

## 3.6 RISK MANAGEMENT

### 3.6.1 RISK FACTORS

#### 3.6.1.1 Risks related to the Group's activities

##### Commercial Risks related to On-site Services

On-site Services contracts can vary significantly depending on the size, the geographies and the complexity of the scope encompassed. They generally range from one to three years, renewable, for a single service on a single site, to five to ten years for a large integrated multi-regional contract covering a wide range of services.

**Within the broad range of existing contracts, there are two main categories:**

**Profit and loss:** in these contracts, Sodexo bills its client and/or sometimes in the case of food service the end consumer, a fixed price per unit and therefore bears both the volume risk and the risks related to the costs of providing the service. In some instances the price per unit may vary by volume, and as such the main risks are related to accurately pricing the unit rates per service and ensuring that all relevant variables are taken into consideration.

**Cost plus, Management fee:** in these contracts the client bears the costs of providing the service plus a fixed or variable management fee. In some cases, the costs are capped, guaranteeing a maximum price for the services, and there may be an agreement to increase or decrease that cap over time. In some contracts clients may also require multi-year, incremental savings, and part of the management fee may be dependent upon the achievement of certain pre-agreed metrics. The challenge in these contracts is in to accurately establish a detailed scope of work and the corresponding baseline costs, implement productivity measures as well as changes in scope, and deliver the contractual annual savings.

**In practice, Sodexo's contracts often combine features of these two contract types.**

Benchmark exercises, site visits and full due diligence are all part of the process to establish unit costs, seasonality of the services and base-line estimates.

Contracts include periodic indexation clauses which allow for price increases (such as labor or food costs) to be passed on to clients.

The Group focuses on Contract Design and Management guidelines to efficiently manage changes in scope, organization or service levels so that they are fully reflected in a new contract base-line or unit-cost

##### Client retention risk

Sodexo's business depends on retaining and renewing contracts with existing clients, and bidding successfully for new contracts. This generally depends on various factors including the quality, cost and suitability of its services, and its ability to deliver differentiating, competitive services. As of August 31, 2016, the client retention rate for On-site Services was 93.1%.

##### Competition risk

Given the number of countries in which the Group operates, and the wide range of services it provides, Sodexo has numerous competitors, at the local, national and international level. The operators competing against Sodexo in On-site Services may be companies offering a single type of service (such as foodservices, cleaning or technical maintenance) or a range of services. They may come from the foodservices sector or other facilities management sectors or offer other specialized technical services or even be companies specializing in property management services which sub-contract the services to various third parties.

In addition, competition may arise when existing or potential clients opt to self-operate their On-site Services rather than outsource them.

In the 36 countries where Sodexo offers Benefits and Rewards Services, there is generally one global competitor and several regional or local competitors. The key competitive advantage is the solid network of affiliates in each geography. In this activity, growth is reliant on geographic expansion, market penetration, the development of new service offerings, and brand recognition.

### Dependency risk

Although business depends on Sodexo's ability to renew existing contracts and win new ones on favorable economic terms, and even though the Group may have contracts with different local authorities or departments of a given Government, no single contract represents more than 2% of total Group revenues.

In addition, no industrial supplier represents more than 3% of the total volume of the Group's purchases. However, the Group's ability to organize its supply systems, including purchasing and logistics, significantly affects its performance.

Sodexo's activities are not dependent on any patent or licensed brand name of which Sodexo is not the legal owner.

### Food, services and workplace safety risk

Every day, Sodexo serves a vast number of consumers worldwide, and it is committed to the safety of the food and services provided.

In addition, workplace accidents may occur in foodservices and in facilities management services.

In order to protect against shortcomings in this area, Sodexo has implemented control procedures designed to ensure strict compliance with applicable regulations, sector standards and client requirements. Global food and workplace safety policies are rolled out in all countries in which the Group operates and include appropriate training requirements for all employees.

However, if there were to be a significant incident at one or more of the Group's sites, there could be impacts on its activities, its profits and its reputation.

### Risks related to food cost inflation and access to food commodities

Sodexo can be exposed to fluctuations in food prices and difficulties in the supply of certain products. The price of food and its availability in the marketplace may vary in different regions of the world.

Moreover Sodexo's contracts include certain clauses allowing for price increases, but given the delays in implementing such measures, a temporary reduction in margins cannot be ruled out. Sodexo may therefore be affected during inflationary periods when the contractual price changes are delayed or less than the actual increase in the inflation rate. However, food cost inflation has remained low during Fiscal 2015 and 2016 in the majority of our geographies, minimising such effects.

### Risks related to facilities management

Although facilities management services have long been a part of the business, Sodexo's strategy is to accelerate the development of these services, resulting in a larger contribution to revenue. These services require skilled personnel, particularly in the areas of building maintenance, electrical engineering, plumbing, heating systems and air conditioning. Consequently, the Group faces certain operational risks and has a need for qualified human resources. The Group's capacity to grow in this highly specialized environment depends on its knowledge of these markets and its ability to find, attract, recruit and train suitable employees.

### Risks related to acquisitions

Sodexo has acquired and may in the future acquire businesses. These acquisitions will enhance earnings only if Sodexo can successfully integrate the acquired businesses into its management organization, purchasing operations and information systems. The Group's ability to integrate acquired businesses may be adversely affected by factors that include failure to retain management and sales personnel, the size of the acquired business and the allocation of limited management resources among various integration efforts. In addition, the benefits of synergies expected at the time of selecting acquisition targets may fall short of those originally anticipated. Difficulties in integrating acquired businesses, as well as liabilities or adverse operating issues relating to acquired businesses, could have a material adverse effect on our business, operating results and financial condition.

As explained in note 4.10 of the notes to the consolidated financial statements, the Group performs annual impairment tests on assets, including intangible assets and goodwill recognized on business combinations. If the recoverable amount of these assets were to be less than their carrying amount, an impairment loss would be recognized with an adverse effect on the Group's operating results and financial condition.

#### 3.6.1.2 Human resources management risks

Service quality is largely dependent on the ability to attract, develop, motivate and retain the best talent. Sodexo therefore is committed to improving quality of life for its employees, so that they, in turn, can improve quality of life for our clients and consumers. Employee satisfaction and involvement is measured through Sodexo's Worldwide Engagement Survey.

In addition, it is extremely important that Sodexo provides a sufficient level of training in order to raise standards continuously. For this reason, the Group has developed training policies at every level of the organization, with a particular focus on prevention and safety.

◀ CONTENTS ▶

The diversity of backgrounds, cultures and skills among its people represents both a challenge and a major opportunity. Sodexo is committed to capitalizing on this diversity to gain a competitive edge and remain a genuine worldwide player, so that its people – at every level – reflect the diversity of the Group’s clients and consumers

Sodexo senior management is currently transforming the organizational structure of the On-site Services activity from a country-based organization to one that is based on worldwide client segments. This reorganization is intended to improve alignment with the needs of our clients and consumers, to accelerate growth and to enhance efficiency. The design and subsequent progressive implementation of such a reorganization requires an important investment of management time and attention. Any significant diversion of management resources could be disruptive and impact the Group’s ongoing business and operating results. Accordingly, Sodexo’s Group Executive Committee and Board of Directors have put in place governance to closely monitor and mitigate this risk.

As far as it is aware Sodexo is not exposed to any specific labor-related risk other than those arising in the ordinary course of business for an international group of its size.

**3.6.1.3 Environmental risks**

Sodexo is aware of the potential environmental impact of its activities, even though it operates on its clients’ sites. Rather than underestimate its importance, the Group makes every effort to manage and limit environmental risk.

The environmental impact of its activities arises mainly from:

- consumption of water and energy in foodservices facilities, food preparation and cleaning;
- production of waste from food preparation and cleaning (packaging, organic matter, waste fats and oils, and waste water from cleaning);
- climate change leading to exceptional weather incidents having an impact on the cost of commodities.

As part of its role as a corporate citizen, Sodexo launched The Better Tomorrow Plan in 2009. This continuous improvement plan identifies 18 commitments of which eight focus on the environment.

**3.6.1.4 Risks associated with technology**

The Group is increasingly dependent on information technology infrastructure and applications in its activities. The main risks are related to the availability of information technology services, data security and data privacy. Any failure in infrastructure, application or data communication or breakdown in security,

as well as any loss in data, whether accidental or intentional, as well as the use of data by third parties, could inhibit the Group’s ability to serve its clients, delay decision-making, and in general have a negative effect on the Group’s activities.

**3.6.1.5 Regulatory risk**

The nature of Sodexo’s business and its worldwide presence mean that it is subject to a wide variety of laws and regulations including labor law, antitrust law, corporate law, anti-corruption law, data protection and privacy, and health, safety and environmental law.

Sodexo has the legal structures in place at the appropriate levels to ensure compliance with these laws and regulations.

Most services in the Benefits and Rewards Services activity benefit from favorable tax treatment in certain countries. These tax incentives may be adjusted to varying degrees by the governments concerned. A change in the related laws or regulations could have a direct impact on Sodexo’s business, either by creating opportunities or by posing a threat to existing services. As such, if tax incentives were to be reduced or abolished, this could lead to a significant reduction in issue volume for some of the services concerned. However, Sodexo offers more than 250 different services in 36 countries and therefore considers that this risk is largely dispersed.

**3.6.1.6 Liquidity, interest rate, foreign exchange and counter-party risk**

Sodexo has access to a wide variety of bank funding sources in addition to raising funds directly from investors on the commercial paper and bond markets. Because it has operations in 80 countries, all components of the financial statements are inevitably influenced by foreign currency translation effects, and in particular by fluctuations in the U.S. dollar, the British pound Sterling, the Swedish crown, the Brazilian real, and the Venezuelan Bolivar Fuerte. However, exchange rate fluctuations do not generate operational risk, because each subsidiary bills its revenues and incurs its expenses in the same currency.

Sodexo uses derivative instruments to manage its exposure to interest rate and foreign exchange risk.

Additional information about these risks is provided in notes 5.1, 5.2 and 5.3 to the consolidated financial statements.

**3.6.1.7 Economic downturn risk**

Adverse economic conditions could affect the Group’s operations and earnings. The weight of national debt and continued unemployment could lead to significant pressures on economic activity both in the public and private sectors, leading to a decline

in demand for the services Sodexo offers its clients – in particular in the Corporate segment – and thus have a negative impact on operations. Nonetheless, Sodexo's clients are predominantly (around two-thirds of annual revenues) in less cyclical sectors such as Education, Healthcare, Justice and Defense.

The Remote sites activity is dependent on the petroleum and mining industries. Lastly, unfavorable economic conditions could result in a lengthening of payment terms or impair the solvency

of Sodexo's clients. Conversely, the economic situation could lead clients to increase outsourcing in order to achieve cost savings.

### 3.6.1.8 Litigation risk

Refer to note 4.28 of the notes to the consolidated financial statements for information on these risks.

No additional risk was identified during Fiscal 2016.

## 3.6.2 RISK COVERAGE

### 3.6.2.1 Insurance cover

Sodexo's general policy is to transfer non-retained risks, especially intensity risks, to the insurance market. Insurance programs are contracted with reputable insurers.

The main insurance programs are as follows:

- liability insurance, which covers against personal injury, property damage or consequential loss caused to third parties. This category notably includes operational, product, after-delivery and professional liability insurance. Since June 1, 2016, Sodexo has implemented a liability insurance program benefitting the countries in which the Group operates;
- property insurance, which mainly covers the risk of fire and explosion, water damage, natural disasters, and (in some countries) acts of terrorism. As a general rule, the sum insured is equal to the value of the insured property; however, some insurance contracts cap the amount paid out under the policy;
- workers' compensation. In countries with no government-provided coverage (primarily the United States, Canada and Australia), Sodexo has contracted workers' compensation programs;
- crime insurance dedicated to Benefits and Rewards Services, to partially transfer to the insurance market the risks of fraud, falsification and theft.

In addition, Sodexo maintains compulsory insurance as legally required in the countries where it operates.

### 3.6.2.2 Deductibles

Retained or self-insured risks correspond to the deductibles specified in the insurance programs contracted by Sodexo. They consist for the most part of frequency risks (*i.e.*, risks that recur regularly) but from time to time may also include intensity risks (*i.e.*, risks representing substantial amounts). In some countries, these retained risks correspond to deductibles under employer's liability, workers compensation, third-party automobile and property insurance.

In North America, deductibles range from 5,000 U.S. dollars to 5,000,000 U.S. dollars per occurrence and some of the corresponding self-insured risks have been managed by a captive insurance company since June 1, 2006. Outside North America, deductibles generally range from 7,500 euro to 2,000,000 euro per occurrence.

### 3.6.2.3 Placing of risk and total cost

On the occasion of its most recent policy renewals, Sodexo maintained the scope and level of its coverage, as regards in particular, general liability insurance and professional liability insurance, especially for risks associated with facilities management activities.

The total cost of the main insurance programs and self-insured risks (excluding workers' compensation) of fully-consolidated Group companies, represents around 0.25% of consolidated revenue.