

## 6.4 Risk management

### 6.4.1 Definition and objectives of risk management and internal control

The purpose of Sodexo's risk management and internal control systems are to:

- protect the Group's value, assets and reputation;
- identify and evaluate the risks that could prevent the Group from achieving its business objectives;
- anticipate changes in these risks;
- put in place mitigating actions and risk transfer measures.

Sodexo's risk management systems are designed to ensure that risks are:

- properly identified, evaluated and prioritized;
- efficiently mitigated;
- regularly reported and monitored.

Sodexo's internal control procedures are designed to give reasonable assurance that:

- laws and regulations are complied with;
- Group policies and guidelines are properly applied;
- internal processes are functioning correctly;
- financial reporting is reliable.

Internal control procedures also underpin the good and efficient management of Sodexo's operations.

#### 6.4.1.1 Group Policies

As part of its risk governance and management, Sodexo has established a number of Group policies. These policies cover such subjects as human resources development, finance, procurement, responsible business conduct, corporate responsibility, fundamental human rights at work, health safety and environment, information security, data protection and internal audit. Policies are regularly updated and approved by the Board of Directors.

#### Human resources development policy

The Group's human resources priorities are:

- anticipate and adapt the staffing requirements of operations in terms of numbers, skills and competencies to enhance operational efficiency;
- continue to develop a performance-based culture based on shared priorities and indicators, by offering training and learning for individual development;
- promote an inclusive work environment and embrace diversity in all its dimensions.

The main human resources policies are focused on: the profile of a Sodexo leader and senior manager, succession planning for senior managers, senior managers' training and skills enhancement, employee engagement, and compensation.

Annual tracking of improvement metrics by the Executive Committee and Board of Directors serves to validate action plans aimed at advancing these policies. These metrics include employee net promoter score, employee engagement rate, employee retention, employee absenteeism, internal promotion, and the representation of women in senior management.

Sodexo continually strives to go further in the area of diversity, equity and inclusion. The Group focuses on promoting gender equality throughout the business, and providing job opportunities for people with disabilities. It seeks to foster an inclusive culture for employees irrespective of ethnicity and race, and create a welcoming environment for people of all sexual orientations and identifications. It is mindful of the generation gaps that may arise when employees of multiple generations work together, and has created generational networks to support better understanding.

#### Financial policies

Sodexo's financial objectives are twofold, namely:

##### TO PRESERVE ITS 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 shareholding. As of August 31, 2022, Sodexo's family holding company, Bellon SA, held 42.8% of the shares and 57.5% of the exercisable voting rights. This financial independence 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.

##### TO ENHANCE THE ATTRACTIVENESS OF ITS 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.

Sodexo's financial policies require all decisions involving external financing to be made by the Group Chief Financial Officer, the Chairwoman of the Board of Directors and 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.

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.

Sodexo'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 the initial evaluation and the management procedures for suppliers and sub-contractors directly depend on the product supplied or service rendered. It includes verifying issues such as food safety and traceability, certification to conduct work, particularly in Facilities Management, along with financial due diligence checks.

In line with the 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.

## Responsible Business Conduct

The Group's standards for responsible business conduct are set out in the Business Integrity Guide. 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 guide for financial or other business objectives or personal gain. Sodexo 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 purpose is to create a better everyday for everyone to build a better life for all. We have formalized this commitment in our Corporate Responsibility roadmap, Better Tomorrow 2025.

Better Tomorrow 2025 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 nine 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 considers the business opportunities, risks and their financial implications.

In particular, these commitments are demonstrated through the following actions:

- long-term technical partnership agreement with World Wildlife Fund (WWF) to work on Sodexo climate strategy and its different components;
- tackling waste by engaging with Sodexo employees, clients and supply partners to provide innovative solutions on food waste through the deployment of the program WasteWatch;

- partnering with the Future 50 Foods Initiative. The Future 50 Foods Report identifies under-utilized plant-based foods that optimize nutrient density and reduce environmental impact. Sodexo has rolled out plant-based recipes containing the Future 50 foods in kitchens in Belgium, the United States, France and the United Kingdom;
- combined management focus on the achievement of the 34% carbon emissions reduction target, compared to 2017 baseline year.

In the area of nutrition considering the health and wellness of consumers, Sodexo is committed to food safety and encouraging our guests to develop good eating habits and healthy lifestyles. With the help of our nutritionists, we create balanced, nourishing meals adapted to the lifestyles and the diversity of the tastes of our consumers around the world.

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:

- supporting the fight against hunger through Stop Hunger, a global network created 26 years ago;
- 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 value chain;
- promoting gender balance with a target of having at least 40% woman among Sodexo's senior executives by 2025 (during Fiscal 2022 we reached 41% for this indicator and we are committed to ensuring that the Group maintains its lead on the subject of gender diversity and does not fall below 40%) and 100% of employees working within entities having gender-balanced management teams.

For detailed information on our Corporate Responsibility strategy, please see Chapter 2.

## Human Rights at Work

Sodexo is committed to respecting human rights wherever it does business. This commitment, is supported by core policies and procedures which are based on international texts such as the Universal Declaration of Human Rights, the International Labor Organization's Declaration of Fundamental Principles and Rights at Work; it is also based on the principles set forth in the OECD Guidelines for Multinational Enterprises and the United Nations' Guiding Principles on Business and Human Rights.

The Sodexo Statement of Respect for Human Rights sets out standards for fundamental human rights at work. It covers the workplace, but also business relationships, communities, reporting concerns, due diligence and transparency. It is also accompanied by a guide and training that provides best practices and examples.

## Health, safety and environment policy

Sodexo's ambition is to be the safest place to work for our employees. This ambition is reflected in our commitment to reach zero harm and a culture of care, for the people who work for us, for our clients, and for the consumers we serve every day.

Sodexo's global Health, Safety and Environment policy describes the Group's commitments, including working in partnership with our clients, consumers, suppliers and local communities, towards a zero harm culture where injuries and health issues are prevented and the environment is protected.

## Information systems policies

The Group Information Systems and Technologies Department has defined three core objectives:

- provide a first-class experience to our customers and consumers as well as to our own employees by making the best use of available technologies;
- continuously improve Sodexo's performance through productivity gains, extensive data analysis, respecting obligations of compliance and strong relationships with our partners (solution and cloud providers, integrators);
- protect Sodexo's digital assets in a context where cyber risk is increasingly pervasive and complex.

To meet these three core objectives, the Information Systems and Technologies Department has put in place numerous procedures, notably in the following areas:

- Group Information Systems Governance;
- Information and Systems Security;
- Mobile Terminal Allocation and Security;
- IS&T Capital Expenditure Programs;
- Third Party Security.

## Data protection policy

Sodexo's Global Data Protection Policy describes how Sodexo entities collect, use, store, share, delete or otherwise process personal data and how data subjects can exercise their rights. This policy applies to the global organization of Sodexo entities when the European data protection law, namely, the General Data Protection Regulation (or "GDPR") is applicable. This policy applies to the processing of personal data collected by Sodexo, directly or indirectly, from all individuals including, but not limited to Sodexo's job applicants, our employees, clients, consumers, suppliers or subcontractors, our shareholders or any third parties (for further details of the compliance program relating to GDPR and other data protection laws, please refer to section 6.3.5).

## 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 governance, operations and the resources used.

The Internal Audit team is also responsible for alerting the Chairwoman of the Board of Directors and Chief Executive Officer, the Audit Committee and the Executive Committee to

any material risks and informing them of the causes of identified weaknesses.

The Internal Audit team has defined several procedures, primarily covering the identification of internal audit priorities for the coming fiscal year, the planning and execution of internal audits, the drafting of internal audit reports and the follow up of action plans to implement the team's recommendations.

A series of internal audit performance indicators has been developed. These include 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 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 Chairwoman and CEO delegates certain authority to the members of the Group Executive Committee, who themselves delegate to members of their executive teams in regions and countries.

Delegations of authority cover business areas throughout the Group, and notably client contracts, procurement, investments and finance, strategy, people and organization, communications and brand.

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

## Improvement indicators

Sodexo uses a range of financial and non-financial indicators to measure progress in such areas as client retention and business development, profitability of contracts and business, human resources and corporate responsibility.

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

Making progress in these areas is critical for future growth in underlying 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.

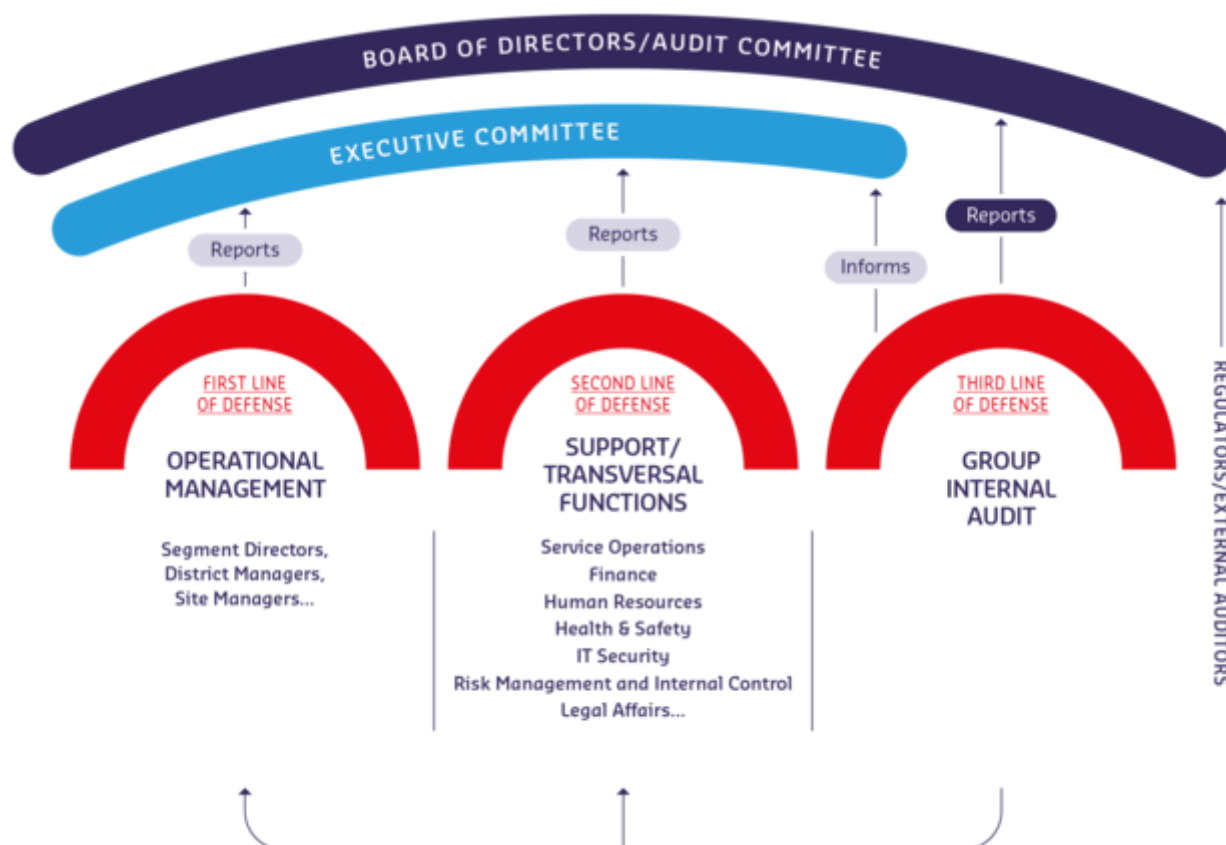
For further details of corporate responsibility metrics in particular, please refer to section 2.7. An independent firm was selected by Sodexo to audit a representative selection of these social, environmental and societal indicators. The conclusions of this audit are presented in section 2.7.3 of this document.

## 6.4.2 Risk management and internal control organization

### 6.4.2.1 Key participants and roles

The key participants in the risk management and internal control system are organized using the Three Lines of Defense model, as shown below:

#### SODEXO'S RISK MANAGEMENT AND INTERNAL CONTROL MODEL



#### Operational management

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

#### Support and transversal functions

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

#### Internal audit

The third line of defense is internal audit, which gives an independent evaluation of the risk management and internal control system to the Executive Committee and Board of Directors. It makes recommendations to the first and second lines of defense for the improvement of risk management and internal control and monitors action plans (see 6.4.4).

### 6.4.2.2 Risk Management Governing Bodies

#### Executive Committee

Sodexo's Executive Committee has overall responsibility for establishing procedures to manage risk. Its role includes designing and leading on the internal control system, with support from senior leaders and the second line of defense functions in their own area of expertise.

#### Board of Directors and Audit Committee

Sodexo's Board of Directors role is to provide oversight of the risk management and internal control system, and ensure that it is functioning effectively. As a specialized Board Committee, the Audit Committee follows up in detail on Sodexo's principal risks and the efficacy of the controls used to mitigate them (see 6.2.1.5) and reports back to the main Board.

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 site, country, regional or global level, depending on their nature.

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

### 6.4.2.3 Approach to Risk Assessment

Sodexo uses a hybrid risk assessment approach, both "bottom-up" from operators and "top-down" from senior management.

On an operational level, the leadership committees of each of Sodexo's main entities carry out an annual risk assessment, facilitated by risk and internal control managers. The results of these assessments are recorded in a global risk management tool. Risks thus identified are owned and managed at the local level.

Additionally, a series of interviews with Sodexo's senior leaders across the world is carried out by Group Internal Audit on an annual basis to identify key risks impacting Sodexo's business and the achievement of its objectives.

The results of all the risk assessments and the senior leader interviews are evaluated in the development of the Group risk profile which comprises the principal risks that might impact Sodexo's strategic priorities. The profile is shared with Sodexo's Executive Committee for comment, before being submitted to the Audit Committee and the Board of Directors.

### 6.4.2.4 Risk Assessment Methodology

Sodexo assesses its risks in three stages using a standard global methodology:

- risk identification: the first step is the identification of risks that may impact Sodexo's ability to achieve its objectives, whether it be at site, country, regional or global level. Several risk identification methods are used, including surveys and risk registers, but the recommended and most widely used method for both bottom-up and top down assessments is by individual interview with key stakeholders;

- risk evaluation: risks identified in the previous step are then evaluated using three risk criteria:
  - impact – the effect or consequence the risk will have,
  - likelihood – the frequency or probability of the risk occurring,
  - level of control – the level of control already in place to reduce the risk;
- risk prioritization: following evaluation, risks are then prioritized for further actions to treat them.

The main risk factors to which the Group is exposed are described in section 6.4.3 of this Universal Registration Document.

### 6.4.2.5 Link between internal control and risk assessment

As described above, risk assessment is used to identify, evaluate and prioritize risks. Once they have been assessed, risks are treated to reduce their effect. Ways of treating risks include putting in place action plans and implementing controls. Controls therefore form an important part of the range of measures that can be used to mitigate risks, and Sodexo's internal control procedures are part of an ongoing process of managing the Group's risk exposure.

Sodexo's risk management and internal control system is based on the internal control reference framework recommended by the French securities regulator (Autorité des marchés financiers – AMF). The five components of the reference framework are the control environment (integrity, ethics, competencies, etc.), evaluation of risks (identification, analysis and management of risks), control activities (methods and procedures), information and communication (collection and sharing of information) and monitoring (follow-up and eventual updating of processes).

## 6.4.3 Risk factors

### 6.4.3.1 Principal Risks and Risk Management Measures

#### Summary of Sodexo's Principal Risk Factors

The summary table of Sodexo's principal risks shows a classification of the risks by reference to four categories, as well as risks from the external environment. As outlined in 6.4.2.4, each risk is assessed using impact and probability to give an evaluation of the inherent risk, and then a third criteria "level of

control" is used to evaluate the overall net risk. The table below shows the net risk assessment. The most significant risks are presented at the top of each category, and the materiality of each risk shown is using a two-level rating scale, as follows:

#### MAIN RISKS AND RISK MANAGEMENT

		MEDIUM LEVEL	HIGH LEVEL
CLIENTS/ CONSUMERS	Client retention		
	Changing consumer expectations and behaviors		
	Bidding risks		
	Competition		
OPERATIONS	Client contract execution, including inflation management		
	Technology and information security		
PEOPLE	Talent management and development		
	Staff shortages and resource planning		
CORPORATE RESPONSIBILITY	Food, services and workplace safety		
	Environmental impact		
EXTERNAL ENVIRONMENT	Compliance with laws and regulations		
	Pandemic risks		

## Description of Principal Risk Factors

The tables below describe Sodexo's principal risk factors, their possible impact and give examples of measures implemented to reduce these risks.

### CLIENT RETENTION

#### Risk of not keeping and renewing contracts with Sodexo's existing clients.

Category: **Clients/Consumers**

##### Impact

Many clients now work on a hybrid model, with employees working both at home and in the office on a regular basis. This means that Sodexo's food offer has to be more flexible to be able to reach consumers in both places and that the traditional workplace food offering – an on-site kitchen providing food to on-site employees at set hours – has evolved.

Sodexo needs to work with its clients pro-actively as a partner to adapt to changing circumstances and continue to meet evolving client needs. A lack of ability to adapt to the client's current circumstances, an inability to transform our services to remain attractive to meet client/consumer demand, or any changes in client outsourcing strategy could mean that the client is not retained, possibly leading to:

- less growth;
- decrease in profitability;
- loss of credibility in the market place.

##### Examples of Mitigating Activities

- On-site teams continually listening to the client and the consumer.
- Strengthening of the client relationship management process to ensure alignment with client expectations on an on-going basis.
- Our client offer Vital Spaces offers a comprehensive and systematic approach to workplace design, workplace management and work life services.
- Risk reviews carried out with key accounts every six months to review retention risks.
- Monitoring at global level of retention in the client portfolio, using a client relationship management tool.

### CHANGING CONSUMER EXPECTATIONS AND BEHAVIORS

#### Increased consumer expectations around personalized, innovative and digital services, healthy food choices and a comfortable environment; increased consumer expectations in relation to business conduct and environmental impact. Structural changes in the way consumers choose to consume food.

Category: **Clients/Consumers**

##### Impact

Consumers expect to be able to consume food in different ways and at a time of their choosing. They expect more choice, more convenience, healthier options and socially responsible behavior from the companies from which they receive service.

If Sodexo cannot adapt its consumer offer adequately or cannot anticipate and meet consumer expectations for innovation and in relation to environmental impact or business conduct, its revenues, as well as its reputation, could be affected.

##### Examples of Mitigating Activities

- Acceleration of the multi-channel delivery model which offers consumers greater flexibility for food consumption; click and collect, delivery, micro-markets, connected fridges.
- Increased use of technology, for example robotic food delivery on-campus.
- Focus on expanding the provision of plant-based meals, offering consumers both a healthy option and one with a lower carbon footprint.
- Partnership with Quorn to launch a carbon neutral food services solution in the UK.
- Supply Chain Inclusion program that proactively focuses on buying from small and medium-sized companies, suppliers owned or operated by women or people from minority groups and major suppliers who actively embrace diversity, equity and inclusion in their workforce.

### BIDDING RISKS

#### Risks relating to the commercial and contractual model and the scope of services included in a client contract.

Category: **Clients/Consumers**

##### Impact

Some of Sodexo's client contracts are long-term and may run between five and ten years. This is particularly relevant for the Business & Administrations segment.

Factors such as:

- inaccurate pricing assumptions;
- a lack of definition or detail in the scope of services;
- underestimating the complexity of the scope of work;
- and inadequate contractual clauses.

during a bid proposal can lead to low margins or even losses on the contract, either in the startup phase or at a later date.

##### Examples of Mitigating Activities

- Benchmark exercises, site visits, full due diligence and the use of technical expertise are all part of the process to establish unit costs, seasonality of services and base-line estimates (monitoring of cost and performance indicators to verify the relevance and competitiveness of our offer).
- Identification of the main contractual risks (from the analysis) and the deployment of measures to compensate these risks.
- Use of costing models and benchmarking to validate assumptions.
- Robust, standardized and transparent costings.
- Integration of different stakeholders in the review process to better anticipate possible issues.
- Strict execution of Sodexo's key processes for solution and contract design & solution mobilization.

**COMPETITION**

**Sodexo faces both established competitors and new digital entrants at the local, national and international levels: risk of market share loss and loss of growth momentum.**

Category: **Clients/Consumers**

**Impact**

Sodexo operates in a highly competitive environment. If it cannot meet client needs, then it may lose contracts to competitors, resulting in a lack of growth of revenues and lower profitability.

**Examples of Mitigating Activities**

- Creation of new multichannel offers to better respond to consumer expectations.
- Investment in digital technology including digital applications, innovative food solutions such as restaurant delivery and digital retail services, robotics to enhance cleaning and the use of artificial intelligence to improve services help Sodexo enhance the consumer experience and take advantage of the opportunities created.
- Strategic acquisitions to expand Sodexo's offers.
- STEP: Sodexo's performance management framework designed to drive operational performance through common operational indicators.
- Identification of savings to be redeployed in investment for growth.
- Strengthening of commercial teams on the ground.
- Competitor benchmarking.
- Sector studies.

**CLIENT CONTRACT EXECUTION, INCLUDING INFLATION MANAGEMENT**

**Risks relating to the execution of a client contract: poor service delivery, non-fulfilment of contractual and performance obligations, over delivery of additional services not defined in the contract, poor management of food and labor costs, inability to pass through inflation.**

Category: **Operations**

**Impact**

Poor service delivery to clients or non-fulfilment of contract obligations could lead to client dissatisfaction, possible contractual penalties and ultimately the loss of the client.

Over-delivery of additional services not defined in the contracts and without related invoicing could lead to a shortfall in revenues and loss of profitability on the contract.

Poor management of food and labor costs could result in reduced profitability on the contract.

In Fiscal 2022, there has been significant and rapid increases in food inflation driven by rising commodity, transport and packaging costs and exacerbated by the war in Ukraine. Additionally, labor inflation has also increased, driven by a labor shortage in the food services sector. Both of these have meant increased costs for Sodexo. It is also likely that inflation will continue to be significant in Fiscal 2023. If Sodexo is not able to pass inflation through to the client *via* indexation clauses, or is able to do it, but not quickly enough, then it could result in loss of profitability on contracts.

**Examples of Mitigating Activities**

- "I Promise": tools and techniques to help site managers manage their contracts and improve the services they deliver.
- Definition of operational standards and best practices that are shared to improve performance (e.g. Innovhub).
- Tools such as the Site Management System to ensure proper training of employees and the execution of quality inspections.
- DRIVE: integrated food management process.
- STEP: Sodexo's performance management framework.
- Robust price revision process to manage contractual inflation with our clients.
- Active procurement management to limit cost inflation relative to market indices.
- Active operational mitigation plans in all countries: enhanced labor scheduling, reengineered menus, food waste reduction.
- Dynamic retail price reviews.
- Strict monitoring of under performing contracts.



**TECHNOLOGY & INFORMATION SECURITY**

**Risks around managing the confidentiality, availability and integrity of Sodexo's information technology assets; managing cloud systems and third-party suppliers, managing Sodexo and client data; risks from external cyber threats.**

Category: **Operations**

**Impact**

On a daily basis, Sodexo IT systems process the data of 422,000 Sodexo employees and 100 million consumers; including patients in hospitals.

In addition, the demand for new innovative and efficient services creates a fast changing and highly interconnected architecture.

Sodexo is also a target for cyber criminals who want to exploit its weaknesses and gain access to the data of the thousands of clients and suppliers, to whom Sodexo is connected.

Within this challenging environment, information security issues such as poor data integrity, loss of data confidentiality and lack of availability of key systems, or collaboration services, could result in high cost and/or high-volume impacts such as:

- inaccurate financial reporting;
- contractual penalties;
- regulatory fines;
- reputational damage with shareholders, clients, consumers, suppliers and employees.

**Examples of Mitigating Activities**

- Group Information and Systems Security Policy aligned to ISO 27001 framework, with detailed security directives on key topics (e.g. security by design, cloud services, incident management).
- Investment in security infrastructure, tools and services such as multi-factor authentication, laptop encryption, security risk assessments, email monitoring and endpoint detection and response.
- Events and incidents monitored through a Security Operations Centre.
- Global cyber incident management and response process
- Global Data Center consolidation strategy focused on using trusted hosting partners to provide secure and efficient services.
- Company-wide collaboration on security and compliance topics such as data privacy, cyber threats, new technologies and IT internal controls facilitated by formal Governance Committees and cross entity network groups.

**TALENT MANAGEMENT AND DEVELOPMENT**

**Risk of not having the right people in the right place at the right time.**

Category: **People**

**Impact**

Sodexo is a company of people serving people. Growing, engaging and retaining our people is central to our strategic objectives and our ability to grow.

A lack of attention to employee engagement, retention and development could lead to:

- a decrease in service quality jeopardizing client satisfaction and retention, and therefore long-term profitable growth;
- loss of talented employees to other companies.

**Examples of Mitigating Activities**

- Training programs to grow and develop Sodexo employees.
- Performance management and reward framework to help retain, develop and motivate people.
- Talent reviews and succession planning to promote internal mobility
- Global Next Generation Leader program designed to strengthen leadership bench.
- Empathetic and Collective Leadership Program – supporting managers to engage authentically with their people.
- People retention tracked and monitored as a global KPI and included in bonus plans.
- Sodexo Supports Me: Employee Assistance Program that provides counseling and support to help employees across the world meet the challenges of everyday life, both at work and outside.

**STAFF SHORTAGES AND RESOURCE PLANNING****Staff shortages due to significant pressure on the labor market and non-availability of required skills resulting in possible inability to meet client needs in terms of both workforce and know-how**Category: **People****Impact**

On a global scale, Sodexo's ability to recruit enough employees is influenced by:

- perceived attractiveness of the jobs available;
- the availability of the required skills (e.g. chefs);
- competition with other sectors for the same pool of people.

Post-pandemic, there is intense competition to recruit staff across the food services, hospitality and events sectors, resulting in a global staff shortage in the short-term.

An inability to recruit enough staff or to recruit staff with the right skill set could result in client contracts not being served properly. This could lead to:

- client dissatisfaction;
- possible contractual penalties;
- lower revenue and reduced profitability on-site.

**Examples of Mitigating Activities**

- Dedicated site-based employee attraction and retention strategies launched and tracked across all regions.
- Careful monitoring of pay and benefits to ensure competitiveness.
- Development and activation of a clear global employee value proposition.
- Incorporation of employee retention into annual objectives for site managers and above.
- Development of blended learning programs to incorporate both in-person and virtual training opportunities.
- Design of competency models and career paths to help employees develop within the Company.
- Employee referral programs.

**FOOD SERVICES AND WORKPLACE SAFETY****Consumer illness or injury caused by technical services, consumer illness caused by food services, work-related injury/illness of Sodexo employee or contractor.**Category: **Corporate Responsibility****Impact**

Ensuring the safety of consumers, clients and Sodexo employees is a critical priority.

Potential illness, injury or loss of life of consumers, clients or Sodexo employees could mean:

- loss of client confidence in Sodexo;
- significant lost time due to injury and illness;
- fines and potential litigation;
- impact on Company reputation.

**Examples of Mitigating Activities**

- Appropriate use of Personal Protective Equipment.
- Reinforcement of existing global HSE safety policy and standards for food safety, personal hygiene and infection control.
- Medical Advisory Council, a multi-disciplinary team that advises on measures to ensure safe procedures that adhere to all local regulations.
- Sodexo Safety Nets – seven measures for accident prevention.
- Employee training.
- Leadership Safety Walks.
- Incident and accident reporting.
- Quick Share process to share lessons learned from investigations.
- Global HSE Committee that reviews incidents and the effectiveness of processes on a quarterly basis.

**ENVIRONMENTAL IMPACT****Adverse environmental impact from Sodexo's activities: ineffective actions to mitigate climate change, poor management of food waste and resources**Category: **Corporate Responsibility****Impact**

- Ineffective climate change actions could result in Sodexo's carbon emissions staying the same or even increasing. Given its large footprint, this could have a significant impact on global warming and biodiversity loss. In addition, this could impact our client retention, investors' confidence and external trust and recognition.
- Poor food waste and resource management could result in a loss of client and consumer confidence and a decreased ability to attract new clients.

**Examples of Mitigating Activities**

- Partnership with WWF since 2010 focused on reducing the Company's environmental impact, achieving its carbon reduction target and managing its CSR strategy.
- Measurement and tracking of Sodexo's carbon footprint (upstream and downstream).
- Member of the Climate Group's RE100 initiative with a commitment to switching to 100% renewable electricity by 2025 at directly operated sites.
- Developing and deploying a carbon trajectory tool with partner Traace to help Sodexo teams create their carbon reduction roadmap.
- WasteWatch global program to reduce food waste.
- Connecting financing costs of the Group to action on food waste performance.
- Implementing a long-term incentive plan, including a sustainability index.
- Roll-out of plant-based recipes in units using ingredients selected for their lower environmental impact and higher nutritional value.

**PANDEMIC RISKS****Risks associated with the uncertainty surrounding the global pandemic**Category: **External Environment****Impact**

Although the risks of Sodexo's operations being significantly disrupted by the Covid-19 virus have clearly reduced in the last year, it is possible that further local or regional outbreaks continue to occur, with countries restricting movement of people or initiating targeted lockdowns.

Any re-occurrence may result in client site closures, which would result in less revenue generation on those sites and reduced profitability for Sodexo.

**Examples of Mitigating Activities**

- Monitoring on a country by country basis to anticipate potential restrictions.
- Precise and pro-active management of our workforce to adapt to changing environments, benefiting from the experience of the last two years.
- Medical Advisory Council to support our employees' health and safety
- Rigorous follow-up on the execution of our services with strong contract management.
- Continued focus on management of cash and client receivables.
- Continued focus on strict control of selling, general and administrative costs.

**COMPLIANCE WITH LAWS AND REGULATIONS****Risk of non-compliance with a wide variety of laws, including labor law, antitrust law, anti-corruption law, data protection and privacy, and health, safety and environmental law.**Category: **External Environment****Impact**

The wide range of services that Sodexo proposes and its worldwide presence means that it is subject to very specific laws and regulations for its operations at both the global and local level. For example, as a food operator, Sodexo has a legal requirement to provide accurate allergen information about the food and drinks it serves. The issue of cards in Benefits and Rewards Services require compliance with anti-money-laundering laws in some countries.

Changing regulatory scenarios that may also have an impact on its business include anti-corruption (Sapin II Act on transparency, fight against corruption and the modernization of economic life), and duty of care and human rights regulations (e.g. France's Duty of Vigilance law and the UK Modern Slavery Act).

Any non-compliance of Sodexo with laws and regulations or a lack of knowledge and awareness of laws and regulations either at a country level or a global level could mean:

- harm to employees, clients and consumers;
- damage to Sodexo's reputation;
- potential financial penalties;
- criminal action being brought against the Company and its directors.

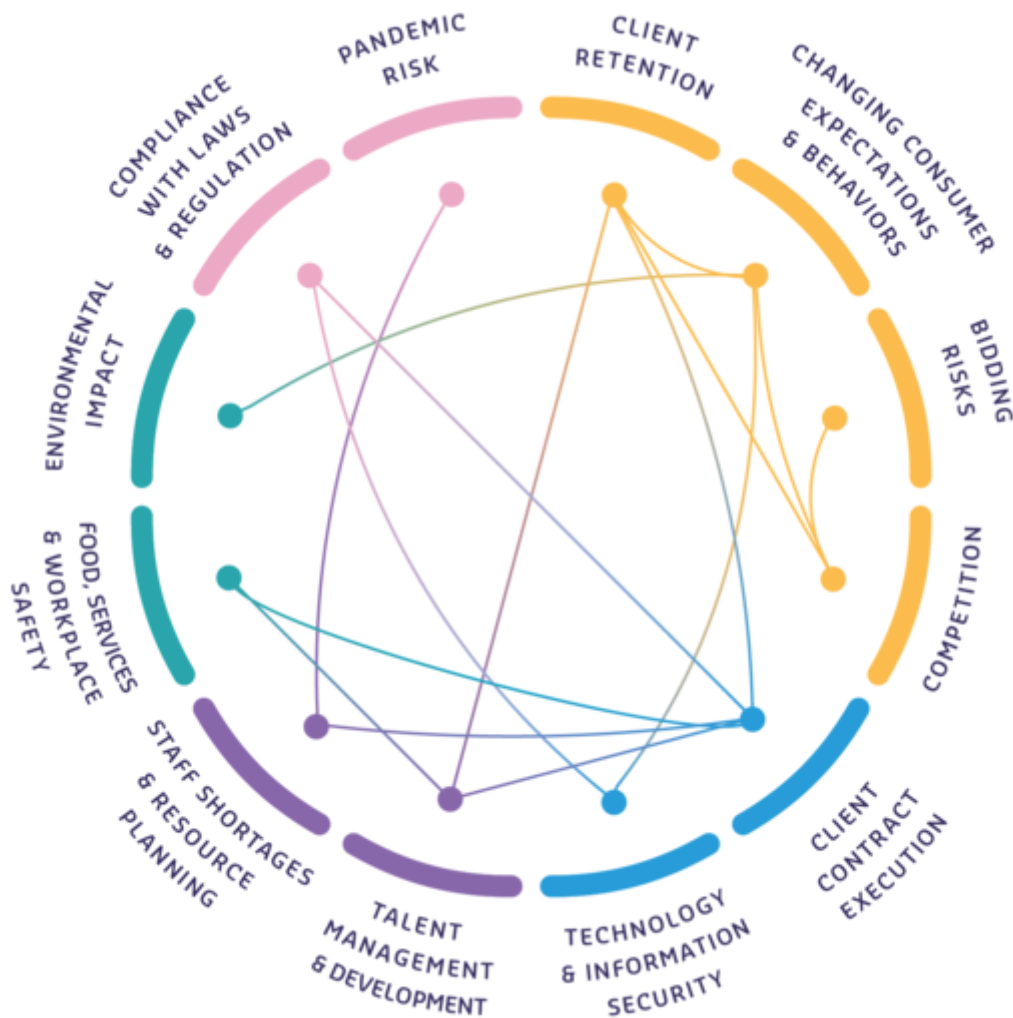
**Examples of Mitigating Activities**

- Legal teams deployed at the central and local levels, who provide advice to operational staff.
- Legal teams specialized by area of expertise, having recourse to external experts.
- Awareness training sessions for our employees.
- Global Ethics and Compliance Committee ensures coordination and coherence of deployment of ethics and compliance programs amongst countries. Details of these programs are provided in section 6.3.3 "Ethics and Compliance" and 6.3.4 "Vigilance Plan".
- Sodexo Speak Up offers Sodexo employees and partners a confidential way to report activities or behaviors that are contrary to the Code of conduct or simply illegal.

## Interconnectivity of Principal Risk Factors

Sodexo's risk factors may arise individually, but they can also have an effect on each other. In order to better understand the relationship between the risk factors, and to enhance overall risk resilience, a mapping of the interconnectivity of the risk factors was carried out. This mapping is shown below.

### INTERCONNECTIVITY OF RISKS



### 6.4.3.2 Emerging Risks

In carrying out its risk assessment, Sodexo also considers risks arising from changes in the external environment. This includes a consideration of emerging risks that are new external risks or existing external risks that have evolved with time, or have been triggered by changed circumstances. They may be perceived to be potentially significant, but might not yet be fully understood, and/or the consequences may be difficult to quantify.

#### Climate Change Risk

In Fiscal 2021, we identified climate change as an important emerging risk that will impact Sodexo's business. To underline the importance of this risk, a cross-functional Sodexo team worked with external specialists in Fiscal 2022 to better identify and analyze the risks and opportunities created by climate change.

This risk assessment was carried out using the Task Force on Climate-Related Financial Disclosures (TCFD) framework. This framework divides risks into:

- physical risks: acute event-driven risks resulting from client change such as an increase in severity in floods, cyclones or hurricanes, and chronic risks that result from shifts in longer term weather patterns such as higher temperatures causing more heatwaves;
- transition risks: the policy, legal, technology and market change risks that may arise for a company transitioning to a lower carbon economy. Further reputational risk may also occur if a company fails to transition fast enough or meet stakeholder expectations in relation to climate change.

A list of 26 physical and transition risks that could affect Sodexo's business was identified. Each risk was qualitatively assessed in relation to Food Services, Facilities Management and Benefits and Rewards Services activities for Sodexo regions, using likelihood and impact as risk criteria. Likelihood was calculated for each country using respected external data sources. Impact was assessed based on knowledge of Sodexo's business and the insights from a series of risk interviews run with key senior leaders. The standard definitions for impact within Sodexo's wider risk management framework were used for the assessment. Results were aggregated to show the criticality of each risk by activity type and by region.

At the same time, opportunities created by climate change were assessed. Those opportunities can help Sodexo mitigate the risks, adapt to climate change or create value. They were assessed through a series of workshops with key stakeholders on Food Services and Facilities Management, as well as interviews with key senior leaders. More than 60 initiatives were identified, regrouped in 18 opportunities after impact assessment.

The risk assessment identified that Sodexo's Food Services business had the greatest risk exposure, driven by possible disruptions to its supply chain through physical risks. For example, the increased frequency and severity of drought could mean that the agricultural industry becomes less productive, reducing its ability to meet demand and increasing costs. This would mean that Sodexo might not be able to source the products needed for client and consumer offers, resulting in reputational damage, or the products can only be bought at a much higher price, leading to loss of profitability on contracts.

In order to mitigate this risk, Sodexo already uses a broad range of suppliers, and continually adapts its menus to take account of the availability of products. Sodexo also manages its costs through the use of indexation clauses in client contracts.

In relation to transition risks, the risk assessment highlighted a risk from a shift in consumer demand – a move away from traditional menus and recipes to more plant-based options. If Sodexo is not able to adapt to this change, then it will lose client and consumer business, resulting in a loss of revenues and profitability.

To mitigate this risk, our nutritionists constantly work to create new attractive meals that reflect consumer choices and the diversity of their tastes around the world. Sodexo also recently launched the Future Food Collective; a collaborative initiative bringing its chefs together with industry experts and key suppliers to look at consumer habits. By partnering with NGOs such as the Food for Climate League, the Future Food Collective is gathering insights to develop new plant-based innovative solutions for consumers.

In a second stage after the risk assessment, scenario analysis was carried out to assess the resilience of Sodexo's strategy to key risks and opportunities under different climate scenarios. Full details of this work are outlined in Chapter 2 p. 89.

For possible adverse effects from Sodexo's activities on the environment, which are already identified as part of the main risk profile, please refer to 6.4.3.1 Environmental impact risk.

## Prolonged Economic Slowdown

A combination of the after-effects of the pandemic, geopolitical factors, rises in inflation and a sharp slowdown in global growth means that there is a risk of a global economic slowdown that could last several years. It is possible that many countries will enter a period of recession. If clients downsize their activities during this period, then there is a risk that Sodexo could experience a loss of revenue and have fewer opportunities for strategic growth.

To mitigate this risk, leadership teams follow the geopolitical and economic climate of their countries closely to ensure that any developments and their potential to impact our business are clearly understood. Sodexo continually takes appropriate measures to protect the business against external economic influences including portfolio rightsizing, adapting strategy, introducing new technology and controlling costs.

### 6.4.3.3 Risk coverage

Group Insurance 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 within the Insurance Industry for their financial solidity;
- put in place insurance coverage to protect the interests of 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;
- 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 the Group's risks through the use of captive insurance companies.

#### 6.4.3.3.1 Insurance coverage

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

The main insurance programs are as follows:

- liability insurance, which covers 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 USA 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 specifically for Benefits and Rewards Services, to partially transfer the risks of fraud, falsification and theft to the insurance market;
- marine cargo insurance for covering loss or theft of goods during shipment;
- employment practices liability which provides coverage for wrongful termination, sexual harassment, discrimination and workplace torts. This program was originally implemented in the United States and Canada, but has been expanded globally from June 1, 2017;
- cyber risk insurance, which responds to cyber events such as intrusion, denial of service attacks, data breach. It covers the forensics, privacy breach and data restoration costs as well as any business interruption arising out of a cyber event. In a very tough market, the cyber risk insurance is reviewed regularly and implemented according to the best possible conditions.

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

#### 6.4.3.3.2 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 occur 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. Deductibles range from 5,000 U.S. dollars to 5 million U.S. dollars 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 program as well as reinsurance on the General Liability. The Irish company, based in Dublin, provides:

- direct insurance for motor own damage and motor third party liability risks, marine hull and cyber risks;
- reinsurance on property, marine, general liability and automobile liability.

The maximum exposure of our captives on a single risk amounts to 10 million U.S. dollars per claim and in aggregate per year.

#### 6.4.3.3.3 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.

### 6.4.3.4 Internal Control Process

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

- identifying and assessing risks;
- describing the control environment, both at Group and subsidiary levels;
- documenting and making a self-assessment of these controls, both at local and Group level;
- independent testing of the effectiveness of these controls, by independent persons.

The internal control process is facilitated by a network of local internal control managers and coordinators embedded in the business, supported by a small central internal control team. Their role is to:

- facilitate entity risk assessments by carrying out risk interviews;
- assist in the documentation of controls with control owners;
- support the implementation of new controls;
- carry out entity testing of strategic controls relating to the control environment and process controls;
- support Group Internal Audit in the follow-up of the implementation of its recommendations.

A very large number of Group entities 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 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.

### 6.4.3.5 Internal controls relating to the preparation of accounting and financial disclosure

Group Finance 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 local Finance teams.

Local Finance teams produce a monthly cumulative income statement starting at 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 Group Finance.

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 IFRS standards. The external auditors of the main entities express a view on these financial statements in accordance with their mandate from Sodexo's shareholders. Group Finance 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, Group Finance 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 Region Chairs and Chief Financial Officers review operational and financial reporting (comprising improvement metrics for client retention, sales development and comparable unit revenue growth) before presenting it to the Group Executive Committee. In addition, quarterly reviews with each of the Group's activities, 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. Off-balance sheet commitments are presented regularly to the Board of Directors.

The Sodexo Tax Department defines the Sodexo Group Tax Policy. The policy is designed to achieve tax consistency worldwide and

to ensure that appropriate taxes are paid in line with local tax rules and the substance of our business in the various geographic regions in which Sodexo operate. The global tax team ensures that a consistent approach is applied on tax issues in all countries and advises and assists operational teams on all questions relating to tax laws.

The Sodexo Legal Department (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 Financial Communications team, prepares the Group's financial communication. The Chief Executive Officer also relies on the operating data required to prepare the Universal 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, Internal Control Human Resources, Sustainable Development and Communications and Board Secretary.

## 6.4.4 Group Internal Audit Department

The Senior Vice President Group Internal Audit reports directly to the Chairwoman of the Board of Directors and CEO, and functionally to the Audit Committee. The Senior Vice President Group Internal Audit meets the Chairwoman and CEO on a monthly basis and works closely with the Chairwoman of the Audit Committee, holding informal meetings (approximately four times per year).

The team, with an average of 24 staff, is organized in four different hubs for global coverage – Paris, London, Washington and Singapore. The team members come from diverse professional backgrounds and speak multiple languages.

Sodexo's Group internal audit activities are 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.

The Internal Audit Department performs internal audits of Group entities based on an internal audit plan established annually.

The audit plan is based on the Group Risk Profile (which is established using the approach described under 6.4.2.3 Approach to Risk Assessment) and input from the Chairwoman and CEO, the Chief Financial Officer and other key Sodexo stakeholders. 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 and CEO, the Audit Committee, or the Executive Committee.

During Fiscal 2022, the Group Internal Audit Department conducted 40 audits in 31 countries. In addition, the network of close to 85 internal control coordinators provides support for internal audit engagements and the remediation of 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 quarterly basis to the Chairwoman and CEO, the Group Chief Financial Officer, and the Audit Committee. All audits are followed up within a maximum of 12 months.

In Fiscal 2022, the Internal Audit Department carried out a post-audit quality survey with all audited entities. 98% of these entities considered that the quality of audits was satisfactory.

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.

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 compliance with the July 2010 recommendation issued by the French securities regulator (Autorité des marchés financiers – AMF), this report is prepared on the basis notably of the "Reference Framework" produced by the French Market Advisory Group and published by the AMF.