in each of the sections of the annual report to ensure that the information presented was complete and accurate. This paper also described the review processes carried out internally to ensure that the annual report is fair, balanced and understandable. In addition, an external verification exercise was carried out to confirm that the information contained in the annual report is supported either by factual evidence, or by confirmation from management where such information is a statement of belief or intent.

The committee was satisfied with the work performed and advised the board that the annual report, taken as a whole, presents a fair, balanced and understandable view of the business and its performance for the year under review.

### Internal control

Since 2013, the Group has had a heightened focus on improving systems of internal control and risk management for financial reporting. The main features of these control systems include clearly-defined reporting lines and authorisation procedures, a comprehensive budgeting and monthly reporting system, written policies and procedures and the use of a single global consolidation system for internal management reporting, budgeting and planning as well as for external reporting.

The system is designed to ensure the integrity of financial reporting and the committee's responsibility is to ensure that these internal controls remain effective. The committee does this primarily through receiving reports from management, from the internal audit function and from the external auditor.

The committee reviewed progress on the strengthening of internal controls, and on plans to continue progress, which included a targeted audit plan for 2017 from Group Internal Audit for those areas where issues have been identified.

The committee also considered the plans being implemented by management to reduce reliance on manual controls, through the gradual implementation and integration of new financial systems.

Further details on internal controls are set out on page 61. The Audit Committee confirmed to the board that although it is satisfied that the Group's risk management and internal control processes and procedures are appropriate and effective, the need for continued focus on enhancing the internal control environment remains.

### Internal audit

During 2017, the internal audit function focused on assessing the effectiveness of a broader set of mandated controls including Minimum Financial Controls, HR Core Standards, Driver and Firearms Controls, Human Rights and Anti-Bribery and Corruption, with the goal of focusing local management on the most material control issues specific to their local environment.

The Group finance function and Regional Audit Committees also provided support to assist in driving improvements where appropriate.

The internal audit function continued to provide support and guidance to business units to improve awareness of and compliance with Minimum Financial Controls.

In 2018, internal audits will continue to test the operational effectiveness of the Group's standards and controls. Precise coverage in each country will be determined through risk assessment.

### External audit

Following an audit tender process during 2014 PricewaterhouseCoopers LLP (PwC) was appointed as the Group's new external auditor for the 2015 financial year. PwC was subsequently re-appointed for the 2016 financial year and at the 2017 AGM to hold office until the next AGM. Richard Hughes has been lead audit partner since the beginning of 2015.

During the year, the committee reviewed PwC's Group audit plan including the scope to be undertaken as well as their reports on external audit findings, with particular focus on the areas set out above. The committee also had private sessions with the external auditor both during the year and at the end of a number of Audit Committee meetings, and approved the fee for the external audit. The committee also considered and approved the representation letter to be issued to the auditor.

In addition, in March 2017, the committee reviewed the report of the FRC on its review of PwC's audit of the 2015 Integrated Report and Accounts.

### Non-audit services

To ensure that the independence of the audit is not compromised, the committee has put a policy in place covering the non-audit services that can be provided by the external auditor, the relevant approval process for certain services, and detailing those services which the auditor is prohibited from providing.

In essence, the external auditor is prohibited from providing services that could create a conflict of interest, result in the audit firm auditing its own work, or result in the performance of management functions. Examples of non-permitted services are actuarial services, book-keeping services, internal audit outsourcing services and legal services.

The committee has pre-approved certain services which can be provided by the auditor subject to specified fee limits, above which further approval is required. All other services would require prior approval by the committee. Every year, the Audit Committee reviews its policy on the provision of non-audit services by the external auditor.

The auditor, PwC, has written to the Audit Committee confirming that, in its opinion, it was independent for the period through to 8 March 2018.

Details of the fees paid for audit services, audit-related services and non-audit services can be found in note 10 to the consolidated financial statements.

### Effectiveness of the external auditor

A combination of formal and informal processes is used in the assessment of the effectiveness of the external audit process.

A formal questionnaire is completed at the end of the audit by members of the Audit Committee, by the Group finance department and by the finance directors of significant operations across the Group, and the results of those questionnaires are reviewed by the Audit Committee. The assessment of the external audit for 2017 concluded that it remained effective and that the external auditor is independent.

### FRC review of the 2016 Integrated Report and Accounts

During the year, the Group received a letter from the FRC confirming that the Annual Report for the year ended 31 December 2016 had been subject to a limited review by its Conduct Committee, which is responsible for reviewing and investigating the annual accounts, directors' and strategic reports of UK public companies.

The key areas of focus were in relation to the use of alternative performance measures and compliance with the ESMA Guidelines and the commentary provided on IFRS measures in the strategic report.

As a result of on-going discussions with the FRC as part of its enquiry, we have considered the labelling of the alternative performance measures used and provided enhanced disclosure and explanations on page 44. We have also provided further and clearer narrative on financial performance based on statutory measures, on pages 38 to 43.

### CMA Order Compliance

The G4S Group audit was put out to tender in 2014, following which PwC were appointed with effect from 2015.

The committee confirms that the company has complied with the Audit Services for Large Companies (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2004.

### Committee performance

The assessment of the committee's performance, conducted with assistance from Lintstock, concluded that the committee had performed well during 2017, in particular in reviewing the quality of the Group's financial reporting.

In 2018, the committee will support the induction of its new chair, review internal and external audit coverage in light of the changing shape of the Group and in conjunction with the CSR Committee, refine the whistleblowing process further.

#### John Ramsay

Audit Committee Chairman

## Corporate governance report

### RISK MANAGEMENT AND INTERNAL CONTROL

The directors acknowledge their responsibility for the Group's systems of risk management and internal control and for reviewing their effectiveness each year. The main features of these control systems include clearly-defined reporting lines and authorisation procedures, a comprehensive budgeting and monthly reporting system, written policies and procedures and the use of a single global consolidation system for internal management reporting, budgeting and planning as well as external reporting. While the Audit Committee has primary responsibility on the board's behalf, a separate committee of the board, the Risk Committee, was set up in 2013 as part of the Group's heightened focus on improving systems of internal control and risk management.

The board, through the Risk Committee, has carried out a robust assessment of the principal risks facing the company and of how those risks might affect the prospects of the company. The principal risks and their possible impact on the company and the mitigations taken, are set out on pages 62 to 65. Through the Audit Committee, the board conducted a review of the effectiveness of the systems of internal control during the year. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The enterprise risk management governance model, described on page 61 sets out some of the key features of the Group's risk-management process which was in place throughout the year under review.

During the year, the Risk Committee reviewed the Group's risk appetite, which was considered and approved by the board. Further information on the work of the Risk Committee in relation to the risk management framework, including the Group's risk appetite, can be found in the report of the Risk Committee on page 84.

Whilst further improvement has been made in the effective performance of internal controls during the year, given the number of countries in which the Group operates and the variety of systems used there is still opportunity for improvement in the operational effectiveness of mandated controls and this will continue to be a focus during 2018.

The Audit Committee has confirmed that, although it is satisfied that the Group's risk management and internal control processes are appropriate and effective, the need for continued focus on enhancing the internal control environment remains. Further information on the work of the Audit Committee in this respect can be found in the Audit Committee report on page 85. The board has reviewed the Group's risk management and internal control systems for the year to 31 December 2017 by considering reports from the Audit Committee and the Risk Committee and has also taken account of events since 31 December 2017.