G4S plc

Half Year Results Presentation

28th August 2013

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G4S

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Helen Parris, Director of Investor Relations

QUESTIONS FROM

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Andrew Grobler, Credit Suisse

Robert Plant, JPMorgan

George Gregory, UBS

Andrew Ripper, BofA Merrill Lynch

Andy Chu, Deutsche Bank

Charles Wilson, Goldman Sachs

Paul Checketts, Barclays Capital

Tom Sykes, Deutsche Bank

Ed Steele, Citigroup

Presentation

Ashley Almanza, Chief Executive Officer
Good morning, everyone, and a very warm welcome to our Half Year Results presentation. I'm very pleased to say that we have a number of members of our management team with us today. In the front row, Debbie Walker and Stuart Curl; and someone you all know, I'm sure, Helen Parris. And if you have an opportunity after the presentation, I think there will be refreshments served. Please take the opportunity to chat to the rest of the team. And I know that other members of the management team are travelling, working very hard. And we also have Soren. If you put your hand up, please Soren, Soren Lundsberg, our indispensable General Counsel and other members of the team are travelling but dialling in.

Before we start, a bit of context. Since becoming Chief Executive on the 1st of June, I've had the opportunity to get around the business. So I've been able to visit our regions and spent time with the management team and the staff in Asia, Africa, the Americas, of course here in the UK, and also Europe; and I've been able to visit some of the regions more than once.

And - that together with an ongoing strategy and business review has put us in a position to really take stock and make an initial assessment of the business, the position we're in and our prospects. And I hope you'll see from this morning's announcement and also from the presentation that we're about to give that we feel very confident about the prospects for the business. This is a very good business, with excellent market positions and really very material growth opportunity and we'll talk more about that in a minute.

The presentation is really going to focus on this agenda, the business review, some more detail on our results we'll talk about capital structure and the placing which we launched this morning and the outlook for the business. Later in the year, in November we'll return to complete the first half of the story on the business and strategy review, you'll get a taste of that today, but the full story comes in November.

So with that - let's move on to the business review and the initial assessment which I mentioned a moment ago. I think it's well known that with an extraordinary geographic footprint this company has very strong market positions and especially in the higher growth developing markets, you'll have seen from our results this morning, again very, very strong growth in the developing markets.

As I mentioned a moment ago as we look across the portfolio we see very material growth opportunities in this business. We have thousands of highly talented employees around the world, deeply committed to the company's objectives, and with deep expertise in our core businesses, Security, Cash and Outsourcing. We have concluded, as you will have seen the balance sheet is stretched and we'll say more about that later. We've also been able as we've gone through the business review so far, we've been able to identify areas where we have gaps in our resource and our capability and where with additional resource we think there's an opportunity to address some more high quality demand and that's what we plan to do.

We also think we can sharpen our strategic focus and that includes both increasing the level of investment in some markets, where we think we're probably under-invested and I'm talking principally in the first instance of human capital and organic investment. And there are other markets where we need to restructure the business in order to become more competitive and generate better returns and better margins.

Some of those markets we've concluded we need to exit, you will have seen this morning that we announced two disposals, our Cash business in Canada, which has, I think, found the going tough for some time, it's a market that requires consolidation and we've been fortunate to secure very good terms of that disposal. And we've also announced the disposal of a data storage business in Colombia which is not core to the future of the company. I'm pleased to say that across both those disposals the exit multiple is about 13.5 times PBITA, so very satisfactory terms for our shareholders.

The portfolio is large and it has a long tail and we are certainly invested in some instances in some non-core or non-material businesses. And we will, as we work through our strategy review and our business plan, we will begin to address that.

I'm not talking here about, you know, fundamental change, but really tightening up the portfolio, which we regard as a sort of ongoing part of capital discipline, which is the next point really. Capital discipline, portfolio management and cash flow can all be improved and the management team is totally committed to putting in place a programme to improve our performance in all of those areas.

We also plan to keep looking for operational efficiencies across the business; we'll talk more about some of the restructuring that we've started. And then of course - it's well known that we're investing in enhancing our risk management capability. We recently appointed a Chief Operating Officer, Eddie Aston, he's not able to be with us today; and it is part of his role to strengthen our risk management across the business.

The future management of the business to some degree we've addressed already, the strategic focus we've talked about, restructuring underperforming businesses, that programme has begun and is addressed in the announcement. When we talk about capital discipline we're really bringing a much stronger focus on returns and risk. And by returns I mean cash returns, not only accounting results, which matter of course, but bringing more focus to cash returns, internal rate of return, where there is capital being applied, then net present value to ensure that the capital that we apply creates value for shareholders.

We'll say more about what we're doing to strengthen our balance sheet, although I think if you're read the results announcements you'll see we're taking some concerted action to do that. We're strengthening our senior management cadre; we have already, as I mentioned thousands of talented employees and a strong management team. But we don't think that that's a reason to be complacent, we're always looking to strengthen.

Eddie Aston joined us in July and we announced yesterday the appointment of our new CFO, in the interim Stuart Curl, who's - if you put your hand up please Stuart, has been doing an absolutely outstanding job and we thank him for that and we're pleased that

we've secured Himanshu Raja who I'm sure some of you will know. He's currently the CFO at Misys, prior to that he was the CFO at Logica and he had a successful career before that at BT, ending up as CFO of their Global Services Business; a highly capable, international executive with very strong operational credentials who's going to help us with our programme as we take the business forward.

We will be making targeted investment in organisational capacity and capability. As I travelled around the business one of the very positive things that I didn't anticipate in the way it became evident, was that in some markets we're unable to meet the demand for our services; we're unable to put teams out to bid effectively, either because we don't have the bid team, or because we don't have the operational capacity to follow through in a way which we're convinced will meet our own high standards. So that sounds like an opportunity to us and we've got the piece of work in hand to address that opportunity.

Performance and reward is something that we plan to look at as well and we've already started on that journey, the quality of our sales and earnings is very important. Of course the numbers are important, but the number itself is not enough. We want high quality business and in particular a cash generative business. And that's going to be part of our performance management and performance assessment programme in future.

I've talked about enhancing risk management, I want to just mention very briefly and highlight health and safety, which is an area where the management team is not satisfied with our performance. Now we're in a business which is inherently risky and many of our employees take very considerable risks in order to protect our customers, or our customers' property. And I regret to say that in the first six months of this year we had 29 fatalities in our business, and that's clearly devastating for the people who work in the business and more importantly devastating for family members. And the management team is deeply committed to doing more about that. It is unsatisfactory for us to accept that sort of performance. And we're going to be investing more time, money and effort to do more. It's a duty that all employees in our company have, to themselves and to each other.

And finally on investment, I think we're going to be taking a more neutral and balanced approach to the allocation of capital as between organic and inorganic. And it's a simply concept really, which is that we expect M&A opportunities to compete for capital against what is to us a very strong organic opportunity set. I expect there will be opportunities from time to time to make infill acquisitions, but those must be better than the investment opportunities that we have already in our portfolio.

A snapshot of our sales pipeline at the 30th of June, very, very healthy; standing at £4bn per annum - up from around £3.6bn - £3.7bn last year; and again this give us confidence that this business had material growth prospects.

Turning now to the results, which you've seen I hope - and since you've seen them I will go quite quickly, there will be time for Q&A after the presentation. Satisfactory organic growth - but very, very strong and pleasing organic growth in our developing markets; a profit before interest, tax and amortisation, £201m, broadly in line with last year -

although the margin was down at 5.5%. We have restated the prior year and the details of that are set out in the announcement, to take into account discontinued operations and some other one off credits in last year's results which we do not expect to be a feature of our results going forward.

We've also announced a restructuring programme in the UK, Ireland and Europe which will require us to invest £30m to £35m over the next 12 to 18 months. These investments have very good rates of return, double digit after tax internal rate of return and very good paybacks. In case of Ireland and Europe we expect payback in 12 to 24 months, this is necessary, these businesses need to be more competitive and they have not been generating satisfactory returns up to now.

And in the UK, the programme will take a bit longer; this is focused principally on our cash business, but also a bit on our back office for the UK business. And it will take longer because we just have to go about it in a more measured way. We form a big and important part of the cash infrastructure and we will be rationalising our branch network and we just need to go about that in a measured way. We'll continue beyond that to look for opportunities to save costs across the Group, we recognise the importance of efficient operations.

We've also taken the opportunity to review the Group's assets and liabilities. And this has resulted in a one off charge of £180m, again details are in the results announcement. Cash generated from operations was £218m and our net debt stood at just under £2bn at the end of the quarter.

Underlying earnings per share of 6.6 pence include for the first time pension interest charge and that's a change in our policy, which I think brings us into live with most of the companies in our sector. And the Board is determined to maintain the interim dividend at 3.42 pence per share.

I mentioned that we restated 2012 and the purpose of this slide is to briefly and clearly set out the adjustments. Discontinued operations, this is a very typical standard adjustment for the businesses that we're disposing of. And then other adjustments includes the credits which I mentioned which were one off in our results last year and we do not expect to see these in our results going forward. Typically these are the release - exceptional release I would say, an unusually large release of fair value provisions and some employee related provisions. Our accounting practice going forward will be that anything of that magnitude will not be included in the underlying result.

We adjust as normal for exchange rate to bring everything on to a like for like basis. And you can see there that on a restated basis for the six months the profit was £202m last year and for the full year £474m with an implied margin of 6.7% for the full year, 5.9% for the half year. The corresponding earnings per share figures are also displayed on the chart.

A bit more detail on the review of the Group's assets and liabilities, again this is set out in the profit and loss account. £132m impairment, this is off fixed assets, current assets principally debtors and the recognition of some liabilities which were previously off balance sheet. In addition we've taken an impairment related to goodwill in continuing

operations and an £85m impairment charge relating to discontinued operations, principally the US businesses. And as I mentioned a minute ago we're revising our treatment of one off credits.

What we're also planning to do as we go forward is profits on disposals of businesses will not be taken to the trading line, they are not regarded as a sustainable source of trading profits, and indeed any profits on sale and leasebacks will also not be treated as part of our online trading performance. They will be separately disclosed for completeness of course, but we don't regard them as a sustainable source of profit.

This is rather a busy slide; it's probably all homework rather than one we're going to get into in great detail here. It's a simple message really, which is we will now be presenting our profit and loss account in a columnar format to enhance the disclosure, give more detail and so that it becomes, I think, very straightforward for any reader of the accounts to see the underlying performance at a glance and so see what other costs have been incurred or revenues earned in the period. And we're happy to take questions on this during the Q&A session.

Just briefly touching on the regions, the performance - the trading performance in the first half; Africa, a very, very promising business for us in Africa, this continent looks set to grow as fast, if not faster than any other over the next decade. And we have a very strong position and we're intent on building on that position, 6% organic growth, that was on a year on year basis slightly held back by some work which we had last year in Nigeria, security work, which came to an end last year. But very good underlying profit progression, up from £15m to £20m.

In the Americas we saw satisfactory organic growth, again, strong growth in LatAm but held back on a year on year basis by reductions in the volume of work on our US border control contract and of course we did benefit last year from one off security work around protests, principally around the financial community, some of you might be more familiar with that than I am. But at any rate that work has not been repeated this year.

We are very pleased that we have a strong pipeline of opportunities in both North America and LatAm; I think it's important for management and indeed for our investors to keep an eye on the developed markets. Those two have growth potential and we see some very exciting opportunities to grow our business, not only in emerging markets but also in developed markets.

The profit was flat year on year in the Americas; we had some additional employment related costs in North America. We benefited from some contract transition incentives in North America in 2012 and those were not repeated this year and we are still working on turning around a poor performing technology business in Brazil, that's a priority for the management team in the Americas. And I'm very pleased to say that we are very close indeed to securing an executive who will lead our LatAm business. This is a gentleman who has spent most of his career working in Latin America for a blue chip company, a seasoned executive and he's going to help us with our turnaround and with our other initiatives in Latin America.

As I mentioned earlier we agreed the sale of our Canadian Cash business and our Colombian secure archiving business, for a very satisfactory exit multiple. And we're well on schedule with the sale of our US Government Solutions and RSS business. That's on schedule; we have strong buyer interest, whether or not we do a deal will ultimately depend upon achieving a satisfactory price. One of the great advantages of strengthening our company's balance sheet is we can go about portfolio rationalisation from a position of strength and we intend to use that with that additional flexibility immediately; but so far, so good, strong buyer interest and progressing to schedule.

In Asia and the Middle East, very, very strong - growth once again and satisfactory progress with our profit; we're investing in Asia, that's the proper thing to do when presented with high quality and material growth opportunities, and we're incurring as a result of those organic investment initiatives we are incurring start-up costs in very, very promising market such as China, where we've secured our first licence to operate and we intend to continue to invest in this market.

Europe remains a very difficult region in terms of the economic backdrop and the trading conditions, and we saw effectively negative organic growth and lower profits. I mentioned earlier the restructuring programme that we have across approximately half a dozen countries in Europe, and we have more work to do there.

Against that challenging background, we have had a number of very encouraging contract wins, and so the sales and business development team continues to work hard and have some success.

Finally, UK and Ireland, organic growth of 5%; slightly lower profits principally due to the weaker performance in our Cash businesses in the UK and Ireland. And as you know, we're now embarking on a restructuring programme which is designed to improve the profitability of both of those businesses, and as I think I mentioned, with a very satisfactory payback period expected on both of those. So we expect to see some tangible benefits emerging from that in 2014.

A very strong utilities business in our UK region and a strong pipeline there as well. Ireland and UK, good progress on the restructuring plans. Of course, I should mention our UK Government contracts. We have a very, very capable management team in our Government Outsourcing business in the UK and a very good business. We clearly have some short-term challenges to deal with. You will have all seen the announcements made by the Secretary of State for Justice in both May and July.

And we have appointed an outside law firm, Linklaters, to lead an internal review of the billings on the contracts where our customer has a concern. We of course expect all of our customers to understand how we're billing them, how much we're billing them, why we're billing them. And we are determined to resolve this issue as soon as is possible. Linklaters report to us on a regular basis, and when they have completed their work, we'll share the findings with our customer, and we will continue to engage with the customer to find a resolution that satisfies both parties. We remain firmly committed to our Government Outsourcing business in the UK.

Right, I'm going to move on to cash flow. This is a slightly different presentation from that which you've seen before. Again, a busy slide, and not one that I intend to go through in detail. The real point about this slide is to share with you how management is now managing cash flow.

I know that in the past, a lot of weight has been placed on a measure called OCF percentage, and I'm sure that that measure has a place on a dashboard of instruments, but it's not sufficient on its own to manage a business of this scale. And the real point of this slide is to say that the management team regards itself as accountable for managing every component of the cash flow statement, and that's what we intend to do as we go forward.

There is a laser like focus now across the business on cash flow management. We will provide you with all the data and you can hopefully, that will enable all users of the accounts to calculate whichever ratio is most suitable for your purposes. This is how we intend to manage cash flow in the business. You can see from this that net debt has been rising steadily, and that again explains the need to strengthen the balance sheet, which brings us on to that subject.

At the end of the year half year, 30th of June, our net debt to EBITDA stood at a multiple of 3.2 times. It's clearly a risk of a credit downgrade with an associated cost of around £25m to £30m per annum. That cost arises from the step up in our interest costs of about 125 basis points on the majority of our borrowings if we are downgraded. And clearly, that's something we had to take into consideration when thinking about how we would go about strengthening the balance sheet.

And there is a clear self-help programme underway which has got the attention of management at all times. We've announced a portfolio rationalisation programme and two disposals this morning. The principal purpose I should say of those disposals is to bring strategic focus and to apply our capital where we think it can deliver the best return for shareholders. It does have the complementary benefit of releasing capital and reducing our debt.

We think there's further portfolio management to take on, and we think that together with the US businesses, our other portfolio work can release another £150m of cash. And we've announced this morning replacing of around £141m - of new shares. The reasons for placing, I think, are clear and self-evident. We're a growth business. We have a very impressive array of opportunities, and we need to invest in the business to support the organic growth that will deliver that top line performance.

We're investing in business development and product development across the Group, infill acquisitions. And as I mentioned earlier, it puts us in a position to manage portfolio change from a position of strength, and it underpins our competitive position when we bid for large contracts. It really provides the foundation for long-term sustainable, profitable growth.

Subject to the completion of the placing today and the completion of the further disposals which we've announced, we think this programme can bring our net debt down to a manageable level. Pro forma, if you take into account all of these measures, it

delivers a net debt to EBITDA multiple of 2.2 times, which gives us headroom against our long-term objective of keeping that ratio below 2.5 times. And that headroom, of course, will be used to invest in the business.

The outlook for the business then, I think in all, is very promising. Clearly, strong demand for our services reflected in both the sales performance and the very substantial sales pipeline. Our focus this year is to invest in top line growth, operational capacity to meet demand, and efficiency, including the restructuring programmes that I've mentioned.

We expect 2013 to be a year of consolidation, and we expect that the actions that we are now taking will deliver tangible benefits during 2014, and we expect those benefits to endure beyond 2014.

That concludes the presentation and we'll now be happy to take your questions. Helen Parris, who you all know, is the keeper of the book; she is going to join me up the front. Do we have a roving microphone? We do. Thank you. So if you could put your hand up. When asking a question we'd be very grateful if you would give your name and your affiliation.

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Question and Answer Session

Kean Marden, Jefferies & Co
Morning, I have two questions, if I may. First of all, Ashley, under the adjustments that you outlined on slides 9 and 10, do you think G4S would have been a 7% EBIT margin business in the 2007 to 2011 trading period?

And secondly, I wonder if you could just flesh out some of the developments in Ireland over the last few months where it looks like you started leveraging more aggressively your market share in that territory and engaging with customers and how much of a blueprint for the rest of the business Ireland could potentially be?

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Ashley Almanza, Chief Executive Officer
Kean, thanks for the questions. On slides 9 and 10, what we've endeavoured to do is just provide a consistent and comparable starting point against which this year's performance and future years can be measured. And there are several components. Discontinued, I think - it's just a standard feature of any business that sells, any company that sells businesses from time to time, and I think over the years this has just been applied in accordance with the accounting standards.

The other adjustments I think I've explained what they are. The direct answer to your question is for 2012, on this basis, the PBITA margin was 6.7% for the full year.

Now we've not got details of the five-year period that you mentioned here today. I think that what we will do is provide details of what the business would have looked like if the profits on sale of businesses and profits from sale and leaseback transactions had been

treated differently, had not been part of the underlying results. It's our intention to include that information in the Annual Report as part of the five-year history.

You'll appreciate that going back - those are easy, they're big; easily easy identifiable items. Going back beyond that and in a deeper sense and looking at modern credits and so on, I'm not sure we will be in a position to do that. And I think when we have completed the work on restating, or representing I should say, the business performance without the disposal and sale and leaseback profits, we'll also show the represented PBITA margin, and you'll be able to, I think, get a fuller answer to that question.

On Ireland, I think the first thing I'd say is I don't regard our approach there as aggressive at all. We respect our customers. We want our customers to be successful, because if they're successful, we have a business. But equally, we do have an obligation to ensure that the capital we invest on behalf of our shareholders is adequately compensated, and the business in Ireland has for a long time not met that hurdle rate.

And so I think there's a range of measures that we're taking. The Company is sharing in the cost of change. And part of the restructuring that's evident in our numbers - part of the total restructuring charge is Ireland; I think about £12m of that number is Ireland, so we're sharing in the cost.

We are though asking our employees and our customers to participate in the change that is needed. And that work is not done, but we have been really very pleased with the constructive response that we've had from both customers and employees. The employees have, I think, substantially -Richard is not in the audience, but have substantially agreed to the changes that are necessary in order to provide a more efficient cost base and more flexible payroll effectively. And so we're having very constructive customer discussions.

Is it a blueprint? I think in some senses it is a blueprint, but each market is different. It's a blueprint only as much as we are determined to tackle underperforming businesses. We just simply can't afford to have them in the portfolio. Every business and all capital has to earn its place. And I think that's a very simple message that it's not aggressive. It's just easy for shareholders, employees, customers to understand that. And we'll go about that in a way that respects all constituencies, but including shareholders and our duty to give them a return.

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Andrew Grobler, *Credit* Suisse
Just three, if I may. How was the remuneration policy changed from both a Board level and through the management team?

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Ashley Almanza, Chief Executive Officer
Andy, the remuneration policy at Board level is obviously set by the Rem Co and put up to a shareholder vote each year, so there's no change to report at this meeting. I'm sure Mark Elliott, the Chairman of our Rem Co, will provide an update on that at the AGM and we'll consult with shareholders before the AGM.

Insofar as management is concerned, I think the principal change is not so much a change to the structure of the remuneration policy but the way in which it's to be applied. And that is to say the Executive Committee as a whole feels that it is appropriate for us to apply what you might call a quality filter on all results. So it's not, as I said in my presentation, it's not the number on its own that matters. It's the quality of the sales, the quality of the earnings, the nature, the sustainability of that profit, and the cash generation of that business.

All of those things will be taken into consideration and we have the flexibility to apply discretion to any bonus that will be earned at the end of the year. So that's the change really; not so much to the underlying structure at this stage.

Going forward, I think it's appropriate for this business, like any business, to constantly consider whether or not the remuneration structure aligns with the strategy and with the objectives of the Company. We're in the middle of a strategy review at the moment and we'll report on that in November. And that will in some respects, I'm sure, be taken into account by the Remuneration Committee as they get ready to go out and consult with shareholders. But nothing to report at this stage on the structure, just the way it's applied.

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Andrew Grobler, *Credit* Suisse
And secondly, the restructuring costs you mentioned at the beginning, are those going to be expensed through the P&L? So your underlying profit, will that be before or after that restructuring cost?

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Ashley Almanza, Chief Executive Officer
Those will be separately disclosed in the restructuring column and they will be expensed.

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Andrew Grobler, Credit Suisse
Okay. And then just lastly, as you've gone round the business and met all the various people involved, what did you find that was better with G4S than you expected and what was worse than you had feared - expected?

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Ashley Almanza, Chief Executive Officer
Well, quite a lot was better than I expected, and maybe my expectations were in the wrong place to begin with. But I think the first - the most striking thing was the point I mentioned during the presentation was that in a good number of our markets, we're unable to meet demand. And that was really something I had not anticipated.

The other - I suppose I wouldn't call it a surprise, but pleasing thing, was the quality of our employees across the company was quite exceptional really, the commitment and the dedication to serving customers. I mean I touched briefly on health and safety and

what our people do for our customers; it's quite extraordinary actually, and I was very impressed with that.

Impressed also with the response to change, across the Company, there's been a very strong and positive response to change. I think people see the need. First of all, they see the opportunity that's there, and then they see the need alongside that opportunity to go back to the fundamentals; the customer, operational excellence, operational efficiency, and deliver an outcome for our customers and our shareholders.

So really for me, very energising going round the business, having town hall meetings and just getting an instant and very positive response from around the company. I think the response, from my point of view, was slightly unexpected; didn't know what to expect.

I think, you know, on the other side of the coin, I would just mention the things that are outlined on the presentation. The balance sheet was something which clearly you could see from the outside but couldn't see in all its detail. And so that was something we resolved to address quickly.

But frankly, the issues that we're identifying I genuinely do see as opportunities. If we're finding things that are not working as well as they could do, that must present us with an opportunity. So I come away from that enormously encouraged.

I must stop there and I'm going get someone else to ask a question. Can we ask the gentleman in the front, please, who's been patiently waiting?

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Robert Plant, JPMorgan
At the time of the Q1, the margin guidance was downgrade by 60 basis points. There were quite a few elements. It was UK, Ireland Cash, UK Government, Europe, Dutch prisons, African bad debt. Have any of those factors got better or got worse?

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Ashley Almanza, Chief Executive Officer
I hesitate to say they've gotten better until they've delivered, but we are seeing a slight pause in the rate of attrition in demand for service in Holland.

I don't take that to mean anything more than a temporary pause. I think unless and until we get a clear commitment from the Government to restore demand levels, we have to continue with our restructuring programme. And we are engaging actively with the Government to clarify what level of demand it is they're seeking.

Now I think the other items were the write-offs and were one-off in nature. We've put those behind us. And our focus there really is to put in place management and processes to minimise the chance of recurrence.

The other item we mentioned in May was the UK Cash business. And having had the opportunity to sit down with the management team and look at that, the very clear conclusion was that we need to restructure.

So we're going to be rationalising our branch network, taking out I think seven or eight branches. We have to go about that in quite a careful way; in a measured way, as I said. It's an important part of our customers' - effectively it's our assets but an integral part of their infrastructure, and that will take a bit longer. So I think those things will improve.

I think did I miss part of your question?

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Robert Plant, JPMorgan
African bad debt; Djibouti?

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Ashley Almanza, Chief Executive Officer
I don't think we're going to recover that. That's not going to get better.

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George Gregory, UBS
A few, if I may, firstly, just in terms of the rebasing of numbers. In your view, Ashley, is it done, or could we expect or might we expect further discontinued or disposed of items? And secondly, just following up on that, what if any guidance are you giving for this year in terms of margin or other, just so we can set some sort of a base?

Thirdly, cash, you gave the net cash from operations, I think £221m, and there's a £76m Olympics receivable and £60m deferred benefit; could you help us bridge the gap between PBITA and that number, just so we get a sense for what's happening with working capital and other items?

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Ashley Almanza, Chief Executive Officer
Okay, thanks, George. Let me take the cash question first. Just to clarify that footnote, those items are going in the opposite directions, so net-net, year on year, actually, the Olympic effect is about £64m. The receipt was £76m, but there was a £12m in the prior year. So the year-on-year effect is £64m and then there's - so that's a benefit to this year. Going in the other direction are payments which were due in December but were deferred into January of this year, so net-net actually there's not much difference as a result of those two items to the cash flow.

I think working capital has continued to increase over a long period in the company and it's an area of close focus. So there's now a separate part of our monthly performance review process which focuses this is on working capital, and it's a fairly - there's nothing ground breaking there; basic stuff. We want to break down the working capital, drill

down to an operational level and understand almost at a shop floor level what's going on in working capital, and then set targets for improvement in working capital.

That initiative has just begun. We had the first series of meetings last month. But it's going to be a permanent feature of our business going forward and I would be surprised if we find we're unable to deliver some cash improvement from that.

On rebasing, will there be more, and you mentioned discontinued. I think discontinued, there will from time to time be discontinued businesses. That's a healthy part of capital discipline in my view is to ensure that businesses earn their place in the portfolio, and we'll just follow the accounting rules.

We'll present it separately always and then you have the option of adding it in if you wish or taking it out. You'll always get separate disclosure and then you can decide how to treat it. In order to achieve comparability year on year, the accounting standard is designed to achieve that. And we'll just follow the accounting standard and hopefully we'll give you comparable numbers.

Other items; in terms of rebasing, I think as far as 2012 is concerned, we're done. I don't expect to revisit that. Our balance sheet review, so at £180m for continuing operations, that was a pretty detailed review, essentially, all 126 countries participated in one way or another. It was led by Stuart Curl; it was reviewed by our auditors. In the time available, I think it's a pretty thorough job.

Will there be other things? Can't rule that out, but I wouldn't expect anything approaching this sort of magnitude, anything material, but there might be things from time to time when we look at the judgment or when we say, well, with hindsight, that might have been a different judgment that we would have applied. But I think we've done most of the heavy lifting there.

Your last question was on guidance. The restated full-year number for 2012 is £474m, and I mentioned that we expect this year to be a year of consolidation. We've got a lot of work to get after; we're not taking our foot off operational performance. But I don't expect this year for us to see the benefits of all the actions that we're taking, I expect those to come, start to come through next year.

And that's I suppose a roundabout way of saying I don't expect compared to last year's base number to make a big step forward or take a big step back. I think this year is steady as she goes. And the margin will be what the margin will be, we'll report it, we know it's important. Of course, every business should have management action in place to improve sales mix and reduce costs. That's what we do. But I don't think it's an effective tool for guidance, I think it's an important number to report after the fact, and then you can judge whether you regard that as a good, bad or indifferent number.

I think we will provide as much guidance as we can around growth and what sort of profitability we expect to achieve, and then we'll report the numbers and you can judge the performance.

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George Gregory, UBS
Thanks.

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Andrew Ripper, BofA Merrill Lynch
I've got a couple, if I may. First of all, I appreciate you're managing the business on a regional basis, but I wonder if you perhaps could talk to the matrix of business activities, demand business that you've got, Electronic, the Cash business and maybe the Outsourcing business against developed and developing in terms of where you see the most attractive incremental returns and where you see the least attractive returns and how you may invest accordingly, please?

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Ashley Almanza, Chief Executive Officer
Certainly, thanks, Andrew. Let me just take a moment to expand on what we're doing in the business and strategy review that leads up to November. We've gone out - typically, strategy has been - the strategy process has been run in this company in a top-down fashion. Nothing wrong with that; lots of companies do it; it's a perfectly acceptable way and we'll continue to do that as well; but it's been a while since we had conducted a bottom-up process. And so we put together a team with representatives from all of the regions and representatives from head office. And we asked a few very basic fundamental questions.

For each of the core product lines, the ones you mention, tell us about the market you're in, wherever you are operating. What's the size of the market? What's the market structure on the supply side and the demand side? How do you see that evolving over the next three years to five years? And what do you expect our business to do against that backdrop?

So we're sort of taking your question but to a deeper more granular level. And our purpose is, first of all, to get a clear picture of the business from the frontline. And the second objective is the one that you mention; to make decisions about allocating people and capital. And we don't have the complete answer to that, and I dare say we'll never have the complete answer, but we'll have a much better answer in November.

What we do know is that there is in principle, there appears to be quite exceptional demand for our business services in Asia, Africa, Latin America. I would add actually North America and UK, although for different reasons. I've been you know I didn't quite answer all the questions that Andy asked, but another thing that's impressed me as I've gone around the business is - and it's not uniform, by the way. This is a very large company and not everything's the same everywhere. But there are pockets of excellence undoubtedly in a number of areas. And one of those areas is product innovation; I've really been very, very impressed with what some of our people are doing to go to our customers and say here's a different and better way for us to deliver the service and that has benefits for both you and us.

So I don't know the answer to that, but we can see very strong demand in the emerging markets, that's not surprising, you can see it in the numbers. We see it in all products

lines on the security side. Outsourcing is somewhat different, but in security in emerging markets, we're seeing more or less strong demand across all product lines.

Outsourcing is different. That is weighted towards OECD countries where governments are obviously focusing on delivering public services in a more efficient way. And I think some countries outside of what we would typically have called developed, but are nevertheless OECD countries, we're starting to see that sort of activity as well; South Africa, Australia, early days. But of course, we've got an important and growing Care and Justice business in Australia, for example.

So it's not one size fits all and I think product innovation in the UK and in North America has the potential at least to deliver some incremental growth at good margins.

We're going to try and take the best from around the Group and employ it wherever we can. Europe is clearly our most demanding market at the moment, not just for our business, for all businesses. And apart from the restructuring, what we're trying to do is take best practice from other parts of the Group, whether that's operating systems or product innovation, and transfer those into Europe to give ourselves the best chance of improving the customer service, and as a result kick-starting growth.

So it's a slightly round-the-houses answer, but hopefully gives you a flavour.

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Andrew Ripper, BofA Merrill Lynch
I'll come back in November with some more detail. Just two quick specific ones, tagging, obviously you've withdrawn from the bid process. Just to help us in terms of modelling, I wonder if you could give us a feel of what you're expecting to make on that contract in 2013 so that we can factor it in?

And then secondly, in terms of the real costs, you mentioned £12m in Ireland, I wonder if you could just bridge to the £30m to £35m total where you're going to spend the money?

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Ashley Almanza, Chief Executive Officer
So let me deal with the tagging. Do you want to do it? I'll give my voice a break, you'd like to hear from Helen I'm sure.

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Helen Parris, Director of Investor Relations
Yes, sure. I think at the time of the IMS, or most of the year we've been highlighting obviously the impact of the reduction in the profits. So last year we had a contribution of about £20m and we expected it to come down to about £12m for this year on the existing contract.

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Ashley Almanza, Chief Executive Officer
And then the new contract was going to contribute about £3m. That's obviously not going to be - remind me. I'm sorry, what was the second question?

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Andrew Ripper, BofA Merrill Lynch
Just a breakdown of where you're going to spend all your …?

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Ashley Almanza, Chief Executive Officer
Yes, the UK is around £10m in the cash business, about £5m in back office, and the balance is Europe.

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Andy Chu, Deutsche Bank
A couple of questions please. I think you've impaired and written off about £52m worth of debtors. Wondered if you could just explain how that's come about. Are they aged debtors, or is it the case that it's similar to Djibouti where I believe you were billing for work that should never have been billed for?

And then maybe a little bit of a tangential question over controls. In your last answer, you talked about this being a very large company, things aren't the same everywhere. Are you confident - I know it's early days, with the controls environment within G4S, given the size? And just initial thoughts, please.

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Ashley Almanza, Chief Executive Officer
Okay. So on receivables, I would call this an exercise in housekeeping, and we've basically - it's a companion piece to the working capital work that's been started; drilling down into sales, creditors, inventory, and getting a much clearer picture of aged analysis; what, and where debtors are long overdue, what steps are being taken to recover them, what the prospects for recovery are, and so on.

So it's really just a trawl. It's not a Djiboutiesque type exercise at all, actually, and much needed housekeeping really.

That's not to say we won't pursue some of those claims. It's just from an accounting point of view recognising that recoverability is sufficiently in doubt to impair them. Some of them I think are beyond pursuing.

On controls, this is an area we need to invest in. Part of the restructuring in the back office in the UK will help with that. Putting in - part of that as work again that Stuart Curl initiated and is leading, and it will put in place systems and processes that enhance our controls.

I think this is a challenge for the Group and something we need to put a lot of effort into. I think this is also not unrelated to the portfolio review. We have a long tail of small businesses which are on their own and today not material.

Now I should acknowledge up front that we have got good colleagues doing good work, important work, in those businesses. However, we have to take a view as to whether or not those small businesses can grow in time to be material businesses.

I think one of the control questions we have to deal with is management dilution. In common with other companies, smaller businesses tend to have less controlled infrastructure, and that means on average over time, that's where you can have - let's call them events. And those events can absorb a lot of management time.

So I think that's one of the filters that we're applying as we go through the portfolio review. Clearly, if we've got some acorns that can grow into big oaks, we're going to hold on to those; we're going to nourish those businesses and try and develop them into material businesses. But those businesses that are of a scale which means they're better owned by somebody else, we'll take I think rational decisions, and I think that will help control across the Group.

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Charles Wilson, Goldman Sachs
Two questions - one on the balance sheet and one on margins. You very helpfully pointed out that with all the disposals and the rights - with rebasing you'll be at 2.5 times net debt to EBITDA, on what time basis? Is that 12 months trailing of EBITDA, or you expect to be there at the end of this year? And secondly, does that EBITDA number, is that on the new way of calculating it, please?

And then on a follow-up to that, you also mentioned that you were close, or close to being downgraded. The way you calculate your net debt to EBITDA, what was the level where you thought you would be downgraded at, or what indications were you given you'd get downgraded at?

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Ashley Almanza, Chief Executive Officer
Okay. The 2.2 times is a pro forma number, so it's just to say if all of that funding was in place today, that would be the number. So it's not intended to be a projection against a particular date. The rate of progress I think is going to depend on a number of factors; clearly, on how things go today. We've taken the first management actions that we've now got binding agreements for Canada and Colombia.

As I said earlier, one of the advantages of a stronger balance sheet is we can take our time and get the right value for shareholders on our portfolio action. So the timing of the US disposal process, likely this year, but that is subject to a satisfactory price and satisfactory terms. If we don't get that, we'll keep the business, and we'll put in place management action to improve the business, and we'll find the right opportunity, the right time, to crystallise value for shareholders. So that process has to run its course.

The calculation; we've tried to help there by putting - Helen you're going to help me. Tell me what page it is, please, will you?

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Helen Parris, Director of Investor Relations
It is on page 26 of the announcement. We've given you how we've calculated net debt to EBITDA. And so what you can see is that we take a rolling 12 months on the underlying, so basically, as you said, this is restated numbers that we've shown for the second half of 2012 and the first half of 2013 on an underlying basis. But to actually - for you to recreate that calculation is on the bottom of 26.

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Ashley Almanza, Chief Executive Officer
The downgrade question; it wasn't really, Charles, a question of either us or S&P saying cross that line and you're done. It was a balanced judgment looking at all of the credit metrics. As you know, the rating agencies tend to look at this through two filters, a business risk profile and a financial risk profile. And our business risk profile has been and remains pretty positive that reflects the highly diversified geographic footprint, the diversified customer base is a positive. But obviously, the financial profile had deteriorated quite sharply; you can see that in the cash flow and net debt slides.

And I think the conversations that we had had with the rating agencies over the last three months, together with our own assessment, made it clear to us, to the Board, that the balance of risk was heavily weighted in that direction.

And I think experience is that going down is a lot easier than coming back up, and of course it was £30m price tag per annum going down. So we thought it was in shareholders' interests to act promptly and minimise that risk.

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Charles Wilson, Goldman Sachs
I also had question on the margins. You did give guidance kindly that you'd be 60 bps down year on year for this year, how does that relate to the 6.7% which you're quoting that's 2012 level?

And secondly on the margin, it's my impression that underlying margins have been going backwards for a number of years but maybe not been that obvious; would you expect that maybe they will start to stabilise in 2014?

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Ashley Almanza, Chief Executive Officer
So on the guidance, the 60 basis points, as I said, I don't intend to offer guidance on a margin basis. I think, if I may, I think the laser precision guidance that's been provided around 10 basis points, 20 basis points, I don't think it's an appropriate guidance tool for us. We'll give you as much as we can to help you model the business and understand it, and then we'll report the actual margin, and everyone can, as I said earlier, judge whether that's good, bad or indifferent.

Do I expect them to stabilise? That's certainly our objective. We want to do our best to grow a profitable business, and that involves managing revenue, revenue mix, costs. And we're taking action this year; we're investing shareholder funds to restructure businesses that must give us a return. So the short answer is, yes.

I think just to say if we had - and I'm not leading the witness here, I'm just using this as an example. If we had an opportunity, let's say, to build a business with, pick a number, it's not a real number, £500m of profit at a 6.7% margin, or an opportunity to deliver results of £450m at 6.5%, I mean I know which one I think is better.

So my point is not to diminish the importance of margins, but just to say, as I said about the OCF metric, we can't fly this company with one instrument, you need a dashboard of instruments and we need to be constantly making judgments about what is the best result for shareholders, what creates the greatest source of shareholder value. And in my book that is sustainable, profitable growth, because that will put us in a position to grow the dividend. Our dividend policy will be unchanged, we're going to grow dividend in line with underlying earnings.

This year, it shouldn't really - as you're seeing, we've kept our dividend flat at the half-year. I'm not making any commitment, I can't; that's a Board decision, about the full year. I think you have to look at the profit and dividend in the context of my comments about this year being the year of consolidation, and then next year, we start to move forward.

So I completely respect the interest in the margins. It's interesting to us; it's important to us. But it's one dial on the dashboard for us.

Wow. That got you going.

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Paul Checketts, Barclays Capital
I've got two questions, please. On the idea of portfolio management, can you give us a sense of the sort of criteria you'll be considering when you decide whether or not a business will stay or leave the portfolio?

And then the second question is on the UK Government space. Can you - it might be one for Helen. Can you help us again with how much revenues we have from the UK Government now and what is due to end in the next 12 to 18 months?

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Ashley Almanza, Chief Executive Officer
Okay. So I'm going to come to Helen in a moment on the UK Government. On portfolio, I think again, nothing completely original on our part. We're looking at first and foremost the market, market structure, and how we expect that market structure to evolve. Is this a growing market?

By the way, there's nothing wrong with a mature market that's cash generative and has got a nice stable market structure. We're looking at market structure, how we expect it to evolve. Is it a material business? Is it cash generative? Can somebody else - is it more valuable to somebody else? I think is sort of the limit to that question, really. But in principle, no. If there's somebody else who is a better owner of the business, then we have a responsibility to look at that particular business, I mean.

Yes, I think that's it. Does it fit? I suppose the other criteria is to come to Colombia data storage. Great piece of local entrepreneurial brilliance, actually, by the team in Colombia; create a business out of nothing which we've been able to sell at a very handsome price. But it's not something where we have deep expertise. So I think we have as a management team to be convinced that we have real expertise to own that business, manage it and grow it.

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Helen Parris, Director of Investor Relations
Sure. On the UK Government side, it's around 10% of Group revenues; so basically looking at last year's numbers, around £700m of revenue. It's quite diverse in terms of number of contracts, I think it's over 80-plus contracts and numerous different government departments.

Obviously, there's some concentration around some of the larger PFI type contracts. And as far as I'm aware, there isn't anything of any of those significant size. So I can't speak for all 80 contracts, but in terms of the larger contracts, I'm not aware of any that are due up for renewal over the next 12/18 months. And if I'm wrong, I'll follow up on that. But I'm pretty sure there's nothing that we're expecting.

On the other side, we have actually seen some extensions in terms of expansion of Park Prison, for example. So I think in terms of that 12 to 18 month period, based on what we know, we would expect it to be reasonably stable. And obviously, in terms of other opportunities, are probably a bit further down the line.

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Ashley Almanza, Chief Executive Officer
There's also no reason why the capability that we have in Government Outsourcing can't be applied to local government. In fact, it is being applied to local government. So that's some opportunity that we're keen to keep in focus.

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Paul Checketts, Barclays Capital
Can I just ask, on the portfolio management side, there's been commentary on the potential for splitting up the business into developing and developed, and separating Cash Solutions, what are your thoughts at this stage?

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Ashley Almanza, Chief Executive Officer
It's not something we are considering. There's undoubted synergies in keeping the business together, you know in any business, nothing's off the table forever, but we're not considering it at the moment.

We talk about the phenomenal growth we're experiencing in developing markets. Many of the business leaders in those businesses come from our developed market businesses. Bid teams; I want to see more of this, I want to see us using highly skilled bid teams from our developed market business to go and provide support in our developing markets.

Remember, we're in a position where we're unable to satisfy demand in some of our markets. Well, the first and most obvious place to find resource to address that opportunity is inside our own company. And there are, you know, just in the last month, there are some really powerful examples of that where we have an unexpected opportunity has arisen. So in Australia, the City Government announced a change in its policy; so the Department of Immigration now will be processing all asylum seekers offshore Australia.

Well, we have a big offshore facility, and our customers are asking for help. They're looking for a very significant step up in service provision. We're able to respond to that because we've got capability in the UK in Care and Justice. So we can provide project managers, people to assist with the mobilisation, people to assist with the ramp up of service. This is undoubtedly a source of great strength to the Company.

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Ashley Almanza, Chief Executive Officer
We're running out of time so we'll take two more questions.

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Tom Sykes, Deutsche Bank
I just wondered on the placement proceeds, I may have missed it, but could you be clear on what debt you'll actually be paying down, please, and maybe what currency of debt you'll be paying down?

And then also, post the placings, will you be using dollar proceeds to pay down dollar debt? And once you are at 2.2 times, or wherever you will end up being at that point, whatever the net debt to EBITDA is, what will be the level of currency, the mismatch if you like, between your debt and your cash flows?

And then maybe just in addition that, obviously, we've seen some emerging market weakness in FX, and you've obviously got quite a strongly growing emerging market business. Is there any negative effect from you from being paid in dollars in local markets and that's at all affecting the demand for your services? And would you expect it to at all, please? Thank you.

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Ashley Almanza, Chief Executive Officer
Okay, Tom, thanks for the questions. In terms of pay down, I think any proceeds from disposals, or the placing if as we hope that's successful, we'll in the first instance go to the revolver. And then our Group Treasurer is in the room; we've already started working through the different options that we would have to pay down other sources of funding that are currently in place.

That's a piece of work that's still ongoing. For example, on some of the leasing contracts we have to look at whether or not there are penalty provisions for early pay down, on the bonds, we obviously have to bear in mind that taking them below benchmark size is not necessarily something that's going to be appreciated by fixed income investors, and we have to think long term. We might be back offering them the opportunity to invest again.

So there are a few things to work through, but in the first instance we'll pay down the revolver, and then we'll take just a little while to work through the final pay down approach.

On FX, it's difficult to say right now what effect that is going to have on demand and whether or not customers are going to be looking for some sort of relief as the dollar/local currency exchange rate moves. I haven't seen any sign of it yet.

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Helen Parris, Director of Investor Relations
Generally, most of our costs are local currency, obviously. Most of our contracts, even our global contracts such as some of the ones we've referred to today are local currency as well. So I think generally, it's a translation exposure.

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Ashley Almanza, Chief Executive Officer
It is - where that happens, of course, the effect is immediately passed on to us in essence.

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Tom Sykes, Deutsche Bank
Okay. Thank you.

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Ed Steele, Citigroup
Two questions, please, the first on a couple of moving parts for next 12 to 18 months. You talked about £30m to £35m cost exceptional charge, you said a healthy return on investment on that. Can you give us a little bit more precision on what you could reduce cost by in two years' time, is it about the same, £30m to £35m, please? And associated with that, do you have a feel for the extra investments you might be making for things like improved management, improved risk control, and improved health and safety? That's the first question.

Second question is could you confirm where the bad debtor in Africa was; I think Djibouti, is that in the 201, or is that in the £52m write-off, please?

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Ashley Almanza, Chief Executive Officer
Okay, on the restructuring, the payback period I think I mentioned on most of that is 12 to 24 months; so we expect to recover everything we lay out in that period. What that translates to in a fully annualised basis, I don't have that number to hand. But we'll be getting - I think there are two things that really matter to us is the payback period and the rate of return. And we're expecting these programmes to deliver, across the board, not each individual one, but across the board, double-digit after tax internal rate of return. And I think that's appropriate for the sort of capital that we're applying here.

Extra investments; we'll be able to say more about this in November. I'm not talking about vast sums, we don't want to create a risk management bureaucracy. And similarly on health and safety, we will employ one or two extra people, specialists for the whole Group.

We have in each region today trained and identified health and safety specialists in the business, but there's more we need to do. And the investment will be not only in people, but in communication, in training; possibly in PPE, Personal Protective Equipment for employees. We just - health and safety is an area where if you stop working at it, it's a messy stable thing, if you stop it goes off the rails. So we just have to keep working at it and finding ways of reducing risk to our employees.

Was your last question Djibouti? Djibouti I think is discontinued. Thank you. So in Djibouti, on the back of that event with the customer, we were right coming up to the period where that contract was up for renewal, we didn't get the contract, it's a one-contract country for us. We're exiting.

Ladies and gentlemen, thank you very much for taking the time to attend today, and thank you very much for your questions. We look forward to seeing you in early November. Thanks.

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