FINANCIAL HIGHLIGHTS

TIM WELLER,
Group Chief Financial Officer

Our underlying results in 2018 were in line with 2017 with improving revenue momentum in the second half of the year underpinning the positive outlook for 2019.

STATUTORY RESULTS[a]

REVENUE

£7.5bn -4.0%
(2017: £7.8bn)

ADJUSTED PBITA[b]

£460m -6.5%[a]
(2017: £492m)

EARNINGS[c]

£82m -65.4%
(2017: £237m)

NET DEBT: ADJUSTED EBITDA[b]

2.7x
(2017: 2.4x)

FINAL DIVIDEND

6.11p
(2017: 6.11p)

RESULTING IN A TOTAL DIVIDEND OF

9.70p
(2017: 9.70p)

UNDERLYING RESULTS[d]

REVENUE

£7.3bn +1.1%
(2017: £7.2bn)

ADJUSTED PBITA[b]

£474m
(2017: £474m)

EARNINGS[c]

£259m +0.4%
(2017: £258m)

OPERATING CASH FLOW

£453m -12.2%
(2017: £516m)

Chief Financial Officer's review

Introduction

	Statutory Results[a] Actual foreign exchange rates			Underlying Results[d] Constant foreign exchange rates		
	2018	2017 Restated[e]	%	**2018**	2017 Restated[e]	%
Revenue	**£7,512m**	£7,826m	(4.0)	**£7,289m**	£7,213m	1.1
Adjusted PBITA[b]	**£460m**	£492m	(6.5)	**£474m**	£474m	–
Adjusted PBITA[b] margin	**6.1%**	6.3%		**6.5%**	6.6%	
Earnings[c]	**£82m**	£237m	(65.4)	**£259m**	£258m	0.4
Earnings per share[c]	**5.3p**	15.3p	(65.4)	**16.7p**	16.7p	–
Operating cash flow	**£413m**	£488m	(15.4)	**£453m**	£516m	(12.2)

a. See page 149 for the basis of preparation of statutory results.
b. Adjusted PBITA and net debt: Adjusted EBITDA are Alternative Performance Measures as defined as explained on pages 40-42.
c. Earnings is defined as profit attributable to equity shareholders of G4S plc. Underlying earnings and underlying earnings per share ("EPS") are adjusted to exclude specific and other separately disclosed items, as explained on page 40, and are reconciled to statutory earnings and EPS on page 50.
d. Underlying results are Alternative Performance Measures as defined and explained on page 40. They are reconciled to the Group's statutory results on page 50. The underlying results are presented at constant exchange rates other than for operating cash flow which is presented at actual rates for both 2017 and 2018.
e. Restated for the adoption of IFRS 15 – Revenue from Contracts with Customers, see note 3(u) on page 155.

Basis of preparation

The following discussion and analysis on pages 44 to 57 is based on, and should be read in conjunction with, the consolidated financial statements, including the related notes, that form part of this annual report. The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU as explained on page 149.

Business Performance – statutory results

Statutory results at actual exchange rates	2018 £m	2017 Restated[a] £m	YoY %
Revenue	**7,512**	7,826	(4.0)
Adjusted profit before interest, tax and amortisation (Adjusted PBITA)	**460**	492	(6.5)
Specific items - charges	**(32)**	(34)	(5.9)
Specific items - credits	**10**	–	n/a
Guaranteed Minimum Pension equalisation charge	**(35)**	–	n/a
California class action settlement	**(100)**	–	n/a
Restructuring costs	**(31)**	(20)	55.0
(Loss)/profit on disposal/closure of subsidiaries/businesses	**(15)**	74	(120.3)
Acquisition-related amortisation	**(4)**	(10)	(60.0)
Operating profit	**253**	502	(49.6)
Interest costs (net)	**(110)**	(115)	(4.3)
Profit before tax	**143**	387	(63.0)
Tax	**(55)**	(128)	(57.0)
Profit after tax	**88**	259	(66.0)
Profit/(loss) from discontinued operations	**2**	(6)	(133.3)
Profit for the year	**90**	253	(64.4)
Non-controlling interests	**(8)**	(16)	(50.0)
Profit attributable to equity holders of the parent ("statutory earnings")	**82**	237	(65.4)
EPS	**5.3p**	15.3p	(65.4)
Operating cash flow	**413**	488	(15.4)

a. 2017 results have been restated for the effect of adopting IFRS 15 – see note 3(u).

Revenue

Revenue decreased by 4.0% compared with the prior year statutory results. Of the decrease, 2.7% (£211m) was due to movements in exchange rates caused by the relative strengthening of the average sterling exchange rates affecting the Group. Excluding the effects of movements in exchange rates, revenue decreased by 1.4% mainly due to a £190m reduction in revenue in respect of businesses disposed during the current and prior years including the Group's businesses in Hungary and Israel and its Youth Services business in North America. Revenue from onerous contracts is slightly higher than the prior year at £118m (2017: £107m). Excluding the effects of movements in exchange rates, revenue from disposed businesses and onerous contracts, revenue grew by 1.1% at constant exchange rates.

Business performance is discussed in more detail by service line and region on page 57.

Adjusted PBITA

Adjusted PBITA of £460m (2017: £492m) was down 6.5%. Of the decrease, 2.0% (£10m) was due to movements in exchange rates. Excluding the effect of movements in exchange rates, Adjusted PBITA decreased by 4.6%, reflecting Adjusted PBITA growth in Secure Solutions offset by lower revenue and increased business development and operating costs in the Cash Solutions division, as well as a reduction in Adjusted PBITA from disposed businesses of £17m. Excluding the effect of movements in exchange rates, Adjusted PBITA from disposed businesses and onerous contracts, the Group's Adjusted PBITA remained in line with the prior year.

Specific items - charges

The specific items charges of £32m (2017: £34m) include £12m related to additional provisions in Asia in respect of historical employee gratuities and end of service benefits and £11m related to the reassessment of estimated settlement amounts in respect of historical workers' compensation claims in the Americas. Also included in specific item charges is a £9m onerous contract charge related to two UK Care & Justice Services contracts, reflecting the estimated losses over their expected remaining terms.

Specific items charges incurred during the year ended 31 December 2017 of £34m included £19m primarily relating to the anticipated total losses over the next 15 to 20 years in respect of certain UK government contracts, £6m related to the estimated cost of settlement of subcontractor claims from commercial disputes in respect of prior years, and £9m related mainly to the settlement of labour disputes in respect of prior years in the Americas.

Specific items - credits

The specific items credits of £10m (2017: £nil) include a £5m release of onerous contract provisions in the UK for which the related charges had previously been created as specific items, following the implementation of operational efficiencies in the contracts leading to a reduction in expected future losses. In addition, a further £5m related to successful court claims made by the Group in the Americas has been credited as a specific item.

Guaranteed minimum pension equalisation charge

Following the UK High Court Ruling in the case of Lloyds Banking Group Pension Trustees Limited v Lloyds Bank plc (and others) in October 2018, the Group recorded a charge of £35m (2017: £nil) in respect of the equalisation of benefits for historical Guaranteed Minimum Pension obligations between males and females in the UK.

California class action settlement

In January 2019, the Group agreed the settlement of a class action relating to claims for employee meal and rest breaks for the period 2001 to 2010 in California. This settlement is subject to the final approval of the Superior Court of the State of California. The amount to be settled is between US$100m and US$130m with the precise amount to be determined during the settlement administration process. A provision of £100m has been established in the accounts for the year ended 31 December 2018 representing management's best estimate of the amount of the class action settlement and any related costs.

Restructuring costs

The Group invested £31m (2017: £20m) in restructuring programmes during the year ended 31 December 2018, relating to the 2018-2020 strategic productivity programme announced in 2017 which is being implemented across the Group, mainly in Europe & Middle East, the Americas and Cash Solutions. In addition, the Group incurred non-strategic reorganisation costs of £9m (2017: £10m) which are included within Adjusted PBITA. We expect to invest around £20m in restructuring the Cash Solutions business in 2019 and estimate that the costs of the cash separation review and separation process will be between £25m and £50m.

(Loss)/profit on disposal and closure of subsidiaries/businesses

The Group recognised a net loss on disposal and closure of subsidiaries/businesses of £15m (2017: profit of £74m) relating to the disposal of a number of the Group's operations including its businesses in Hungary and the Philippines, its archiving business in Kenya and the Cash Solutions businesses in the United Arab Emirates, Colombia and Saudi Arabia. Disposals in 2017 included the Group's businesses in Israel and Bulgaria and the Group's Youth Services business in North America.

Acquisition-related amortisation

Acquisition-related amortisation of £4m (2017: £10m) is lower than the prior year as certain intangible assets recognised on a number of legacy acquisitions became fully amortised in 2017.

Operating profit

Operating profit for the year of £253m (2017: £502m) was down 49.6% reflecting the 6.5% reduction in Adjusted PBITA together with the additional charges in the current year in respect of the California class action settlement and the UK guaranteed minimum pension equalisation charge; the loss on disposals in the year of £15m (2017: profit on disposal of £74m) and the other specific and separately disclosed items described above.

Net interest costs

Net interest payable on net debt was £92m (2017: £92m). Net other finance costs were £7m (2017: £12m) and the pension interest charge, related to the unwinding of the discount in relation to long-term pension liabilities, was £11m (2017: £11m), resulting in a total net interest cost of £110m (2017: £115m).

Tax

The statutory tax charge of £55m (2017: £128m) for 2018 included a tax charge of £93m (2017: £89m) on the Group's underlying profits, as explained on page 51, a tax credit on onerous contracts of £nil (2017: £4m), a tax charge of £1m (2017: £10m) in respect of disposed businesses, a tax credit of £7m (2017: £4m) in respect of restructuring costs and a net tax credit of £32m (2017: tax charge of £37m, which included £19m in respect of the tax impact of the US tax reform) in respect of specific and other separately disclosed items.

The Group's statutory tax charge represents an effective rate of 38% (2017: 33%) on profit before tax of £143m (2017: £387m). The effective tax rate is a function of a variety of factors, with the most significant being (i) the geographic mix of the Group's taxable profits and the respective country tax rates, (ii) changes in the value, and recognition of, deferred tax assets and liabilities, (iii) permanent differences such as expenses disallowable for tax purposes, (iv) irrecoverable withholding taxes, (v) the level of provision required for potential tax liabilities not agreed with tax authorities, (vi) the impact of one-off items including tax claims, and (vii) the overall level of profit against which the preceding items are measured.

The higher effective tax rate compared with the prior year is primarily driven by (i) an increase in profits taxed at a higher rate, (ii) the relative amount of non-deductible expenses, (iii) the reassessment of the recoverability of certain deferred tax assets, and (iv) the relative amount of irrecoverable withholding taxes. This is offset by the one-off tax impact in 2017 of the US Tax Cuts and Jobs Act and changes in 2018 in the level of provision required for potential tax liabilities not agreed with tax authorities.

At any point in time, the Group is typically subject to tax audits in a number of different countries. In situations where a difference of opinion arises between the Group and a local tax authority in respect of its tax filings, the Group will debate the contentious areas and, where necessary, resolve them through negotiation or litigation. The Group relies upon advice and opinions from the Group tax department, local finance teams and external advisors, to ensure that the appropriate judgments are arrived at in establishing appropriate accounting provisions in relation to such disputes.

Non-controlling interests

Profit attributable to non-controlling interests was £8m in 2018, a decrease from £16m recorded in 2017, reflecting the non-controlling partners' share of profit of certain businesses in Europe & Middle East.

Profit for the year

The Group reported profit for the year attributable to equity holders of the parent ("statutory earnings") of £82m (2017: £237m) which reflects the lower Adjusted PBITA together with the loss on disposal and closure of subsidiaries/businesses in the current year compared with the profit recognised in the prior year, and the additional charges in the current year in respect of the California class action settlement and the UK Guaranteed Minimum Pension equalisation charge.

Earnings per share

Statutory earnings per share decreased to 5.3p (2017: 15.3p), based on the weighted average number of shares in issue of 1,547m (2017: 1,548m) shares in issue. A reconciliation of the Group's statutory profit for the year to EPS is provided below:

	Earnings per share		
	Statutory 2018 £m	Statutory 2017 at actual exchange rates[b] £m	Adjusted Statutory 2017 at constant exchange rates £m
Profit for the year	**90**	253	249
Non-controlling interests	**(8)**	(16)	(17)
Profit attributable to equity holders of the parent (earnings)	**82**	237	232
Average number of shares[a] (m)	**1,547**	1,548	1,548
Statutory earnings per share	**5.3p**	15.3p	15.0p

a. Stated net of the average number of shares held in the Employee Benefit Trust of 5m (2017: 4m).
b. Refer to page 40 for a definition of constant currency results.

REVIEW OF THE GROUP'S CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Significant movements in the consolidated statement of financial position

Current loan notes reduced to £464m (2017: £655m), reflecting the net repayment of certain loan notes during the year, as explained on page 47. In addition, non-current bank loans increased to £293m (2017: £5m) following the draw-down of the new US$350m committed term loan facility in November 2018.

The following movements in the Group's consolidated statement of financial position are set out elsewhere in this report, as follows:

- cash, cash equivalents and overdrafts are explained on page 47;
- retirement benefit obligations are explained in note 31;
- provisions are analysed in note 32 on page 195; and
- net debt is analysed in note 36.

Total equity

Total equity at 31 December 2018 was £783m (2017: £843m). The main movements during the year were: profit for the year of £90m (2017: £253m), other comprehensive income of £44m (2017: losses of £47m) which included a re-measurement gain on defined retirement benefit schemes of £38m (2017: £26m) as explained on page 49, an exchange gain on translation of foreign operations of £45m (2017: loss of £125m) reflecting more favourable movements in currencies in the major countries in which the Group operates against sterling, a loss from changes in the fair value of net investment hedging financial instruments of £42m (2017: gain of £56m), a gain from changes in the fair value of cash flow hedging financial instruments of £11m (2017: £nil) and dividends paid in the year of £170m (2017: £179m).

Review of the Group's cash flow and financing

Consolidated statement of cash flow

Net cash flow from operating activities before tax was £413m (2017: £488m). Net cash inflow from operating activities was £315m (2017: £402m) reflecting lower operating cash flow generation in the Americas and Europe & Middle East. Net cash used in investing activities was £48m (2017: cash generated £81m), including £45m (2017: £156m) of net business disposal proceeds. Net cash outflow from financing activities was £209m (2017: £570m with the difference compared with the prior year being mainly proceeds from borrowings of £761m (2017: £437m)). Cash, cash equivalents and overdrafts at 31 December 2018 were £673m (2017: £571m), a net increase compared with 31 December 2017 including the impact of exchange rate movements of £102m (2017: £101m). The Group's statutory cash flow is presented in full on page 148.

Net debt

The Group's net debt as at 31 December 2018 was £1,558m (December 2017: £1,487m). The Group's net debt to Adjusted EBITDA ratio was 2.7x (2017: 2.4x) reflecting both the increase in net debt and the reduction in Adjusted PBITA as described above. A detailed reconciliation of movements in net debt is provided on page 54. In light of the expected cash costs of the settlement of the California class action, the costs of the Cash business separation review, spend in respect of onerous contracts and restructuring costs expected in 2019, we expect the Group's net debt to Adjusted EBITDA ratio to remain broadly unchanged during 2019. Notwithstanding this, the Group's business plan supports a reduction in the ratio to 2.5x or below over the medium term.

Net debt maturity

In April 2018, the Group's credit rating was affirmed by Standard & Poor's as BBB-; however the outlook was revised from negative to stable. As at 31 December 2018 the Group had liquidity of £1,423m (2017: £1,571m) comprising cash, cash equivalents and bank overdrafts of £673m (2017: £571m) and unutilised but committed facilities of £750m (2017: £1,000m).

During the year, the Group arranged a US$350m term facility, maturing in August 2021, which was fully drawn, and also amended the available Revolving Credit Facility, reducing it to £750m while extending the maturity for a further one and a half years to August 2023. As at 31 December 2018 there were no drawings from this facility. In May 2018 the Group issued a €550m Public Bond which matures in May 2025 and pays an annual coupon of 1.875%. During the year the Group also repaid £44m of GBP private loan notes, US$224m of US private loan notes and €500m of public Eurobonds.

The debt maturities in 2019 comprise the US$145m US Private Placement notes repaid in March 2019 and the £350m Public Bond due in May 2019 which will be financed primarily by utilising a £300m bridge facility arranged in January 2019. The recent refinancings have secured around £20m of annualised interest cost savings per annum by the end of 2019. The Group has good access to capital markets and a diverse range of finance providers. Borrowings are principally in pounds sterling, US dollars and euros, reflecting the geographies of significant operational assets and earnings.

The Group's main sources of finance and their applicable rates as of 31 December 2018 are set out below:

				Year of redemption and amounts (£m)[b]							
Debt instrument/Year of issue	Nominal amount[a]	Issued interest rate	Post-hedging average interest rate	2019	2020	2021	2022	2023	2024	2025	Total
US PP 2007	US$145m	5.96%	3.17%	114							114
US PP 2007	US$105m	6.06%	3.23%				82				82
US PP 2008	US$74.5m	6.88%	6.88%		58						58
Public Bond 2009	£350m	7.75%	7.75%	350							350
Public Bond 2016	€500m	1.50%	2.23%					450			450
Public Bond 2017	€500m	1.50%	3.22%						442		442
Public Bond 2018	€550m	1.88%	2.78%							484	484
Term Loan Facility 2018	US$350m	3.64%	3.64%			275					275
Revolving Credit Facility 2018[c]	£750m (multi-currency)	Undrawn	–								–
				464	58	275	82	450	442	484	2,255

a. Nominal debt amount. For fair value carrying amount see note 30.
b. Translated at exchange rates prevailing at 31 December 2018, or hedged exchange rates where applicable.
c. The revolving credit facility matures in August 2023. As at 31 December 2018 there were no drawings from this facility.

The Group's average cost of gross borrowings in 2018, net of interest hedging, was 3.9% (2017: 4.1%).

Financing and treasury activities

The Group's treasury function is responsible for ensuring the availability of cost-effective finance and for managing the Group's financial risk arising from currency and interest rate volatility and counterparty credit. Group Treasury is not a profit centre and is not permitted to speculate in financial instruments. The treasury department's policies are set by the board and the treasury function is subject to the controls appropriate to the risks it manages, which are discussed in note 30 on pages 183 to 187.

To assist the efficient management of the Group's interest costs, the Group operates a multi-currency notional pooling cash management system with a wholly-owned subsidiary of an A-rated bank. The Group presents pooled cash and overdrafts gross in the consolidated statement of financial position.

Other information

Significant exchange rates applicable to the Group

The Group derives a significant portion of its revenue and profits in the following currencies. Closing and average rates for these currencies are shown below:

	As at 31 December 2018	**Year to 31 December 2018 average rates**	As at 31 December 2017	Year to 31 December 2017 average rates
£/US$	**1.2746**	**1.3336**	1.3524	1.2964
£/€	**1.1130**	**1.1294**	1.1250	1.1453
£/South Africa Rand	**18.3288**	**17.5598**	16.7557	17.3187
£/India Rupee	**88.8104**	**90.9294**	86.3531	84.3570
£/Brazil Real	**4.9461**	**4.8621**	4.4794	4.1506

Applying December 2018 closing rates to the Group's underlying results for the year to 31 December 2018 would result in an increase in underlying revenue of 1.9% to £7,427m (for the year ended 31 December 2017: increase of 1.9% to £7,353m) and an increase in underlying Adjusted PBITA of 2.1% to £484m (for the year ended 31 December 2017: increase by 2.1% to £484m).

Applying December 2018 closing rates to the Group's statutory results for the year to 31 December 2018 would result in an increase in statutory revenue of 1.9% to £7,653m (for the year ended 31 December 2017: decrease of 1.0% to £7,746m) and an increase in statutory Adjusted PBITA of 2.2% to £470m (for the year ended 31 December 2017: no change, at £492m).

The strenghening of the average Sterling exchange rates compared with the prior year led to a decrease in statutory revenue of 2.7% and a decrease in statutory Adjusted PBITA of 2.0%. The impact of exchange rate movements reduced the Group's net debt by £32m compared with the prior year.

Dividend

In assessing the dividend, the board considers:

- future investment requirements;
- the Group's pension obligations;
- net debt to Adjusted EBITDA;
- the availability of distributable reserves in the parent company; and
- reward to shareholders.

The directors propose a final dividend of 6.11p (DKK 0.5321) per share (2017: 6.11p per share; DKK 0.5097) reflecting the board's confidence in the Group's performance and prospects. Our dividend policy is to increase the dividend in line with the long-term growth in earnings. The interim dividend was 3.59p (DKK 0.2969) per share and the total dividend, if approved, will be 9.70p (DKK 0.8290) per share, in line with 2017 (for the year ended 31 December 2017, the interim dividend was 3.59p; DKK 0.2948 and the total dividend was 9.70p; DKK 0.8045).

The proposed dividend cover is 1.7x (2017: 1.8x) on underlying earnings.

Pensions

As at 31 December 2018 the net defined benefit pension obligation in the consolidated statement of financial position was £364m (2017: £381m) of which £248m (2017: £283m) related to material funded defined benefit schemes. Net of related deferred tax balances, the Group's net pension obligation was £302m (2017: £318m).

The most significant of the Group's pension schemes is in the UK and accounts for over 86% (2017: 88%) of the Group's total material scheme obligations. The scheme has approximately 26,000 members and further details of the make-up of the scheme are given in note 31 on page 187.

	2018 £m	2017 £m
Scheme assets	**2,219**	2,345
Obligations	**(2,432)**	(2,595)
Net UK obligations	**(213)**	(250)

The UK scheme's pension liabilities decreased compared with the prior year reflecting the payment of scheduled deficit-repair contributions of £41m (2017: £40m) during the year, together with the impact of applying a higher discount rate assumption of 2.85% (2017: 2.55%) to the valuation of scheme obligations and adopting the latest mortality base-rate tables. These decreases were offset by an increase in the pension liabilities of £35m (2017: £nil) following the equalisation of historical guaranteed minimum pension obligations after a recent UK court ruling. The net reduction in the pension liabilities was partially offset by a loss incurred on the revaluation of the pension scheme assets.

The triennial valuation of the UK scheme is underway, during which we expect to agree the future deficit-repair contributions.

Interest-rate risk and interest-rate swaps

The Group's investments and borrowings at 31 December 2018 were a mix of fixed rates of interest and floating rates of interest linked to LIBOR and EURIBOR.

The March 2007 and July 2008 private placement notes and the May 2009, November 2016, June 2017 and May 2018 public notes were all issued at fixed rates, whilst the Group's investments and bank borrowings were all at variable rates of interest linked to LIBOR and EURIBOR.

The Group's interest-risk policy requires Treasury to maintain a proportion of the Group's debt at fixed rates within the range 25% to 75%, using the natural mix of fixed and floating interest rates emanating from the bond and bank markets and by utilising interest rate and cross-currency swaps. As at 31 December 2018 this percentage is 69% (2017: 73%).

Part of the proceeds of the private placement and public notes have been swapped to floating interest rates, and accounted for as fair value hedges, with a net loss in the hedges at 31 December 2018 of £6m (2017: £14m). The market value of the pay-fixed receive-variable swaps and the pay-fixed receive-fixed cross-currency swaps outstanding at 31 December 2018, accounted for as cash flow hedges and net investment hedges, was a net asset of £32m (2017: £73m).

Foreign currency hedging

The Group has many overseas subsidiaries and joint ventures, denominated in various different currencies. Treasury policy is to manage significant translation risks in respect of net operating assets and its consolidated net debt/Adjusted EBITDA ratio by holding foreign-currency denominated loans, cross-currency swaps and to a lesser extent forward currency contracts.

At 31 December 2018, the Group's US dollar and Euro net assets were approximately 74% and 84% respectively, hedged by foreign currency debt. As at 31 December 2018, net debt held in US dollars and Euros, and in those currencies officially pegged to these two currencies, equated broadly to a ratio of 2.5x Adjusted EBITDA generated from these currencies (2017: 2.3x Adjusted EBITDA).

Tax policy

The Group's tax policy is set out at g4s.com/tax.

Corporate governance

The Group's policies regarding risk management and corporate governance are set out in the Risk management section on pages 64 to 71 and in the Corporate governance report on page 96.

Business performance – Alternative Performance Measures (APMs)

Summary Group results

Year ended 31 December 2018 (at 2018 average exchange rates)

£m	Underlying results[a]	Onerous contracts	Disposed businesses[c]	Restructuring	Specific and other separately disclosed items[d]	Statutory
Revenue	7,289	118	105			7,512
Adjusted PBITA[b]	474	(5)	(9)			460
Profit before tax	365	(9)	(10)	(31)	(172)	143
Tax	(93)	–	(1)	7	32	(55)
Profit after tax	272	(9)	(11)	(24)	(140)	88
Earnings[e]	259	(9)	(6)	(24)	(138)	82
EPS[e]	16.7p	(0.6)p	(0.4)p	(1.6)p	(8.9)p	5.3p
Operating cash flow[f]	453	(11)	(3)	(26)	–	413

Year ended 31 December 2017 (at 2018 average exchange rates) – restated[g]

£m	Underlying results[a]	Onerous contracts	Disposed businesses[c]	Restructuring	Specific and other separately disclosed items[d]	Constant currency[h]
Revenue	7,213	107	295			7,615
Adjusted PBITA[b]	474	–	8			482
Profit before tax	362	(16)	8	(19)	45	380
Tax	(87)	4	(10)	4	(36)	(125)
Profit after tax	275	(12)	(2)	(15)	9	255
Earnings[e]	258	(12)	–	(15)	1	232
EPS[e]	16.7p	(0.8)p	–	(1.0)p	0.1p	15.0p
Operating cash flow[f]	516	(12)	3	(19)	–	488

Year ended 31 December 2017 (at 2017 average exchange rates) – restated[g]

£m	Underlying results[a]	Onerous contracts	Disposed businesses[c]	Restructuring	Specific and other separately disclosed items[d]	Statutory
Revenue	7,415	107	304			7,826
Adjusted PBITA[b]	484	–	8			492
Profit before tax	370	(16)	7	(20)	46	387
Tax	(89)	4	(10)	4	(37)	(128)
Profit after tax	281	(12)	(3)	(16)	9	259
Earnings[e]	263	(12)	–	(16)	2	237
EPS[e]	17.0p	(0.8)p	–	(1.0)p	0.1p	15.3p
Operating cash flow[f]	516	(12)	3	(19)	–	488

a. Underlying results are Alternative Performance Measures as defined and explained on page 40 and exclude the results from businesses disposed of during the current or prior year, the effect of onerous contracts and specific and separately disclosed items.
b. Adjusted PBITA is an Alternative Performance Measure as defined and explained on page 41 and excludes specific and separately disclosed items.
c. Disposed businesses include the results of all businesses that have been sold or closed by the Group between 1 January 2017 and 31 December 2018 and are excluded from underlying results to present current year and comparative underlying results on a like-for-like basis.
d. Other separately disclosed items include net (loss)/profit on disposal/closure of subsidiaries/businesses, the California class action settlement of £100m, the guaranteed minimum pension equalisation charge of £35m and the results of discontinued operations. The associated tax impact is included within the tax charge within "other separately disclosed items". In addition, tax-specific charges or credits, such as those arising from changes in tax legislation which have a material impact, and which are unrelated to net specific items, are included within the tax charge within "other separately disclosed items". The accounting policy for specific and separately disclosed items is provided on page 42.
e. Earnings is defined as profit attributable to equity shareholders of G4S plc. Underlying Earnings and Underlying EPS exclude specific and other separately disclosed items as described on page 40 and are reconciled to statutory earnings and statutory EPS above.
f. Operating cash flow is defined on page 42 as net cash flow from operating activities of continuing operations and is stated after pension deficit contributions of £41m (2017: £40m). For the year ended 31 December 2017 it is presented at 2017 average exchange rates. Operating cash flow is reconciled to the Group's movements in net debt on page 54.
g. Restated for the adoption of IFRS15 – see note 3(u).
h. Constant currency amounts show the 2017 statutory results retranslated at 2018 average exchange rates as described on page 40. Constant currency amounts should not be considered as or used in place of the Group's statutory results. Constant currency operating cash flow is translated at 2017 average exchange rates.

Basis of preparation of underlying results

The following review discusses the Group's underlying results, which are an alternative performance measure as described on page 40 and are reconciled to statutory results on page 50. Throughout this review, to aid comparability, 2017 prior year results are presented on a constant-currency basis by applying 2018 average exchange rates, unless otherwise stated.

Underlying results

At 2018 average exchange rates[b]	2018[a] £m	2017[a] Restated[c] £m	YoY %
Revenue	**7,289**	7,213	1.1
Adjusted profit before interest, tax and amortisation (Adjusted PBITA[a])	**474**	474	–
Adjusted PBITA[a] margin	**6.5%**	6.6%	
Interest	**(109)**	(112)	(2.7)
Profit before tax	**365**	362	0.8
Tax	**(93)**	(87)	6.9
Profit after tax	**272**	275	(1.1)
Non-controlling interests	**(13)**	(17)	(23.5)
Earnings[a] (profit attributable to equity holders of the parent)	**259**	258	0.4
EPS[a]	**16.7p**	16.7p	–
Operating cash flow[a,b]	**453**	516	(12.2)

a. Underlying results, Adjusted PBITA, earnings, EPS and operating cash flow are Alternative Performance Measures ("APMs") as defined and explained on page 40. They exclude the effect of specific and other separately disclosed items, the results of onerous contracts and the results of businesses sold or closed since 1 January 2017, and are reconciled to the Group's statutory results on page 50.
b. 2017 comparatives are presented at 2018 average exchange rates as described on page 40, except for operating cash flow which is presented at 2017 average exchange rates.
c. The 2017 results have been restated for the effect of adopting IFRS 15 (see note 3(u)).

Revenue

The Group's revenue increased by 1.1% year-on-year. Secure Solutions revenues were 3.1% higher than the prior year, as explained on page 44. Cash Solutions revenue decreased by 9.3% reflecting the mobilisation of a large Retail Cash Solutions contract in North America in 2017.

Adjusted PBITA

Adjusted PBITA of £474m (2017: £474m) was in line with the prior year. This reflects Adjusted PBITA growth of 6.9% in Secure Solutions offset by lower revenue and increased business development and operating costs in Cash Solutions.

Interest

Net interest payable on net debt was £91m (2017: £90m). Net other finance costs were £7m (2017: £11m) and the pension interest charge, related to the unwinding of the discount in relation to long-term pension liabilities, was £11m (2017: £11m), resulting in a total net interest cost of £109m (2017: £112m).

Tax

A tax charge of £93m (2017: £87m) was incurred on profit before tax of £365m (2017: £362m) which represents an effective tax rate of 25% (2017: 24%). The effective tax rate is a function of a variety of factors, with the most significant being (i) the geographic mix of the Group's taxable profits and the respective country tax rates, (ii) changes in the value of deferred tax assets and liabilities, (iii) permanent differences such as expenses disallowable for tax purposes, (iv) irrecoverable withholding taxes, (v) the level of provision required for potential tax liabilities not agreed with tax authorities and (vi) the impact of one-off items including tax claims.

Non-controlling interests

Profit attributable to non-controlling interests was £13m in 2018, a decrease from £17m in 2017, reflecting the non-controlling partners' share of profit of certain businesses in Europe & Middle East.

Earnings

The Group generated profit attributable to equity holders ("earnings") of £259m (2017: £258m) for the year ended 31 December 2018.

Earnings per share

Earnings per share was in line with the prior year at 16.7p (2017: 16.7p), based on the weighted average of 1,547m (2017: 1,548m) shares in issue. A reconciliation of profit for the year to earnings per share is provided below:

Underlying earnings per share	**2018 £m**	2017 at constant exchange rates £m	2017 at actual exchange rates £m
Underlying profit for the year	**272**	275	281
Non-controlling interests	**(13)**	(17)	(18)
Underlying profit attributable to equity holders of the parent (earnings)	**259**	258	263
Average number of shares[a] (m)	**1,547**	1,548	1,548
Underlying earnings per share	**16.7p**	16.7p	17.0p

a. Stated net the average number of shares held in the Employee Benefit Trust of 5m (2017: 4m).

Onerous contracts

The Group's onerous contracts generated revenues of £118m (2017: £107m) for the year ended 31 December 2018. Adjusted PBITA from onerous contracts of £(5) million for the year (2017: £nil) mainly represents the write down of the value of the assets and the recognition of an onerous contract provision that were both individually below the threshold set to be classified as specific items, in respect of two UK Care & Justice Services contracts.

During the year the Group recognised a net £4m additional onerous contract provision recorded as a specific item. This includes a £9m charge related to two UK Care & Justice Services contracts, reflecting the estimated losses over the expected remaining contract terms. In addition, a £5m credit has been booked as a specific item following the implementation of operational efficiencies in respect of certain onerous contracts that has led to a reduction in expected future losses. It is expected that around 60% of the Group's total provision for onerous customer contracts of £51m will be utilised by the end of 2019.

In the year ended 31 December 2017 the Group recognised additional provisions of £19m, classified as specific items, primarily related to the anticipated total losses over the next 15-20 years in respect certain UK government contracts.

Disposed businesses

Businesses disposed of during the year ended 31 December 2018, including the Group's businesses in Hungary and the Philippines, an archiving business in Kenya and the Cash Solutions businesses in the United Arab Emirates, Colombia and Saudi Arabia, generated revenue of £105m and Adjusted PBITA of £(9)m in the year ended 31 December 2018 (year ended 31 December 2017: revenue £174m and Adjusted PBITA £3m). Businesses sold during the year ended 31 December 2017 included the Group's businesses in Israel and Bulgaria and its Youth Services business in North America, and in total generated revenue of £121m and Adjusted PBITA of £5m for the year ended 31 December 2017.

Restructuring

The Group invested £31m (2017: £19m) in restructuring programmes during the year ended 31 December 2018, relating to the 2018-2020 strategic productivity programme announced in 2017 which is being implemented across the Group, mainly in Europe & Middle East, the Americas and Global Cash Solutions. In addition, the Group incurred non-strategic severance costs of £9m (2017: £8m) which are included within Adjusted PBITA. We expect to invest around £20m in restructuring the Cash Solutions business in 2019 and estimate that the costs of the cash separation review and separation process will be between £25-50m.

Specific and other separately disclosed items

	2018 £m	2017 at constant exchange rates £m	2017 at actual exchange rates £m
Specific items - charges	**(23)**	(18)	(18)
Specific items - credits	**5**	–	–
Guaranteed minimum pension equalisation charge	**(35)**	–	–
California class action settlement	**(100)**	–	–
Net (loss)/profit on disposal/closure of subsidiaries/businesses	**(15)**	72	74
Acquisition-related amortisation	**(4)**	(9)	(10)
Specific and other separately disclosed items before tax	**(172)**	45	46
Tax credits/(charges) arising on specific and other separately disclosed items	**32**	(17)	(18)
Tax impact of the introduction of the US Tax Cuts and Jobs Act	**–**	(19)	(19)
Specific and separately disclosed items after tax	**(140)**	9	9
Profit/(loss) from discontinued operations	**2**	(6)	(6)
Non-controlling interests' share of specific and other separately disclosed items	**–**	(2)	(1)
Total specific and other separately disclosed items – (charge)/credit to earnings	**(138)**	1	2

Specific items

The specific items charges of £23m (2017: £18m) include £12m related to additional provisions in Asia in respect of historical employee gratuities and end of service benefits and £11m related to the reassessment of estimated settlement amounts in respect of historical workers' compensation claims in the Americas.

Specific items charges incurred during the year ended 31 December 2017 of £18m primarily comprised £6m related to the estimated cost of settlement of subcontractor claims from commercial disputes in respect of prior years, and £9m related mainly to the settlement of labour disputes in respect of prior years in the Americas.

The specific items credit of £5m (2017: £nil) relate to successful court claims made by the Group in the Americas.

Guaranteed minimum pension equalisation charge

Following the UK High Court Ruling in the case of Lloyds Banking Group Pension Trustees Limited v Lloyds Bank plc (and others) in October 2018, the Group recorded a charge of £35m (2017: £nil) in respect of the equalisation of benefits for historical guaranteed minimum pension obligations between males and females in the UK.

California class action settlement

In January 2019 the Group agreed the settlement of a class action relating to claims for employee meal and rest breaks for the period 2001 to 2010 in California. This settlement is subject to the final approval of the Superior Court of the State of California. The amount to be settled is between US$100m and US$130m with the precise amount to be determined during the settlement administration process. A provision of £100m has been established in the accounts for the year ended 31 December 2018 representing management's best estimate of the amount of the class action settlement and any related costs.

Net (loss)/profit on disposal and closure of subsidiaries/businesses

During the year, the Group recognised a net loss of £15m (2017: profit of £72m) relating to the disposal of a number of its operations including its businesses in Hungary and the Philippines, its archiving business in Kenya and the Cash Solutions businesses in the United Arab Emirates, Colombia and Saudi Arabia. Disposals in 2017 included the Group's businesses in Israel and Bulgaria and the Group's Youth Services business in North America.

Acquisition-related amortisation

Acquisition-related amortisation of £4m (2017: £9m) is lower than the prior year as certain intangible assets recognised on a number of legacy acquisitions became fully amortised in 2017.

Tax credits/(charges) arising on specific and other separately disclosed items

Tax credits arising on specific and other separately disclosed items were £32m (2017: charges of £17m which related primarily to the disposal of subsidiaries in the Americas region). The Group expects amounts owed to class members and their advisors under the proposed California class action settlement to be deductible for US Federal and State tax purposes when paid and, in reognition of this, a deferred tax asset has been established in the accounts for the year ended 31 December 2018.

Tax impact of the introduction of the US Tax Cuts and Jobs Act ("US tax reform")

The Tax Cuts and Jobs Act introduced significant changes in US tax laws with effect from 1 January 2018. For 2017, the changes in legislation resulted in a separately disclosed one-off charge to the income statement of £19m arising from the re-measurement and impairment of deferred tax assets due to the reduction in the US Federal tax rate, and from the impairment of foreign tax credits which are no longer expected to be recovered in future periods against foreign source income.

Reconciliation between statutory operating profit and net debt

A reconciliation between operating profit as presented in the Group's consolidated income statement to movement in net debt is presented below with 2018 amounts presented at actual rates for the year and the prior year amounts presented at 2017 average exchange rates.

	2018 £m	2017 Restated[1] £m
Operating profit	**253**	502
Adjustments for non-cash and other items (see page 148)	**240**	40
Net working capital movement	**(80)**	(54)
Net cash flow from operating activities before tax (page 148)	**413**	488
Adjustments for:		
Restructuring spend	**26**	19
Cash flow from continuing operations	**439**	507
Analysed between:		
Underlying operating cash flow	**453**	516
Disposed businesses	**(3)**	3
Onerous contracts	**(11)**	(12)
Investment in the business		
Purchase of fixed assets, net of disposals	**(102)**	(104)
Restructuring spend	**(26)**	(19)
Disposal/closure of subsidiaries/businesses (see note 17)	**45**	156
Acquisition of subsidiaries (see note 16)	**(4)**	(1)
Net debt in disposed businesses	**(9)**	(11)
New finance leases	**(10)**	(3)
Net investment in the business	**(106)**	18
Net cash flow after investing in the business	**333**	525
Other uses of funds		
Net interest paid	**(99)**	(78)
Tax paid	**(98)**	(86)
Dividends paid	**(170)**	(179)
Purchase of own shares	**(11)**	(10)
Transactions with non-controlling interests (see note 16)	**(1)**	(16)
Other	**7**	6
Net other uses of funds	**(372)**	(363)
Net (increase)/decrease in net debt before foreign exchange movements	**(39)**	162
Net debt at the beginning of the year	**(1,487)**	(1,670)
Effect of foreign exchange rate fluctuations	**(32)**	21
Net debt at the end of the year	**(1,558)**	(1,487)

1. Restated for the adoption of IFRS15 – see note 3(u).

Movement in net debt during the year

Cash flow from continuing operations before restructuring spend was £413m (2017: £488m) after pension deficit-repair contributions of £41m (2017: £40m) during the year. Cash outflow from businesses disposed of or closed was £3m (2017: £3m inflow), and cash outflow from onerous contracts was £11m (2017: £12), both of which were excluded from underlying operating cash flow. Underlying operating cash flow reduced to £453m (2017: £516m) and represents 95.6% (2017: 106.6%) of underlying Adjusted PBITA. The reduction compared with the prior year primarily reflects a lower level of operating cash flow generation in the Americas region, which was impacted by the US Federal Government shutdown in the run-up to the year-end, and in Europe & Middle East where the phasing of cash flows in respect of a small number of major contracts reduced cash conversion in the year.

The Group invested £102m (2017: £104m) in net capital expenditure and received net proceeds of £45m (2017: £156m) from the disposal of businesses. The Group made no significant acquisitions during the year.

Net cash inflow after investing in the business was £333m (2017: £525m). The Group's net increase in net debt before foreign exchange movements was £39m (2017: decrease of £162m) after net interest paid which increased to £99m (2017: £78m) primarily reflecting the initial annual interest payment in respect of the EUR500m bond issued in June 2017, tax paid of £98m (2017: £86m) and dividends paid of £170m (2017: £179m).

The Group's net debt as at 31 December 2018 was £1,558m (December 2017: £1,487m).

TIM WELLER
Group Chief Financial Officer

Reconciliation of prior period results from core businesses by segment to prior period underlying results by new segments – for the year ended 31 December 2017

	Revenue				Adjusted PBITA[i]			
Year ended 31 December 2017 (£m)	Core businesses as previously reported[a]	Cash Solutions[b]	Secure Solutions re-classification[c]	**Core businesses in new structure**	Core businesses as previously reported[a]	Cash Solutions[b]	Secure Solutions re-classification[c]	**Core businesses in new structure**
Africa	457	(70)	–	387	46	(18)	–	28
Latin America	693	(41)	–	652	29	(7)	–	22
North America	2,006	(225)	–	1,781	123	(25)	–	98
Americas	2,699	(266)	–	2,433	152	(32)	–	120
Asia Pacific	736	(223)	358	871	65	(32)	27	60
Middle East & India	845	(54)	(358)	433	58	–	(27)	31
Europe	1,356	(303)	–	1,053	104	(43)	–	61
United Kingdom & Ireland	1,334	(293)	–	1,041	120	(35)	–	85
Europe & Middle East	3,535	(650)	(358)	2,527	282	(78)	(27)	177
Cash Solutions	–	1,209	–	1,209	–	160	–	160
Total before corporate costs	7,427	–	–	7,427	545	–	–	545
Corporate costs	–	–	–	–	(49)	–	–	(49)
Total	7,427	–	–	7,427	496	–	–	496

Year ended 31 December 2017 (£m)	**Core businesses in new structure**	Re-class[d]	Portfolio businesses[e]	Onerous contracts	Disposed businesses[f]	IFRS 15[g]	**Underlying results at actual exchange rates**	Exchange differences[h]	**Underlying results at constant exchange rates[i]**
Africa	387	–	12	–	(5)	–	394	(13)	381
Americas	2,433	4	56	–	(27)	–	2,466	(134)	2,332
Asia Pacific	871	–	25	–	(25)	–	871	(40)	831
Europe & Middle East	2,527	–	102	12	(134)	(1)	2,506	(5)	2,501
Cash Solutions	1,209	(4)	87	–	(113)	(1)	1,178	(10)	1,168
Total revenue	**7,427**	**–**	**282**	**12**	**(304)**	**(2)**	**7,415**	**(202)**	**7,213**
Africa	28	–	1	–	(1)	–	28	(1)	27
Americas	120	3	–	–	(1)	–	122	(5)	117
Asia Pacific	60	–	–	–	–	–	60	(3)	57
Europe & Middle East	177	–	4	–	(6)	1	176	–	176
Cash Solutions	160	(3)	(10)	–	–	–	147	(1)	146
Total before corporate costs	545	–	(5)	–	(8)	1	533	(10)	523
Corporate costs	(49)	–	–	–	–	–	(49)	–	(49)
Total Adjusted PBITA	**496**	**–**	**(5)**	**–**	**(8)**	**1**	**484**	**(10)**	**474**
Other financial KPIs (£m)									
Profit before tax	383	–	(7)	–	(7)	1	370	(8)	362
Profit after tax	291	–	(14)	–	3	1	281	(6)	275
Earnings	277	–	(15)	–	–	1	263	(5)	258
Earnings per share – p	17.9	–	(1.0)	–	–	0.1	17.0	(0.3)	16.7
Operating cash flow	527	–	(7)	(1)	(3)	–	516	–	516

a. Results from core businesses as previously reported in the Group's results for the year ended 31 December 2017. Segment results were presented geographically with segments combining both Secure Solutions and Cash Solutions.
b. As reported in the 2017 Integrated Report and Accounts, in January 2018 the Group created a new 'Cash Solutions' division. This column shows the re-classification of the results from the Cash Solutions businesses that were previously included in geographical segments into the new Cash Solutions division.
c. With effect from 1 January 2018, the Secure Solutions division was consolidated into four regions: Africa, Americas, Asia and Europe & Middle East. Following this reorganisation, the results of certain businesses previously reported in the Middle East & India region (primarily India and Bangladesh) are now reported in the Asia region.
d. As part of the disposal of the Colombia Cash business in 2018, a small number of contracts that were previously reported in the Cash Solutions division were transferred to the Colombia Secure Solutions business and integrated into their operations. Results from these contracts have been re-classified to be reported within the Americas region in the Secure Solutions division and prior year comparatives have been restated accordingly.
e. The financial impact of portfolio businesses is no longer material and to simplify reporting moving forwards, the Group has ceased separate columnar disclosure of the results of these businesses.
f. To present results on a consistent and comparable basis, the results from any businesses sold or closed in either the current or prior years are excluded from the underlying results in both the current and prior years. These include the Youth Services business in North America, the children's homes business in the UK and the Group's businesses in Israel and Bulgaria that were sold in 2017 and the archiving business in Kenya, the Group's businesses in Hungary and the Cash Solutions businesses in the United Arab Emirates, Colombia and Saudi Arabia that were sold in 2018.
g. With effect from 1 January 2018 the Group has adopted IFRS 15 – Revenue from Contracts with Customers, as explained in note 3(u) which has resulted in certain 2017 income statement line items being restated.
h. The results for the year ended 31 December 2017 were presented at average exchange rates for the year ended 31 December 2017 as described on page 40. The comparative results have been re-presented at average exchange rates for the year ended 31 December 2018.
i. Underlying results are an APM and are explained on page 40 and reconciled to the Group's statutory results on page 50.