

Galliford Try accepts that taking and managing appropriate levels of risk is an integral part of all its business activities. Risk management, performed rigorously and comprehensively creates stability, indirectly contributes to profit and is a key element of reputation management. The Group's policy is to manage the risk associated with activities and thereby minimise the impact of undesired and unexpected events. Risk management throughout Galliford Try is a systematic way of protecting business resources and income against losses so that the objectives of the Group can be achieved without unnecessary interruption.

The Group is therefore committed to implementing appropriate strategies and processes that identify, analyse and manage the risks associated with our activities. We will therefore:

- Identify business objectives that reflect the interest of the stakeholders in the business.
- Identify the threats to the achievement of our business objectives.
- Control and manage our exposure to risk by appropriate actions.
- Apply robust risk management processes as part of the Group's overall business management systems.
- Regularly review the risks faced by Galliford Try as a result of its business activities and of the business and economic climate in which it is operating.
- Regularly review our exposure to risk.
- Regularly review the Group's key risk controls to ensure that they remain relevant, robust and effective.

Each division and business unit of the Group will have established systems and procedures to address risk issues that are appropriate to the business being undertaken. These will ensure that management of risk is a continuous process and that all relevant employees understand and implement their responsibilities under the systems and procedures applicable to their business.

The board is committed to identifying, evaluating and managing the significant risks facing the Group and has developed a set of processes and procedures that enable it to do so. They are designed to be embedded within our management structure so that they are followed as part of our normal operating procedures.

The board will maintain a register detailing the strategic, financial and operational risks potentially affecting the Group's businesses and relating them to the Group's objectives. These include economic factors and market conditions, the effect of competitor activities, gearing, regulation and project risk. They also include environmental, social, governance, financial and human resources. Each risk is rated based on its likelihood and its potential impact on the Group should it materialise. This is then related to how the risk is managed, the responsibility for management and how achieving the objective is monitored. A full annual review will take place.

PRINCIPLE RISKS

The following principle risks have been identified that may have an impact on the Group.

Market Related

The market sectors in which the Group operates are subject to the macro-economic conditions prevailing in the UK and Government policies. Our housebuilding business will be affected by the state of the housebuilding market as this impacts the ultimate price that purchasers are prepared to pay for their homes and the price and terms under which the Company purchases land for development. Public sector spending and the investment programmes of the regulated infrastructure sectors affect the markets for many of our construction activities. The conditions for each market sector change over time and we react to this with a business planning process that sets the level of resources allocated. We gather both published and informal intelligence on the markets, monitoring closely our order books and potential opportunities.

Project Related

The Group is undertaking several hundred projects across its divisions at any one time. In our housebuilding division we have a rigorous pre acquisition appraisal process covering purchase, construction and selling on our development. In our construction business the commercial risk we take on each contract depends on the contractual terms under the procurement route that the contract has been secured, the nature and complexity of the works and the duration of the project. We have a rigorous approach to contract selection to ensure that the work we undertake matches our capabilities and the resources we have available, that the terms under which we are to carry out the work are acceptable and that clear responsibility for scrutiny and approval is given by the right level of management.

Health, Safety and Environmental

We are operating on several hundred sites on which construction operations are carried out at any time. We need to provide a safe working environment for our employees, all others who work on our sites and members of the public. We recognise the significant impact if we do not achieve this. The Group therefore treats health, safety and environmental issues as a priority and has a comprehensive policy and framework in place to manage these risks.

Human Resources

The future success of the Group is critically dependent upon attracting, developing and retaining talented individuals in the business at all levels. We base our human resources policies on the Investor in People principles, with which our objective is to remain fully accredited throughout the Group.

INTERNAL CONTROLS

The Group operates under an established internal control framework which is described below

Organisational Structure

The Group is organised into a number of divisions, under which there are clearly defined business units. Each division has its own management board and each business unit is run by a managing director and board. Clear reporting lines and delegated authorities are in place. Accordingly, the management of performance and monitoring and reporting of risk occurs at different levels within the Group with key issues being escalated through management to the board.

Contractual Commitments

There are clearly defined policies and procedures for entering into contractual commitments that are in place throughout the relevant business units. These include detailed requirements that are required to be completed prior to submitting proposals and/or tenders for construction work both in respect of the commercial, control and risk management aspects of the obligations being entered into.

Investment in Land and Development

There are clearly defined policies and procedures for the purchase of land and for expenditure on development opportunities. These include detailed pre-commitment due diligence procedures together with detailed appraisal and review requirements that have to be compiled with and are subject to rigorous review and authorisation.

Operational Activity

There are established frameworks managing and controlling all site operations that take account of the specific requirements of the type of site that is being operated. These include extensive health, safety and environmental procedures, regular performance monitoring and accountability to clients or customers as relevant.

Operational and Financial Reporting

The Group updates its business plan on an annual basis, and prepares a detailed annual budget for each financial year that is considered and approved by the board. A rigorous profit and cash reporting and forecasting regime is in place across the Group with reports prepared and reviewed on a monthly basis. The operational performance of each business is reviewed monthly by divisional Group management and subsequently reported to the board together with financial reporting against both budget and forecast. As well as the emphasis placed on cash flow, income and balance sheet reporting, health, safety and environmental matters form part of the key operating issues included within the monthly reports.

Internal Audit

The Company's internal audit function is responsible for ensuring that all Group financial controls, as laid down in the corporate, finance and IT control manuals, are operating effectively. It reports to the audit committee on its findings.

Disclosure Policy

The Company's disclosure policy, which puts in place a confidential channel of communication for employees to bring matters of concern, whether operational or personal, to the attention of senior management, to enable the Company to investigate fully and take whatever corrective action is deemed to be appropriate. The audit committee has responsibility for reviewing these arrangements, and for ensuring independent investigation of such matters and appropriate follow-up action where necessary.