

28 September 2012

G4S plc

REVIEW OF LONDON OLYMPIC AND PARALYMPIC GAMES SECURITY CONTRACT

The Board of G4S announces the principal findings of its review of the London Olympic and Paralympic Games Security Contract (the 'Olympic contract') together with its overall conclusions and a number of key actions arising out of that review (the 'Review').

The key points can be summarised as follows:

- The Olympic contract was unique in terms of scale and complexity, but notwithstanding this, the Company was capable of fulfilling the contract; the issue was in its delivery.
- Although the Company recognised the unique and complex nature of the Olympic contract from an early stage, this was not properly reflected in its handling of the contract. The Company has management and other structures and processes that have proved highly effective in delivering the Company's regular business over many years but it did not recognise these structures and processes needed augmenting for the Olympic contract.
- The monitoring and tracking of the security workforce, management information and the project management framework and practices were ineffective to address the scale, complexities and dependencies of the Olympic contract. Together this caused the failure of the Company to deliver the contract requirements in full and resulted in the identification of the key problems at a very late stage.
- The successful execution of the Home Office/LOCOG contingency plan including deployment of additional military and police together with a substantial contribution from the thousands of G4S employees who worked alongside them, led to a safe and secure games with continuously positive ratings on venue security from games visitors.
- The Board confirms that it is in the best interests of the Company and of all its stakeholders that Nick Buckles should remain Group CEO. Whilst the CEO has ultimate responsibility for the Company's performance, the Review did not identify significant shortcomings in his performance or serious failings attributable to him in connection with the Olympic contract.
- The Board has accepted the resignations of David Taylor-Smith, Chief Operating Officer and Regional CEO - UK and Africa and of Ian Horseman Sewell, Managing Director, G4S Global Events.
- Richard Morris, currently the Group Managing Director of G4S Care & Justice Services in the UK, has been appointed as the CEO, UK Region. Kim Challis, who currently runs a portfolio of UK commercial and Government businesses, will take on direct line management responsibility for all Government businesses in the UK as CEO, G4S Government and

Outsourcing Solutions - a new role created to enhance our focus on this critically important area of our business.

- The Group Executive will also be strengthened with the appointment of a Group Chief Operating Officer, who will work closely with the CEO, with responsibilities to include a specific focus on operational procedures, risk management and quality customer service and delivery. The Group COO role will be an external appointment.
- The contract failings are largely specific to the Olympic contract. However, G4S will take a number of further actions, learning lessons from this contract, to ensure that best practices are applied across the entire business. Actions will include: more rigorous risk assessment for new contracts and improved contract take-on processes and project management. Board oversight will be enhanced including review and approval of contracts where annual revenues exceed £50m.
- The Board will be strengthened by the addition of at least two new non-executive directors. The recruitment process is underway.

John Connolly, who joined G4S as Chairman on June 8, said:

“G4S has accepted responsibility for its failure to deliver fully on the Olympic contract. We apologise for this and we thank the military and the police for the vital roles they played in ensuring the delivery of a safe and secure Games.

Our Review of the company's performance on this contract has been extremely thorough and, whilst the failures are largely specific to the very special nature of this contract, we will learn from mistakes made. We are taking actions in relation to both the management and governance of G4S to ensure we continue to deliver the highest standards of customer service and contract delivery across the Group.”

For further enquiries, please contact: +44 (0) 1293 554400

Helen Parris Director of Investor Relations

Media enquiries:

Adam Mynott Director of Media Relations +44 (0) 1293 554400

David Allchurch Tulchan Group +44 (0) 20 7353 4200
Ed Orlebar

Notes to Editors:

G4S is the world's leading international secure outsourcing group, which specialises in outsourced business processes and facilities in sectors where security and safety risks are considered a strategic threat.

G4S is the largest employer quoted on the London Stock Exchange and has a secondary stock exchange listing in Copenhagen. G4S has operations in more than 125 countries and 657,000 employees. For more information on G4S, visit www.g4s.com.

G4S plc

THE REVIEW FINDINGS

1. Introduction

On 13 July 2012, the Company announced that the Board would conduct a full review of the Company's performance on delivering the Olympic contract. The Review has now been completed. It was led by a senior Company executive independent of the UK Region with the assistance of PwC and reported directly to the Chairman and the Board.

The objectives of the Review were:

- to understand what were the key deliverables under the terms of the contract;
- to understand in detail what the actual outcomes were, including all the key failings and shortfalls against the contract deliverables;
- to determine what went wrong in the execution of the contract and timeline of the failures;
- to determine why the contract execution issues were not identified on a more timely basis at contract team level, senior management level and at the Board level;
- to identify learnings and lessons around contract take on, contract execution, monitoring and review processes and risk management generally.

The Review process included meetings with numerous members of the Olympic project team including all those in leadership roles, with members of the Group management team and the Board, including the Group CEO. Charles Farr, Director-General of the Office for Security and Counter Terrorism at the Home Office and Chair of the Olympic Security Board, met with the review team to provide input. Pending completion of its own contract audits, LOCOG felt unable to allow access to any of its personnel.

2. The Olympic Contract

The Olympic contract was originally signed in December 2010. In broad terms, there were three separate deliverables: deployment of a security workforce; co-ordination of the multiple suppliers providing the combined security workforce; and the management of operational delivery including recruitment, training and logistics among other activities. Originally, the Company was only required to provide up to a maximum of 2,000 security personnel but, in December 2011, the contract was varied to increase this number to 10,400. The peak number was to be deployed on 1 August 2012 but there was a "ramp up" prior to the Games. For example, around 750 security officers were deployed up to December 2011, around 1,500 for test events and venue security up to the end of June 2012 and then, with reference to the demand schedules issued by LOCOG, the Company was required to have approximately 3,500 deployable security personnel on 2 July, approximately 7,000 by 18 July and around 8,500 on 27 July. The contract value was approximately £238 million.

The Olympic contract was very complex. The G4S workforce was part of an overall security workforce of approximately 24,000 people, comprising G4S personnel, members of HM Armed Forces, participants from within the Bridging the Gap programme, volunteers and a sub-contractor workforce.

The security personnel were to be deployed over 125 Olympic venues and 72 Paralympic venues and were divided by reference to 49 skill requirements including 33 specialist skill requirements. All potential security personnel had to go through a multiple stage recruitment process. This involved conducting more than 100,000 initial interviews and then progressing candidates through detailed screening, licensing, training and accreditation. The nature of the security contract necessarily required heavily back-end loaded time-scales. The Company also had dependencies outside its control that would impact delivery, as matters such as pay rates, workforce characteristics, venue-specific requirements, timely approval of expenditure and the supply of personnel from Bridging the Gap programme and from sub-contractors were outside its control.

3. Operating & Management structure

The management of the Olympic project was initially drawn largely from the UK Region's specialist events company, but was increasingly augmented by senior management from G4S Secure Solutions (UK) Limited. Senior executives Mark Hamilton (Managing Director Olympics) and Doug Hewitson, (Group Management Director of G4S Secure Solutions), attended regular project management meetings with LOCOG and reported to David Taylor-Smith, Group COO and Regional CEO - UK & Africa who chaired a contract project board which was established to have continuous contract oversight. Mr Taylor-Smith reported on contract progress at monthly Group Executive meetings where he was the member with overall responsibility for oversight of the Olympic project with the objective that it was delivered on time and in line with budget. The Board of Directors considered progress at each of its meetings based upon reports from the CEO. Ian Horseman Sewell was the Account Director responsible for the Company's overall commercial relationship with LOCOG.

4. Contract Performance

The Company failed to deploy sufficient workforce numbers throughout the "ramp-up" period starting 1 July and during the Olympic Games. A security workforce of around 3,500 was specified as being required on 2 July 2012 but only some 2,500 were deployable. At this date, Mr Taylor-Smith assumed complete day-to-day responsibility for contract delivery and introduced a large number of new senior executives into the team with the immediate aim of understanding and rectifying the delivery shortfall.

By 10 July, a workforce of around 4,500 was specified as being required, but only around 3,000 were available. Following the notification to LOCOG and the Home Office on 11 July that the Company could no longer guarantee to meet fully the resource requirements, the Home Office/LOCOG contingency plan was launched. The Company then informed the Home Office and LOCOG that it expected to be able to provide 7,000 personnel at the peak date compared with a requirement of 10,400. On 1 August, the peak date, approximately 7,800 G4S security officers were supplied.

Ultimately, the Company delivered just 80% of the required shifts by security personnel across the entire Olympic project duration including the Paralympic Games. Some aspects of the Olympic contract were performed well (e.g. logistics and training) and LOCOG confirmed it was happy with the quality and conduct of the security personnel provided by the Company. G4S delivered substantially all of its commitment in relation to the transition period between the Olympics and the Paralympic Games and to the Paralympic Games themselves, which enabled the additional military personnel deployed during the Olympic Games to be stood down.

The military and the police, together with thousands of G4S employees, made a substantial contribution to the delivery of a safe and secure Games.

5. Loss on the Contract

As previously stated in the half yearly results announcement for the six months ended 30 June 2012, G4S estimates that the loss on the Olympic contract will be in the region of £50m and this amount has been provided for at the half year and taken as an exceptional item. This estimate is based on the Company's current expectation of the financial outcome including reasonable estimates of costs where at this date there is still uncertainty. This estimate is based upon the following:

- The additional costs relating to the deployment of the increased military and police personnel based upon available information. At the current date the Company has not been advised of the actual cost, but confirms that it will meet the additional costs in line with the commitment G4S made in July.
- The Company's estimates of potential penalties and contractual liabilities; and
- The additional costs relating to the provision of increased internal resource to deliver the contract.

The final contract loss will be impacted by the actual cost of the military and police deployment and by the outcome of negotiations in respect of potential penalties and contractual liabilities. The British taxpayer will not bear any additional costs.

6. The Review Findings

The Review has concluded that the contract was unique and complex and the Company's performance needs to be viewed against this background. The Review has found, however, that the Company was capable of fulfilling the Olympic contract. There were a series of project management and project execution failings. There was no single reason for the failure to deliver the contract commitments. The failings are largely associated with the specific nature and complexity of this contract, which was markedly different to any other project or contract undertaken by the G4S Group. Although the Company recognised the unique and complex nature of the Olympic contract from an early stage, this was not properly reflected in its handling of the contract. The Company has management and other structures and processes that have proved highly effective in delivering the Company's regular business over many years but it did not recognise that these structures and processes needed augmenting for the Olympic contract.

The Review has identified two major failings together with a number of significant contributory factors.

Major failing 1: The monitoring and tracking of the security workforce was inadequate during the various recruitment, training and accreditation phases and the management information put in place to track the workforce was disaggregated.

The process through which potential security personnel had to progress was complex and involved many stages including recruitment, screening, training, accreditation and deployment by reference to many skill requirements. The indicative analysis performed as part of the review of the workforce numbers at the beginning of July suggests that the principal reason for the difference between the numbers of people thought to be deployable by the Company and the numbers actually deployable was that many recruits had not completed all of the stages of the process.

Originally, it was intended to adopt a sequential management of the steps through which recruits were processed, however, delays and complexities resulted in it being recognised that a concurrent management approach was necessary. A serious problem then arose because the management information failed to monitor the aggregated process. The large numbers of people being taken through each stage of the process gave a sense of comfort that all was well, but failed to identify the extent to which individuals were actually deployable having passed through all the required stages. The problem was not, however, the result of a failure in any of the Company's core IT systems, but one of inadequate marshalling and interpretation of data from multiple sources.

One serious consequence of this was that the project management team continuously reported through to the Group Executive and to the Board that the required workforce numbers would be met and it was only at the time of the significant "ramp-up" from 1 July that the inherent inaccuracy in the information was identified, when looked at on an aggregated basis.

Major failing 2: The project management framework and practices were ineffective to address the scale, complexities and dependencies of the contract.

The uniqueness and complexity of the contract were recognised, but there was a lack of understanding and true appreciation as to the scale and exact nature of the project and hence a failure to plan appropriately and to manage risk and report effectively against key objectives. Thus, for example, whilst a feasibility assessment was performed during contract acceptance to assess the deliverability of 10,400 security personnel, the underlying assumptions (e.g. that screening and vetting would take 3 weeks when in fact it took up to 12 weeks), which were central to this assessment were not properly incorporated into the project management framework. As a result, the direct consequences of these underlying assumptions not being borne out were not appreciated.

More generally, the Olympic contract was not treated as a stand-alone project in terms of management approach. The Olympic contract was managed, largely, through the normal management structure of the events company and no individual was clearly positioned as the overall Programme Director. This led to ineffective management of programme processes across multiple work streams.

Contributory factors

As indicated, in addition to the major failings, there were a number of other factors which contributed to the Company's overall performance.

Contributory factor 1: The project plan was inadequate.

Ultimately, the project plan proved deficient as it failed to manage performance against the key deliverables in pursuit of the project's fundamental objective, which was to deliver a 'ready to deploy' security workforce in the right numbers, with the right skills, to the right venues on the right day.

Other issues that arose from the lack of an appropriate plan include the continual slippage allowed on tasks in the programme. The effect was that allowing activities to slip, when no critical path and task dependencies had been defined, meant that the impact of slippage in a single task did not clearly indicate the potential knock on effect on other tasks or on the project as a whole.

There was also an acceptance of changes from the client without appropriate challenge even though there was a clear, contractual, change management process. For example, a revised demand schedule was issued by LOCOG, but this was not formally accepted by the Company and, as a result, LOCOG and G4S subsequently reported against different targets, not only in terms of overall workforce numbers, but also the numbers by venue and specialist skill requirement.

Contributory factor 2: A failure to act decisively on early signals (delays, invalid assumptions, customer concerns) did not allow for early risk mitigation.

The Review has not uncovered any suggestion that people within the Company or others were wilfully withholding information. Before early July, there was no obvious single moment or issue that indicated the scale of the problems, which were subsequently experienced. Throughout the life of the project, various issues were raised in the project team and escalated to the Company's Olympic Project Board for discussion and decision. However, the impact those various issues were having on the overall programme was not fully recognised. Moreover, issues were also discussed in isolation with the result that the full picture as to the overall risk to delivery was unclear.

An example of this was the increasing backlog of unanswered queries from prospective recruits who were trying to engage with the Company in order to ascertain their status within the recruitment process.

The Review has concluded that inadequate communication with recruits was not a major contributing factor to the eventual shortfall in numbers. However, the volume of unanswered emails and extended response times to phone calls might have not only indicated problems with the recruitment process, but also the risk of an increasing detachment from (and potential alienation of) prospective recruits, which might hinder effective deployment at the back-end of the process.

Contributory factor 3: Lack of sufficient review by persons independent of the process to oversee/quality assure progress

There was an insufficient level of independent review and assurance in light of the fact that the project was identified at the outset as 'high risk' and also as being unique in terms of its scale and complexity. Furthermore, the 'high risk' nature of the Olympic contract was heightened by the significant increase in the security workforce requirement from December 2011 and the resultant substantially increased contract value and accelerated timeline.

In light of the categorisation as 'high risk', the Board sought regular updates as to progress. However, these were made without reference to a set of headings appropriately focused on risk factors associated with recruitment and mobilisation. The failure of the senior management associated with the project to recognise adequately the early warning signs and their aggregate impact meant that the reporting and escalation did not allow the Board to appreciate fully the project's actual progress or performance of the Olympic contract.

Contributory factor 4: There was no overall and continuous ownership of the risk management process.

The risk management process governing the Olympic contract did not fully differentiate "real risks" from the many less significant contract challenges and did not clearly define owners and mitigation strategies for each risk.

While the unique and complex nature of the contract was considered during the contract take-on phase this did not then effectively influence how risks were identified, planned and managed during the mobilisation phase. In particular, the dependencies that existed with LOCOG (e.g. in relation to setting of pay rates, the timing of the delivery of demand schedules, operating practices for training and provision of bridging the gap resource) were not properly identified.

Third party reports

The Company has now learned that four independent reports relating to venue security were commissioned by the Home Office and/or LOCOG. One of these reports, "The Deloitte Report", was commissioned by LOCOG in April 2012 and the report was passed to G4S. However, the other three reports were not disclosed to G4S. Two of these reports were commissioned by the Home Office from Her Majesty's Inspectorate of Constabulary ("HMIC") in September 2011 and February 2012 and the third was an Internal Audit Report produced by KPMG for LOCOG.

The Home Affairs Select Committee expressed surprise that all the reports were not shared more widely with relevant parties, and said that "it may well be that, had this been done, the potential scale of the problems might have been realised earlier". Unquestionably, the HMIC reports indicate matters that were of importance and, in particular, the delays and other issues that formed the background to the execution of the Olympic contract. However, the Board's Review has concluded that the failure to disclose these reports to the Company was not a significant contributory factor to the Company's failure to perform the Olympic contract.

7. Actions

The Board of G4S has considered the findings of the Review and is taking a series of actions in the light of them:

- The Review has identified serious failings but these failings are not attributable to the CEO, Nick Buckles. The Board has concluded that it is in the best interests of the Company and all its stakeholders for Nick Buckles to remain as CEO.
- The Board has accepted the resignations of David Taylor-Smith, Chief Operating Officer and Regional CEO - UK and Africa and of Ian Horseman Sewell, Managing Director, G4S Global Events.
- Richard Morris, currently the Group Managing Director of G4S Care & Justice Services in the UK, has been appointed as the CEO, UK Region. Kim Challis, who currently runs a portfolio of UK commercial and Government businesses, will take on direct line management responsibility for all Government businesses in the UK as CEO, G4S Government and Outsourcing Solutions - a new role created to enhance our focus on this critically important area of our business.
- Recognising the scale and growth ambitions of G4S, and having regard to the lessons learned from the issues with the Olympic contract, a new senior management role will be added to the Group Executive team with the appointment of a Group Chief Operating Officer (COO), which shall be an external appointment. The COO and the Regional CEOs and other senior corporate executives will report to the CEO. The COO will support the CEO, with particular emphasis on the exercise of rigorous controls over operational procedures, risk management, major contract take on and quality of customer service and delivery.
- The Olympic contract failings are largely specific to the Olympic contract. However, G4S will take a number of actions, learning the lessons from the Olympic contract, to ensure that best practices are applied across the entire business. In particular it will put in place steps to implement a more rigorous, up-front process to assess the complexities and risks of contracts and projects and consider the consistency and robustness with which its project management methodologies and practices address the monitoring and direction of contracts.
- With a view to ensuring that its own oversight of the Company is enhanced the Board will in future require new contracts with annual revenues in excess of £50m to be presented to the Board for consideration and approval. The Board review will focus on adherence with Company standards around risk assessment and project management.
- The Board will review and refresh its mandate for the Group Risk Committee which will be chaired by the new COO and report to the CEO and to the Board.

- The Board will be strengthened by the addition of at least two new non-executive directors. The recruitment process is underway.

Concluding comment

The Board considers that the lessons learned from this contract failure and the actions taken will improve the Group's processes around contract take on and execution and the Group's risk management processes. This will ensure that G4S continues to deliver globally, the highest quality customer service.