

ANNUAL REPORT 2015





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[FORWARD-LOOKING STATEMENT](#)

This annual report contains certain forward-looking statements regarding the financial situation and results of USG People N.V., as well as a number of associated plans and objectives. Forward-looking statements by their nature can provide no guarantee for the future. As a result of various factors actual results may differ from current expectations. These factors may include changes in tax rates, mergers and acquisitions, economic developments and changes in labour legislation. The forward-looking statements in this annual report are current at the time the report was adopted and provide no guarantees for the future. The annual report is available in Dutch and English. In the event of ambiguities, the Dutch text shall prevail.

RISK MANAGEMENT

In 2015 risk sessions were again held within our organisation to identify the main local strategic, financial and operational risks. These were aggregated and assessed for likelihood and impact under direct supervision of Corporate Audit & Risk Management, and as such were discussed in detail with the audit committee and the Supervisory Board. A description of our risk management, including our risk management attitude, can be found in the Governance section. The risk monitoring process was further optimised in 2015, clarifying the risks even better. A description of the main risks that could affect our strategic objectives as well as the mitigating measures from the risk management sessions held in 2015 can be found below. Where it concerns risks that were also described last year, we have indicated the change in the risk profile compared to last year.

STRENGTHENING EXISTING LEADERSHIP POSITIONS

The risk of a decline in market share as a result of newcomers to markets/ market segments and/or the application of new online or social media-related technology

In 2014 this risk was identified as one of the main risks. Due in part to the measures taken this risk profile has been adjusted downward. The optimisation and diversification of the services portfolio that and the innovative measures taken in 2014 were included in the qualitative management objectives in 2015 and are discussed monthly. In addition cooperation with our online business solutions partners has further increased, strengthening our online power.

The risk of falling behind the competition due to an inability to promptly adapt the distribution model to online developments

The risk profile has been adjusted downward compared to 2014. Our distribution model will continue to track market fluctuations and USG People's ICT Strategy Committee has made additional resources available for ICT innovations to further bring the traditional business model online. We are doing so in close coordination with our online business solutions partners. Furthermore, in 2015 USG People scaled back the number of management layers in a few units within the organisation, thus reducing our time-to-market.

The risk of losing major clients that undertake intercontinental procurement

Our increased focus on our four core countries has limited the scope of our international services in terms of supplying organisations that undertake intercontinental procurement. Concentrating on four countries is a strategic choice whereby the possibility of limited intercontinental services is accepted as an inherent risk. In 2015 USG People continued on the path taken by working together with 'national champions'.

Non-compliance with (changing) legislation and regulations

The risk profile has been adjusted favourably compared to last year. Focused internal audits and external assessments support the view that USG People identifies changing regulations in a timely manner and sufficiently analyses the impact of the changes. The right measures are taken aimed at ensuring that we continue to comply with laws and regulations. In 2015 we continued our zero-tolerance policy on compliance violations.

The risk that changes in legislation and regulations might have considerable negative implications for our earnings models, to which we would be unable to respond promptly

Legislation and regulations change frequently in our markets. This risk not only has a high likelihood but also a large impact. Failure to adapt an earnings model promptly can result in lower margins, on the one hand, and carry the risk of regulatory fines, on the other. The risk profile did not change compared to 2014. We have sound expertise with regard to legislation and regulations which is shared and leveraged commercially. USG People's Corporate Legal department maintains close contact with internal and external experts in the countries where we operate and shares its findings with the operating companies active in those countries. The department also reports periodically to the Executive Board and Supervisory Board on the most important developments in the field of legislation and regulations. We maintain close links with (national) policymakers in order to both advise them on possible changes and to be involved in any forthcoming changes from an early stage.

The risk of data loss or breach of data integrity

We have implemented a comprehensive ICT security policy with the Information Security Board being the framework and monitoring body. The board, which comprises people in various positions and holds frequent meetings, discusses issues and takes measures relating to ICT security. The position of data protection officer / Privacy Officer has been introduced and filled as from January 2016. In view of the importance of data integrity we are adopting the same risk profile for the time being.

The risk of inefficient processes due to inadequate technological support from the business

The risk profile was unchanged compared to 2014. The alignment of front-office systems continued in 2015 and a uniform front-office system was implemented in the Belgian operating companies. The system was rolled out brand-by-brand and post-implementation assessments ensure that any bottlenecks are resolved and the technological support is further improved. Improving performance is an important area of attention. The development of uniform front-office systems will continue in 2016. By developing the front office and actively working towards more chain responsibility, in 2015 we optimised cooperation between our shared service centres and the star brands.

STRENGTHENING EXISTING LEADERSHIP POSITIONS, INCREASING EXPOSURE IN GROWTH MARKETS, EXPANSION OF CONCEPTS WITH HIGH ADDED VALUE

The risk of being unable to retain the right people and knowledge for the successful realisation of the strategy

USG People is an attractive organisation for ambitious and talented employees that pays a great deal of attention to personal development and growth. We invest on an ongoing basis in being a good employer and provide many opportunities for talent development, including training courses. To safeguard succession to key posts we have implemented a succession planning process aimed at the further development of talent and effective progression within our organisation. Each year we conduct a Great Place to Work (GpTW) survey and use the findings as a management tool. GpTW is also included in the non-financial targets for the general managers. Higher scores should make USG People a more attractive employer. Attention to this risk remains necessary, even though we adjusted the risk profile downward this year due to the progress made in the GpTW results and the effective functioning of succession planning

The risk that an inflexible cost structure will reduce the profit margin in times of economic downturn

In the past few years we made the cost structure more flexible. The branch network has been adapted to a network of fewer but larger branches, which better enables capacity to fluctuate with the market. In addition our personnel organisation has a flexible shell and a number of our non-core processes have been outsourced. Additional risks such as dependence on outsourcing partners are covered by SLAs and our supplier management. This set of measures gives the opportunity to stabilise profitability throughout the cycle. Flexibility is used as a buffer against falling margins in the event of a sudden drop in revenue. Flexibility is measured and discussed on a quarterly basis, with adjustments in the operations being made if necessary.

In order to reduce cyclicity we also develop value-added models in our services which are less susceptible to economic trends. In addition we take on contracts that generate more constant revenue, for example through the services of our companies that provide online business solutions. The degree of non-cyclical revenue is a topic covered in reports to the Executive Board. This attention is necessary to ensure greater future margin stability and to minimise the impact of an economic downturn. The developments in these areas are discussed at the periodical business reviews with senior management. The measures implemented in 2014 were continued this year. The measures taken resulted in a lower risk profile compared to last year.

The risk of claims as a result of a shift from best-effort contracts to outcome-based contracts in a move we have failed to adequately recognise/predict

Outcome-based contracts are accompanied by a risk analysis and are approved at the appropriate responsibility levels before the undertaking is finalised. The maximum risk profile is determined for each contract, as well as what risks are acceptable and/or potentially transferable to a third party. In the case of new types of contracts for which the risks are not yet sufficiently visible USG People will aim to secure a small-scale pilot contract in order to reduce the potentially large impact. In 2015 the internal Audit Department performed an investigation into the management of risks associated with these types of contracts. The risk profile has been adjusted downward based on the outcome of this investigation.

The risks described above are related to our objectives, our strategy and its operationalisation. The risks and measures should be taken into account when evaluating other information in this annual report. A description of the financial risks is included in the financial statements.

INTENDED OFFER BY RECRUIT HOLDINGS CO., LTD. (RECRUIT)

On 22 December 2015 USG People and Recruit announced an intended public offer by Recruit for all USG People shares. If the offer is declared unconditional USG People will continue as part of globally operating organisation. This provides opportunities to accelerate the implementation of our existing strategy.

Failure for the offer to be effected could have a negative impact on USG People. It could for example have a negative effect on the market value of USG People shares. In addition costs were incurred in the preparations for the intended offer.