

# Principal risks and risk management

The identification, assessment, pursuit and management of opportunities and the associated risks is an integral element of activity throughout the Group.

In the pursuit of opportunities the Group is particularly sensitive to the potential for importing risk whether by way of winning new contracts, forming joint ventures, acquiring businesses or investment. Rigorous processes are therefore in place for managing the exposure within a specified opportunity and risk management framework that applies to all operating companies and Group functions, as follows:

## *Bidding risk*

The Group's operating companies bid selectively for a large number of contracts each year and a more limited number of concession opportunities. Tenders and investment appraisals are developed in accordance with thorough processes for estimating and risk identification and assessment, with particular attention to new or unique characteristics. They are subject to formal review and approval by tender review and investment committees established at Board, sector or operating company level depending upon the value and nature of the contract.

## *Delivery risk*

The delivery of contracts is controlled and managed through the Group's operating structure. The Group's procedures embrace regular and frequent reviews with an agenda centred on health and safety performance, issues affecting delivery and the impact on costs to completion and the forecast revenue. This approach is underpinned by a continuing focus on assurance as to the effectiveness of the relevant controls.

## *Joint venture risk*

Joint ventures are formed for contracts where the operating company and the Group believe that to do so will strengthen the quality of the bid and prospects of delivering a contract successfully. Procedures are in place to ensure that the joint venture partners bring skills, experience and resources that complement and add to those provided from within the Group and that the service partner risk is mitigated.

## *Acquisition risk*

Potential acquisitions are identified by the operating companies and subject to review with Group management who project manage the due diligence by the operating company drawing on its own resources and those from other parts of the Group in order to ensure that the most appropriate personnel with relevant experience and knowledge conduct the detailed due diligence. Where necessary, specialist external resources are engaged. Post-acquisition integration is closely managed, drawing on the detailed due diligence material and integration tracker system for each functional activity, with reviews conducted formally at prescribed periods following the acquisition.

## *Investment risk*

The Group's basic approach is the pursuit of investment opportunities on a limited recourse finance basis in a limited number of sectors where it has appropriate experience. It uses this platform as a basis for moving incrementally into new sectors with appropriate partners. The degree of leverage associated with such investments reinforces the need for the application of a rigorous risk management process drawing on standard operating procedures. Such activity is conducted by a discrete group of personnel with extensive experience in the relevant fields of activity. The consequent delivery risk arising on investment activities is managed and mitigated by the careful selection of delivery and service partners.

On a broader related front the Group addresses continually the impact of the external business environment. Areas of focus include the following:

## *Changing Government policies and funding priorities*

A significant proportion of the Group's revenues flows from contracts founded upon Government policy and/or public funding, both in the UK and overseas. The Group seeks to mitigate the exposure to an adverse change in national policy or funding by broadening incrementally the portfolio of dependency and by diversifying on a measured and controlled basis into other areas of activity.

## *Customer requirements*

There has been a continuing and increasing demand from customers for the provision of professional services, whether as a discrete contract or as a component in a contract. The Group has in place its own specialist operating company with such skills and is developing further the capabilities in selected operating companies.

In addition the emerging trends in risk perception across the Group are formally monitored and an aggregation review of lower-level risks, to identify the extent to which further Group-led initiatives are required, is conducted, for example, to develop risk management capability and mitigation measures.

In addressing the pursuit and delivery of opportunities, the Group relies on a series of clear policies, along with associated expectations or controls which provide a basic operating fabric and culture, that is fundamental to managing risks, for example, in respect of staffing, health, safety and environmental matters and financial controls.