

# Corporate Governance Statement

The board's statement on the company's corporate governance performance is based on the Combined Code on Corporate Governance published in June 2006 ("the Combined Code").

The Combined Code requires companies to disclose how they apply the code's principles, and to confirm that they comply with the code's provisions or, where they do not comply, to provide an explanation.

## (a) Application of Combined Code principles

The board comprises the non-executive chairman (Alf Duch-Pedersen), a non-executive deputy chairman (Lord Condon), five other non-executive directors, the chief executive (Nick Buckles), the chief financial officer (Trevor Dighton) and the chief operating officer (Grahame Gibson). The board considers all the non-executive directors to be independent. The senior independent director is Sir Malcolm Williamson.

All continuing directors are subject to election by shareholders at the next Annual General Meeting following their appointment and will submit themselves for re-election at least every three years.

Membership of the three board committees is as follows:

### **Audit Committee**

Thorleif Krarup (chairman)  
Bo Lerenius  
Mark Seligman  
Sir Malcolm Williamson

### **Remuneration Committee**

Lord Condon (chairman)  
Mark Elliott (joined March 2007)  
Bo Lerenius  
Mark Seligman

### **Nomination Committee**

Alf Duch-Pedersen (chairman)  
Lord Condon  
Sir Malcolm Williamson

Mr Elliott joined the Remuneration Committee in March 2007. Mr Seligman is the member of the Audit Committee with recent and relevant financial experience. The terms of reference of each of the above committees are available on the company's website.

It is intended that the chairmen of the three committees will be available to answer questions at the Annual General Meeting which is an important opportunity for communication between the board and shareholders, particularly private shareholders. Following each resolution at the Annual General Meeting, the meeting is informed of the numbers of proxy votes cast and the same information is subsequently published on the company's website.

There were ten board meetings during the year ended 31 December 2007. One of the meetings was an extended, two-day, board and strategy session, at which presentations on some of the group's key businesses were made to the board by senior executives and at which the group's business plan and its commercial and HR strategies were discussed. Two of the board meetings were held at subsidiary companies' offices, one in the UK, the other in South Africa, to facilitate greater inter-action between the board and the group's businesses. Thorleif Krarup was absent from one board meeting and Sir Malcolm Williamson and Mark Seligman were each absent from two meetings.

At each meeting, the board receives reports from the chief executive, the chief financial officer and the company secretary, an HR report which includes summaries of developments on HR matters and an investor relations report which includes analysts reviews and any comments received from major shareholders since the previous board meeting. After meetings of the board committees, the respective committee chairmen report to the board on the matters considered by each committee. In addition, the board receives monthly management accounts.

There are nine board meetings scheduled for the current year, including a one-day strategy session.

### **(a) Application of Combined Code principles (continued)**

There is a detailed schedule of matters reserved to the board which are set out under five separate categories: (1) Board and management; (2) Operations; (3) Finance; (4) Business control; and (5) Secretarial. By way of example, board approval is required for (a) acquisitions, disposals, investments and capital projects exceeding £4m; (b) any changes to the group's business strategy; and (c) the annual trading, capital expenditure and cash flow budgets.

In the year under review, the Audit Committee met three times, the Remuneration Committee five times and the Nomination Committee once. All members attended each of the meetings except for Sir Malcolm Williamson who was absent from one meeting of the Audit Committee and Mark Seligman who was absent from one meeting of the Remuneration Committee.

The performance of the board and its committees has been evaluated in a number of ways. A questionnaire-based self-assessment of the performance of the board as a whole was conducted and the findings have been considered during the year under review. Based on this feedback, steps are to be taken to review the manner in which the board communicates with its stakeholders and the number of board meetings to be held and the way in which reports are given to the board has been reviewed. In addition, the chairman has conducted individual evaluations of the performance of each of the directors and his findings have been discussed by the board.

The chairman held meetings with the non-executive directors without the executives present and a review of the performance of the chairman by the non-executive directors, without the chairman present, was led by the senior independent director.

Both the Audit and Remuneration Committees have evaluated their performance by questionnaire-based self-assessment, completed, in the case of the Audit Committee, by both the committee's members and by the regular attendees of its meetings. The results of the assessments were reviewed by the committees concerned and some areas for improvement were identified. As a result, some committee members will undertake more systematic external training, an additional audit committee meeting will be held at a time not related to a board meeting and more presentations will be made to the Audit Committee by regional finance managers and others.

The chief executive and the chief financial officer hold regular meetings with individual institutional shareholders to discuss the group's strategy and financial performance, although price sensitive information is never divulged at these meetings. It is intended that all the directors will attend the company's Annual General Meeting and will be available to answer questions from shareholders.

The Nomination Committee is responsible for making recommendations on board appointments and on maintaining a balance of skills and experience on the board and its committees.

Audit Committee meetings are attended by representatives of the group auditor; the chief financial officer; the head of internal audit and the company secretary. The committee considers the group's annual and interim financial statements and any questions raised by the auditor on the financial statements and financial systems. It also reviews, amongst other matters, whistle blowing arrangements, risk management procedures and internal controls.

The Audit Committee has established a policy on the provision by the external auditor of non-audit services, so as to ensure that the independence of the audit is not compromised. Besides the formal audit function, the auditor is permitted to provide consultation and due diligence services related to mergers and acquisitions, audits of employee benefit plans, reviews of internal accounting and control policies, general advice on financial reporting standards and corporate tax services. The auditor is prohibited from providing other services without specific permission from the Audit Committee. The value of non-audit services provided by the auditor must not exceed the fees charged for the statutory audit, save in the event of a major transformation deal. The auditor has written to the Audit Committee confirming that, in its opinion, it is independent.

The work of the Remuneration Committee is more fully described in the Directors' Remuneration Report which appears on pages 37 to 44.

### **(b) Compliance with provisions of Combined Code**

The company complied throughout the year under review with the provisions set out in Section I of the Combined Code.

## Corporate Governance Statement (continued)

### (c) Risk management and internal control

The directors acknowledge their responsibility for the group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The risks associated with the group's activities are reviewed regularly by the board, which considers major risks and evaluates their impact on the group. Policies and procedures, which are reviewed and monitored by the head of internal audit, are in place to deal with any matters which may be considered by the board to present significant exposure.

The key features of the group's risk management process are:

- > A common risk management framework\* is used to provide a profile of those risks which may have an impact on the achievement of business objectives.
- > Each significant risk is documented, showing an overview of the risk, how the risk is managed, and any improvement actions. The risk profiles ensure that internal audit reviews of the adequacy, application and effectiveness of risk management and internal controls are targeted on the key risks.
- > Risk management committees have been established at regional, divisional and group level. The regional committees meet at least annually and the divisional and group committees meet quarterly. A standard agenda covering risk and control issues is considered at each meeting and risk profiles are reviewed and updated at each meeting.
- > Risk and control self-evaluation exercises are undertaken for each operating company, for most companies at least twice a year, and updated risk profiles are prepared. Similar exercises are undertaken as part of the integration process for all major acquisitions. The results of the company risk evaluations are assessed by the regional and divisional risk management committees\*.

The process, which is reviewed regularly by the board in accordance with the internal control guidance for directors in the Combined Code, is carried out under the overall supervision of the group risk management committee. This committee, which reports to the Audit Committee, includes both the chief executive and the chief financial officer.

The Audit Committee undertakes a high level review of risk management and internal control. Both the divisional risk management committees and the group risk management committee receive internal audit reports and regular reports on risks. They monitor the actions taken to manage risks.

The internal control system includes clearly defined reporting lines and authorisation procedures, a comprehensive budgeting and monthly reporting system, and written policies and procedures. In addition to a wide range of internal audit reports, senior management also receive assurance from other sources including security inspections, third party reviews, company financial control reviews, external audit reports, summaries of whistle blowing activity, and risk and control self-evaluations.

The board has reviewed the group's risk management and internal control system for the year to 31 December 2007 by considering reports from the Audit Committee and has taken account of events since 31 December 2007.

**Peter David**

Secretary

7 April 2008

\* Because Wackenhut Services, Inc. ("WSI") is governed through a proxy agreement under which the group is excluded from access to operational information, it is not subject to the same risk management process as is applied to other group companies. The board has however satisfied itself as to the adequacy of the internal control processes adopted by WSI.