5.4 RISK MANAGEMENT

5.4.1 Group Policies

Sodexo faces a number of internal and external risks and uncertainties in the conduct of its business and in the implementation of its strategy. To confront these risks and uncertainties, the Group has established an organization and policies intended to identify, evaluate, prevent and manage these risks in order to limit any adverse impacts.

Internal control procedures are established by the Company and implemented under its responsibility, and are intended to ensure:
• compliance with laws and regulations and application of Group policies;
• the effectiveness of the Company’s internal processes, notably those concerning the safeguarding of its assets;
• the reliability and integrity of financial and non-financial information.

Internal control procedures play a major role in the conduct of the Group’s business, by contributing to the prevention and management of risks.

Strategy, long-term objectives and general policies of the Group

The Group’s strategy, long-term objectives and general policies, as defined initially by Mr. Pierre Bellon and subsequently adjusted over the years by the Board of Directors, the Chief Executive Officer and the Executive Committee, are set out in the first chapter of this Registration Document and are presented at the start of each Shareholders’ Meeting.

The Group’s internal control procedures rely on these principles and on the related policies.

General policies of the Group

Group policies cover such areas as strategic planning, human resources development, finance, procurement, consumer and customer focus, food safety and hygiene, sustainable development and Internal Audit. They comprise four parts: goals, procedures, improvement metrics, and research and innovation. The Group continues to develop its policies to make them easier to understand and apply. The Group is also continuing to work on adding new policies on internal and brand communication, research and innovation and the development of digital technologies.

In light of the Group’s changing environment and its expanding portfolio of services and solutions, these policies are regularly updated and approved by the Board of Directors.

Strategic planning process

The Board of Directors and senior management work together to constantly improve the strategic planning process and promote buy-in at all levels of the organization.

The Group’s fundamental principles demonstrate how Sodexo was able to start from nothing in 1966 and then become a major international group with 460,000 employees, in 72 different countries, and the world leader in Quality of Life services. In a profoundly changing world, Sodexo has defined priorities to enable it to continue to grow its revenues and underlying operating profit in the future.

Periodically, and particularly during the September Board meeting, the Group Chief Executive Officer, the heads of the Group corporate functions and the Chief Executive Officers of the main segments and activities present their strategic plans. Through this process, directors and senior executives all contribute to evolving the strategy and policies of the Group.

The process leads to the preparation of a consolidated annual budget that is submitted to the Board of Directors for approval.

Human resources development policy

The Group’s three overriding human resources priorities are:
• to meet staffing requirements in terms of numbers, quality and competencies;
• to rank among the world’s employers most appreciated by its employees;
• to promote the emergence of a growing number of internal entrepreneurs by giving priority to internal promotions.

The main human resources policies are focused on: the profile of a Sodexo leader and senior manager, Group organizational rules, succession planning for senior managers, international mobility, senior managers’ training and skills enhancement, employee engagement, senior managers’ compensation, and innovation and research in the area of human resources administration.

Finally, annual tracking of improvement metrics by the Executive Committee and Board of Directors should serve to validate action plans aimed at advancing these policies, including engagement surveys, employee retention, internal promotion, and the representation of women in senior management.

Sodexo is also making significant advances in the area of diversity, particularly in relation to gender balance at all levels of the organization, and is establishing partnerships with organizations for people with disabilities.

Financial policies

The Group’s financial objectives are twofold, namely:

TO PRESERVE THE GROUP’S FINANCIAL INDEPENDENCE.

Financial independence is a fundamental principle, because it enables the Group to hold firm to its values, pursue a long-term strategic vision, ensure management continuity and guarantee the business’s lasting success.
Sodexo’s financial independence is guaranteed by the family shareholder. As of August 31, 2018, Sodexo’s holding company, Bellon SA, held 42.2% of the shares and 58.2% of the exercisable voting rights. It is based on three simple principles:

- choosing low capital-intensive activities;
- continuously maintaining sufficient liquidity to fund growth, reimburse medium-term debt, and pay dividends to shareholders;
- preserving a strong balance sheet and sound financial ratios.

**ENHANCING THE ATTRACTIVENESS OF SODEXO SHARES TO LOYAL, LONG-TERM SHAREHOLDERS**

Financial policies establish rules applicable to areas such as investment approvals, and the management of working capital, cash and debt.

Group financial policies require all decisions involving external financing to be made by the Group Chief Financial Officer, the Chief Executive Officer or the Board of Directors, depending on the amount and type of the transaction.

The Group Finance Department prepares a ten-year financing plan for the Group each year.

Group financial policies are designed to prevent any speculative positions being taken and to avoid risk in connection with financing and cash management activities.

**Procurement policy**

The objectives of the procurement function are documented in the Group’s procurement policies and processes. The performance of Sodexo’s procurement teams in the main countries where it does business is measured through savings metrics, which enable the Group to gauge the impacts of procurement initiatives and demonstrate the savings achieved.

The Group’s priority is to ensure that suppliers and subcontractors that deliver Sodexo products and services have the right skills, capabilities and potential to carry out the tasks assigned to them. Our risk management guidelines set out the procurement procedures that our teams are required to follow in terms of working with and managing suppliers and subcontractors.

The level of initial evaluation process and type of on-going management procedures for suppliers and sub-contractors directly depend on the product supplied or service rendered, and include verifying issues such as food safety and traceability.

In line with the Group’s procurement policy, suppliers and subcontractors must sign the Sodexo Supplier Code of conduct which sets out Sodexo’s requirements for adopting responsible best practices concerning ethical, social and environmental issues.

**Statement of Business Integrity**

The Statement of Business Integrity sets forth the Group’s standards for achieving business integrity. Adherence to these uncompromising standards is part of what it means to be an employee of an industry-leading, best-in-class company. Sodexo employees must never compromise adherence to this Statement for financial or other business objectives or personal gain. The company does not tolerate any practice that is not born of honesty, integrity and fairness, anywhere in the world where it does business.

**Corporate Responsibility**

Since its creation in 1966, Sodexo’s vocation has been to improve the Quality of Life for its employees and all whom we serve and contribute to the economic, social and environmental development of the communities, regions and countries in which we operate. In 2009, the Group formalized its Corporate Responsibility roadmap, the Better Tomorrow Plan. A revised version of this roadmap, Better Tomorrow 2025 was released in 2016.

The roadmap focuses on Sodexo’s role as an employer, as a service provider and as a corporate citizen as well as on the impacts that it has on individuals, on communities and on the environment. It has 9 measurable commitments to action by 2025 with interim targets.

Sodexo’s commitment to the environment as a service provider is to source responsibly and provide management services that reduce carbon emissions. Since 2009, Sodexo has implemented a low carbon strategy which is motivated by our desire to improve Quality of Life. Our strategy takes into account the business opportunities, risks and their financial implications. In particular, these commitments are demonstrated through the following actions:

- renewal of the technical partnership agreement with World Wildlife Fund (WWF) to work on carbon reduction throughout Sodexo’s supply chain;
- membership of the Better Buying Lab initiative led by the World Resources Institute (WRI) to promote the consumption of more plant-based food;
- combined management focus on achievement of the 34% carbon emissions reduction target by 2025, compared to 2011 baseline year.

In the area of nutrition for the health and wellness of consumers, Sodexo is committed to food safety and the promotion of a balanced diet for its consumers. Sodexo plays a critical role in the fight against obesity and malnutrition and provides solutions to make health and wellness a priority.

In the area of social, economic and environmental development in the cities, regions or countries where Sodexo is present, we focus on the following actions:

- for the past 20 years, Sodexo has been supporting the fight against hunger and malnutrition through Stop Hunger;
- working with local and small businesses and contributing to local economies through the Partner Inclusion program which allows thousands of local businesses to integrate Sodexo’s supply chain;
- tackling waste by engaging with clients and supply partners to provide innovative solutions on food waste through the deployment of the program WasteWatch powered by LeanPath;
- promoting gender balance with a target of having at least 40% woman among Sodexo’s senior leaders by 2025.
Sodexo is committed to respecting human rights wherever it does business. This commitment, with its core policies and procedures are based on international texts such as the Universal Declaration of Human Rights, the International Labour Organization’s Declaration of Fundamental Principles and Rights at Work, and by the principles set forth in the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

In September 2018, Sodexo, world leader in Quality of Life services, was named Global Sustainability Industry Leader in its sector for the 14th year in a row by the Dow Jones Sustainability Index (DJSI).

Health, safety and environment policy
A world-class HSE performance is essential to our future commercial success and our reputation as a responsible global business. More importantly, at the heart of our HSE commitment is our care for people, for our community of employees as well as for all the tens of millions of consumers we serve every day. Health and safety, is the founding pillar on which we base our mission to improve Quality of Life.

Sodexo’s global Health, Safety and Environment policy sets out the Company’s expectations and guides its actions in this area. In partnership with our clients, consumers, suppliers and local communities, we work towards a zero harm culture where we prevent injuries and ill-health and protect the environment.

Information systems policies
The Group Information Systems and Technologies Department (Global IS&T) has defined three core objectives:
• improve the productivity of the Group’s teams and bring them closer to their customers and consumers by leveraging new information and communication technologies;
• resolutely focus on serving users and keep pace with their changing needs and expectations;
• standardize information systems in order to continue to support Sodexo’s growth, while also developing more robust performance measurement systems and control environments for our activities.

To meet these three core objectives, the Information Systems and Technologies Department has deployed numerous procedures, notably in the following areas:
• Group Information Systems Governance;
• Systems Security;
• Mobile Terminal Allocation and Security;
• IS&T Capital Expenditure Programs.

Internal Audit policy
Internal Audit activities include reviewing and assessing the adequacy and effectiveness of governance, risk management and internal control systems and processes. This includes assessing:
• the reliability of financial and non-financial information;
• compliance with existing policies, procedures, laws and regulations;
• the methods used to safeguard assets;
• the effectiveness of operations and the resources used.

The Internal Audit team is also responsible for alerting the Chairwoman of the Board of Directors, the Audit Committee and the Executive Committee to any material risks and informing them of the causes of identified weaknesses.

A series of Internal Audit performance indicators has been developed, covering such issues as the percentage of Internal Audit recommendations that have been implemented, the average time required to issue Internal Audit reports, the annual audit plan completion rate, Internal Auditor training and rotation rates, the satisfaction rate among audited units.

Delegations of authority
Principles and policies in this area are supplemented by job descriptions, annual targets and, for senior executives, clearly defined delegations, which are reviewed annually and formally communicated to each executive by his or her superior.

The Chief Executive Officer delegates certain authority to the members of the Group Executive Committee, who themselves delegate to members of their executive teams.

Delegations of authority cover business development, human resources, procurement, investments and finance.

Delegations of authority must comply with the Group’s policies.

Improvement metrics
All progress can be measured. Accordingly, Sodexo has developed improvement metrics allowing for progress to be measured in five main areas: Business Development, Management, Procurement, Human Resources and Corporate Responsibility.

The Group Finance Department coordinates the process and monitors operational improvement metrics for activities and entities using a Group scorecard.

Making progress in these areas is critical for future growth in operating profit, operating cash flow and revenue.

The improvement metrics are presented each year to the Board of Directors and the Group Executive Committee in order to track progress in the areas concerned.
Development metrics:
- total growth potential for the Group over the next ten years, separated into potential by activity, by country and by client segment;
- client retention rate;
- client and consumer satisfaction rates;
- comparable unit growth;
- new business development rate compared to competitors;
- return on investments in development (particularly non tangible investments).

Management metrics:
- contract profitability;
- profitability of the different activities and client segments;
- gross operating margin and on-site costs;
- reduction in general and administrative expenses by subsidiary, by client segment and by function.

Procurement metrics:
- percentage of purchases made from referenced suppliers;
- reduction in the number of referenced products, reduction in the number of deliveries on a site, etc.

Corporate Responsibility metrics

Employer metrics, including:
- employee engagement rate for which the Group has targeted a level comparable to that of firms ranked as the best employers worldwide. This indicator is measured every two years by an engagement survey;
- employee retention for all personnel and for site managers;
- internal promotion, which is measured by the number of employees promoted to site manager, to a middle manager or a senior management position;
- representation of women in senior management;
- percentage reduction in LTIR;
- percentage of workforce working in countries implementing action plans to integrate people with disabilities into the workplace.

Nutrition, health and wellness metrics, including:
- percentage of client sites implementing actions that proactively address the Sodexo 10 Golden Rules of Nutrition, Health and Wellness.

Economic, social and environmental development metrics, including:
- percentage of spend with contracted suppliers having signed the Sodexo Supplier Code of conduct;
- business value benefiting SMEs (Euro).

Environmental protection metrics, including:
- measure of the consumption of products, identified as having an impact on the environment (for example palm oil);
- percentage of sustainable fish and seafood;
- percentage reduction in carbon emissions (compared to 2011 baseline) intensity.

Sodexo selected an independent firm to audit a representative selection of social, environmental and societal data demonstrating the progress made in the area of Corporate Social Responsibility. The conclusions of this audit are presented in chapter 3, page 99 of this document.
5.4.2 Description of the risk management approach

5.4.2.1 Organization of the risk management and internal control model

The risk management and internal control process is built using the 3 Lines of Defense model, as shown below:

The first line of defense mainly consists of our operational managers who identify and manage risks within their activities. They put controls and action plans in place for the risks identified.

The second line of defense is our support functions who are there to support operators in their risk management. They define the procedures and standards and provide tools and techniques to enable operational staff to put in place the appropriate controls.

The third line of defense is Internal Audit, which gives an independent evaluation of the risk management and internal control process to the Executive Committee and Board of Directors. It makes recommendations to the first and second line of defense for the improvement of risk management and internal control, and carries out monitoring in relation to action plans.

Sodexo has put in place a robust procedure for the identification and assessment of major risks, designed to ensure that risks are evaluated and managed at the appropriate level within the organization. Measures to manage risks are implemented either at the local or the Group level, depending on their nature.

The Group’s internal control procedures rely on the fundamental principles defined by the Board of Directors.

5.4.2.2 Approach to Risk Assessment

The risk identification process is carried out, in parallel, locally and at the central level for the Group:

- the Chief Executive Officers of the main Group entities assess their main risks by potential impact and likelihood of occurrence and describe the controls in place in order to manage them and evaluate the effectiveness of those controls;
- these self-assessments are aggregated at Group level and presented annually to the Audit Committee;
an additional risk assessment exercise is done by senior leaders within Sodexo, before combining these perspectives to create a consolidated risk profile for the Group. In compiling this complete risk profile, consideration is given to risks that are external to our business, core to our day-to-day operations, related to business changes and any other that may impact the achievement of our objectives. The consolidated risk profile is shared with the Chief Executive Officer and Group Chief Financial Officer, prior to being submitted to the Audit Committee and the Board of Directors. The main risk factors to which the Group is exposed are described in section 5.4.3 of this Registration Document. Internal control procedures are part of an ongoing process of identifying, evaluating and managing the Group’s risk exposures.

5.4.3 Risk factors

5.4.3.1 Principal Risks & Risk Management Measures

Summary of Sodexo’s Principal Risk Factors

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<td>Economic downturn</td>
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### Description of Principal Risk Factors

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<th>RISK DESCRIPTION</th>
<th>MANAGEMENT OF RISK</th>
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<tr>
<td><strong>Commercial Risks related to On-site Services</strong>&lt;br&gt;On-site Services contracts can vary significantly depending on the size, the geographies and the complexity of the scope encompassed. The pricing model is defined in relation to the type of contract (fixed price/cost plus) and the type of services.&lt;br&gt;For fixed price contracts, the main risks relate to accurately pricing the unit rates per service and ensuring that all relevant variables are taken into consideration.&lt;br&gt;For cost plus or management contracts, the risk is to accurately establish the detailed scope of services.</td>
<td>Benchmark exercises, site visits, due diligence and the use of technical expertise are all part of the process to establish unit costs, seasonality of service and base-line estimates.&lt;br&gt;Contracts include periodic indexation clauses which allow for price increases (such as labor or food costs) to be passed on to clients.&lt;br&gt;Sodexo focuses on principles and methods to efficiently manage the application of the contract, changes in scope, organization or service levels. The aim is that services are provided in line with commitments made to the client, so that any necessary changes identified are fully reflected in a new contract base-line or unit-cost.</td>
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<td><strong>Client retention risk</strong>&lt;br&gt;Sodexo’s business depends on retaining and renewing contracts with existing clients, and bidding successfully for new contracts. This depends on various factors including the quality, cost and suitability of its services, which contribute to Sodexo client satisfaction and its ability to deliver differentiating, competitive services.</td>
<td>To drive its client retention rate, Sodexo utilizes a client relationship management process to ensure alignment with client expectations on an on-going basis.&lt;br&gt;As of August 31, 2018, the client retention rate for On-site Services was 93.8%.</td>
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<td><strong>Competition</strong>&lt;br&gt;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 food services, cleaning or technical maintenance) or a range of services.&lt;br&gt;In addition, competition may arise when existing or potential clients opt to self-operate their On-site Services rather than outsource them. In the 35 countries where Sodexo offers Benefits and Rewards Services, there is generally one global competitor and several regional or local competitors.</td>
<td>The effects of competition are identified through knowledge of markets and participants (evolution of market share) and addressed in particular by the differentiation and innovation strategies that Sodexo has put in place: the Quality of Life service offer and digital innovation.&lt;br&gt;Sodexo also benefits from a large global footprint which allows it to offset the effects of competition.&lt;br&gt;For Benefits and Rewards Services, the key competitive advantage is the solid network of merchant affiliates in each country. In this activity, growth is reliant on geographic expansion, market penetration, the development of new service offerings, and brand recognition. The growing convergence between Onsite services and Benefits and Rewards Services, with the digital content, widens the choice that can be offered to consumers in both activities. This will strengthen the Group’s competitive positioning in Quality of Life services for consumers.</td>
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<tr>
<td><strong>Dependency on a client or supplier</strong>&lt;br&gt;Over-reliance on one particular client may mean that, were Sodexo to lose that client, there would be a significant drop in revenues. Equally over-reliance on one supplier would mean that, were that supplier unable to deliver or went bankrupt, Sodexo may not be able to perform services to meet its contractual obligations.</td>
<td>The Group is broadly diversified both in terms of geography and the various business segments within which it operates. Although business depends on Sodexo’s ability to renew existing contracts and win new ones on favorable economic terms, no single contract represents more than 2% of total Group revenues.&lt;br&gt;In addition, no industrial supplier represents more than 2% 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.&lt;br&gt;Sodexo’s activities are not dependent on any patent or licensed brand name of which Sodexo is not the legal owner.</td>
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### Risk Management

#### Consumer Expectations

The influence of the consumer is growing, particularly in relation to the role they play in the decisions of Sodexo’s clients. Consumers expect more personalized services which enhance their Quality of Life. Equally there are expectations around the responsible conduct of economic players. If Sodexo cannot anticipate and interpret consumer expectations in terms of personalization and innovation, or meet their expectations in relation to environmental impact or business conduct, its revenues, as well as its reputation, could be affected.

#### Acquisitions

Business acquisitions contribute to Sodexo’s growth. Their integration and the achievement of the objectives and synergies defined at the time of acquisition are all subjects that must then be closely monitored to ensure that the initial objectives are achieved.

Each Sodexo activity – On-site services, Benefits and Rewards Services and Personal and Home Services – is responsible for integrating the acquired entities and ensuring that the objectives and synergies defined at the time of acquisition are properly achieved. In addition integration reviews are carried out at Group level.

#### 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.

Sodexo negotiates supplier contracts for certain goods with price protections. Client contracts provide for the pass-through of product costs; fixed price contracts provide for adjustments based on a referenced cost index.

#### Technology

Our information technology systems and data are increasingly vital to how we market, develop, operate and grow our business. Sodexo recognizes the need to maintain the confidentiality, availability and integrity of our information technology assets and be able to assure our clients, consumers and regulators of our ability to efficiently provide innovative services whilst securely protecting sensitive data. As our technology evolves, so do the risks. Traditional risks such as infrastructure failures and uncontrolled changes are joined by the challenges of managing systems in the Cloud and controlling access to powerful Big Data solutions.

In addition, digital innovations mean that we are increasingly collaborating directly with our clients and consumers, sharing access to data and systems across companies and borders, and working with an ever-increasing number of third party partners. At the same time cyber threats are increasing in volume and sophistication, and regulations are getting stronger, particularly in the area of data privacy.

In order to be effective in addressing our information security risks, our Group Information & Systems Security Policy adopts a risk based approach using the ISO 27001 framework of controls. This is supported by global security solutions and proactive security directives that provide best practice guidance on how to address specific challenges such as Cloud technology and key focus areas, such as logical access. Our IT Governance Process supports security by design and incorporates risk and privacy impact assessments early in the project lifecycle. IT risk is clearly defined so that it can be aligned with our client’s needs and our business goals. This process also takes into account the risks related to privacy and the protection of personal data from the very beginning.

Sodexo selects suppliers who understand and support our security-driven culture, and select solutions that can adapt to the new technological trends, emerging threats and increasing regulation. This supplier selection process also incorporates the protection of personal data by default by verifying our suppliers’ compliance with personal data protection rules and signing protective agreements for Sodexo and the data subjects.
**People Management**

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.

Sodexo anticipates the need for resources and skills by setting up centers of expertise that train and prepare employees for their jobs today and tomorrow. In addition, Sodexo’s values and culture are strong attraction and retention factors for front-line employees. Sodexo pursues its training policy at all levels of the company and places special emphasis on prevention and safety. Employee development contributes to the motivation and retention of our best talent.

Employee satisfaction and involvement is measured through the Sodexo Global Engagement Survey. The engagement survey is also a tool for developing action plans to meet the expectations of employees. The diversity of backgrounds, cultures and skills among its people represents both a challenge and a major opportunity. Sodexo continues to capitalize on this diversity to create an inclusive work environment for all, a competitive advantage and to remain a truly global enterprise. Sodexo maintains numerous programs to support diversity. 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.

**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.

Sodexo’s FM operational support platforms provide tools, and expertise to our managers, and encourages best practice sharing globally. In addition, our Global Facilities Management Academy helps to develop the skills and knowledge necessary for managers to grow our facilities management business, to positively impact the Quality of Life of our consumers and the performance of our clients.

**Food, Services and Workplace Safety**

Every day, Sodexo serves a vast number of consumers worldwide, and is committed to the safety of the food and services provided. In addition, workplace accidents may occur in food services and in facilities management services. If there were to be a significant incident at one or more Sodexo sites, there could be an impact on the Group’s activities, profits and reputation.

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.

**Environmental Impact**

Sodexo is aware of the potential environmental impact of its activities, even though most of the operations are on client sites. The Group makes every effort to manage and limit environmental risk.

The environmental impact of its activities arises mainly from:

- potential environmental incidents in the provision of client services;
- consumption of water and energy in the provision of services on client sites;
- production of organic waste from food preparation;
- consumer waste;
- climate change impacting commodity prices and therefore operating costs.

To constantly improve its role as a corporate citizen and to limit these environmental risks, Sodexo launched its revised Corporate Responsibility Roadmap, Better Tomorrow 2025 in July 2017. This program consists of 9 commitments as an employer, a service provider and as a corporate citizen to ensure constant improvement in the management of resources. For more info, please refer to section 1 and 2 of this document.
## Risk Description

### 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.

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 the services concerned.

Legal teams are deployed at the central and local levels, and provide advice to operational staff to ensure compliance with applicable laws and regulations. Teams are specialized by area of expertise, and also have recourse to external experts in legal firms.

Close monitoring of the regulatory environment allows the Group to anticipate changes in laws and regulations.

### Liquidity, Interest rate, foreign exchange and counter-party risk

Sodexo has access to a wide variety of bank funding sources in addition to being able to raise funds directly from investors on the commercial paper and bond markets.

As Sodexo has operations in 72 countries, all components of the financial statements are subject to foreign currency translation effects. 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. However the Group’s policy is to avoid any speculative positions.

Risk sensitivity analysis on exchange and interest rates is carried out and is outlined in notes 5.1, 5.2 and 5.3 to the consolidated financial statements in section 3.4 of this Registration document.

### Participation in Multi-Employer Defined Benefit Pension Plans

We may incur significant liability as a result of our participation in multiemployer defined benefit pension plans. We operate at several locations under collective bargaining agreements. Under some of these agreements, we are obligated to contribute to multiemployer defined benefit pension plans. As a contributing employer to such plans, should a “complete” or “partial withdrawal” be triggered, Sodexo would be subject to withdrawal liability (or partial withdrawal liability) for the proportionate share of any unfunded vested benefits. In addition, if a multiemployer defined benefit pension plan fails to satisfy the minimum funding standards, Sodexo could be liable to increase its contributions to meet minimum funding standards. Also, if a participating employer withdraws from the plan or experiences financial difficulty, including bankruptcy, Sodexo’s obligation could increase. The financial status of some of the plans to which Sodexo contributes has deteriorated in the recent past and continues to deteriorate. In addition, any increased funding obligations for underfunded multiemployer defined benefit pension plans could have an adverse financial impact on the Group.

Sodexo monitors Multiemployer Pension Plans’ funding levels, closely controls new contracts to minimize entry into additional plans, and closely monitors certain potential triggering events such as contract termination or decertification of a union.

### Economic Downturn

Adverse economic conditions and weak commodity prices could affect the Group’s operations and earnings, in particular in the Corporate and Energy & Resources segments.

The weight of national debt, government deficits and continued unemployment could lead to significant pressures on economic activity particularly in the public sector, leading to a decline in demand for the services Sodexo offers its clients and thus have a negative impact on operations in Education, Healthcare, Justice and Defense.

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.

Sodexo’s presence in 72 countries and the spread of operations across different client segments helps to limit this risk. In addition, particular attention is paid to the economic/political situations in which Sodexo operates. Client risk is regularly assessed by Segment and Regional Finance, both at the time of the tender offer and during the life of the contract.
5.4.3.2 Risk coverage

5.4.3.2.1 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 worldwide liability insurance program benefiting all countries in which the Group operates, including the U.S.A and Canada;
- **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;
- **marine cargo insurance** for covering loss or theft of goods during their shipment;
- **employment practices liability** which provides coverage for wrongful termination, sexual harassment, discrimination and workplace torts. This program was originally implemented in the U.S.A and Canada, but has been expanded globally from June 1, 2017.

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

5.4.3.2.2 Self-Insured Risks

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.

Outside North America, deductibles generally range from 7,500 euro to 2,000,000 euro per occurrence. Sodexo also self-insures frequency risks and low amplitude risks through two captive insurance companies. The American company, incorporated in the State of Hawaii, manages the deductibles of the Workers’ Compensation, Automobile Liability and General Liability insurance programs. The Irish company, based in Dublin, provides:

- direct insurance and re-insurance for motor own damage and third party liability risks up to 500,000 euro per claim and 2,500,000 euro in aggregate per year;
- reinsurance on the property insurance program up to 3,000,000 euro per claim and in aggregate per year.

5.4.3.2.3 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.

5.4.3.3 Description of internal control process, including controls relating to the preparation and accounting disclosure

The risk management and internal control approach applied within the Group consists of:

- the identification and assessment of risks;
- the description of the control environment, both at Group and subsidiary levels;
- documentation and self-assessment of these control points, both at local and Group level;
- independent testing of the effectiveness of these control points, by independent persons.

A very large number of Group entities representing almost 97% of Sodexo’s revenues, prepare a detailed report (Company Level Control Report) on their control environment based on the five components of the reference framework and which includes an evaluation of the subsidiary’s principal risks, a description of risk management measures and an assessment of their effectiveness.
The most significant Group entities together representing more than 93% of Group revenues, go beyond this initial phase, and evaluate the effectiveness of additional controls determined by their own risk assessment (Process Level Controls). Some of these controls are also subject to effectiveness tests performed by independent persons (Group Internal Auditors).

An executive summary of the status of internal controls and the progress achieved is submitted to the Audit Committee at the end of the fiscal year. For Fiscal 2018, 1,231 controls were independently tested by Group Internal Audit in different entities. 34% of the recommendations made by Internal Audit in Fiscal 2018 have already been satisfactorily implemented and confirm actual progress, while action plans are underway to implement the other recommendations.

5.4.3.4 Description of internal controls relating to the preparation of accounting and financial disclosure

The Group Finance Department is responsible for ensuring the reliability of financial and accounting information. A process is in place to produce and analyze financial information at both operational sites and in the Group and entities’ Finance Departments.

The entities’ Finance Departments produce monthly a cumulative income statement since the beginning of the fiscal year, a balance sheet, and a statement of cash flows. They also regularly produce projections for the full year. Financial statements are consolidated on a monthly basis by the Group Finance Department.

At the half-year, the external auditors conduct a limited review of the interim financial statements.

At the end of the fiscal year, the Chief Executive Officers and Chief Financial Officers of the segments and regions certify the reliability of their financial statements, prepared in accordance with the IFRS standards adopted by the European Union. The external auditors of the main entities express a view on these financial statements in accordance with the mandate given to them by Sodexo’s shareholders. The Group Finance Department monitors changes to IFRS standards and interpretations and ensures that the accounting treatments applied by all entities are compliant with Group rules.

Twice a year, the Group Finance Department identifies the events that may have led to one or several assets being impaired, notably goodwill and intangible assets (in accordance with IFRS). Where appropriate, the carrying amount of the asset concerned is written down in the financial statements.

Segment Chief Executive Officers and their Executive Committees, as well as Regional Chairs and Regional Chief Financial Officers review operational and financial reporting (comprising improvement metrics for client retention, sales development and revenue growth on existing comparable sites) before presenting it to the Group Executive Committee, and then to the Chairwoman of the Board of Directors. In addition, quarterly reviews with each of the Group’s segments and regions give the Group Chief Executive Officer and Group Chief Financial Officer insight into performance trends for the segments and regions based on the financial reporting and operational information.

Procedures are in place to identify off-balance sheet commitments. This term covers all rights and obligations that may have an immediate or future impact on Sodexo’s financial position but are not recognized (or are only partially recognized) in the balance sheet or income statement. These include items such as assets pledged as security; guarantees relating to operating contracts (for example bid bonds or performance bonds), to borrowings, or to claims and litigation; lease obligations not recognized in the balance sheet; commitments under call or put options, etc. Off-balance sheet commitments are presented regularly to the Board of Directors.

The Group Insurance Department works closely with the relevant executives in the entities to:

- Implement global insurance programs, negotiated at the Group level, available for all entities and supported by insurance companies recognized for financial strengths by the Insurance Industry;
- Put in place insurance coverage to protect the interests of our employees, clients, shareholders and the Group;
- Identify and evaluate the key insurable risks faced by Sodexo, with particular attention to the emergence of new risk factors associated with changes in our activities, especially in facilities management;
- Reduce contractual risk, in particular by means of limitation of liability clauses or hold-harmless agreements;
- Achieve the appropriate balance between risk retention (self-insurance) and the insurance market in covering the potential financial consequences of Sodexo’s risk exposure; and
- Achieve optimization by financing some of our risks through the use of captive insurance companies.

The Sodexo legal function (comprised of a Group team and regional and local teams) works pro-actively with business development and operational teams to ensure legal compliance and support contract negotiations, so that risks pertain solely to contractual obligations for services and are limited in value and duration.

Lastly, using the financial information reported and consolidated, the Chief Executive Officer, assisted by the Group Finance Department, prepares the Group’s financial communication. The Chief Executive Officer also relies on the operating data required to prepare the Registration Document. The interim and annual results press releases are submitted to the Board of Directors for approval.

To enable the Chief Executive Officer to provide reliable information on the Group’s financial situation, a Disclosure Committee comprising representatives from the Group’s corporate functions reviews all financial information prior to publication. Members represent the following functions: Financial Control, Financial Communications, Legal, Human Resources, Sustainable Development, Communications and Board Secretary.
5.4.4 Group Internal Audit Department

The Senior Vice President Group Internal Audit reports directly to the Chairwoman of the Board, thus ensuring the independence of the Group Internal Audit Department within the organization. The Senior Vice President Group Internal Audit meets the Chairwoman of the Board on a monthly basis and works closely with the Chairman of the Audit Committee, holding informal meetings (approximately four times per year).

Since 2015, Sodexo’s Group Internal Audit activities have been certified by the French Internal Audit and Internal Control Institute (IFACI). This internationally recognized certification attests to Sodexo’s compliance with and application of 30 general requirements of the Professional Internal Audit Standards (independence, objectiveness, competence, methodology, communication, supervision and continuous assurance program).

IFACI certification is a high-level confirmation of quality and performance that:

- powerfully conveys Sodexo’s rigorous approach to evaluating its risk management and internal control processes;
- benchmarks Sodexo’s processes against best market practices;
- enables the Group to sustainably strengthen its Internal Audit practices;
- unites employees around a challenging project.

The Internal Audit Department performs internal audits of Group entities based on an Internal Audit Plan established annually. The audit plan is based on a risk assessment performed by Group Internal Audit, relying on the Group risk assessment process and input from the Chairwoman of the Board of Directors, the Group Chief Executive Officer, the Group Chief Financial Officer and other key stakeholders from Sodexo. The Audit Committee reviews and approves this annual audit plan.

The responsibilities of the Internal Audit Department include:

- ensuring, with the related functional teams, that employees throughout the organization are aware of and diligently apply Group policies;
- ensuring that delegations of authority and procedures have been established and communicated to the appropriate levels of management, and checking that they are properly implemented;
- helping to assess entities’ internal controls, issuing action plans designed to remedy identified control weaknesses, and monitoring implementation of these action plans.

The Internal Audit Department may also conduct special assignments at the request of the Chairwoman of the Board, the Audit Committee, the Chief Executive Officer or the Executive Committee.

Most (81%) of the Group Internal Audit Plan approved by the Audit Committee at the start of Fiscal 2018 was completed during the year. The Group Internal Audit Department, with an average of 26 staff, conducted 58 audits in 30 countries. In addition, a network is in place of some 85 internal control coordinators (many of whom report to the Finance Directors). This network is coordinated by a central internal control team and enables specific support to be given to Internal Audit engagements and to rectifying weaknesses identified by the Internal Audit team.

The Internal Audit Department regularly tracks implementation of post-audit action plans by Group entities. An overall progress report is updated regularly and submitted on a semi-annual basis to the Chief Executive Officer, the Group Chief Financial Officer, the Chairwoman of the Board and the Audit Committee.

Further progress was achieved in following up recommendations in Fiscal 2018. All audits are followed up within a maximum of 12 months.

Around 90% of recommendations made in years prior to Fiscal 2018 have been implemented by the entities’ management. For Fiscal 2017, 34% of the 1,034 recommendations made by the Group Internal Audit Department have already been implemented and the other recommendations are addressed in action plans. In Fiscal 2018, the Internal Audit Department carried out a survey of a sample of entities. The vast majority (93%) of them considered that the quality of audits was satisfactory. Every year, the Group Internal Audit Department measures the savings achieved and the losses avoided through its audits. In Fiscal 2018, investigations, assistance engagements and process efficiency audits generated added value of 12.3 million euro.

The Group Internal Audit Department also conducts an independent evaluation of internal control.

Finally, the Internal Audit Department assesses the external auditors’ independence and reviews the annual budgets for external auditors’ fees (for both statutory audit work and other engagements) prior to their approval by the Audit Committee.

Risk management and the reinforcement of internal control are a permanent strategic priority for the Group.

However, internal controls cannot provide an absolute guarantee that all risks have been eliminated. Sodexo nevertheless endeavors to ensure that the most effective internal control procedures feasible are in place in each of its entities.

In the preparation of this report, and in compliance with the recommendation issued by the French securities regulator, the French securities regulator (Autorité des marchés financiers – AMF), in July 2010, Sodexo has notably relied on the “Reference Framework” produced by the French Market Advisory Group and published by the AMF.