G4S plc

2014 Preliminary Results Presentation

10th March 2015

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G4S

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Business Review

Ashley Almanza, Chief Executive Officer
Good morning everybody, a very warm welcome to everyone here and everyone joining by webcast to the G4S 2014 Full Year Results Presentation. I'm joined as usual by Himanshu Raja our Group CFO and we have other members of the Executive team in the audience. So for those of you attending in person please take the opportunity afterwards, I believe looking ahead - I believe we are offering refreshments so please take the opportunity to if you can stay on and chat to the rest of the management team.

Before we begin the usual customary, obligatory disclaimer which I'd ask you please to read in your own time. This is our agenda for this morning; we'll start with a review of the results highlights for 2014. We'll then turn to each of the regions, do a business review, provide a short update on our strategy and our plan. And then I'll hand over to Himanshu who'll take us through the numbers in a bit more detail. We'll wrap up and there will be plenty of time for questions and answers.

So results highlights beginning with growth, our revenues and our sales pipeline. We saw strong growth again for 2014 in our emerging markets, up 8.9%. A very strong performance in North America, a continuation of what we saw in the first half of the year up 6.9% year on year. And in UK, Ireland and Europe as expected we saw revenues decline slightly.

Meaning that for the Group overall we saw revenues rise by 3.9% and this is after taking into account the previously reported cessation of three major contracts, electronic monitoring in the UK, Dutch Prison contract in Europe and Manus refers to Manus Island a very large contract we have with the Australian Government in Papua New Guinea.

Pleased to say that we continued in the second half with the progress that we showed in the first half of the year in building our sales and our pipeline. We had new contract sales of £2.1bn for the year which is roughly a 10% increase on the previous year, that's total contract value roughly half of that, £1.1bn relates to annual contract value.

And at the same time of course when you have a successful year with new contracts you're deleting your pipeline. So you need to put proper resource and attention to restocking that pipeline and I'm pleased to say that we've doing that energetically and with some success and our pipeline stands at £5.5bn at the end of the year. So we're building on a globally diverse revenue base and a globally diverse pipeline which you'll see as we go through the presentation.

Of course at G4S our strategy is focussed not only on growth but on productivity and we believe that the combination of growth and productivity will create very material value for our shareholders in the long run. Our productivity programmes as I think you all know go under the banner of accelerated best practice. We have a significant number of well-defined and now resourced programmes targeting productivity initiatives, these cover operations, safe, reliable, effective and efficient operations, organisational efficiency, procurement, IT, property and we're going to talk a bit more about that later in the presentation.

The combination of top line growth and the first signs of benefits from our restructuring programmes and our accelerated best practice programmes coming through. Offset to some degree by our reinvestment, £20m annual reinvestment in sales and business development. That combination saw profit before interest tax and amortisation PBITA rise by 7.9% to £424m.

Huge focus on cash flow across the company in 2014, that will continue in 2015. We saw cash flow from our operating businesses rise to £526m that's a 25% year on year increase. Earnings up 11.7%, EPS up 5.4%, the difference between those numbers obviously reflecting the increase weighted average number of shares in issue after the placement in 2013.

And the Board has recommended on the back of the progress made and the prospects for business a 5% increase in the final dividend. Overall I think good progress but very clearly we're just getting started and we have a long, long way to go with our programme.

Let's turn now to the regions starting as we usually do with Africa. Top line growth over 10%, very strong bottom line growth, this is a combination of inherent operational gearing and some of our restructuring and ABP programmes feeding through to the bottom line. Some of that is being reinvested in our sales and business development capability. In this area and in this region we still have a lot of work to do to get our sales and business development capability to the level that we want to see in order to really grasp the opportunity, the organic opportunity in Africa.

We have focussed on mining, oil and gas, risk services and security technology, clearly there's a lot going on in that space at the moment with the decline in commodity prices but right now we have our hands full and we need to continue to invest in order to grow.

In Asia Middle East revenues were up 5.7%, we started to make progress with accelerated best practice in this region and the emphasis is on the word started because you will understand that this takes planning. Then you have to go out and hire people, put them into the organisation, it takes a while for them to connect with the rest of the organisation and get some momentum. So we made a good start, the focus in Asia Middle East is on customer service management, direct labour efficiency, route planning and of course organisation efficiency.

Here too we have invested very heavily in sales and business development focussing on Systems and Technology, Risk Services, Facilities Management and Care and Justice Services. After these investments and after taking into account absorbing the impact of losing the Manus contract at the end of the first quarter profits rose by 3.9%. Still significant investment to be made in this region to capture the full potential of the organic opportunity.

Latin America very strong top line growth almost 15% and pleasingly this was across all markets and all sectors. Following the appointment of Martin Alverez in November 2013 we then established Latin America as a standalone region in April 2014. You will remember that this was originally part of one region called the Americas covering both North America and South America and it was run out of North America.

We were very fortunate in securing Martin Alverez as our regional president based in Latin America, he's lived and worked in Latin America all of his working life, he's lived and worked in eight countries in Latin America. And we set about working with Martin to build a leadership team and we now have a CFO, a regional sales director, an ops director, a HR director and a number of new line managers looking after countries or clusters of countries.

And that process continues but I'm really delighted with the progress that we've made in building a Latin American management team living and working in Latin America and I think that will pay huge dividends going forward.

Here too we're investing in sales and business development right across the board, all sectors, all service lines and we're just getting started with building pan regional accounts and connecting the Latin American sales effort to our global account management which is run by Mel Brooks, Mel do you just want to put your and up, Mel Brooks who joined us in 2014 from previously running India, leading our strategy and commercial global effort. And so Mel is working with Latin America and the other regions to improve our global account management and our growth in global accounts generally.

We are just getting started with accelerated best practice programmes in Latin America, again the process is one of first of all getting the management team on board with the programme and then going out and hiring subject matter experts so for example we've now put our first subject matter expert in labour efficiency into Latin America working for Martin Alverez. So you build the capability and then you go after the opportunities. We're just getting started; there is no benefit in these numbers for any of our ABP programmes.

After absorbing a mandatory statutory wage increase in Brazil we posted year on year growth of 11.4% on the bottom line.

Europe I mentioned earlier declined slightly, revenues up .6%, that reflects the cessation of the Dutch Prison contract at the end of the first quarter.

Here to we have mobilised our accelerated best practice programmes under the new leadership of Graham Levinsohn, many of you will know Graham Levinsohn he's been in the company for a while, he took on the leadership of Europe at the end of 2013, his regional management team has been almost entirely replaced, most of the country leadership remains in place but we have had a heavy programme and still are recruiting sales people. You may remember that we had no regional sales leader at all in Europe and many of our countries did not have a sales director or a sales leader and we're attending to that as must do if we're going to grow our pipeline and that's what we intend to do.

We have focussed on organisational efficiency, labour efficiency and procurement. Our restructuring programmes have been focussed on the Netherlands, Belgium and Finland, these were launched at the end of 2013, they're on track and they are delivering bottom line benefits. A combination of a decline in revenue, benefits coming through from restructuring and ABP programmes, to some degree offset by reinvesting in sales and business development saw profits rise by 3.7%.

North America, I said at the half year that I thought North America was the stand out performance regionally and I think they probably carry that mantle, won that prize at the end of term. Full year performance really very, very pleasing, very impressive performance in a highly competitive market, revenues up 6.9%, again broadly based but making good progress in some of our targeted vertical segments.

This is a region which has probably had more management structure and more process than the rest of the Group. And so our focus has been over the last 18 months on sales, getting the pipeline back up and getting our sales performance moving; with less attention paid to accelerated best practice, generally a well-run region.

But we recognise that there's always room for improvement and under new leadership John Kenning joined us at the end of the year, we're now turning our attention to some of our accelerated best practice opportunities, this is labour and overhead efficiency; alongside procurement, IT and share services which we started earlier in the year.

Bottom line a combination of top line growth and operating leverage saw profits rise by I think a fairly impressive almost 34%. The team in North America successfully implemented health plans which are compliant with the Affordable Care Act, most of the plans were already complaint or substantially complaint so this was not as big a change for us as perhaps the industry as a whole. Nevertheless we're not making any assumptions about this improving nor detracting from our competitiveness in the market.

I mentioned a change in regional leadership, Grahame Gibson I think will be known to many of you, he's been with our company for a long time, been a longstanding member of the Board. Grahame will retire from the Board at the AGM and from the company in October, this has been a planned retirement and we have been working for some time looking for the ideal successor to Grahame.

Again we've been I think very, very fortunate with the appointment of John Kenning, John came previously from OfficeMax, but before that a long career in technology and indeed security technology, he worked for Tyco for many years, deep experience in national and global account management and clearly a good understanding of security technology. I think he's going to add, he is already in fact, adding a lot to our group executive team and undoubtedly making a contribution in the region.

John is working with the rest of the North America team, a very strong line team in North America and they're working together to strengthen our pipeline even further. We entered 2015 I think with a very good pipeline in North America and I think we're quite excited about the prospects in that market.

UK and Ireland again as expected revenues declined slightly this was fundamentally a reflection of the electronic monitoring contract coming to an end. A little bit of housekeeping as we went through the contract portfolio and moved out contracts which were frankly not profitable and somebody else could do a better job of serving.

Restructuring has as you know been focussed in Europe and the UK and our restructuring programme in the UK is making good progress and delivering benefits; alongside the shared service centre which Himanshu and his team have been leading and we went live with that shared service centre in the third quarter of 2014. I think this brings together nine disparate accounting systems and multiple IT systems and we will begin in 2015 I think to really see the benefits of that project.

Profits despite revenues coming down the benefits of our restructuring programme flowed through to the bottom line and profits were up 8.2%, here to we have new regional leadership, I was delighted at the start of this year to confirm Peter Neden as the regional president for this region.

Peter has a career long experience in the services industry, he's been with G4S for a considerable time, he knows the UK extremely well, his speciality has been business development and government contracts and he's already making a very positive impact on that business. The focus in the UK is very, very clearly on rebuilding our pipeline in all of our segments including central and local Government Services.

So I want to move from the regional overview please to just talk briefly about our strategy. I mentioned earlier that our strategy brings a number of components together. Behind our strategy we have a clear plan and that plan brings together growth and productivity together with active portfolio management, active risk management and disciplined financial management.

And we believe that the combination of those components will create material value for our shareholders. This graph is quite busy and really the purpose of the chart is to show that first of all the size of the prize is considerable. If you look at the middle column there we're going after some very substantial prizes. And on the right hand side what we're highlighting here is that our business plan is underpinned by, you know a clearly defined set of programmes, each of those programmes is resourced, each programme is reflected in the performance contract of the 220 members of our global membership team across our business globally.

I want to just take a moment to update you on the progress that we've been making in a number of these areas. Starting with people and values, now our entire programme rests upon our customers, our people and our values. Now you'll know that there's been significant management change in this company over the last 18 months. By the middle of this year we will have eight new members of the 12 strong Group Executive Committee, that includes Himanshu our CFO, Mel our Group Director, Commercial and Strategy Director, four of the six regions have new leaders; so quite considerable change in the Group Executive team.

In addition we have set about strengthening the regional leadership teams; I commented on that a moment ago in each of our regions where we have new leaders, we've built new teams around them. And indeed in the regions where we've not changed leadership we've continued to strengthen the regional management teams.

Across our global leadership team of 220 we have made 114 new appointments, 64 external hires and I'm really delighted to say 50 internal promotions; reflecting one of the early views that we had and one of the early views I had when I joined the company that the operating culture what largely strong and sound. We've seen some of our good people come through and be promoted internally which is great to see.

Our new hires have been focussed in a number of areas, sales, business development, general management that is to say business unit managing directors, country managing directors, operations, finance. I'd say almost the entire finance leadership team has been replenished and we have a really strong finance team under Himanshu's leadership. And risk management also coming under Himanshu has been a fundamental change in the way that we resource and approach risk management. And I think all of these changes will pay very substantial dividends as we move through our business plan.

Of course we're making additional hires beyond the global leadership team particularly in sales and business development.

I want to take a minute to talk about values. Given the recent history, the last three years in our corporate history, it was important then as a leadership team we set about reinforcing the Group's values. The Group has had for many years, good values, but at times we've perhaps not given them the attention they deserved. So we set about in a structured systematic way to reinforce those values through communication, training and of course compliance.

We added a new value, health and safety, which we together have talked about before. And our goal in health and safety is very simple, it's zero harm. We understand that we operate a very large company, in complex environments, doing inherently risky work; so we don't set that goal lightly. We know it's difficult to achieve, especially in relation to attack related injuries and sadly fatalities, but nevertheless it is a proper goal for our company.

Health and safety has a virtue of its own, everybody here wants to be safe as they go about their business daily. Well, there's no reason why that doesn't apply to everyone in our company. And everyone has an obligation to not only look after their own safety, but those around them, those with whom we work and those who we serve.

There is however beyond the obviously rationale for health and safety there are very, very strong and clear commercial reasons for focusing on this. Firstly a business that has good health and safety performance generally, almost unfailingly is a well-managed and commercially successful business. When you see a business that has good health and safety performance almost invariably that is a commercially high performing business.

Secondly it's of growing importance to our customers, and I think our industry ignores this at their peril. There's no question - particularly our larger customers, but I have no doubt that it will become a pervasive criteria for our customers. They are interested in our health and safety performance and what we can do to help them with their health and safety performance. And I'm really, really delighted to say that in some of our businesses our customers are beginning to not only acknowledge, but to value our health and safety performance. And I think that gives us a powerful incentive, apart from the obvious moral imperative, to go after health and safety.

And go after it we did in 2014, every single member of our global leadership team, 220 people went through mandatory safety leadership training. Every single member of our global leadership team had safety objectives in their performance contracts in 2014 and they will have in their contracts, including me, in 2015.

We substantially revised and improved our health and safety reporting and root cause analysis and we put in place safety critical reviews aimed at identifying improvements in our health and safety practices. The follow up to those safety critical reviews I can assure you has been much more rigorous than perhaps it has been historically, with this getting the attention of the Board and the Group Executive Committee, as well as the folks across our organisation who are charged with making the change.

Notwithstanding all of that progress and I really am pleased with the progress that we've made our performance remains fundamentally unsatisfactory. I am really sorry to report that in 2014 we lost 41 of our colleagues, that compares with 49 in 2013. But it is a very large and unacceptable number. 19 of those were in attack related incidents, 22 were in non-attack related, principally road traffic incidents, which we must and will address aggressively.

So whilst we pay tribute to the courage and the commitment of our colleagues who really gave their lives serving our customers, protecting customers or their property; it serves to motivate me, the Executive team and everyone in the global leadership team to do a better job. And I can assure you of one thing, everyone in the global leadership team is committed to improving our health and safety performance.

I'll end by saying this is of growing importance to our customers and I firmly believe it will increasingly become a distinctive part of G4S' service proposition, particularly to large customers.

Now I want to move on to growth, we've talked through the presentation so far about sales and business development. We said 18 months ago we were going to invest between £15 and £20m incrementally in sales and BD and we have done that. We are now - our run rate is up £20m, we made 391 new hires in sales and business development.

We said that we would extend our proven services from one market into another market and we have started to do that. Most of this is happening intra region at the moment. So particularly within Europe, UK, North America. But we are just beginning to find ways of transferring those services across regions. Progress is modest at this stage, but it's very clear that the promise is there.

In service innovation and systems and technology, again we've put more resource into this and we're beginning to move in 2014 some of our new products and new service lines out of pilot phase into a commercial phase. And of course we continue to invest in vertical, or sector specialists in extractive industries, ports, aviation and technology companies. And we invested in global account management, lots of work still to do in global account management and customer satisfaction management.

We have now in place a global tool so that we can measure periodically and systematically customer satisfaction across our business and that's the first step in making appropriate interventions in improving customer satisfaction.

Productivity, we've talked at some length about safety performance. Direct labour efficiency is probably our biggest and most complex best practice programme. It's a multi-year programme. We have now hired and deployed subject matter experts to each of our six regions and Himanshu is working with the regions to get those subject matter experts moving forward with direct labour efficiency.

Route planning and telematics we've made more progress than we anticipated 18 months ago. But I remind you that this is the first step, this is about, at this stage, getting our fleet equipped with telematics devices and hooked up to route planning software. That's the first stage. The second stage and perhaps the more difficult and more important stage is getting the management routines and disciplines embedded in your operations so that you start to extract the benefits of that technology. And we are now starting that phase in 2015.

Procurement - sorry organisational efficiency and restructuring, well you know that we've lead with restructuring in the UK and in Europe. We are now extending that to the other regions and to the corporate centre. We've been investing very heavily in the corporate centre, building finance, risk management, our global sales team, procurement, IT for our global functions. And we now have to turn our attention also to efficiencies in the other regions and in corporate centre.

Procurement, you will know that this company 12 months ago didn't have a global procurement function, didn't have a global procurement team. We didn't know really what we were spending the money on; who we were spending it with. We now have a chief procurement officer and eight senior category managers working to that CPO and with the regions to target procurement saving opportunities in every part of our business.

We have massively improved our visibility on how much we're spending, what we're spending it on, and with whom we're spending the money. And that then is the first step for us to start looking at consolidating our supply chains and sitting down our suppliers to have meaningful negotiations about better terms and conditions. We're at a very early stage, but the prize here is significant, addressable spend of £1.3bn per annum.

Our procurement team is hooked up with our IT team. Again we had no global IT function; we didn't know how much IT cost us as a company. We made a first estimate of £120m, we now know that this north of £150m per annum and we have a highly fragmented IT estate which doesn't give us the sort of functionality and productivity a modern company should expect from IT.

We I have think a highly capable new CIO, Nick Folkes and a team around him, greater visibility on the total cost of ownership and working with procurement we are now beginning to put our first deals in place. We recently concluded deals with Google and with HP. Google will supply us with our global desktop applications, also known as productivity suites at a lower cost and with higher functionality. And HP, we've done a global - although not exclusive, global deal on end user computing devices, it gives us lower cost and better control of demand. There are two sides to the procurement equation, it's getting hold of the supply side and there's better control of demand we're going to get both of those in time.

So pleased with the progress we're making, but this is, again, a large multi-year opportunity for the company.

And then of course property costs, one of our largest costs and we've started with the UK, beginning as we should do with head office and the Group Executive will be vacating its head office and moving in with our cousins in the UK region. We'll be living comfortably in a shared office in Victoria. And we're going to take that approach and extend it to all of our regions, having a close look at our property costs.

I will hand over to Himanshu in a second, portfolio management; you will remember that we did a deep and extensive review of our portfolio in 2013. And we identified a long tail of businesses in the portfolio, some of the businesses in that tail were small with huge potential to grow and our objective was to keep them, invest in them, nourish and grow them and that's what we're doing. Some small and medium sized business lived in markets with adverse market structure, limited materiality and frankly a long history of poor profitability. We have sold eight businesses and we're discontinuing a further 20 businesses.

This has a very significant positive effect in terms of reducing management dilution; these small businesses attracted a disproportionate amount of management time. It gives a sharper strategic focus and we've realised some quite substantial proceeds in the process. So I think we can say we've made good progress with our portfolio management. This has been a collective effort and I want to acknowledge Søren Lundsberg at the back of the hall who has been instrumental in the execution of these transactions.

Capex, working capital, cash flow management has been an area of intense focus over the last 12 months. And I'm going to hand over to Himanshu who is going to take us through the financials and talk a bit more about those initiatives as well. Himanshu.

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Financial Review

Himanshu Raja, Chief Financial Officer
Thanks Ashley and good morning to everyone. You will have seen from Ashley presentation that we've made good progress in terms of operational and strategic execution against our plans. And I'm pleased to say that that progress is reflected in the overall financial performance of the company.

I'm going to take you through both our underlying performance as well as in more detail the specific items that we referred to in our release. And that's consistent with the reporting framework we established, if you recall, at the beginning of 2013.

Turning to the underlying numbers these show the performance on a like for like basis at constant exchange rates for our continuing operations. Revenues were up 3.9%, to £6.75bn, with continued strong growth in emerging markets which grew at 8.9% overall. Strong growth in North America and as expected the 1% decline in Europe and in the UK and Ireland from the completion of our Dutch prisons and electronic monitoring contracts.

PBITA at £424m was up 7.9% from the £393m base in 2013. And you'll note that the growth in PBITA was faster in both emerging and in developing markets; showing the operating leverage coming through in profit performance.

Ashley has talked about the accelerated best practice; we've seen good traction on accelerated best practice where we deploy it. And we see that benefitting both gross margin and in the reduction of overheads. And this is reflected in the overall operating margin of 6.3%, up 30 basis points year on year. And remember this is after the £20m investment we made in sales and business development, and is also after our corporate costs of £60m.

The corporate costs are up £19m year on year, reflecting the very necessary investments we made in global functions, in financial and risk management, in IT, and in procurement. But it also reflects around £12m of non-cash costs related to pensions and LTIPs which we flagged to you at the half year.

Our earnings were up 11.7% to £210m and the earnings per share was 13.6 pence against 12.9 pence at the same time last year, an increase of 5.4% after the dilution effect of the share placing in 2013.

And cash, cash generated from continuing operations was £553m, up 11.5%. And when you take the cash from our operating businesses that was up 25% to £526m. The difference simply being the timing differences on the known one off items, the receipt of the Olympic receivable of £76m in 2013 and the £27m receivable in 2014 following our EM settlement with the UK Government.

So good overall improvement in cash and cash generation, but there remains more to do and I'm going to return in my close to what more we can do on cash and cash improvement.

Let me know turn to specific items; you'll recall at the half year we wrote back £23m on profit on disposals to specific items. And in the full year you see both charges and credits going through this line; the profit from discontinued operations of £63m and £21m of pension settlement gains.

So let me go through the details starting with contracts and other impairments. You'll be familiar on contracts that we have new processes around risk management and governance of our contracts. Every quarter we perform an analytical and financial review of over 200 contracts. And those that warrant closer inspection we perform deep dives using our contract 360 process. Under IFRS we're required to review the outlook on these contracts on an annual basis.

The £45m increase provision is in respect of UK Government contracts, all of which were identified in our impairment review last year. So what you see going through at the year end is a true up which reflects our best estimate of the future losses on the remaining lives of those contracts.

In addition as part of our normal year end process we also recorded a net £11m charge from the re-measurement of the carrying value of assets and liabilities. You'll recall last year we did an extensive balance sheet review across the company down to every operating unit. And the £11m simply represents as true up of that. And last but not least a £10m charge for portfolio businesses that actually referred to - which we're in the process of selling or closing.

On discontinued operations and profit on disposals, during the year we divested eight businesses and booked a profit on disposal of £71m; principally from the sale of Canada Cash, from Sweden, from Norway and from our US Government Solutions business. And the £71m profit was offset by £8m of operating losses, giving us a net profit of £63m.

Together with the rationalisation of our smaller portfolio businesses, these divestments sharpen our strategic focus as Ashley talked about, and significantly enhance the quality of earnings of continuing operations.

On restructuring the £29m relates mainly to businesses in the UK and in Europe. We continuously monitor the implementation against all of our restructuring plans. And to remind you the investment we make in restructuring follows the same process as every call on capital. It must generate a double digit internal rate of return, a good cash profile; in the case of restructuring a payback of between 12 and 36 months. And where there is a good economic case to improve competitiveness and to reduce overheads we will continue to look at these.

And finally tax, interest expense and non-controlling interests were a net credit of £20m, principally from the recognition of our deferred tax assets. The bottom line on specific items was a £12m charge compared to the £454m at this time last year.

Now let me turn to the bottom half of the income statement. Keying off the underlying PBITA of £424m, our underlying interest charge was £120, £2m lower than last year, due to the lower average net debt during the year. And this includes a non-cash charge of £22m for pension interest under IAS19.

For 2015 I expect the total interest charge, including pension interest to be at around £115m, with the reduction of £7m, due to a reduction in the overall IAS19 pension deficit and due to the lower yield rates that we see.

You'll recall our debt largely comprises of medium term loan notes which were issued at fixed coupon rates. So our core interest charge is therefore expected to be around £100m for 2015.

And finally tax, the defective tax rate for the year was 25%, and I expect the same tax rate for 2015.

The underlying profit after tax was £228m and below the line I've shown the split of profit attributable to equity holders and then to minority interests. You'll know with the adoption of IFRS 10 and 11 we've seen a different profile of minority interests. And for 2014 the minority interest is £18m and I expect this to continue to grow to just over £20m in 2015.

Let me now turn to net debt. You'll see the full movement on net debt shown on the waterfall chart there, starting with the net debt of £1.5bn. You see an impact for IFRS 10 11 of £19m, really arising from the deconsolidation of cash in entities that we now equity account for. And this gives a restated opening net debt of £1.55bn.

Cash generated from our operating businesses was £526m and then we received outstanding receivable of £27m from the EM settlement. Total cash generated from continuing operations was therefore £553m.

In terms of investing activities we invested £138 in capex and this reflects both the new and more rigorous processes we have around capital discipline, but also the deferment of some of our spend as we start to group programmes under common capital umbrellas, so that we spend once and we get the operating leverage wherever possible; such as our emerging IT programmes and the programme to transition our productivity suite to Google that Ashley referred to.

For 2015 I expect capex to be around £150m.

The £47m spend on restructuring was the flow through of the previously announced restructuring in 2013 and some 2014 restructuring. And finally we received gross proceeds of £177m from disposals.

Let me turn to the use of funds. We paid interest and tax £114m and £81m respectively. Our pension deficit payments were £42m. Our defined contribution scheme by the way was closed to future accrual in 2011, so what the £42m represents is the annual deficit payment plan, which is indexed at 6% per annum for the next eight years.

Our dividends paid to equity and minorities going across the chart were £149m and then the EM settlement. The balance at the end relates to discontinued operations, movements in customer cash balance, FX and net debt movements.

We finish the year with net debt of £1.58bn and net debt to EBITDA was 2.8 times, down from the 3.1 times at the half year, as expected.

Let's look at financing, we remain soundly financed and have access to unutilised and committed funds of around £1bn. In January of this year we refinanced our revolving credit facility, extending the maturity to 2020 and we had really strong interest and appetite from the market and were able to secure both improved pricing and terms and conditions and we now have a facility with 16 relationship banks.

We have no significant debt maturities until 2017 and continue to have flexible access to long term capital markets.

Together with the continued focus on driving operating cash flow we expect our net debt to EBITDA to come down in the medium term and to be within our comfort range of less than 2.5 times.

Before handing back to Ashley let me just turn to my last slide; you will now be familiar with our approach to disciplined financial management that we continued to implement throughout 2014. We operate a single pool of capital where all investment opportunities, including revenue and restructuring need to deliver a greater than 10% internal rate of return and for restructuring payback a payback within 12 and 36 months.

You know we have a more disciplined contract review process in terms of contracts we've bid for and in the in life review process. And I personally perform a financial review of our largest 200 contracts on a quarterly basis.

We continue to look for restructuring opportunities to reduce overheads and to improve productivity. And we have a strong focus on working capital management.

Overall 2014 was a good performance and you should not pencil in a 25% increase year on year in operating cash flow every year. And whilst we've made some progress on what I've previously called our cash matters agenda with finance and operations working more closely together, we have more to do. DSO has improved modestly by two days on a rolling three month average basis. But our DPO remains below our DSO and on the procurement side as we begin to strike new deals we're looking to strike better working capital terms through those negotiations.

And lastly, in November I reported that during 2014 we've significantly strengthened our financial and risk management capability across the Group. With that let me hand back to Ashley.

Conclusion

Ashley Almanza, Chief Executive Officer

Thanks Himanshu. Right we're going to wrap up and then go to Q&A. We know that G4S is today the world's leading global integrated security company. Our mission is simple and clear, we want to be the supplier of choice in every service we offer and in every market in which we operate. And we know that if we achieve that consistently we'll be creating value for our customers and material value for our shareholders.

To achieve that we are now executing against a clear and focused strategy; we're building on a diverse revenue base and a diverse pipeline and we're investing in both growth and productivity. And we think the combination of those will create material value for this business.

We've made good progress in 2014 on a number of fronts, commercially, operationally and financially. But there is much, much more to do; we're really just getting started.

The progress that we've made and the prospects for this business are reflected in the Board's recommendation to increase the dividend by 5%.

Thank you very much for your attention and we'd be happy to take questions. Can I ask you please when asking a question raise your hand, we have roving microphones? If you give your name and affiliation we'd be grateful and we're also joined by listeners on a webcast, listeners and viewers and I think Helen - so if you see Helen raise her hand that's a webcast question, we're going to take questions from the web as well. And we're going to start with the gentleman at the front, Robert.

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Questions and Answers

Robert Plant, JP Morgan
The margin improved by 10 basis point in H1 and then it was 30 basis points for the full year, so 50 basis points H2, how much benefit was there from the discontinued business which presumably didn't have the same margin as the Group and how much was an improvement in H2 from the productivity, cost initiatives?

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Ashley Almanza, Chief Executive Officer
So I'm going to ask Himanshu to cover the numbers in detail, but if I could just make a few overarching comments. We set out as I mentioned in the presentation in 2013 we set out a programme to review our portfolio. We knew that in the long tail we had some business which has not only underperformed historically, but that more than likely were going to underperform going forward. And our objectives - we had multiple objectives really, the first was to bring focus to management's efforts. The second was to improve the quality of the company's earnings, because these underperforming businesses were not only generating lower returns, but volatile returns, loss making one year and profitable the next year.

And so what you see coming out in disposals and discontinues is the result of a systematic piece of work to improve the portfolio, improve our focus and improve the quality of earnings going forward. Himanshu can you give some numbers around that please?

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Himanshu Raja, Chief Financial Officer
Sure. Rob is you trace through all the divestments we - excluding Government Solutions, which is proxy business, we divested around £500m of revenues and that overall margin of around 1.5%, so they really were thin margin businesses.

But I just want to add a note also on the other 10 - the 20 businesses in the process of being discontinued. Those are, as Ashley said, much smaller businesses that under the

IFRS definition, it's quite a narrow definition of what you can put through the discontinued line and what goes in continuing earnings. But just to illustrate for example we had a physical locksmith business in Finland, providing padlocks and secure locks. That's the type of business we're talking about, a really non-core small business where we released good proceeds and good value for that.

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Robert Plant, JP Morgan
Thanks for that. So of those 20 the revenue and the profit / loss contribution?

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Himanshu Raja, Chief Financial Officer
Of those 20 you see that Rob in our statement, it's £98m of revenue and it's £10m of losses in 2014. And on the financials all the numbers are on a like for like basis, so they come out of both 2014 and they come out of 2013. And you see that on page 4 of our statement.

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Ashley Almanza, Chief Executive Officer
Thanks Himanshu. I want to just add that when you look at this through a commercial lens the portfolio rationalisation over the last 18 months, the turnover that's come out of the business is about £700m at an average net margin of just over 2% and we've generated gross proceeds of a quarter of a billion pounds. So I think this has on the whole been a good piece of work and puts us on a - as I said a stronger base going forward, higher quality earnings from these businesses. Thanks Rob.

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Andy Grobler, Credit Suisse
Three if I may, firstly just on the margin again, looking at the underlying progression of 30 basis points; can you break out how much of that was gross margin versus SG&A improvements?

Secondly, through 2015 with the ABP, where do you see the greatest benefits coming through in this year given that some shorter, some are much longer cycle programmes?

And then thirdly, you talked a lot and passionately about health and safety, if you benchmark yourself versus the industry where do you think you are at the moment, where do you think - I mean it's quite clear where you hope to get to, how do you get to that point?

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Ashley Almanza, Chief Executive Officer
Thanks Andy. I'll Himanshu to comment in detail on the margin progression; I think gross margin pleasingly held up more or less flat year on year. But Himanshu can go through the details. So I think most of the benefit is below the GM level and there's obviously a complex - you know that's a simple statement with some complex moving parts. That is to say we're extracting benefits in operational efficiency and reinvesting

some of that into our operation procedures, which hits our operating routines, which hits cost of sales. So it's I think overall a good result at the GM level, but I'm going to come back to that Himanshu at the end to ask you please to put some colour on there.

2015 ABP, we're not reliant on one programme working out, that's the great thing, we've got multiple sources - the phrase we use is multiple sources of value to draw on here. I think our continued restructuring in the business will make a meaningful contribution. I think we'll begin to see a contribution from procurement, in fact we know we will begin to see a contribution from procurement. But I think really procurement this year is getting up and running. We've got some early wins under our belt, but it's much more about getting set up to go after the big prizes at the back end of this year and into 2016.

We talked about telematics, we've made more progress than we had expected to make at this stage in terms of getting the fleet fitted with the equipment. I think the hard work starts now of embedding that in the management chain, right from the driver through to the branch manager, ensuring that we're using that technology to a) improve customer service, to turn up when the customer expects us to turn up, to get there on time and to optimise route planning so that we minimise fuel costs and wage costs. So the hard work starts now really on telematics, that will make some contribution, but again that's a multiyear programme.

Direct labour efficiency, a multi-year programme and I think costs of pursuing that programme will probably balance the benefits in 2015.

IT, I think we're really still in the investment phase. Do you want to comment on any of the ABP? I'll come back to health and safety, anything on ABP and pick up gross margins at the same time?

Himanshu Raja, Chief Financial Officer
Just on the IT ABP the last year 2014 was largely about infrastructure programmes, so beginning to get our arms around teleco networks, around infrastructure, end user computing Ashley mentioned. We mentioned productivity, which is what we know as email and all of the other feature functionality so that programme is now rolling forward.

Really 2015 onwards will be about starting to address applications, core applications. I think I've spoken before having nearly 200 ERP systems around the world, we've started shared service journeys in the UK and the US and there's more of that to come. But there's a plethora of HR and other operational systems that we've got to start to get our arms around.

On gross margin and on SG&A gross margin, as Ashley said have stayed roughly flat at around 20% gross margin percentage year on year. But that's a function of a number of moving parts. On the one hand region by region, market by market you see differences in price compression offset by price indexation where we're able to pass it on. And we've spoken previously for example about not being able to fully recover some of the danger pay in Latin America. And you see that coming through on the Latin American gross margin. But overall you get constant gross margin year on year.

And then on overheads we see, again really three principal moving parts. One the benefits of the restructuring programmes, which yield around a £26, £27m benefit on SG&A on restructuring. Offset by the investments that flow through corporate cost in risk management, finance, IT and procurement and of course the investment we made in our sales BD of around £20m this year. So you can work that through your numbers and see the progression.

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Ashley Almanza, Chief Executive Officer
Health and safety, actually one of our challenges getting started on this programme was that our benchmarking data was not as good as you would want it to be. We were not comparing like with like, I think in some cases the data was causing us to feel comfortable when we shouldn't feel comfortable.

We hired a new - the company didn't have a Group head of health and safety, for a company of our size and for the business that we're engaged in that didn't feel right. And we hired a very, very experienced Head of Group Health and Safety. This man has worked - as an operator in operations and in safety in industrial and extractive industries all of his career, a very experienced individual. He's helping us to get proper benchmarking in place.

At this stage what it tells us and we've more work to do, is that we're not a million miles away from the benchmark, in other words we're average. But that's not what we want to be, we don't want to be average in our business. And so the benchmarking data I'm quite cautious about and I say this to the management team and when I travel around the business I tell everybody, because unsurprisingly and this is not unique to this industry, all of you will have seen it before, I saw it in my previous industry, benchmarking data typically reflects averages. And you know you'll got to a business and if the data is good pretty quickly they'll show you the data and say - look we're okay, you know keep moving nothing to look at here. And we want to get past that and so everything we do can be improved and particularly in the case of health and safety.

There are 41 families who - you know we've lost a colleague and I can assure you when this happens and you go to the business the impact on the team is devastating. The impact on the family is just as devastating. That's the moral imperative to I think look at the benchmarks but not get too carried away if you look good against the benchmark. Focus on the outcome, what happens, and focus on the mindset and the effort that's going into managing health and safety.

And I'll end by saying this is a shareholder accretive initiative. Our customers will increasingly care about this, we will set ourselves apart if we succeed with this initiative, I'm absolutely confident of that. I know because I was on the other side, I was on the buy side of this in my last career, it matters deeply. Extractive industries and manufacturing companies have tended to lead, but others will follow.

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Andy Grobler, Credit Suisse
Thank you.

Kean Marden, Jefferies
I've got three quick ones as well if I can. You obviously renegotiated the Google and the HP agreements, I see everyone is very focus on cost savings; can you talk to a percentage saving that you might have secured on those? I suspect the answer is no, but I'll try.

Secondly one for Himanshu, you mentioned you review 200 contracts each quarter, can you give us comfort that onerous contract provisions won't be a regular feature of the results over the next couple of years?

And then secondly I wonder if you can expand on John Kenning's appointment, his CV looks to have quite a bit of technology and systems on it, and I wonder whether that points to the direction of the business in the future? Thanks.

Ashley Almanza, Chief Executive Officer
So on Google, you're absolutely right, we're not going to disclose all the details. But the savings are meaningful. This year is about getting those applications in place. In 2016 when we look on a like for like basis we'll measure the savings in single millions. Now I'm not going to say low or high single millions because I want the team and the supplier to stay incentivised on delivering as much benefit as possible.

We're getting increased functionality from that as well and we think it's got wider applications beyond sort of desktop apps to some of our operational apps. And that was one of the reasons that we were attracted, not just cost, but attracted to Google, that we could see application in our operations as well.

I'm going to deal with John Kenning and then let you take the rest please Himanshu. You're quite right, John has substantial experience in technology and security technology and that certainly figured in our thinking when we were searching in the marketplace. We do see an opportunity to grow our Systems and Technology business and we've seen that starting to work. We've taken some of our proven products and services from North America and we've started to sell them in the Asia Middle East region for the first time in the last 18 months. Last year we had $100m of sales in Systems and Technology in Asia Middle East. It's not a massive number, but I think it's a pretty creditable start for the team down there, starting from scratch.

And I think you know John brings not only Systems and Technology experience, this is a proven executive, very successful track record in general management, and a particularly strong track record in managing large sales and business development teams, including global sales teams. And so that knowhow, combination of technology and globalising sales from a particular service or product line, is very attractive to us. And he is working closely with Mel on further developing technology, customer facing technology strategy.

But those if you like were the - that was the icing on the cake. Fundamentally this is an experienced, proven executive who as I said is already making a positive contribution at both Group and regional level. You will meet him I am sure. I think we'll bring John over for the half year results along with some of the other members of the team, and you'll get an opportunity to meet John.

Himanshu.

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Himanshu Raja, Chief Financial Officer
Contracts question. I do review 200 contracts. They're reviewed first at the regional level and then they come up to me and I review and do a financial analytical review and I participate in the deep dives that we do. It's worth just pointing out that these contracts were the same set of contracts we prepared a year ago. They're UK government contracts, legacy contracts and they would not pass risk management and take on processes today. For example on one of those contracts we take on the demand side risk entirely. There's no cap and collar for example on that contract. I think it would be naïve of me to sit here and say a contract will never go bad, but certainly we have the rigour and the processes in place both for take on and for in life review of those contracts. And you know we're committed to continuing to strengthen our capability in that area.

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Helen Parris, Director of Investor Relations
The follow on question that I've had from Andy Brooke at RBC was over what time will these contract provisions be released to the P&L?

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Himanshu Raja, Chief Financial Officer
Well there are half a dozen contracts in there. I'm speaking into the sky - there are half a dozen contracts in there that have different contract lengths. There are principally two main contracts which have between them an average remaining life of five years, and then a number of smaller ones.

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Ashley Almanza, Chief Executive Officer
Some of them are considerably longer than that.

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Ed Steele, Citigroup
Two questions. First of all could you give us a flavour for the underlying market trend in UK Cash and some of the European security services markets please?

And secondly, on your current visibility what can you see in terms of one off cash and P&L costs for 2015 please?

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Ashley Almanza, Chief Executive Officer
I'm going to ask Himanshu to pick up the second. Let me talk about - I think your first question was trends, market trends in the UK and European Cash businesses.

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Ed Steele, Citigroup
UK Cash and then Europe generally.

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Ashley Almanza, Chief Executive Officer
Okay so in UK Cash you will know that we - well let's talk about the market first and then the particular. The market, we know that banks are looking to improve the efficiency of the operations. They're closing branches and looking to reduce the cost of cash handling. That is to the industry both a threat and an opportunity. I think the opportunity - the threat is obvious, the volumes decrease. The opportunity is to work with the banks to help them to reduce their costs, and we have been doing so. We process a lot of cash for both retailers and financial institutions. We have the capacity to increase in the UK the amount of cash we process. And I think we have the wherewithal and the ability to move beyond that. We're not alone in looking at this by the way, at full outsourcing. So let's call it bank branch outsourcing, ATM, estate management and so on. We have that capability and that's something that we're going to be working on this coming year and I expect beyond the coming year.

In Europe it depends on the market you're in. In some parts of Europe you see that trend in a very pronounced form. Scandinavia we happen not to be heavily present in the Scandinavian Cash market, but clearly that has been a market that has seen banks and regulators working together to transform the payment cycle. In other parts of Europe that's far less evident and what we've seen is cash move from branches to ATMs, that's been the significant trend in recent years. As it happens our European Cash business has done very well in the last 12 months, won lots of new business. So I think that European Cash business, regardless of what the market trend is, is growing its sales book in a very impressive way.

I think that's a combination of things. We have a strong management team in our European Cash business. That now reports to Graham Levinsohn who is as you know expert in cash handling. And the business in Europe, I think our business in Europe has been more innovative than our business in the UK in a number of ways. Developing new ways of delivering the same service and delivering new services, developing and delivering new services to customers in a way which I don't think has been as strong in the UK. And indeed I think at times we've probably been complacent in the UK and you will have seen that we lost the Tesco contract last year, and I think that's a real wake up call to our UK - to us and our UK Cash business.

We have put that business under Graham Levinsohn, the UK Cash business, and we have spent some considerable time looking for a new leader and we now have secured - have we? Debbie, no okay, we haven't announced, sorry. We have secured a very experienced executive from this industry and when we do announce it, soon I hope, you will I'm sure recognise the name. And so I think it's a combination of things Ed. As I said there is - in our view there remains a significant opportunity in developed markets to help our customers change the way that they handle cash and in so doing grow our business. And of course our emerging market Cash businesses continue to grow.

Final comment I'd make is our UK Cash business, which is where we started, was undoubtedly inefficient. It had grown uncompetitive and although we haven't seen the growth in revenues we have seen profitability improving in that business. So work in progress, a lot more to do. Thanks Ed.

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Ed Steele, Citigroup
And what else for next year?

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Ashley Almanza, Chief Executive Officer
Oh sorry, yeah that's Himanshu's question

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Himanshu Raja, Chief Financial Officer
I hadn't forgotten Ed; I was going to bring you back in. As I sit here today Ed there aren't one off P&L charges that I'm aware of. Of course we'll continue to look at restructuring where we see opportunities to improve productivity or to reduce overheads, and you see the benefit of that coming through on the numbers. On the cash side important to note when we declare a contract onerous it doesn't get forgotten about. We work really actively with the customer to manage contract terms, demand side as well as on the supply side, to mitigate the effect of those. But the cash impact of the onerous contracts will be around £6m to £8m for 2015.

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Ashley Almanza, Chief Executive Officer
Thank you Himanshu.

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George Gregory, Exane BNP Paribas
Morning. Three questions please. First Ashley I wondered whether you could elaborate a bit on direct labour efficiency. You said it was complex and large, interested to hear what you're actually doing behind the scenes?

Secondly in terms of vehicle route planning, if I look back to your prior strategy update I had a number of I think 9,000 by the end of '15. You're now talking 7,000; I just wanted to know whether there was a change in numbers or what's going on there?

And finally in terms of organic growth, I know you don't like to give guidance but based on the pipeline and the wins, do you expect to be within your 5% to 8% range in 2015? Thanks.

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Ashley Almanza, Chief Executive Officer
I'll take organic growth first. And none of you will be surprised to hear that we see that the 5% to 8% as a long term potential, growth potential of the business. We don't give targets in any year. I think though that you - you know I think everybody who follows the company has and the sales side in particular has got this, looking at 2015 we can see where consensus is. I think people have worked through the losses and the wins and have come to a sensible position. So we're quite comfortable with in broad terms where the market sees top line growth. And I think that would put us in the postal code of our long term guidance.

Direct labour efficiency is complex and we're looking at transforming the way we manage labour efficiently in 39 countries, 376,000 employees. That's not all of our employees but we're targeting the countries where we think we can have the greatest impact. It is a multiyear programme and it starts first with disaggregating your performance, disaggregating your labour efficiency and understanding on a comparative basis across the portfolio what is driving one business to be better than another business. And then setting about effectively putting in place a playbook for the whole Group that says this is the G4S way of managing labour efficiently.

Having put that template in place and got everybody to understand that across the Group, and that's not easy to say but not a trivial exercise, you need the systems in place to support that effort. In some cases we will have to make a start without the systems. We just cannot get the systems in fast enough in a way which means we'll be spending money in a disciplined fashion, and that's okay, we can still make progress without the systems. The systems can follow on behind.

What we have managed to do is first of all define the playbook, get it out to the leadership teams in those 39 businesses, appoint subject matter experts, typically people who understand - who have come up through operations and worked in labour scheduling operations, understand what we're trying to achieve. And they have been deployed and assigned to each of the six regions.

I think this is a bit - Dave Brailsford won't thank me for making this comparison, but it is a bit like that where you're looking for constant incremental improvement in the way you manage labour efficiently. And of course I've just given you the sort of the nice, you know, cleansed version of reality. We know that for example when we grow rapidly in a marketplace that maintaining all of your indicators, your stats on labour efficiency becomes quite challenging because you're mobilising new contract, you're having to hire new people, deploy them to new assignments, you're still figuring out how to deliver that service efficiently on a new site. And so your productivity can be variable which is why I compare it to constant incremental improvement that you see in some sports.

So a bit of colour there, just getting started. I think we've made good progress in disaggregating our current performance, creating an internal league table, developing and distributing a playbook to the leadership team and putting subject matter experts into each of those teams.

Route planning, we might have in our presentation confused incremental and cumulative deployment. I actually think by the end of 2015 we're going to have installed more -

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Himanshu Raja, Chief Financial Officer
Yeah and it's also a function of - it's the same team that looks to optimise the use of the fleet. So telematics have become uneconomic depending on the route and the route plan that you run, so you'll see in Ashley's presentation today there's been a rebalance also. We've done better on route scheduling where we saw opportunities from route scheduling. We've more or less completed the telematics on the Cash fleet, and we're now turning our attention on the telematics side to the Secure Solutions fleet that transports labour fundamentally. So it's optimising both of those together, and when you look at Ashley's update from today there'll be a combination of around 11,000 vehicles focused on route scheduling, and 4,000 which is predominantly the Cash fleet where telematics is completed and we're getting started on telematics in the Secure Solutions fleet.

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Sylvia Foteva, Deutsche Bank
Thank you, good morning. Three questions please. The first one is just a clarification following from Rob's question on your margins. So you've provided the profitability under the old way of reporting, so your PBITA will be 414. So the margin is up 10 basis points on that basis which is the same as in H1. So I was just wondering obviously now you've added back the disposals basically, the loss on disposals, so it seems like the run rate in the margin hasn't actually changed H1 versus H2, is that correct? Or am I lost in the accounting?

And question number two, so at the H1 stage following the Serco results, we're obviously asking about contracts like COMPASS, you've said that you've provided enough for those contracts. So I'm just wondering what's changed?

And the last question, looking at your North American performance, that is very impressive and the margin is obviously up a lot, could you just comment on trends in pricing, wage growth and also the impact from non-wage employment costs like state of employment insurance. Thank you.

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Ashley Almanza, Chief Executive Officer
Thanks Sylvia. I'm going to ask Himanshu to talk about margins and onerous contracts, but I just can't resist I'm afraid. You mentioned the old way of reporting, and under the old way of reporting we would have taken another £91m, £92m of profits to underlying results. So our margins would have been a bit better actually.

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Sylvia Foteva, Deutsche Bank
H1 '14 old rather than …

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Ashley Almanza, Chief Executive Officer
No, no, oh I see, okay. So I misunderstood your question, my apologies. So look, let me talk about North America and then ask Himanshu to talk about margins and providing for onerous contracts. As you said very good progress in North America. As I mentioned our focus has not been on in North America over the last few months restructuring or accelerated best practice, our focus has been on getting the pipeline moving again and getting our sales moving again. And I think the team down there have done a terrific job in doing that.

Pricing, this is a fiercely competitive market. And I think you have to differentiate your product and your service and we do that. I think our technology service is differentiated and for sure our manned security, our risk consulting and our investigations business is differentiated in the market. I said we have a strong franchise, I believe that from the information we get from our customers. But nevertheless it's a fiercely competitive market.

In terms of state insurance, healthcare costs and so on, I mentioned certainly in terms of healthcare our programmes were largely compliant and I think the impact of change was less for us. But like all of our competitors increases in insurance costs and increases in state taxes and so on have ultimately to be passed onto customers. And this is why it's important for us I think to continue to invest in having a premium service. You know our CPO officer programme I think has been very successful in creating a niche for us in the market where we're starting to grow. I think our concentration on some of the vertical segments, technology sector, distribution logistics, financial institutions has also paid dividends. I think we're setting ourselves apart slightly in that market, but ultimately procurement, just as we're investing in procurement our customers are investing procurement, and procurement are an intrinsic part of the process so you can't get away from pricing pressure. Himanshu, margins and onerous contracts.

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Himanshu Raja, Chief Financial Officer
We talked about the COMPASS contract in November. It might be helpful I think to just take you through the dynamics of how those contracts work because they're different for each provider. There are three providers in the market, and there are two demand side dynamics and there are two supply side dynamics. The demand side dynamics is the incoming caseload that you have and how fast that is processed through the system

before those service users are made available on the supply side. And then on the supply side you have to do two things. One, match it to the appropriate accommodation, and secondly to make sure there's enough physical accommodation in place.

And that hits different providers in different ways. For us we saw following our key three conversation in November a different type of demand and different profile of demand coming to the G4S geographies that we were unable to match to both the physical availability of accommodation and type of accommodation. And therefore as you went through the yearend we were obliged through the IFRS process to sit down, look at our assumptions, work with the customer to see whether we're going to be seeing that sort of caseload sustained. And we've worked with the customer to find what we think is the best estimate that drives the yearend provisions. So that was the change from what other providers might have seen and when that caseload hits those providers.

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Ashley Almanza, Chief Executive Officer
Can I just emphasise a point that Himanshu made which is the provision of that service to the Home Office is spread, as you know, across three suppliers, each have their own geographical region. And I think the key point here is not all of those contractors are experiencing the same change in service demand at the same time. And what Serco experienced in the third quarter we experienced in the fourth quarter. So if you compare the first nine months to the last quarter, our caseload - the rate of growth in our caseload doubled at the end in the fourth quarter versus what we'd seen. So that's why you saw the difference in timing between the recognition I think of impairment in Serco and G4S.

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Himanshu Raja, Chief Financial Officer
I think Sylvia's last question was your margin progression one. I mean all the figures Sylvia that I present are on a like for like basis, so it's not that those discontinued operations get stripped out in '14 but not in '13. What you see in the 424 therefore is the underlying PBITA from continuing operations and the higher quality of earnings. And therefore, like the Finland locks business is not in those numbers because that is not a core business going forward, and for which we've realised value. In terms of H1, H2 therefore on that like for like basis you see roughly a 30 basis points improvement from H1 to H2.

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Stephen Rawlinson, Whitman Howard
One question. Retention rate, you're losing 10% per annum there. Can you just talk to me please about whether that's contracts or revenue? And should we be expecting fewer losses in the future on that number and is there any consistent theme? Is it price, quality or service that is causing you to lose that? And I guess also it might be that you could add in terms of your business development teams what they're incentivised to do, either with new work or keep the old stuff?

Ashley Almanza, Chief Executive Officer
Yeah it's a great question actually and I think at the third quarter I mentioned this and said I think by many 90% retention is regarded as a good result, but when you turn it on its head and say well that means each year you start having to fill 10%, it's measured on revenue not numbers of contracts. So it's an opportunity for us. In 2014 that includes of course three very large contracts, in fact three plus a medium sized contract. So electronic monitoring, Dutch prisons, Manus, the large ones, and then of course Tesco as well which in 2015 would I think have been around £20m revenue which is lost.

Your question about incentivisation is I think very interesting because historically sales and BD have been incentivised on new business as opposed to customer retention. So when we look today across our company at customer relationship management, global account management, measuring and responding to customer satisfaction, and what we found was that we didn't have a consistent approach. And indeed it was not possible as a service company 18 months ago to say can I benchmark customer service across our Group? Can I see who is delivering, polling customers regularly so are we doing it on a comparable basis across the Group, asking the same questions, doing it the same frequency, polling the same sample from our population of customers so that we end up with comparable data? And then have a conversation about why it's working well in some areas and not so well in other areas. So we have, through the course of 2014, been investing in putting that system in place under Mel's leadership, and going into 2015 we will for the first time be able to start to do that. We need to build up the data history for it to become more meaningful but we've got the tools now to do that.

Not only sales, but also our operations people have in their performance contracts components of their total incentives will be determined by customer retention. It's not purely a function of sales; it's also your CRM folks and your operations. So you know why do customers leave us? Again, having just said that we don't have a global sales management system that allows us to do this systematically, I can still say that we have a good enough understanding of why customers, certainly large customers, why they leave us when they do. And it typically comes down to two things, service and price. And we don't like to lose any of those.

And you know you should not take my next comment in any way as being complacent because I agree with you, I think it's one of our huge opportunities in the company. If you can make just a small dent in that retention rate you can really have a very powerful effect on your growth rate and your profitability. It typically is more expensive to acquire a new customer than it is to hold onto an existing customer. Not always, and actually sometimes we say this customer is not for us, we're the wrong company to serve this customer, we just can't make it work. But that's very infrequent and we don't like it when it happens.

In 2014 we won 2.2 billion TCV, 1.1 round numbers ACV and 10% would have been, in revenue terms, a loss of about 650. So you can see that the net, there's a big opportunity there for us. We are changing the way that we incentivise first of all the objectives we set for our management teams across the Group, the way we incentivise them against those objectives. I would say all of this is in the category of getting started, but it's a big opportunity. Did I cover all of your …? Thanks very much Stephen.

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Karl Green, Credit Suisse
A couple of questions. Just in terms of the health and safety comment you made about customers increasingly valuing that, are you seeing that come through in the numbers in terms of better win rates where health and safety has been an important component, or is it something people are actually prepared to pay a premium for where you're able to demonstrate superior health and safety performance?

My second question is just around the technology where you said that there were a number of programmes going from pilot phase to commercialisation. Could you just elaborate there and what's your plans?

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Ashley Almanza, Chief Executive Officer
Yeah. So on health and safety I think this is multifaceted. I think for some large clients this is increasingly going to be a ticket to the ball. You're just not going to get invited to the ball unless you can demonstrate that you have a proper health and safety management system, that you have the resource in your company to manage this adequately, and that you're going to operate on their sites safely. This is new I think in our industry, but I am sure it's going to be an increasing trend.

Let's say, and in many cases now we're developing the capability and indeed we are getting in with those clients, once you're in I think if you deliver strong safety performance it vastly improves your chances, back to Stephen's question, of retaining that account when it comes up periodically for review. Do you get a premium price? Well to the extent that the number of competitors that are able to demonstrate that capability is smaller, in other words it's a small set as the customer standard rises to the extent that others don't also invest in health and safety and raise their performance; there will be a smaller population of suppliers competing for that business. And in principle we will have more selling power and we should see better margins.

I don't think we should put that in the bank, I think that it's much more a case of us being a preferred supplier. And in some cases we'll have negotiated rather than bid arrangements where we've got a distinctive health and safety capability. So can I give you a precise measure of how it will show up, when it will show up? No I can't. But am I confident it will? Yes and we see it in some of our customers now saying to us, you know, this is a very, very important part of our relationship going forward.

Technology, I think there are a couple of good examples. We have a business called Deposita which manufactures cash recyclers in South Africa and we wanted to develop products that could be sold not only in South Africa but across Africa, and then develop products which could be exported to other markets. And that project moved out of pilot into commercial phase in the back half of 2014 and we began to sell the units out of South Africa into Asia Middle East. Small, you know not huge, modest, but I think a good start.

And then the other is one we talked about last year which is US CASH360. We had a pilot programme going with one of the world's largest retailers and that has now moved into commercial phase with them placing firm orders. For a number of reasons it's still commercially sensitive, not from our point of view but from the customer's point of view, and I'm hoping we'll be able to say more about that at the half year. And the interesting thing with that CASH360 programme is that we worked with an anchor client in the pilot project and as we moved into commercial phase we've also been successful in bringing in a new anchor client who has placed firm orders straight away. So again fairly modest, but I think with lots of promise, lots of potential in that market.

And the third example I'll mention is one I touched on earlier which is we had no Systems and Technology business in Asia Middle East. That is largely a function of transferring knowhow and capability, but it's also required innovation in the systems that we offer to the market in for example the Middle East are not the same as the systems we're offering in North America. So we've had to combine transfer of expertise with some innovation and we've had $100m of new sales in Asia Middle East. Again in the context of our Group, $10bn it's modest, but I think it's a good start.

So there's three examples.

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Paul Checketts, Barclays Capital
I've got three questions as well please. Two are on new work. If you look at the work that you're prepared to do now, are there things within the portfolio that have been done historically that now wouldn't get past your filters? And maybe you could talk a bit about what wouldn't.

And the second one is about the pipeline. How much of that [short gap in audio]?

And then number three, can you just tell us how much sales we have from technology currently within [short gap in audio]?

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Ashley Almanza, Chief Executive Officer
[Short gap in audio] and what would cause us not to do that. Fundamentally the first question is can we do this job? Can we deliver the service reliably for the customer? Second question is when we look at the terms and conditions under which we have to deliver that service, can we manage the risks? Third question, is the risk reward balance appropriate?

Last year 2014 our two single biggest sales opportunities where we were a clear contender and the customer engaged with us I would say energetically, the customers engaged with us energetically to keep us in the process, we withdrew from the process. And we withdrew from the process for the first reason but also that has an effect on the second and third factors. The principle reason was that when we looked at the service delivery model we could not get comfortable that that service could be delivered by our company reliably and consistently in accordance with the KPIs in the contract. We actually thought that the service model could be changed and we engaged with the customers to say if you change the service delivery model we're in and we'll bid to win, but we can't bid otherwise. And those were our two single biggest new contract wins in 2014. I'm not going to say who the customers were because you know there's a continuing relationship on the other end of that contract - contracts, plural.

So yes, there is work that we won't do. Himanshu touched on one. If you're taking volume risk you need to be able to manage that volume risk and ideally you don't want it to be open ended so you want a cap and collar on volume risk. Other lessons learned in our recent past is so called TFC clauses, termination for convenience. That was the Dutch prison. We spent millions, millions of pounds, mobilising for that contract, and we signed a contract which allowed the customer to terminate for convenience with no demob or unamortised mobilisation compensation. We can't do that sort of business.

Interestingly when some of those contracts have come to our investment committee and we've declined to move forward, on one or two occasions we go back to the client first of all - the first thing we do is go back to the client and we say we're really sorry we can't do this, and so it's not a question of just strong arming the market, we go and we explain and we say we'd love to work with you but we can't do it and this is why. In a number of cases the client has accepted that and modified the contract. So in other cases the client says that's the contract, take it or leave it, and we leave it. So that was your first question.

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Himanshu Raja, Chief Financial Officer
Third question, around 700 million technology revenues.

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Ashley Almanza, Chief Executive Officer
And you had another question Paul.

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Paul Checketts, Barclays Capital
It was just how much of the pipeline is with the UK government?

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Ashley Almanza, Chief Executive Officer
Most of the pipe is outside of the UK government. We're really rebuilding. We'll get you the specific numbers. We're rebuilding our UK government pipeline and there are some big programmes in there, I shouldn't diminish that. But you know as I said earlier, the strength of our company is that we have a diversified revenue base and a diversified pipeline so.

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Paul Checketts, Barclays Capital
Thanks.

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Ashley Almanza, Chief Executive Officer
Okay.

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Gideon Adler, Redburn
Two questions please. First on portfolio, you told us that around 60 of the countries you operate in generate the bulk of your core EBIT.

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Ashley Almanza, Chief Executive Officer
Sorry, could you repeat that please?

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Gideon Adler, Redburn
You said that around 60 of your countries you operate in generate the bulk of your core EBIT when you first joined the business. You've now sort of tapered the number of countries you're in down to around 100. I'm just wondering if you can give us a sense of materiality of the incremental opportunity now. I mean how many more countries you wish to exit, and within that mix what the profitability is in those businesses?

And the second question on working capital Himanshu, you touched on a couple of working capital metrics in your presentation. Could you wrap that in some guidance around where you see underlying working capital for 2015?

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Ashley Almanza, Chief Executive Officer
Thanks Gideon. We're just below 100 now and I think for now at least the obvious and the large opportunities to improve the portfolio have been attended to. Portfolio management though is not a one off exercise, although clearly there's been an intense concerted effort to improve the portfolio. But it's an ongoing part of performance management and an ongoing part of capital discipline. We will I think in the course of any year be reviewing at least a dozen businesses. My hope, my expectation is that we will manage to turn most of those - if a business warrants that kind of look, then we will be able to restructure and put that business back on a path to growth. So I would say sitting here right now there's nothing material in view. But the caveat is if business prospects change, if the market structure changes then we have to reconsider that, we have to look at the business again.

Working capital.

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Himanshu Raja, Chief Financial Officer
Yeah working capital, you will see in our statement today in the statutory free cash flow around 19 million, but that benefited from EM receivables and EM fees and you strip those out. Working capital was flat year on year '13 to '14, and I think it's the first time on an underlying basis we've achieved that. In previous years we saw lots of supplier hold backs and so on affecting that number.

I referenced a modest improvement in DSO. The two or three key things I look at are DSO on a rolling three month basis. I look at event to billing, and we've got a lot more to do on the time limits of when we bill and therefore to start the collection cycle. And the third thing I look at is the ageing profile. There's more to do on DSO, there's more to do on ageing profile, and the hardy yardage is around event to billing because it requires process and system change. So we'll just keep going after it and keep driving the teams to focus on it.

Of course Helen would point out when you're growing you're always going to be consuming some working capital, that's why I say for this year to have held it flat was a good performance.

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Allen Wells, Morgan Stanley
Morning guys. Just a couple quickly from me. Just on the pipeline, obviously we have on our side obviously limited transparency on that. But of that 5.5 billion of annual contract value could you give us indication in terms of timing of decisions on that? Will most of that will be decided in 2015? And you've touched on the fact there are some large opportunities in there. Obviously I don't expect you to give the names of those, but in terms of regions, subsectors, anything you can sort of provide in terms of flavour of what looks attractive at the moment. That's sort of the first couple of questions.

And then finally you touched on the Africa business in commodities but maybe more generally on things like oil and gas as well could you give us a couple of words on how your customers are being impacted by for instance on the oil price environment at the moment? And then from your side where the risks are from a customer cutting activity levels, but also where the opportunities are on a cost side if there are any at all?

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Ashley Almanza, Chief Executive Officer
Sorry, could you repeat the last bit?

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Allen Wells, Morgan Stanley
Oil prices, where the opportunities are for you guys in terms of cutting costs. Is there any benefit coming through there?

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Ashley Almanza, Chief Executive Officer
Okay so on the pipeline, when you have a year like we had last year and we have a large number of wins, what that does is obviously it depletes the pipeline at the - if you imagine this is a funnel, at the bottom end of the funnel. So we look at prospects, suspects, bidding and negotiating. So you deplete the bidding and negotiating part of your pipeline. And our efforts to restock, as you would expect you fill the top of the hopper first and then it flows down. So I'm going to ask Himanshu to comment on the numbers in a second, but the shape of the pipeline has changed and actually there's no reason why we can't and shouldn't give you visibility. We have in the past on the shape of the pipeline so we'll do that through our - we'll put a slide up on the website through Helen's team.

So I would the shape has changed in a way which means many of those decisions are going to be at the back end of the year and some will actually click over. Our experience tells us, that bid timetables, whatever you've got in your salesforce.com system, the bid timetables move to the right typically. There are some large opportunities, actually again it's spread happily across the Group. In terms of services and markets we see in Asia Middle East, more opportunities in technology, facilities management, construction, ports, aviation.

In Africa lots of oil and gas as you would expect and I'll pick up now the point, clearly everybody is looking again at investment projects. Where this tends to bite is projects that have not been sanctioned and not yet started, so in many cases our order book - our current revenue is obviously dealing with projects that are either under construction or completed and we're providing security for operations. Projects that have been sanctioned but not yet completed tend to go ahead and much of our revenue and sales book in Africa for example is addressing that opportunity. But there is no doubt that you know mine expansions, exploration programmes, drilling programmes, projects not yet sanctioned will slow down, are slowing down, and that will have some effect on the whole market.

Can we help our clients? I think we can. One of the things we are trying to do in Africa, very early days, is provide more security technology so in fact it is more difficult to do in a relatively low wage environment, the arbitrage between wage cost and technology is not as great as it is in developed markets. But I think in large infrastructure projects there is an opportunity for us to offer better technology solutions that reduce the cost of service to our clients and improve our profitability. We've been talking to some very large clients in East Africa about that. The only caution I would offer immediately is those tend to be long, long conversations. They can go on for a very long time so we've not pencilled anything in this year in terms of sealing a deal.

Other sectors and service lines, we've talked about Asia Middle East, Africa. Actually Africa, one of the areas where we've seen good demand and continuing demand is in financial institutions. There are some - this might be more your business than ours, but there are some quite interesting trends in financial institutions in Africa where somewhat against the trend that we talked about in developed markets, new entrants are winning lots of market share by going back to the old bank branch model. And we've been winning quite a lot of business, particularly in southern Africa, from those new entrants.

Our Risk Consulting business has done well in North America. So typically our Risk Consulting business has been concentrated in Africa, in Asia Middle East and we've seen a big uptick in Risk Consulting and investigations in North America. Other aspects of the pipeline, I touched on this, European Cash. We won a lot of business last year in European Cash which will start to mobilise this year. Pharma, agricultural sciences, in Latin America we're starting to win some good Pan regional accounts. In some cases it's been a question of bringing those accounts together where let's say we've had 10 out of 15 pieces of the jigsaw and we've gone to the client and said we can put in place a master service agreement and bring them all together, and by the way we'd like the other five accounts while we're at it. So we've made good progress I'd say in pharma and agricultural sciences retail in Latin America. Our Cash business in Latin America is small and not - I mean it's a nice business, but relative to some of the other players and the size of the market fairly small, so we're not seeing a lot of growth there at the moment in terms of new markets and new accounts.

So that's sort of a colour and flavour and we'll put the pipeline on the website so you can see how the shape has changed. But the simple message is the top of the pipeline has gotten bigger as the bottom has been depleted as we win contracts.

It looks like we've finally exhausted you. Can I thank you all for attending today and for your interest and your active engagement. We'll be staying for refreshments, if you're able to stay please do stay, otherwise we look forward to seeing you at the half year results. Thank you very much and good day.

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