G4S plc

2013 Preliminary Results Presentation

12 March 2014

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Introduction

Ashley Almanza, Chief Executive Officer
Good morning ladies and gentlemen, a very warm welcome to our Full Year Results Presentation. We have a full agenda today. I'm going to take you through the financial highlights and then region by region a business review, after which I'll hand over to our Group CFO if you've not met Himanshu, Himanshu Raja, who will take us through the numbers in a bit more detail. I'll then provide a brief update on some of the strategic priorities which we outlined in November last year. And then we'll be happy to take any questions you might have, we have plenty of time for questions.

Before we get started can I draw your attention to something which I'm sure you see in every presentation and leave you to read it in your own time? This is the agenda which I've just outlined, so without further ado we'll go straight to the results highlights.

Results Highlights

Hopefully by now you will have seen the preliminary results announcement, the slightly delayed announcement. And you will have seen that we continue to have a good demand for our services across all of our businesses, with aggregate revenue growth of just under 6% and a very strong performance in our emerging markets businesses, revenues up 16%.

Profit of £442m before interest, tax and amortisation was impacted by two risks which we identified at the half year last year, namely trading conditions in Europe and federal spending in the US and Himanshu will cover those in a bit more detail.

I'm sure you will have seen also that we had very significant one off charges in the full year results, this reflects an enormous amount of work that has been undertaken over the past six to nine months, clearing up, going through the balance sheet, going through our contract portfolio and also putting in place plans to restructure those of our businesses that need to be put on a more competitive footing, principally in the UK and Europe. And again, Himanshu is going to take us through those one off charges in more detail.

It is pleasing to see strong cash flow from our continuing operations at £460m, a sharp increase of 36%. Again here there are some significant items going in both directions which need deeper explanation that Himanshu is going to help us with.

And of course we ended the year in a much stronger financial position, a function of our operating cash flow, some asset disposals, although most of those closed after year end and are not reflected in our net debt numbers, and also the successful share placing at the end of August last year.

So in summary a year of clearing up, consolidating, restructuring and getting the business in a position to move forward with confidence.

Regional Business Review

I'd like to now turn to the regions taking Africa first. I should say that the numbers that you see here are all on an underlying basis. So in the announcement you'll have total results and underlying - all of the figures here refer to the underlying results.

I'm pleased to see that in Africa the business is moving forward strongly, profits were up 30% and this was a broad based performance improvement. Standouts were our South Africa Cash business, a very successful turnaround in the second half of the year. Nigeria, Mozambique and Kenya also stood out.

You'll remember that last year we established Africa as a separate organisational region for the first time. Until June of last year Africa was a sub-region, reporting into and managed out of London. We now have a leadership team on the ground in Africa, based in Pretoria and we've taken steps to further strengthen that leadership team with the appointment in the last six months of three new regional managing directors and a commercial director who will spearhead our efforts to lift our game in sales and business development right across the continent.

We made a modest acquisition in Africa last year, a business we call Depositor, it's a cash technology business and we're very pleased to see that business performing and growing strongly.

We're also taking steps to strengthen our sector specialism and you will know that Africa is blessed with vast natural resources, there's an enormous amount of foreign direct investment coming into Africa, exploiting those natural resources and that generates natural demand for our business. We've deployed now on the ground experienced sector specialists in natural resources, again based in South Africa and operating across the continent. That's new; previously Africa would have to call for that resource from either Dubai or London.

All of these steps I think are improving our pipeline; we have a growing pipeline across diverse markets and customer segments. So this is a business, a region that delivering profitable growth and one where we are investing, given our view of the long term prospects for this market.

Asia Middle East, very strong revenue growth, the strongest across the Group, almost 18% and a 24% improvement in profit. Again, the improvement in financial performance was broad based across the region, but there were also three stand out area. The Manus Island contract in Papua New Guinea, which is an immigration processing centre, grew strongly, performed well. That contract goes back out to tender it will not be extended beyond March of this year, it will go back out to tender.

The Middle East, Qatar, Kuwait, Saudi Arabia, UAE, all performed very strongly and we continue to see strong demand for our services in those markets. And India, a very large business - a large market for us I should say, we have a structured performance improvement programme which is being led by our country MD Mel Brooks and our regional executive Dan Ryan and that is showing early signs of success, some of which came through in the financial performance. And I think this programme is going to be a template for other parts of Asia and hopefully other parts of the business globally.

Really very, very pleased to see an outstanding improvement in safety performance in this region. This region had one of the worst road traffic accident records in the Group two years ago and through real determination, focus, proper alignment of incentives we had the best road traffic performance across the Group, so delighted with that. It's an example for the other regions and we're taking the learning from the structured programme that was deployed, principally in the Middle East and using that elsewhere across the Group.

This is another region where, although the business is growing strongly and performing profitably, we don't want to rest on that position. We're investing in sales and systems capability because we think there's more potential beyond that which we're achieving already and I'm going to come on to talk more about that in the second half of the presentation.

We have a strong and diverse portfolio in this region and a healthy pipeline. Again, delivering profitable growth - we're building capacity because we see more potential in this market.

Latin America, double digit growth in all of our leading markets, 16.6% overall of which 11% organic, we had some acquisitions last year in Brazil. So that explains the difference between the organic and the reported revenue growth. Profits up 23%, and another region where we've put in place new leadership; you'll recall we appointed Martin Alvarez in October last year, this is an experienced executive who has spent his entire career in Latin America, he's lived and worked in eight countries in Latin America. Martin is having an immediate positive impact in terms of focus and energy in that business.

We also took steps to sharpen our strategic focus, selling our Colombian data archiving business on an exit multiple of 13 times, bringing in £34m of proceeds, a very satisfactory transaction. And here too, although the business is growing strongly, is showing progression in profitability we don't want to rest there, we're investing, we see longer term potential beyond that which we have in our grasp already.

So we're investing in sales, operations and systems capability in this region. All of which we think will help to further develop a diversified pipeline and grow our business profitably.

Europe, a different story from the three regions that we've talked about already; revenues were down 1.6% and profit was sharply down, almost 15%. We know that a big impact was the closure of Dutch Prisons; it saw us lose top line and incur, because of the nature of the contract, significant costs in terms of restructuring that business, redundancies and so on.

We put new leadership into this region, Graham Levinsohn was appointed as Regional Chief Executive in November last year. Graham has more than 20 years' experience in the security industry and he is making an enormous difference in a very short space of time. So I'm very encouraged by the start.

His team and the team across Europe have responded very positively to his arrival and the energy and the clarity that he's bringing to our mission in Europe. His arrival has enabled us to accelerate the restructuring programme that we outlined in November last year. So we're going further and deeper in the restructuring, particularly in the Netherlands, Belgium and Finland. And we'll come on to talk about the profile of the restructuring programme, the sorts of returns and paybacks that we expect to secure from that investment.

Here too we sharpened our strategic focus selling our Slovakia Cash Solutions business and our Norway Secure Solutions business, both unprofitable businesses, bringing in around £30m of net proceeds.

We're taking steps to strengthen management teams across Europe and in particularly sales capability. You'll remember that in November we reported on a resourcing capability audit that we conducted across the Group. This was an area clearly where we needed to improve. Our sales teams, our sales capability in Europe was seriously underdeveloped and Graham is addressing that with a lot of focus and energy.

We want to establish positive sales momentum, that's the objective is to get positive sales momentum again in 2014 and we're pleased to say that we had a good start winning a major contract from GSN, which is a cash utility business in the Netherlands and we secured a €50m per annum contract for five years in the first two months of this year.

The overall story here is one of restructuring, reset, get the capability in place, get the management in place, invest to grow and improve the profitability of this business.

North America - this was the second area that we identified as a risk at the half year last year. Lower federal spending impacting our revenue and our profitability in two ways, infrastructure projects not generating as much demand for our technology and systems and border protection being cut back, both of which affected us.

We also had in 2012 some one off benefits from the Occupy Wall Street protests which gave us additional security work, and additional security work in airports which was not repeated in 2013.

We're taking steps in North America to extend our technology business, that has been quite heavily focused on federal and state demand, with the shift in federal spending we've been out reconfiguring our sales teams and our market offering to target the commercial market as well as the federal and state market. We need to rebalance and we're getting after that.

We're also continuing to invest in CASH360 our target is the major retail market and we have a pilot going on in North America at the moment which is progressing to plan, we're very happy with it. It's very early days but we see quite considerable potential in this part of the market.

More portfolio action here as well, the sale of our US Government Solutions business continues, it's quiet well advanced, but we will only conclude if we achieve satisfactory terms. If we don't get satisfactory terms this business will remain in the portfolio and we'll manage it for value and if the asset market returns then we'll look at it again. But at the moment it looks as though that process is progressing quite well.

We sold our Canadian Cash Solutions business as you know, that was inked in '13 and closed in '14, so again the proceeds were not in our net debt and cash figures at the end of the year.

Our business in North America has comprehensive plans in place for the implementation of the Affordable Care Act, also known as Obama Care. And that will now be implemented across the industry in 2015. This will not have a significant impact on our operating costs. And the reason for that is simple, that the vast majority of our healthcare plans in North America are already compliant with ACA.

So what we have in North America is a strong franchise in the world's largest security market. We need to invest through the cycle and keep this business moving forward and that's what we're doing.

UK and Ireland - modest growth, barely any growth, up 2.2% and profits down 5%; I think the reasons for this are well known already. The profitability and the revenue growth were impacted by our Cash Solutions businesses in the UK and Ireland and as you know we announced last year restructuring plans for both of those businesses, Cash Solutions in the UK and Ireland, we're getting on with that. We're also taking the opportunity to rationalise and restructure our regional head office, with a clear focus on efficient organisational design and minimising overhead.

Here's another region where we have new executive leadership. We appointed Eddie Aston who is here today as Regional Chief Executive in the fourth quarter of last year. And we have been getting on building the team around Eddie. We have a new Regional General Counsel, we have also reorganised the business units in that region along customer and market lines to strengthen our customer focus; including a new and dedicated business unit focusing solely on UK Government Solutions.

That business is going to be led by a gentleman that goes by the name of Jean Tiallon, who led our Canadian business and was very successful in implementing a turnaround which put that business on a good footing and indeed was instrumental in the value creation that we saw in the transaction that we completed. So Jean comes with very strong management credentials and he arrives in two weeks to lead that business.

There are other changes being made to the functional leadership of the team, we have a new Regional General Counsel, we'll be appointing a new CFO and so on. So lots of effort going into putting in place a very strong executive leadership team around Eddie Aston.

We're also, as part of our focus on organisational efficiency, not just looking at the head office, but we're looking at back offices around the UK. We have a proliferation of back offices, multiple system, multiple back office teams and we're bringing this together in a single shared service. This is not a project that will be done next week, or next month, this is a project that will be over many months. We are pursuing it in a phased and disciplined way. But this is going to be an essential part of the ongoing story of G4S, it is bringing disparate systems, duplicative organisations together in a more modern and efficient way.

I'm pleased to say that our discussions with the UK Government over billing issues in relation to electronic monitoring have been very constructive and I think we're on track for a satisfactory resolution of those discussions very shortly. So here again the story is to reset, restructure and get this business moving forward again.

That concludes the first part of the presentation; I'm going to hand over to Himanshu who will take us through the financials in a bit more detail. And then I'll return for a brief update on our strategy priorities and we'll go to Q&A. Himanshu?

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Financial Review

Himanshu Raja, Chief Financial Officer
Thanks Ashley. Good morning and welcome, as you can imagine it's been a very busy six months in my first six months as the CFO for G4S. And whilst there remains much to do I think we've made genuine and sincere solid progress on many, many fronts and as Ashley said, you know, put firm foundations in place as we look forward to 2014.

As Ashley said I'm going to take you through the results and then also talk about both the reported and the underlying results. You will have seen from the announcement this morning we've broken out Latin America, and therefore given you some enhanced disclosure really to tease out the different dynamics between what is happening in North America and Latin America.

So let me just turn to the results. We've set out underlying results in order to give you an understanding of the trajectory of the business on a like for like basis. So the prior year has been adjusted for two or three things; one - the businesses that we've discontinued and Ashley has referred to those, such as Norway, Slovakia, the Canadian business that was sold. It's adjusted for the impact of the pension interest charges that now go through the P&L, what you will know as the IAS 19 adjustment.

But we've also adjusted 2012 by £40m for the very comprehensive review we did during the year of the balance sheet reviewing the carrying value of assets and liabilities and I'm going to cover that in detail.

Looking at the results underlying revenues were up 5.8% to £7.4bn and profit before interest, tax and amortisation was £442m, up from £430m underlying - being that £40m adjustment for the balance sheet review. The overall operating margin was 6% and the operating cash flow from continuing operations was £460m, a sharp increase of 36% year on year. And earnings per share were 14.7 pence.

The mix of revenues and PBITA is clearly changing, revenues from the Emerging Markets now represent around 37% of the Group and it was 34% this time last year. And the PBITA level 44% of the Group's PBITA comes from Emerging Markets, that was around 36% last year. And it's worth just calling that out here because when you look at the foreign exchange effects of these things on a transactional level our revenues and costs are typically in local currencies. So there isn't typically a transactional foreign exchange exposure, but clearly there is a translation one. And you can see at the bottom of the slide, with the relative sharpening and strengthening of sterling our PBITA would have been £20m lower if you mark to market at 31 December spot rates, rather than using the average for the year.

And so if I go then to the reported results, revenue growth of £7.4bn a 2.7% increase, PBITA before specific items was £442m, a 6% overall operating margin, and during the year we took £386m of specific charges which I'm going to cover in detail in the next few slides.

The reported PBITA after the effect of these specific charges was £56m an 84% decline year on year and an operating margin of 0.8%. The operating cash flow, again £460m and reported earnings per share a negative 24.9.

So let me know just take you through the details of the specific items, you can see the £442m PBITA there and then we had three elements of specific items. £136m with respect to a global review of contracts, the review of the balance sheet assets and liabilities £182m and combined £318m, restructuring that Ashley has already referenced of £68m; and Ashley is going to talk more about the detail of that and the payback and the returns and the profile of the previously announced restructuring that we talked about on the 5th of November and the acceleration that took place during the fourth quarter.

So let me know just turn to the contract review. You will recall that during 2013 we had both the Cabinet Office and the MoJ review all our UK Government contracts. And the outcome of these reviews was that there were no material issues except in relation to three contracts, electronic monitoring, the total facilities management contract around the Courts of Justice and the Manchester Magistrates contract.

And on electronic monitoring this was a complex contract, it was subject to multiple CCNs, or contract changes notices, as the contract evolved. And it has been nine years and 35 million records that we've been working through with the MoJ and our contract was roughly 60% of the UK electronic market. And as Ashley just said, we continue to make satisfactory progress in our discussions with the MoJ.

Overall we took a charge of £136m, principally relating to UK Government contracts, but really on the back of the issues in the UK I initiated a global review of contracts. And that - we looked at the size, the profitability, the risk profile of those contracts; it covered 163 contracts in total with an annualised revenue of around £2bn.

I have to say the overall financial disciplines and management disciplines around the contracts on a global basis were very robust indeed. On a handful of contracts within the £136m we took a small charge for future losses on those contracts. But principally the £136m relates to UK Government contracts.

Let me just turn to the review of assets and liabilities. At the half year we did an initial review of the carrying value of assets and liabilities and it was done in a compressed timeframe, really focused on the largest business units and the largest countries.

I've had the opportunity to complete the exercise more comprehensively, covering all business units and all countries around the world. Within the Group we have around 900 legal entities, so the completion of the review was done at that level of detail. And the total charge of £182m really arises from taking a much more balanced judgement on the treatment of these items. And the charges for the full year are really three or four things; one - for the impairment of fixed assets, within the current asset write downs inventory obsolescence, the write down of receivables and capitalised costs, and the recognition of employee related liabilities.

So let me give you some examples in plain English. We've historically capitalised internal transformation programmes, so on the 5th of November we talked about for example some of the initiatives around the G4S Way and documenting best practice and making that available to the rest of the world. Well those items are really, on a balanced accounting judgement, proper revenue costs and should not have been capitalised.

Equally we sometime carried obsolescent stock, even though when you look at the product catalogue and the current product offerings they no longer featured as current portfolio, yet we were carrying those in stock. And on receivables we didn't always take a robust view, and certainly didn't account for them in line with the rigorous accounting policies we have within the Group finance manual, around aged debt or disputed debt. So the more balanced judgement really explains that charge.

And then the right hand side is the analysis of the £40m relating to 2012 and gives you an understanding of the effect of that on the prior year, so you get the like for like understanding of the underlying trajectory. Net-net a really comprehensive review of the carrying value of the assets and liabilities across around 900 legal entities across the Group.

Let me know just turn to the bottom half of the P&L. Our interest charge was £128m for the year; this is a result of the higher net debt in the first eight months of the year. We of course got four months cash benefit from the share placing in August and this was offset against our £1.1bn revolving credit facility. The revolver is our cheapest debt; it's at around 1.3% above Libor so that benefit of the share proceeds in August really had a limited impact on our net interest charge.

And just to remind you also, the interest charge includes the IAS 19 adjustment. It was £20m for 2013 and the comparative of 2012 was £15m. The pension interest charge for 2014 will be £21m and overall I expect a similar net interest cost of around £130m for 2014.

Let's look at amortisation and acquisition expenses. The £76m is the normal amortisation of acquisition related intangibles, but also includes around £4m of acquisition related expenses, principally for the acquisition of Depositor in Africa and small Cash Solutions acquisitions in Asia.

The goodwill write down we took at the half year of £46m, relating mainly to our Brazilian technology business and to our Cash business in Ireland and some smaller businesses in Africa.

We also made a profit on disposal of £24m for the sale of the Colombian Data Solutions business.

Let me just cover tax, the tax charge on underlying profits was £75m, an effective tax rate of 24%. The £19m in specific items is the tax effect of the specific charges. For 2014 I expect an effective tax rate again of around 24%.

Discontinued operations related to the Cash Solutions business in Canada, our business in Norway, both of which - the sale of which completed in January, as well as the US Government Solutions business which is included in here and as Ashley explained, is at an advanced stage in the sale process, but completion of which is dependent on reaching satisfactory terms.

Let me know just turn to the cash flow statement. The full movement of net debt is shown in the slide, starting on your left hand side at £1.8bn being the opening debt last year. The net cash generated from continuing operations was £460m and this £460m really comprises the PBITA after specific items of £56m, adjusted for non-cash movements - depreciation and amortisation, asset impairments, movements in provisions.

In the middle of the chart we paid out £38m of normal deficit repair contributions on the UK defined benefits scheme. And then right in the middle I just want to dwell on and talk a little bit about working capital. We have a strong focus on cash, and all business units today are measured on operating cash flow within their performance contracts. And our greater focus on cash generation has started to show some early benefit. There are also a small number of large swing items in that number, which is in the detail of your announcement today.

We did get the benefit of the Olympic receivable; we had £76m outstanding in 2013 - in 2012, receipt of which was in 2013. But also recognise that around £60m of supplier payments were withheld in December '12 that had a cash outflow in January '13. And on electronic monitoring during 2013 we had outstanding payments from the UK Government of around £27m. So net-net the effect of all of those meant that the underlying working capital improvement really had to drive that overall improvement of £87m. And whilst there's more to do it was pleasing to see some of that early traction come through on working capital.

Looking at the investment side - the cash generation allowed the Group to invest around £211m in the business. That largely comprises vehicles, plants, and equipment, mobilisation of new contracts; we also had the acquisition in South Africa and Asia that Ashley referred to. And that acquisition cost of around £35m was offset by the proceeds from the Colombia and Slovakia businesses.

So within that £211m capital expenditure you'll see in your detail was around £199m. That £199m includes around £30m with respect to investments in public/private joint ventures in some of our emerging markets. So the underlying capex for property, plant, equipment, vehicles was around - you know £169m. For 2014 we expect capex to be around £200m, really reflecting the underinvestment we've seen in many parts of the business historically.

In terms of use of funds the £352m comprised interest, tax and dividends. Interest paid was around £110m, tax £88m. And the effective cash tax rate in the year was around 28%, which largely reflects differences in the timing of payments based on assessments of 2013 profitability.

We also paid dividends of £154m and as you know we raised £343m from the share placing in August. And finally we had net cash from discontinued operations of £29m. Meaning that we finished the year with net debt of £1.5bn from the £1.8bn at the beginning of the year and net debt to EBITDA finished at 2.6 times, an improvement from three times this time last year.

Let me turn to financing. Our funding profile remains robust; we have £965m of unutilised and committed facilities. We have no material maturities until March '16. And since the 31st of December we've also had the benefit of the net proceeds of £89m from the sale of our businesses in Canada and Norway.

Together with our continued focus on driving sustainable profitability and cash flow we expect our net debt to EBITDA to continue to come down in the medium term. So let me summarise, the business has good growth momentum, especially in emerging markets. 2013 PBITA was impacted by US and Europe, which we talked about at the half year and in Q3. And we've had a significant set of one offs clearing up longstanding issues as well as the acceleration of restructuring.

It was pleasing to see the cash flow coming through at £460m and we finished the year in a stronger financial position, but also having laid strong foundations in place for 2014. With that let me hand back to Ashley.

Strategic Priorities

Ashley Almanza, Chief Executive Officer
Thanks very much Himanshu. Okay, in November we laid out a number of strategic priorities and I just want to take a few minutes to cover some of those. These are the priorities I think you will recognise and we'll address each of them in turn, starting with strategic focus.

A slide I think that will be familiar to you, on the vertical scale we have cumulative profit and on the horizontal scale we have a number of countries. And what it says quite simply is that 62 countries contribute 95% of our profit by 2016. That's not to say that everything to the right of the curve - of the vertical line I should say, doesn't belong in our portfolio, you know, from acorns grow large oak trees. And we know we've got some very promising small businesses to the right of the curve that we're going to invest in, nourish and grow.

But we applied a number of filters, materiality, growth, profitability, risk profile, market value, to our portfolio and we reached a preliminary conclusion in November last year, identifying 35 businesses that we needed to put through a more detailed examination to determine whether or not we should invest to grow, restructure, turnaround, or in some fashion exit those from the portfolio - either a disposal, or for smaller loss making businesses a discontinuance.

I'm pleased to say we've made satisfactory progress with this strategic priority. What you can see is the first row is what we set out in November and on the second row of that table you can see the position we're now in, we've dealt with nine of the 35 businesses and you can see for a very modest reduction in overall profit for that group of businesses we've achieved I think some very satisfactory results.

We've focused on high impact, or low materiality business. By high impact I mean for really trading substantial cash flow today for a business that might be a structurally challenging market, unprofitable for many years, and very difficult to see, even with investment, how you could make that business profitable given the structural conditions in that market.

We sold our business in Norway and our Cash Solutions business in Slovakia for £30m and we discontinued four smaller unprofitable businesses. Three other businesses have been rolled in, or folded in to other business units with synergies and we are confident that we can manage those businesses in a profitable way.

If you add to that the successful sales of our Canadian Cash business and Colombia you can see a further £94m. And there are two further sales that are well advanced, one of which is US Government Solutions and another which for commercial reasons we've not yet disclosed. Both well advanced, both subject to satisfactory terms.

So this programme I think has a number of benefits, it brings - it's one dimension of performance management, it brings real attention on those businesses that are either unprofitable, or underperforming, or immaterial and causes us and our colleagues across the management team to really take a view - are we going to get this business into a position where it earns its place in the portfolio? And if the answer is no we have to take action to deal with that.

The benefits are not only financial; it's not only about improving the quality of the portfolio and harvesting value where that can be done. It's also about management dilution. What we found was that many of these smaller unprofitable businesses were absorbing a disproportionate amount of management time because they had - you know one of the characteristics of an unprofitable business is it has problems. And you end up devoting too much management time to problems and not enough time to the really high quality opportunities in the portfolio. So this will remain an important tool in our management toolkit.

Management - we referred earlier in the presentation to changes in executive leadership in a number of our regions. Of course there has been significant change in the Group Executive team, bringing it all together across our global leadership team, which is approximately 120 of our most senior executives across the Group we have made 28 senior appointments in the last nine months.

So a lot of time and effort, my time and colleagues on the Group Executive, Himanshu and the rest of our colleagues is being spent on identifying where we need to strengthen our management team and then going through the process of going into the market, finding the right candidates, short listing and appointing. It's a time consuming process, but it's well worth the investment.

We've also created some new roles and made appointments there. Three that I would highlight, Chief Information Officer, Chief Procurement Officer, Group Head of Risk and Programme Assurance who we mentioned in November. The CIO has got a very important role to play in this company, because of the way we've grown over many years there's an important job to do to improve IT efficiency and effectiveness. And I'll come back to that in a moment.

Procurement - we don't have a global procurement function, we have many good procurement colleagues in business units around the Group, but that's not pulled together in a coherent way. And we've made an appointment, a new Chief Procurement Officer who will be joining us in two or three months and again a very important agenda and I look forward to providing you with an update on progress there in due course.

We've also set about benchmarking our organisations, starting with the areas where we see the highest potential to make a change that will not only bring efficiency, but improve the effectiveness of that organisation. We piloted this in India, very successfully and although it's early days we can see the potential to apply this benchmarking in other parts of the organisation. So a number of things we're doing in terms of appointments and organisational efficiency which I'm convinced will enhance management capacity and capability and our organisational effectiveness.

Group values are something we touched on as well in November. We've refreshed and updated our Group values to more closely align those with our strategy, our customers and ultimately our shareholders - shareholder value creation. And we've added a seventh value which is very near and dear to me which is safety first, bringing a sharp focus on our safety performance.

It's very, very clear to me and to my colleagues on the Executive Team that investing in this area and making this an important aspect of everything we do all of the time, will improve the quality and the value of this company. And for that reasons it is a core objective of every member of the Global Leadership Team and it's in performance contracts. So there is an incentive for management, not that you only need a financial incentive, I think this has to come from within, it has to be a belief and we're promoting that belief. We've got a systematic programme including training and we're re-launching our values across the Group. A very important area and you'll hear more about this in due course.

I'd like to spend a moment on performance management. Again, what we've done here is we've revised our performance measures for the Global Leadership Team, again aligning them more powerfully with good customer outcomes and shareholder value creation, focusing on revenue growth - sustainable profit, by that we mean it's a source of profit that we can rely on in future period and when we measure it it conforms to the new standards that Himanshu referred to a moment ago. And the ultimate quality of earnings - cash flow. Not a metric or a percentage but real pounds cash flow.

This revision of performance measures has been translated into performance contracts. Our Senior Leadership all had their financial performance targets before they went home for Christmas, that's the first time. So they came and they started - the first day of school and everyone knew what the financial targets were for 2014.

That then gets cascaded through the global leadership team and the business units. Alongside those measures we've introduced something that we call ABP, accelerated best practice, prioritising high impact areas where we can transfer best practice in performance management from area of the business to another, or where we can introduce a new way of managing a particular dimension of our business, whether it's revenue or cost. And I'm going to come on to say more about that in a minute.

So we've put the framework in place and the task now is to embed that in our monthly and quarterly routines so that this way of managing performance just become reflex, it becomes a deeply engrained habit.

I mentioned ABP, or accelerated best practice. What we've done is we've gone through the business and this was part of that we did last year, the bottom up business review which is carried through into this year. And we've identified those areas of the business where we think through accelerating the introduction, or transfer of best practice across the Group, we can have the biggest impact on effectiveness, efficiency and profitability.

These are the priorities under accelerated best practice for 2014 and I'll go through them fairly quickly, I'm happy to talk about them during Q&A. Direct labour efficiency, hardly surprising we employ over 600,000 people in our company. If you can make even an incremental improvement in labour efficiency you can have a big effect on the bottom line and you can also have a big effect on customer satisfaction.

This is about getting the right people to the right place, at the right time and ensuring that hours contracted, hours paid, hours billed and bills collected are all the same thing. And what we have found is that is not the case across the business. There are some good practices being deployed in parts of our business, but I think there are very few, if any, places where we see systems being applied and used to their full potential to ensure that hours contracted, hours billed, hours collected, all look like the same number. So a big opportunity for us, very early days, but we're going to set about targeting our highest value opportunities and going after labour efficiency.

Route planning and telematics addresses really vehicle fleet. We have thousands of vehicles covering many millions of road miles each year; this programme is designed to look at how we can employ technology to reduce the size of the vehicle fleet. When you do that you reduce the number of drivers you require and it's also focused on improving customer satisfaction, being at the right place at the right time and lowering fuel cost. A big prize for us, very early days, but we think that by deploying technology in a disciplined way we can improve our performance here.

IT standardisation and infrastructure rationalisation - I mentioned we've appointed a CIO he's here today, Martin Taylor, he's an experience, seasoned CIO. We conducted a baseline study in the second half of 2013. We went out to the business and we tried to inventorise our IT estate. And what we found, not surprising, was a proliferation of infrastructure, applications, ERP systems, no standard for desktop, no standard for what equipment employees should have according to the role that they're performing.

What we also found is that we're spending 20% of Group operating cash flow on IT. So we think that there's an opportunity here. We appreciate that this not a big bang, it's not a quick fix, we're going to go about this in a discipline, systematic, structured way, but this is a large prize for us.

Procurement, I mentioned earlier we don't have a global approach to procurement, we've hired a CPO, and he's going to bring immediate focus to a standardised approach to category management and integrating our global and local effort to leverage our purchasing power. We're spending on non-payroll spend $1.5bn to $2bn a year, that feels like purchasing power to us and we're going to go after it.

And then shared services, we've touched on this already, in the UK we're putting in place a shared service centre for our back office functions and in North America we're combining Canada and the US into a single shared service centre, currently there are two and that's going to be based in the United States. We've identified two further areas where we will pilot, probably not this year, Europe and Africa, some smaller shared service centres - so high potential, cost improvement, operational effectiveness opportunities.

Restructuring, Himanshu touched on this, on the left hand side of this slide what you have is the plan that we laid out in November. The change of leadership that we had in both the UK, with the appointment of Eddie Aston and the appointment of Graham Levinsohn in Europe gave us the opportunity to take a fresh look. And what we realised was that we could accelerate this. And as you know with restructuring programmes around three quarters of the costs are payroll costs, so acceleration can have a dramatic impact on the economic return that you achieve.

We've put in place structured plans, those plans have been communicated to the unions, to employees, to landlords, to all of those that are affected and we're now through 2014 going to be implementing the restructuring plan which previously we'd have rolled out over probably a further 12 months. All of these deliver - each one delivers an internal rate of return after tax of more than 10% and a payback of between 12 and 36 months.

So these programmes will strengthen our competitive position, principally in the UK and in Europe and we'll keep you updated on progress.

Technology is something we talked about, again in November. We're looking at the developing of our technology in G4S in three distinct ways. Customer facing technology, or go to market technology, operational technology - technology we deploy every day in the delivery of our service, which affect both the effectiveness of those services and the efficiency; and then infrastructure and shared services, which I've touched on already.

Customer facing technology, we've identified centres of excellence, areas where we have capability, people, technology, IP that can be deployed in other parts of the Group in markets where today we don't have a presence. The centres of excellence are the US, the UK, Europe and South Africa. And what we're now doing is building regional capacity in other part of the Group, because it's no good pushing that technology out from the centres of excellence if there's no one on the other end to receive and take it to market. So we're building capacity in our other regions in order to absorb the push from our centres of excellence and take that to market. And again we'll come back to that.

And the third category is operations, infrastructure and shared services. We've touched on that already, the appointment of a CIO who is going after the opportunity to standardise and globalise our IT estate; I want to stress in a phased and disciplined fashion. You will not see a big bang technology project from G4S, but there's a big prize that we can go after in a more structured way.

Customer facing technology - I said that we're building capability in the regions to pull on the centres of excellence. Over the last nine months we've employed 90 new employees, specialists in systems and technology across the Group as a whole. We're also reorganising our resource and capability in the US. I mentioned earlier we've focused quite heavily on the federal and state opportunity and we're repositioning to also address the commercial market. So we've made a number of important hires there to spearhead that effort. And as I said earlier we're investing in CASH360 in the US and we have a very important pilot project. We see huge potential, very, very early days, too soon to know for sure how that's going to turn out, but we're going to invest because we have confidence in the scale of the potential opportunity.

The Middle East has been a focus area for us in the second half of last year we conducted a detailed market assessment. We estimate $2bn per annum market size for Security, Technology and Related Technology. We think that's probably a conservative estimate. We're now investing in bid and delivery capability on the ground, based in the Gulf States and we've made 52 new hires over the last nine months.

Depositor is the South Africa cash technology business which has performed well in 2013. I think we've got this on a proper footing in its home market, South Africa, and the task now is to start to market that and deploy that capability across Africa and also Asia and the Middle East.

In Europe we're integrating our Systems business and our Patrol and Response business to be in the position to offer a bundled product. And in the UK we're strengthening our sales resource team to make better use of our IP and technology know how that we have in our technology centre in Tewkesbury, which has been surprisingly not very focused on the market in the UK.

All of this effort is designed, in part to strengthen the quality and the scale of our pipeline. We entered 2014 with a pipeline of £5bn. And across the Group as a whole we've made 136 new sales and business development appointments. There is some overlap; some of those are in the systems and technology teams that we talked about a moment ago.

So a strong diverse pipeline, with an attractive organic growth opportunity and we're getting after it.

So in conclusion, I think it will be clear to everyone 2013 has been an extremely challenging year for G4S. We've taken clear action to address longstanding legacy issues in the business, and we've introduced wide changes to strengthen the company.

Our study and out bottom up business review last year identified the strength - confirmed the strength of our global market position and the attractive growth characteristics of many of those market positions and I think that's shown up in our full year results, 5.8% top line growth and 16% in emerging markets.

We have a clear and focused strategy against which we are now executing and we have an array, a strong array of performance improvement opportunities, revenue, cost, operating efficiency, gross margin and overhead, all of which we're going to go after. We're investing through the cycle in our resource and capability to deliver sustainable, profitable growth. All of these measures and the actions we've taken to deal with long standing issues and put the company on a solid footing, give us increasing confidence and enable us now to focus on the growing demand for our services and our customer needs.

That concludes the presentation ladies and gentlemen, we'll be happy now to take your questions. I think we have a roving microphone - we do. Could I ask you please when you ask a question to state your name and your affiliation?

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Questions and Answers

Andrew Ripper, Bank of America Merrill Lynch
Morning, I've got a couple if I may. First of all just in terms of the receivables adjustment Himanshu, it looks like it was as UK issue, can you be a bit more specific about what it related to?

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Himanshu Raja, Chief Financial Officer
Clearly it would be inappropriate to go into individual customers, but you'll see in the segment analysis I've tried to show both the UK as well as all the segments on reported and underlying. It's really across the board; it's not just the UK where you'll see that we had issues around disputed and aged debt, really like I said in the presentation. So there are examples where we have dispute letters for customers, we've been in negotiation for a while, but there really wasn't, you know a clear case where we were going to recover those debts. So I recognise we're giving you a generic answer but it would be inappropriate to go into specific customer issues.

Andrew Ripper, Bank of America Merrill Lynch
And then secondly on the provisions. Obviously with the charges there's been a big increase, I think about £190m increase in provisions at the yearend. I guess the biggest component of that relates to the future MoJ settlements. But can you clarify for us are there provisions in there in relation to onerous contracts which lost money in '13? And if so, what the ongoing impacts would be as those losses drop out of the P&L?

. . . .

Himanshu Raja, Chief Financial Officer
So there are two things in there in the provisions. So it's the £136m of specific charges for contracts, and there's around £50m with respect to the review of balance sheet assets and liabilities. Within the 136 it's principally UK government contracts, although there are a small handful of contracts from around the world from the 163 that we

reviewed. And of that small handful those will unwind over the next three to four years, that's the lifespan.

. . . .

Ashley Almanza, Chief Executive Officer
I think to the second part of your question Andrew, the impact on future profitability I don't think is going to be material. This is I think good housekeeping that's being put in hand.

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Andrew Ripper, Bank of America Merrill Lynch
And then just finally in terms of the restructuring, you talked about a one to three year payback. I wonder if you could just be a big more definitive about the benefit in '14, and for example of the headcount reductions that you flagged of 3,000 odd, how much of that has been done already and where could you get to by middle of this year?

. . . .

Himanshu Raja, Chief Financial Officer
I'd split that into two. Of the 68 around 35 million was done just after the half year, around July/August, and predominantly in the UK. So one to two year payback on that. And then the 33 which took us to the 68 was really done at the end of the year, so during December. And that has a slightly longer payback of two to three years.

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Ashley Almanza, Chief Executive Officer
With the emphasis on Europe.

. . . .

Himanshu Raja, Chief Financial Officer
Yeah, hence the longer payback.

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Ashley Almanza, Chief Executive Officer
Yeah. Thanks Andrew.

. . . .

Rob Plant, JP Morgan
It looks to me as though probably Q4 organic growth stepped up to around 4.5% after Q3 was about 3.6%. What kind of growth could we expect for 2014? The outlook does point to improving revenue. And within that emerging markets did well. The cut-off date was the end of Q4. There's been emerging market turmoil since then. Has the emerging market division suffered in Q1 at all?

. . . .

Ashley Almanza, Chief Executive Officer
So it's quite early in the year so there's, you know, a lot of road still to travel before we know precisely what the organic growth is going to be like. I'd say a couple of things. We've been investing in building sales and business development capability. That work is not yet complete. And it takes time when you put resource on the ground to establish your credentials in the market and to get go forward momentum. But we would be disappointed if we didn't see any payback on that investment at all towards the end of the year, let's say.

We have not seen in the demand for our services a slowdown in emerging markets, but I don't think it would be sensible for me to sit here and say I expect us to knock out 16% again in emerging markets. I think that would be a quite exceptional outcome and not a proper basis for planning. But we continue to see good demand for our services across emerging markets. I think the more obvious short term effect is going to be on our numbers, will be exchange rate. And Himanshu has I think provided some guidance in his presentation, and also in the release as to you how might calibrate that.

You know we're two months, two completed months, into the year and I think we would say satisfactory start to the year, but too early to put a sort of organic growth target out there Rob. But we know that, for example, Manus Island will come to an end at the end of March. But, you know, we're not without cards to play in Asia. We know that in some markets we're struggling to keep up with demand and that if we can get good resource to the coalface we can make progress there. So I think this early in the year we still see a balanced set of risks and opportunities to drive the business forward, but you won't be surprised we're not going to give a target on organic growth for this year. But satisfactory start to the year so far. Thanks.

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Kean Marden, Jefferies
Morning gentlemen. Can I turn first of all just to 2014, because to some extent 2013 is now a little bit historic? So with - you've obviously revised the operational management sort of KPIs. I'm wondering if you can share some of the proposed revisions to the executive management team, so on the PSP, sort of thing. My understanding is that the proposal is still for quite an EPS growth heavy set of KPIs, I think with a growth band of somewhere between 5% and 12%. I'm just wondering whether you can comment on whether that's accurate and what you have proposed?

Secondly, Himanshu your net interest guidance for fiscal '14, have you made any particular assumptions regarding disposals or DSO improvement within that that we should reflect?

And thirdly, should we now be including RSS in continuing, rather than discontinued?

. . . .

Ashley Almanza, Chief Executive Officer
Let me take the incentive question first, and Himanshu can take the discontinued and DSO question. With the incentives, first thing to say this is obviously going to go to a shareholder vote, and we've had pretty extensive shareholder consultation iterative to develop something that we think not only drives the company forward but that straight

away has the support from shareholders because of the strong alignment with their objectives.

Important thing to say is that it's not only the measure but how you measure it. So a big part of what we were doing in 2013 was effectively changing the mindset of the company about what you measure and how you measure it. So for example when we talk about profit we are talking about a different profit measure. There are certain things that just don't count towards your bonus if they show up in profit. And I think we've got a much clearer and explicit understanding right across the company of what constitutes sustainable profit that goes into the bonus calculation. The benefit of that is the sort of profit we're interested in is cash generative profit, and I think that's strongly aligned with shareholder interests.

The other thing about measurement is I think I've probably shown my hand on OCF. I'm quite cautious about using quotients and metrics that have a lot of management input into them. So we're going to lift numbers off the cash flow statement and we're going to look at cumulative cash flow. In our annual programme we're going to look at operating cash flow, what is actually delivered by the operations. So sharp - you know brings into focus working capital management. And in our longer term incentives we're going to look at cumulative cash flow over a three year period. So again it's what we're measuring and how we're measuring it.

The breakdown of the scheme, and Helen is going to correct me if I get this wrong, is 40% EPS, 30% cash flow, 30% TSR. And again we've consulted - I'm getting a positive nod over there, so we've consulted with shareholders on composition of the TSR group, composition of the metrics. So I think what we've got here now is first of all consistent with the discussion that we've been having with the organisation for the last nine months about what matters when we measure performance, and strongly aligned with shareholder value creation.

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Kean Marden, Jefferies
And sorry just to press you on that Ashley. The EPS bands, I picked up 5% to 12% with sort of full vesting at 12% and I think lower quartile being 5%. Is that accurate or have those moved?

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Ashley Almanza, Chief Executive Officer
Through the consultation process that was refined on an iterative basis. I think that is where ended up but we'd need to double check.

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Helen Parris, Director of Investor Relations
It's in the annual report.

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Ashley Almanza, Chief Executive Officer

Thank you Helen. Helen has just reminded us it will be in the annual report, but we'll tell you before then. We won't keep you on tenterhooks.

DSO and discontinued.

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Himanshu Raja, Chief Financial Officer
RSS is back in continued operations. And on your interest question, that's a normalised interest outlook for next year. In other words it does not take account of disposal proceeds. Does assume, you know, a level of DSO improvement because that's back to the focus on operating cash flow.

. . . .

Sylvia Foteva, Deutsche Bank
Hi, good morning. Firstly can I ask on the electronic monitoring provision, that's obviously significantly higher than what Serco agreed so can I just check, is that the fine plus some losses or can you specify at this time, I'm not sure? And what might the cash impact be I suppose?

. . . .

Ashley Almanza, Chief Executive Officer
Thank you. Yeah so we are not privy to the details of Serco's settlement. I think when you add it all up from public data, it looks like the total cost that they incurred, excluding - I think they have identified an ongoing cost of around 15 this year, 10 every year afterwards. Excluding that ongoing cost I think we make the number to be about 96 total. So you know there have been various different announcements, you've got to add them all up and get to a total cost.

We were clearly the largest supplier in this market; 50% larger than the next largest supplier. And as Himanshu pointed out, you know we've gone through 35 million records over nine years. So first thing to say is we just had a bigger piece of the market, 50% bigger, and that has some impact on the numbers.

I think, and I'm not giving you a number because there isn't a number yet, but the programme of change and transformation that was initiated in this company, frankly before electronic monitoring became an issue and before corporate renewal became an explicit requirement, and a legitimate requirement, UK corporate renewal, we had started on that journey.

And so when we stood up in August and November last year and talked about our plans, in essence the change programme was fully costed into our business plan. We don't anticipate having the ongoing cost. I'm sure there are very good reasons for other companies to have it, we just don't see that as a significant incremental cost to our existing plans. Not because we won't be embarking on UK corporate renewal, quite the opposite, we have already. I think if you just consider what we said in the presentation a few minutes ago, extensive management change in the UK business, a dedicated UK government solutions business with a new leader and new team around him. The introduction of a group head of risk and assurance, and under Himanshu's leadership putting in place a more structured approach to assessing contract risk to managing audit risk.

We're not going to, you know, become overly bureaucratic, these are what I would call just basic sensible controls, checks and balances that we're putting in place. All of that is costed in our plan so I don't think it's right for me to make a direct comparison. But I don't see anything anomalous in where I think we're going to end up versus what you might call the only other benchmark in the market. So slightly long answer but hopefully covered everything.

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Sylvia Foteva, Deutsche Bank
Thank you. Then -

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Ashley Almanza, Chief Executive Officer
Oh you've got a follow up.

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Sylvia Foteva, Deutsche Bank
Oh sorry I have another one, yeah.

. . . .

Ashley Almanza, Chief Executive Officer
Yeah go on.

. . . .

Sylvia Foteva, Deutsche Bank
Didn't want to list them all. And then for Himanshu, how should we think about I guess margins for 2014? So you've got - it seems like a few things have changed. So do you still have the 15 to 20 investment planned in sales and business over the year? And then the Manus Island, how should we think about that in terms of impact?

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Ashley Almanza, Chief Executive Officer
So just before Himanshu.

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Himanshu Raja, Chief Financial Officer
It's the margin question, go ahead.

. . . .

Ashley Almanza, Chief Executive Officer
Our goal is to grow profit and cash flow. Margin is an important dial on the dashboard but we need more than one dial on our dashboard. It's a very large company, many

things we need to take care of to make sure that the aeroplane is ascending and in good shape. Manus is one contract in a very large portfolio of contracts, and I think it's quite important for management and dare I say a helpful way for investors to think about the business. We're managing a portfolio of contracts. Some will go out but at the same time as those go out we of course have significant resource deployed against the market bringing in new contracts. So we also mentioned this morning a five year contract of €50m per annum new in our Dutch business.

Contracts will come and go. There's no doubt Manus is a good contract and has made an important contribution to the business overall. But I don't think we can say because one contract falls out we're going to update margin guidance by, you know, 7.5 bps or make a change to the outlook of the company. One of the benefits of this company is the diversity of the business, diversity of market, diversity of customer segment, and the scale of the contract portfolio, that gives us resilience. So we're not complacent about losing business like Manus. We don't like to lose that. We don't know if we have lost it, it's going out to tender. We've yet to decide whether we will bid. That's a balanced assessment on the opportunity and so on. But I think what I'm saying really is we don't have any comment to make on margin as a result of Manus leaving the portfolio.

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Sylvia Foteva, Deutsche Bank
Okay, that's clear, thank you. And sorry if I can have a third one.

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Ashley Almanza, Chief Executive Officer
This is going on.

. . . .

Sylvia Foteva, Deutsche Bank
This is the last one. And just on cash, so can you just - on working capital I guess you are assuming some improvement in the DSOs but we should be seeing a small out flow I guess, kind of medium term. And then the 20% spend on IT out of your cash, can you just elaborate a little bit on that? Is that internal systems and kind of the systems business, or how does that split? It's quite a significant number as well.

. . . .

Ashley Almanza, Chief Executive Officer
So I'm going to ask Himanshu to comment on IT in a bit more detail in a moment, but it's predominantly infrastructure and back office systems. So when we did this base line we went out and collected all the data. We think we got a reasonably good response and a good grip on what everyone on the room would recognise as infrastructure IT, desktop standards, you know and so on. So I think we probably didn't capture everything in the other two buckets, and in particular the cost of operational technology. I think we've got a bit more work to do.

But the prize is big enough for us to go after it. We don't - it's the 80/20 rule, we don't need to polish that any harder to know that, you know, it's a diamond in the rough, we better grab it with both hands. So but this is an area that Himanshu is leading with Martin Taylor, our new CIO. And I don't know if you want to add anything to that Himanshu.

. . . .

Himanshu Raja, Chief Financial Officer
Just give some colour on it really. If you think about how the business has evolved over the last number of years, and through acquisition, there's never been a functionalisation of IT. And consequently we have thousands of servers in hundreds of locations. We have different networks. We have approaching 200 finance and HR systems. We have over 1,000 core applications where already, and Ashley mentioned around labour scheduling, telematics route planning, we've already identified, you know, and actually best practice that exists in the group that we're already starting to roll out.

So we know the portfolio, we know the prize, now it's just chunking through in a systematic way and replacing the legacy with the new. And we're more advanced in some areas than others. The UK SAP programme we talked about in November, that's well advanced. US and Canada coming together is well advanced. But on the blocks we have shared service initiatives for example for Africa and for Asia, and in time for Latin America. So just gives you a sense of the scale of opportunity, and I'm delighted that Martin is onboard. He's somewhere in the audience to help me with the heavy lifting.

. . . .

Ashley Almanza, Chief Executive Officer
Thank you Himanshu. The thing I want to stress again is we're very conscious of the corporate lessons that are everywhere to be seen on IT and IT transformation. We know that we have to safeguard operational delivery, and therefore this change needs to be first of all phased, properly planned, properly resourced. We can't just lean on the business, say put a new system in and expect them to deliver it, because we know customer service will suffer and we can't do that.

So we're going to go about this in a structured way. We won't capture the prize in 12 months, we won't capture it in 24 months. But we're going to capture it step by step, but the longest journey begins with the first step, and that's what we're embarking on.

We're going to ask someone else to ask a question. Thank you very much for your questions.

. . . .

George Gregory, UBS
Three questions if I may. Firstly, in terms of the restatement to the 2012 PBITA, if we recall back to the summer there was quite a significant restatement then with some profits on disposal and other adjustments made. Perhaps you could elaborate on what precisely has driven this second restatement. And then I'll take the second and third after that please.

. . . .

Ashley Almanza, Chief Executive Officer
Okay. Well this is a shared responsibility. So Himanshu will be much better equipped to deal with the complexity here. But one distinction to draw is there is a formal restatement, in other words under the accounting rules a statutory restatement which will appear in the annual report. And that was the restatement from 516 to I think at the exchange rates then 466. I think now adjusted it's 470. That restatement stands, no change. It's a statutory restatement which will appear in the annual report as the comparator. There's then effectively a pro forma exercise which Himanshu has led to say yes fine, that's the statutory number but what do we, from a management accounting point of view, regard as the true underlying number? And that's where Himanshu took the exercise to the next step, so.

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Himanshu Raja, Chief Financial Officer
So just to help you on that 516 to 466, that's now 470, that's simply RSS coming back in which we talked about earlier. And the 516 to 470 was just to strip out and separately identify one off credits. They were fair value provisions that, as Ashley talked about earlier, historically had been recalled into operating profit. What we did at the half year was to separate that out to give the true underlying business profit, and the statutory. And you'll see the 470 on the income statement on page 14.

The 470 to the 430, as Ashley said, is about giving you a like for like basis, and giving us as management a like for like basis, adjusting for the review of assets and liabilities. So you know really, with the benefit of new information and looking back to say you know were we to revisit those judgements as at December 12th, what would a more balanced judgement have been to recognise the write down of obsolescent stock for example that I talked about, or items on receivables that were clearly aged, you know, and with long standing dialogue correspondence with customers about the recoverability of those.

So this was not done as a top down exercise. It was done as a bottom up exercise with a very thorough review within Group finance, but naturally of course it went through the audit committee and the auditors and so on. And therefore just gives us a like for like comparison year on year, 442 to 430.

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George Gregory, UBS
And presumably therefore the 442 or the 420 adjusted for FX would be a clean base to use for our projections for '14?

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Himanshu Raja, Chief Financial Officer
Indeed, yeah.

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Ashley Almanza, Chief Executive Officer
The 442 is auto statutory number.

. . . .

Himanshu Raja, Chief Financial Officer
It's a statutory number.

. . . .

Ashley Almanza, Chief Executive Officer
So it's a clean base to go forward.

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George Gregory, UBS
And so following up on that then, just thinking about 2014 profits. Appreciate you don't want to give margin guidance and nor do you have to do that, but there are quite a few moving parts. You've got benefits from cost savings, you've got other things. How should we be thinking about that at a high level at this point in the year?

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Ashley Almanza, Chief Executive Officer
I think at a high level the way we're thinking about this is there's a balance to be struck here which is we see a high quality organic growth opportunity. We have to invest in that. That's the economically responsible, rational thing to do. And when we invest in that historically organic investment I think has suffered in attracting resource in this company because it's punished the profit and loss account. We think there's a better way to think about that proposition.

So the balance we're trying to strike is to invest and we've talked today about, you know, over 100 new employees in sales and business development. To invest in restructuring, and there over 3,000 employees will leave the company over the payback period that's been identified, and to show progress. I think showing progress in terms of profit and cash flow is important, not only for shareholders it's very important, it's important for our company, for our management team, for our employees to see that the things we're doing have an effect, a positive effect.

So it's a balance George, we're constantly managing, which is if we see an opportunity in a market to deploy a resource, to go after an organic opportunity, that may cost a few basis points, it may take some profit out. Now we've identified a sum of money and that sum has not changed. But I think that in high level terms we're looking to make progress on profit and cash flow this year. I'm not going to give a target and I'm not going to scale precisely how much progress, but that's the, in high level terms, how we're thinking about it certainly.

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George Gregory, UBS
And one final one if I may, just on net interest, Himanshu. Just you said that you'd expect net interest to be broadly flat on the 2013 number. I mean clearly the average debt level presumably should be ebbing down, and you mentioned that you hadn't seen the full benefit of the placing. Perhaps I missed something but what is the reason for the implied effective rate going up?

Himanshu Raja, Chief Financial Officer
George, when you look in the release I lay out the debt profile of all of our borrowings. And the offset opportunity I have as I generate cash is really the revolving credit facility. It's £1.1bn. It's also the facility that carries the lowest interest so I don't get much net benefit on the interest line. My earliest maturities are in March '16, and then progressively from '17 through to the year '22 at a much higher rate. So there's no economic case today because they carry the natural early redemption penalties. That's the simple reason.

George Gregory, UBS
Thanks very much.

Alex Magni, HSBC
Morning. A couple of - well three questions on the electronic monitoring contract and the settlement. When you originally proposed a settlement it was I think of the order of £25m which you'd said had already been provided for in the H1 provisions. I'm trying to understand the gulf between what you thought was a level of overbilling and what the MoJ feels is the appropriate level of penalty to be paid. It feels almost like the entire cumulative profit of the contract over nearly ten years. To that extent - or to what extent has that changed your perception of risk of doing business, and risk of failure, or contracts going wrong with the public sector? Have you revised the way you intend to bid and the type of margins you'd like to see achieved on contracts?

And then the final part of the question just comes down to the way this was provided. If I understand correctly about £25m was set aside in the H1 provisions. Assuming that numbers we're reading in the press are reflected in the current provisioning, I assume that the increment was taken against the 136, and would that therefore leave me with about £60m of onerous contract provisions for other things that would be amortised? Thank you.

Ashley Almanza, Chief Executive Officer
So take your last question first. What we can't do just - there are a series of protocols. What we can't do is by deduction provide a piece of algebra that allows everyone to pinpoint the settlement. We have just got to follow protocol I'm afraid.

The £25m, I don't believe we positioned that as a settlement. We announced it as a credit note. And that just simply reflected the board and management's view that if at any point we became aware of overbilling, we confirmed that the customer had been overbilled, we would take immediate steps to set that right. And so as soon as we became aware that there had been an overbilling for equipment that was not fitted or removed, we issued a credit note. And that was the purpose of the £25m.

We were I think - hopefully we were clear. Certainly in our discussions with the customer we wanted a methodical, thorough process to understand very, very clearly what had gone on, what had gone wrong and what the financial consequences were. And as Himanshu has outlined, we went back over nine years, 35 million records, multiple systems, multiple contract change, enormous amount of effort.

And I think it's fair to say that this was, you know, a difficult exercise where the information was really emerging, even in the last week some of the information. I'm not saying completely new but the complexity of getting through 35 million records and analysing that and checking it and so on. And we were talking to the customer yesterday and last night about what some of this meant with, you know, the help of our team and specialist forensic advisers to really pin this number down. So I don't think we set it up as the settlement at the half year. It was a credit note which was due and we issued immediately. And I just don't think it was possible at the half year or any time before now for us to properly quantify the cost.

Now so what does this do in terms of our assessment of risk of doing business and the margins we would seek and accumulative profit? It doesn't represent incidentally the cumulative profit from the contract. And margins were definitely not the problem in this contract, the margins were quite adequate. There are lots of lessons for our organisation, for me, Himanshu, the rest of the exec team and everyone in the company; there are lots of lessons here. I think there were not appropriate checks and balances in place. Too much reliance, too much weight was placed on a small number of individuals. I'll say nothing more than that was both unfair to them and unwise in the context of the company managing this contract properly.

So the lessons for us to learn about how we managed contracts, what appropriate checks and balances. Again it doesn't have to be overly bureaucratic, some very, very simple checks and balances you could put in place. I think we need to be very, very clear, when we bid for and sign contracts, precisely what is required and what the customer expectation is. And then through the contract life communication around how we're meeting that expectation is very, very important. I think one of the lessons is the communication about what the customer expected, what the customer thought they were receiving versus what we expected was required and we believed we were delivering. That's the gulf that existed over a nine year period that has generated this issue. So lots of lessons.

I think the risk of doing business applies not only in this segment of the market but everywhere. I think we have to manage that risk just in a more rigorous way at the inception, when you bid, when you mobilise and when you deliver the contract. At every stage you've got to be managing that risk in a systematic way really, and make sure that there's no misunderstanding.

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Alex Magni, HSBC
Great, thank you.

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Ashley Almanza, Chief Executive Officer

Okay? Thanks Alex.

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Charles Wilson, Goldman Sachs
Hi there. Two questions. One just on your progress on operating profit this year. Would you define that as being growth?

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Ashley Almanza, Chief Executive Officer
I'm not sure I understand the question.

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Charles Wilson, Goldman Sachs
Well you say at the high level you want to make progress on operating profit. Does that include growing operating profit year on year on the 440?

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Ashley Almanza, Chief Executive Officer
Yes.

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Charles Wilson, Goldman Sachs
Yeah, okay. And secondly, do you see any risk if you don't dispose of RSS and if you pay that full 136 out, that the credit rating agencies will look at your balance sheet again? Do you see any risk on that?

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Ashley Almanza, Chief Executive Officer
I mean we're going to have to have a conversation with the rating agencies, rating agency I should say. I think they ought to and will look at the rounded performance of the business, and what we've done to strengthen the balance sheet. They'll look at some of the things that are in train which we're not able for commercial reasons to disclose. There's risk in everything, you know, but we'll have a grown up conversation and I think, Charles, they'll give proper weight to some of the other things that are going on in the company, I don't know.

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Himanshu Raja, Chief Financial Officer
I would just add Charles, you're doing a straight read across on that 136 as cash outflow. There are two or three things in there. There's wherever we finally get to and for the reasons Ashley explained can't tease out that number. There's amounts that are receivable not yet collected, with respect to EM. And thirdly on that handful of contracts there's a provision for future losses. We still have the obligation to deliver those contracts and therefore those future losses will unwind over the next three or four years

as we deliver those contracts. There's three things in there so it shouldn't be a direct read across as 136 million out flow. Further details to follow.

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Ed Steele, Citigroup
Couple of questions please. First of all on the 3,300 people that are leaving G4S, are they all G4S employees that are not guards or cash and service operators? Are they just part of your back office, if you like? And if so, what rough proportion does that represent of those equivalent countries total, just to get a feel for the total proportion that you've taken out of your cost base in those countries please? That's my first question.

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Ashley Almanza, Chief Executive Officer
I couldn't give you a precise percentage. It's not a large percentage because this is spread across UK and Europe and you can see, I think if you took last year's annual report and the breakdown there, we're 50,000 roughly in the UK and more than that number in Europe. So it's not a huge proportion. It's spread across all areas of the business. We're trying -

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Ed Steele, Citigroup
Are customers ex guards? So if you take out security guards and take out cash services people.

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Ashley Almanza, Chief Executive Officer
Yeah, I mean most of this - we're trying not to, as you will have gathered from our presentation, deplete our sales and our operating capability. I don't have the precise percentages but we've focused our efforts on first and foremost overhead. There are some - so for example in the UK we're rationalising our branch network that reduces the fleet size and therefore does affect some frontline staff. But don't have the precise percentages to hand, Ed. Happy to give them to you afterwards.

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Ed Steele, Citigroup
Okay. Thanks very much. Second question, the new Dutch cash services client, is that 100% new revenue and from when does that contract start please?

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Ashley Almanza, Chief Executive Officer
It is a new, completely new contract. And the contract starts -

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Helen Parris, Director of Investor Relations

Think I think it's 1st January 2015.

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Ashley Almanza, Chief Executive Officer
End of this year? Yeah.

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Ed Steele, Citigroup
Okay, thank you. And last question from me, I may be misremembering but the Djibouti bad debtor write off of I think it was £6m or maybe £8m, is that in your adjusted number? And could you just remind me of why you have some above and some below the line, if I'm right on that? Because obviously you've stripped out quite a lot of other receivable write downs please.

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Ashley Almanza, Chief Executive Officer
Do you want to take that?

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Himanshu Raja, Chief Financial Officer
I'll be candid; I didn't follow the question precisely.

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Ashley Almanza, Chief Executive Officer
I think the question is how do you - if I read through the question, what do you put in underlying, what do you put in the balance sheet review, if I understood your question?

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Ed Steele, Citigroup
Absolutely. Because I think, certainly in my bridge from 2013 to 2014 I've got I think £6m because you won't have a repeat of the bad debtor in Africa that you talked about in the half year stage, so I think that's in the underlying. Whereas you've obviously taken a lot of bad debtor write offs in the not underlying, in the exceptions.

. . . .

Himanshu Raja, Chief Financial Officer
What was said I think Ed at the half year was that we'd initiate an exercise to look at the balance sheet. We've now finished that and that's a onetime exercise that has been very comprehensive, done, and that's why we've identified that separately as specific items. You're aware there's a regular receivable that we can't collect, that's a proper underlying charge.

As to your detailed question on Djibouti, we can trace through where that is and come back to you.

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Ed Steele, Citigroup
Thanks very much. I'd just be interested if that's still in the numbers in the full year versus the half year, that's all.

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Ashley Almanza, Chief Executive Officer
Djibouti was continued. It's in discontinued.

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Ed Steele, Citigroup
Okay, my mistake. Thanks very much.

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Ashley Almanza, Chief Executive Officer
Yeah. So we've exited Djibouti. I think we announced that at the half year.

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Ed Steele, Citigroup
Okay.

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Helen Parris, Director of Investor Relations
At the half year. Yeah, it was in the announcement.

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Karl Green, Credit Suisse
Thanks very much. A couple of questions just sticking with Ed's question on receivables. Just quite simply in terms of the movement in 2013 versus 2012, obviously you've had that balance sheet review, you've also had a number of businesses either sold or discontinued. Could you just give us a sense of the underlying movement in DSOs in '13 versus '12? And given your own internal projections for mix shifts through 2014, what sort of underlying DSOs, all other things being equal, in terms of you sort of chasing?

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Himanshu Raja, Chief Financial Officer
We'll give you full details in the ARA. We've seen a modest improvement in DSO on a like for like basis. Like other areas that we've talked about today, there are clear opportunities to improve our working capital management processes, both on the receivables side and on the payable side. I think I talked at 5th November; today we don't measure the event to billing cycle. So, you know, when a billable event takes place, how that is contracted for, how quickly we bill and therefore how quickly that collection process starts is the simple example. The systematic application of that isn't there across all of our businesses. It's one of the many improvement initiatives we're running. Modest improvement this year, more to do.

Karl Green, Credit Suisse
Okay, fantastic. Thank you. And following on from that and very much linked to it, I mean you're clearly signalling that you're not going to do a big SAP big bang ERP implementation. You've got projects going on in certain geographies, but could you just tell us a little bit more about how you're thinking about software as a service, as opposed to big bang capex projects? I mean clearly there's developments there in the ERP space and CRM which can be very powerful and can also be less draining on cash in the short term. Is that something you're considering either globally or on a regional basis?

Himanshu Raja, Chief Financial Officer
Do you want me to take that?

Ashley Almanza, Chief Executive Officer
Sure.

Himanshu Raja, Chief Financial Officer
We don't have a, you know, religious outlook on software as service versus hosted applications. Each we'll look at on a business case by business case basis. So for example in the portfolio we have Salesforce.com ubiquitously deployed everywhere. It's the one application you can point to that across all regions it's in place and increasingly being embedded, utilised, the pipeline and the quality of the pipeline is cleaner.

The way we're going to go about it is like I explained on the operational technology. If I look at Europe we've got, you know, three different really core environments. We've got Oracle, we've got Microsoft and Amnis, we've got SAP. We'll take the best of what exists today and see if we can leverage it across the rest of the region. And I've already asked Martin to do an early assessment of whether we can leverage the UK SAP implementation. So very pragmatic, business case driven that gives best bang for buck really. So no religious - so you know cloud based versus hosted.

Ashley Almanza, Chief Executive Officer
Thanks Himanshu. Thanks everyone for your interest and for your questions today. We look forward to seeing you again soon and updating you on the progress of our company. Thank you very much.

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