

Examples of risks and how they are managed

	Contract risks (and acquisition risks)		Operational assignment risks (and operational integration risks)				Financial risks (and financial integration risks)	
Key risks	<p>Contract risk – risk that unreasonable obligations and risks are undertaken in the contract, entailing unbalanced terms for the type of assignment in question, such as unreasonable liability, unrealistic service levels or unfavorable pricing mechanisms. These factors could impact margins and profitability.</p>	<p>Acquisition risk – risk that the due diligence process and other activities do not identify all necessary information for making the proper decision from a financial perspective, but also from a cultural perspective and/or that the share purchase agreement is not properly structured for managing risks related to findings from the process.</p>	<p>Assignment execution risk – risk that agreed contractual requirements are not met which, in turn, could adversely impact the contract portfolio churn rate, growth, customer relations and Securitas' reputation.</p>	<p>Compliance (regulatory and other) risk – risk that regulatory and other requirements are not met, which could result in lower quality, higher costs, lost income, delays, penalties, fines or reputational damage.</p>	<p>IT failure risk – risk of not being able to manage disruptions in an effective manner, which could cause significant disruption to the operations, affect the accuracy and timeliness of reporting and potentially cause reputational damage.</p>	<p>Securitas' Values and Ethics risk – non-compliance with the Securitas Code of Ethics (requirements), can ultimately result in reputational damage, lost revenues, penalties, fines, etc.</p>	<p>Price risk – risk of not being able to manage price/wage increases in a desired manner, which could lead to deteriorated margins.</p>	<p>Management estimates and assumption risks – risk that account balances and off-balance sheet items with high subjectivity (such as goodwill, contract portfolios, deferred considerations, provisions for bad debt, pensions, legal exposures, risk reserves, deferred taxes, contingent liabilities, etc.) are not properly scrutinized, resulting in an inaccurate presentation of the financial position.</p>
Mitigation	<p>In order to manage contract risks in a structured way in the operations, we use a business risk evaluation model known as <i>the Scale</i>, which is part of Securitas' management model, <i>the Toolbox</i>. The model evaluates the assignment, risk, contract terms and financial aspects (for a more detailed description of how the model works, refer to www.securitas.com). The Group has formal policies and guidelines for defining the approval process and authorization levels for new contracts, as well as how to manage existing contracts. In addition, operations are protected by a customized Securitas insurance program, should unforeseen events occur.</p> <p>Since contract risk is a key risk, Securitas monitors this through reviews (called diagnostics) to test the effectiveness of controls in the contract management process. The areas reviewed include whether the Scale is properly used and understood, whether local policies comply with Group policies, whether approval has been obtained at the designated level, whether standard contracts have been used where possible, and whether appropriate follow-up procedures are in place.</p>	<p>The Group has formal acquisition policies and guidelines for defining the approval process pertaining to acquisitions to ensure that all business acquisitions are appropriately approved and rigorously analyzed to determine the possible financial and operational implications of the acquisition. Policies cover such areas as approval levels, share purchase agreement deal structures, due diligence checklists and how the due diligence is to be performed with regard to internal and external resources, depending on the characteristics of the acquisition. The Group also conducts post-acquisition appraisals on a periodic basis.</p>	<p>Local procedures for security services should include a process for written site instructions ensuring they are defined, up-to-date, known and understood. The Group policy requires local human resources policies covering the areas of hiring employees, retaining employees, development and training, and compliance with relevant laws and regulations. Proper recruitment procedures and the training and supervision of security officers are important for mitigating the risk of inappropriate assignment execution.</p>	<p>It is mandatory that local processes include procedures to ensure compliance with relevant laws and regulations, that there is an assigned responsibility for recurring review and that action plans are in place for addressing any issues identified.</p> <p>The review procedures in the Group are also designed to identify any changes in regulatory requirements that may affect Securitas' activities, and to take the appropriate actions.</p>	<p>Group IT policies and guidelines require controls over IT disruptions including such areas as risk assessment and contingency plans, covering all relevant areas including regular updates and testing.</p>	<p>Implementation of a structured compliance system based on the Securitas' Values and Ethics Code, one of the key corporate policies, and the launch of Securitas <i>Integrity Line</i>, which is the Group reporting system for non-compliance issues with the Code.</p>	<p>The Group monitors and focuses on price/wage increases on a regular basis. The processes include measurement, communication, training and support for employees involved in the pricing of our services, at the inception of a contract and for price adjustments.</p>	<p>Financial risks are mainly managed through the continuous measurement and monitoring of financial performance, with the help of Securitas' financial model. This model identifies certain key figures that are vital to the profitability of the operations, and facilitates the detection and handling of risks. It is mandatory that estimates are documented, signed and authorized by the appropriate parties. Monthly reviews include the analysis of account balances and off-balance sheet items with high subjectivity. The accuracy of assumptions used in pension plan measurement is monitored. In addition to the use of external actuaries for each plan, the Group also retains actuarial advisors to advise on the Group's overall pension exposure. The Group has a structured process that focuses on the accuracy of the assumptions used and a review of pension reporting and governance.</p>