G4S

2015 Preliminary Results Presentation

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G4S

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QUESTIONS FROM

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Business Review

Ashley Almanza, Chief Executive Officer
Good morning ladies and gentlemen and a very warm welcome to the G4S Full Year 2015 Results Presentation.

I'm joined today as usual by Himanshu Raja, our Group CFO, and also with us today is Helen Parris our Director of Investor Relations who I think everyone knows. And we also have Søren Lundsberg, our General Counsel and Debbie Walker, our Group Director of Corporate Affairs.

Before we get started I'm going to draw your attention to the, by now I think, very familiar disclaimer on slide 3 and ask you to read that in your own time please.

We have the following agenda, key messages, results, highlights; we'll go through the regional business review as usual, talk a little bit about our strategy and plan. Then Himanshu will take us through the financials in more detail. That will take around 45 minutes and there will be plenty of time for Q&A. So we'll get started right away with the key messages.

Now I think everyone here and everyone listening knows that in November 2013 we laid out some plans to transform G4S. We have made substantial progress over the last two years with that transformation. And as you think about where you've come from, where we are today and where we're going, I think it's both helpful and important to think about this in three parts.

The first is our portfolio programme, where we're going through a very large portfolio of businesses and identifying those businesses that we will sell or discontinue and will not form part of the strategy going forward. That's improving our strategic, our commercial and our operational focus, and it's undoubtedly changing the shape of the Group and improving our operating and financial performance already today.

The second part is the now very well-known legacy contracts, and it's very clear that this has been a constant headwind for the last two and a half years. These remain important in our business, financially significant, important contracts that we must and will deliver. But they will diminish over time and they will diminish quite sharply over the next two to four years.

We're confident that they will diminish, not just because of the passage, the effluxion of time, but because the controls that we have in place today around major contract approvals could not be more different. And one thing we can be utterly confident, that if these contracts were before us today we would not sign those contracts. So the control environment, and the governance, and the risk assessment around major contract approvals is completely different. And I think that's a really important point.

And the third part of this is the most important part of our transformation programme. And that relates to the business in which we're investing and that will form part of our long term future and core to our strategy. We are creating long term value in those businesses and I'm pleased to say there is now tangible evidence of that investment showing returns, as is evident in our results. And the results of our continuing businesses, I think, are more than satisfactory.

The performance of those continuing businesses is evident not only in the full year results, but we saw quite strong momentum in the second half. We grew much faster in the second half than in the

first half. And that give us confidence that we're going to make further operational and financial progress in 2016. We know already, of course we're in March, we know that we've had a good start to the year and that increases our confidence in the outlook for 2016.

The combination of that improving performance and the cash proceeds from our ongoing portfolio programme, those things together also give us confidence that we're going to reduce debt over the next 12 to 24 months towards our 2.5 times EBITDA to net debt ratio, or lower.

You will have seen that the Board is recommending a dividend of 5.82 pence per share. That's flat on the previous year's final dividend and brings the full year dividend to 9.41 pence per share, an increase of 1.8%.

Our dividend policy is unchanged; the long term objective is to grow our dividend in line with the long term growth in earnings. But for now we're holding the dividend whilst we drive net debt down.

Let's turn to the results. I hope by now you've had a chance to read the release that we put out earlier this morning. Overall Group revenues were up 4%, emerging markets 8.6%, I think that 8.6% demonstrates once more the resilience of this business, because this was taking place in a world where growth from China was slowing down, commodity prices were at record lows and there was general macroeconomic uncertainty, all of those things effected Asia, Middle East, Africa, Latin America and our business grew at 8.6%.

As expected our UK and Ireland business we saw revenues decline by 3%, principally as a result of large contracts which we lost in 2014, the Tesco contract and of course infamously the Electronic Monitoring contract.

In Europe we've been investing heavily in sales and business development and Europe returned to growth, up 2.6% and another quite exceptional performance from our North American business growing at 5.8%.

The investment that we're making in our sales and business development is evident also in our sales performance. Sales of £1.3bn - ACV, annual contract value, £2.4bn total contract value, and a pipeline of £5.7bn.

The ongoing demand for our services and the resilience of our business gives us confidence that this pipeline and the demand for our services can support growth of 4 to 6% growing forward.

The combination of top line growth and our productivity programmes, operational productivity, procurement, and so on dropped through to the bottom line and the profit from our continuing businesses rose 5.7%, earnings and EPS were up 14%.

Cash flow was £460m, that's down 12.9%, that's a function of two things - both related to working capital, the strong growth in sales that we saw in the second half absorbed cash into working capital, so the level of investment in our working capital went up, and we're also transitioning to a shared service centre in the United Kingdom and that also affected our worked capital. We expect that effect to reverse in the first quarter of this year and we're seeing that coming through already in the first part, in the first two months of the year.

Net debt was £1.78bn, up from £1.64bn, that's a function of the heavy investment programme that we've had, both capital investment, but also a lot of our investment goes through the P&L, whether it's

sales and business development, or general management. The working capital effect that I've just referred to and of course the utilisation of cash to service the onerous contracts, that's OCP, and there was also an FX effect on net debt. Himanshu will take you through all of these numbers in more detail.

As I mentioned a moment ago we believe the outlook for the company is positive, driven by the momentum that we have in the business and the combination of improving performance, improving operating cash flow and our portfolio programme will help us to drive net debt down over the next 12 to 24 months. And I've covered the dividend already. So we'll move on to the regions, starting with Africa as usual.

As you know Africa is dependent on a commodity based economy in many countries, against the background of sharply lower commodity prices in general I think, and macroeconomic headwinds our business continues to grow in Africa. Revenues are up 6.8% and profits are up 8.1%. We are continuing to invest in our businesses in Africa, we're continuing to strength our sales and business development under the leadership of Eddie Ueckermann down in Johannesburg is doing a fantastic job.

Our sales operations in Africa have been transformed. When I look back at my first visit there two and a half years ago and compare it with my most recent visit, it's very clear we've made huge progress in this area. We have better control, better visibility on our pipeline, much better, earlier, rigorous qualification of that pipeline and we're getting better at identifying which opportunities we should go after.

We're also investing in our operational capability; we've made two senior changes in Africa in the last year. Mel Brooks, who previously ran our Indian business, it's the large single country business we have, 130,000 employees, we'll talk later about the transformation - the operational transformation of that business, that was led by Mel. He's now gone down to Johannesburg leading our Africa region and applying the same operational rigor and discipline.

We also moved Tim Kendall who ran our Nuclear Security business in the United States, which as you can imagine has very exacting operational standards, and Tim's now the Chief Operating Officer. So we're building that team to drive operational excellence into our businesses in Africa.

And then last but by no means least, product and service innovation, I think sometimes we think that all of the innovation happens in London or North America, actually our emerging market businesses are quite capable of innovating and they have done so. Our team in Africa has come up with some really innovative new services and products, including something we've talked about before which is Depositor, which is selling well and very profitably across Africa. We're now looking to deploy that cash recycling technology in Asia and the Middle East.

We're building a diversified pipeline in Africa; historically I think we've had too much concentration in energy, mining and construction. We're now broadening that into retail, financial services, telecommunications and infrastructure.

Asia Middle East here too I think generally there were macroeconomic headwinds slowing growth in China, and yet our business continued to move forward. Revenue up 8.4%, profits up 12%. That again is a combination of top line growth and improving productivity. Here too we're continuing to invest in sales and business development across a range of sectors to diversify our pipeline.

We also took the decision last year to strengthen our organisational leadership and focus. This was our large region in the company; it stretched from the Suez Canal to the other side of the Tasman Straits, a vast region. We have created two regions from Asia Middle East, Asia Pacific which will be - is headquartered in Hong Kong and led by John Corner, who was previously our Regional Commercial Director. John has been with the company for coming up for five years, has lived and worked in Asia for almost two decades.

And then the Middle East India region, which is headquartered in Dubai and is led by Claude Allain who we hired from Johnson Controls, Claude has a long and proven track record in both services and technology industries. He's lived and worked in the Middle East for many years, he's now in the saddle. So this change reflects the importance and the potential of these growing markets to our company.

Latin America, we talked about this last time we met, we've been pleasantly surprised at the rate of continued growth in this market, there are obviously huge macroeconomic headwinds in Latin America, and yet demand for our services continues to be strong.

I think we also flagged last year, or at the half year, that we were starting to see a lag between cost, inflation, and wages, and price pass through, it's a touch environment in which we're operating there. And the growth and productivity initiatives were offset by those delays, which meant that the top line growth did not translate through to an improvement in the bottom line, profits were flat year on year at £29m. Here too we're continuing to invest in our sales and business development. Historically this has been the most underinvested area in our company and we're strengthening our pipeline in both Secure Solutions and FM across Latin America.

Europe, this was probably the region that had the least investment historically in sales, sales leadership, sales operations - there was no sales leadership in Europe two years ago. We've invested heavily. That is starting to pay off; we're seeing revenue growth return for the first time to our businesses in Europe, driven by our Cash business in the Netherlands, the Cash business in Greece, and our Secure Solutions in Belgium. We had positive growth in other parts of the businesses, but those were the stand out businesses.

Going against that in the other direction is the cost of the ongoing investment in sales and business development, but also in adverse revenue mix effect. And that was contract portfolio changes in the Netherlands and in Hungary where we lost some contracts; we also had a systems project in Hungary which game to a natural end.

Under Graham Levinsohn's leadership in our headquarters in Holland we've got a clear plan to improve sales and productivity and to restore our margins in this business.

North America, as I mentioned, I think this is quite an exceptional performance, our team down there has delivered a fantastic result, we've got a very strong franchise in the world's biggest security market and that's evident in these numbers. We're growing faster than the market; we're taking market share therefore. I think that's a function of the quality of our team, but also the fact that we've invested in product and service innovation and so we're constantly refreshing the service offering that we're putting into the market place.

We saw growth across all of our services and our customer segments. We implemented the Affordable Care Act and as we signalled this had virtually no impact on our business because our

existing care plans, healthcare plans, were broadly consistent with ACA already. The top line growth combined with operational gearing dropped through to 17.5% increase in profits.

We'll talk later about service innovation, one of our standout, I think , successes here has been taking Cash360 from the UK, developed many years ago and to some degree sort of left on the shelf gathering dust. We took that over to North America and then the last 18, 24 months the team there, under the leadership of Brian McCabe our Chief Innovation Officer has done a phenomenal job in creating a service offering and a product that is now getting real traction in the market place, and we're going to talk more about that later.

The UK and Ireland as a I mentioned, the revenues are down 3%, we lost the Electronic Monitoring contract, this was a big and highly profitable contract and I think the reasons for that are well understood and we also lost the Tesco Cash Handling contract. Both of these were in 2014, that obviously affected our revenues, they were both also above average margin contracts and that fell through to the bottom line, profits were down 9.4%, a combination of that revenue mix and our ongoing investment in sales and business development.

The UK Living Wage we talked at the half year, we've completed our analysis, Himanshu can talk about this in more detail, and we estimate a 1 to 2% impact in 2016.

We're obviously focused on operational efficiency in the UK, along with the rest of our business. And we will be taking some of the lessons that we've learnt from our operational transformation in India, together with - we've had a lean process design project running across the company in 2015, we're bringing those things together and we're going to run a pilot to put new core operating systems into our UK Secure Solutions business. This will be run as a pilot as to not threaten the operational integrity of our business and we hope in a year's time to be talking about taking that into full operation and then rolling it out around the rest of the Group.

And then clearly a key priority for 2016 and 2017 is managing our legacy contracts efficiently.

I'm going to move on from the results to just touch on a few areas of our strategy and give you an update. These I think are increasingly familiar strategic priorities to everybody and certainly inside the company, investing in our people, investing in our customers. What that means is simply getting closer to our customers, understanding their business well, understanding their strategic objectives, their priorities and designing services that help them meet those objectives, investing in growth, sales and business development investment every year, investing in product and service innovation.

Service excellence - one of our core values has been for many years customer focus and service and yet two and a half years ago we didn't have a way of systematically measuring customer satisfaction. We started that process 18 months ago and have made a good deal of progress. We're now able - still not where we wanted to be, but able to more consistently measure customer satisfaction across our businesses and respond to that. Knowing is one thing, responding is also very important.

Operational excellence - I think in many of these meetings we've talked at length about our operational excellence programme and we'll return to that. And then financial discipline and I'm going to say a few words about financial discipline and then Himanshu is going to cover that in more detail.

When we talk about financial discipline these are the core elements of what we mean at G4S by financial discipline. Himanshu is going to cover risk management, capital allocation, and working capital. These are all fairly new approaches to a common issue in many businesses, by new I mean

the way we approach this today is in G4S is very, very different to how we approached this three years ago and Himanshu will talk about that. And then obviously gearing is very important and I've touched on that already.

I'm going to talk about portfolio management; I think all of you will remember this picture from November 2013, so about two years ago. And what we noticed was something that was I think well understood already, which is that we're a geographically dispersed business, a large global business, operating in 126 countries with - Himanshu I want to say over 800 subsidiaries around the world, and they were not all making an equal contribution to the business then. And when we looked forward, we noticed, or recognised that not all would play a long term role in the company's strategy.

So we set out some criteria and then we went about systematically working through that portfolio and identifying businesses that would remain in the company, and form a core part of our strategy, and those that would leave. And there were some in the middle where we said we're going to give them a year, or two years, to see whether or not they can be combined with another business, turned around, or sold.

So progress to date, I think we've made well more than satisfactory progress, we've identified 61 businesses, completed the disposal or closure of 23 businesses, they have combined revenues of £1.2bn and losses of £30m, this has been a phenomenal team effort from across the Group.

We identified a four business, bringing 61 to a total of 65, those are Children Services which we announced a few weeks ago in the UK, our UK Utility Service, in the UK, G4S Israel and Youth Services in the US. Together those businesses have combined revenues of around £400m.

We expect our ongoing portfolio programme to not only sharpen, continue to sharpen our strategic, commercial and operational focus, it's very, very important in terms of management focus versus management dilution, but also to release capital. And we expect another £250m to £350m of proceeds over the next 12 to 24 months, which will go towards reducing our debt.

Now I want to move on to people, when we meet in these forums, we spend a lot of time talking about numbers, revenue, profit, cash flow, that's very important and we're always happy to talk about it. But it's very important every so often to return to this subject, because all of those measures are a function of this input. And we have spent a huge amount of time, effort and substantial money reorganising our business and bringing talent in and promoting talent from within.

If you look at our Group Executive Committee and our Global Leadership Team we define that group of around 220 individuals, senior leaders across the Group. 130 of those are new in post in the last two years plus. Now of course when you make that scale of change one of the risks is that the you lose some momentum, and that's true in some part of the business, we get a completely new leader in from the outside, they have to understand the context in which they're operating, get to know people, get to know customers and we do lose momentum. That is a cost well worth paying and this is an investment well worth making. It will be the deciding factor in the success of our business.

Around 60% of our 130 have come from outside the Group, so there's been a big infusion of new blood, new talent into the company. I'm delighted to say that 40% have been internal promotions, so it's important, it's good and well to look outside and bring talent in, but increasingly important to us is to have structured ways of identifying talent into our company and developing that talent and giving them an opportunity to move on. So we're really thrilled to see that about 40% of our changes have come from within the company.

The other very important change is the way we've organised ourselves, so again two and a half years ago we had literally three and a half regions, three and a half is an odd number, but that's what we had. And we now have seven regions and all seven are under new leadership. Most of that new leadership has either been hired externally or been in the company for not very long, but we have of course, we recognise the huge value that comes from those employees and leaders who've been in our company for a long time and we're seeking to get the best of both of those.

Also important is leadership training and she's not here today, our new Group HR Director Jenni Myles has been working with the rest of the leadership team to develop and now launch new leadership training programmes. These programmes address young leaders and then some of our more senior leaders who have the potential to go on and lead a large country and ultimately in time lead a region or a big function. And that's an important part of our investment in our people.

Next week we will be re-launching G4S's core values at our Global Leadership Conference and last year under the leadership of Debbie and Søren we re-launched a programme called Speak Out. And this is to encourage employees to speak up anonymously typically, it is a third party service provider, most of you will have this in your organisations and to speak out when they see conduct, behaviour in our organisation that's not consistent with the values that we espouse. This is a really, really important part of the transformation at G4S.

I think it's been completely underscored by the events at the Medway Secure Training Centre at the back end of last year. One of the things that was evident from that was that people did not feel able to speak out. So we've started, we've got a long way to go, and this will be an important part of the corporate transformation.

Health and safety, we talk about this whenever we meet as a management team and we talk about it whenever we meet. We have trained over 1,000 of our leaders around the company in safety leadership, online training programmes, and classroom training programmes. It's in the annual objectives and so called performance contract of every single one of our 220 Global Leaders. And we expect everyone - it doesn't matter whether you're in a frontline role, or in a functional support role to play their part in improving our health and safety performance.

We've completely refreshed our policies and our practices, but it's very obvious that we are not performing satisfactorily in this part of the business. We lost 46 colleagues in 2015 in the line of duty. And many of those were attack related fatalities, we're in the security business, we work in an inherently hazardous business. None of that though is acceptable. It's totally appropriate for us to have as a goal and to mean it zero harm as our goal in health and safety. So we're a long way from achieving that and this is going to continue to be an important part of our business.

I think some of you have heard me say before that this is not just - of course the most important reason is self-evident we've got a responsibility to do this well. But in my opinion, strong opinion good health and safety performance is an indicator of well-run business, these two things go together. And as we get better at this the rest of our operations will also get better. You can't have one without the other.

So, I'm going to move on to growth and innovation and service, key areas of our strategic plan. We have been over the last two and a half years investing heavily in sales leadership, sales and service training, customer relationships and account management - having an account plan, understanding

your customer's business, their objectives, these are disciplines which had fallen by the wayside in our company, we're bringing them back.

Global accounts - going after global accounts, learning how to identify the best opportunities and going after them, and then of course where we win and we are starting to win, delivering; in fact we've just won - it's not yet announced, we've just won another global account which we're starting to mobilise and we'll tell you more about that at the half year.

Pipeline and sales management, sales operations again had fallen by the wayside. Salesforce.com is now mandatory across our company, everyone has to use it. Sales people are incentivised to use it properly; it's giving us better visibility on our pipeline.

Most importantly we're now starting to get better at qualifying our pipeline early, so that you don't burn a lot of shoe leader on something - take it from a suspect to a prospect and just before you're going to bid decide not to bid. Try and identify early and get your best people focusing on the most promising opportunities. And that's something where we have a long way to go still. And then service and product innovation, which we'll look at a case study in a moment.

So what is all this investment doing? Well we have a healthy pipeline, it's diversified by service, geographical segment, customer segment, we have sales as I mentioned of £1.3bn in 2015. The pipeline stood at £5.7bn. I think it's great that our sales operation is becoming more effective, we're getting better at deal capture and improving our visibility.

I actually would like to see this pipeline managed more rigorously, I want to see better and earlier qualification of this pipeline. If that means that we take things out the pipeline and the pipeline becomes smaller I think we should be comfortable, not just comfortable but happy with that, because we can dilute our sales force quite quickly by having everybody chasing everything. So we want to get more focused in this area.

Pleasing to see that over the last three years we've been winning more, our work is not done and I think this ties back to the point we've just made. As we get better at pipeline qualification we should see our win rate improve, because we're going after things that we have a better chance of winning and a better chance of executing well against.

This slide which is quite busy and probably quite hard to read, it's focused on the schematic representation. This is addressing our strategic priority of innovation. And the point that we're making here is in each of our main service areas, Secure Solutions, Cash Solutions and Care and Justice we're building on a very solid platform. So we have a fantastic customer base, across I would say an unrivalled geographic footprint. And that's a massive intangible asset for this company.

We have not historically focused on, or invested much effort in cross selling and up selling. And so when you go to our businesses today you see progressively a more joined up approach. Again, two and a half years ago you would meet the leader of Manned Security, and then you would meet the leader of Systems and Technology and the leader of Cash. And frankly sometimes they competed with each other, the Manned Security guy would say - don't bring that Systems guy near my customer because you know he'll reduce the number of manned hours I can bill to the customer. And we've put incentives in place, we've changed people, and we're getting these working together.

The simple principle here is that we have to exploit the phenomenal intangible asset we have which is our customer base and find ways to be more relevant to those customers and offer them the services

that we already have in our company and are selling well. And so schematically what this represents of course is that as we add more value to our customers we improve the margin in our business. And we describe here the different service lines that already exist in our company today, but which we don't cross sell or up sell. And that represents an enormous opportunity for us.

I want to dwell for a moment on one of these case studies which I mentioned earlier which is Cash360, this is cash recycling service, a combination of people, software and end user devices. And this was as I mentioned earlier developed in the UK and then stopped developing. Obviously when you develop these products and services it goes to the P&L and so there's a tension there.

This would have been a very easy thing to not do two years ago. But we had the confidence to believe in our people and invest in it and they've done a phenomenal job. I think a year or 18 months ago when we met we were talking about a pilot with potential, this is now in full commercial operation in North America in partnership with the Global Bank and targeting one of the world's biggest retailers, if not biggest.

We've installed this system in 350 stores, we have firm orders for another 800, and these are mega stores, so large format, large recyclers. And alongside that our team has developed a small box solution for small and medium sized retailers, that's installed in 550 small and medium sized retail format and we've got confirmed orders for another 560. The pipeline shows us potential for almost 3,000 more stores and I think there's going to be potential beyond that, not just in North America, but if we can make this work with the Global Bank, one of the world's biggest retailers, in a market where service standards are pretty demanding then I believe we can make it work in many other markets.

Our order book is growing nicely, $42m of ACV and $210 TCV, but this is just the beginning of this product.

This is one example, we've talked about other products, AMAG, Symmetry CONNECT, Risk360, all consuming time, effort and money, but all will pay off we believe down the line.

Operational excellence, briefly on this you will know we've invested substantial shareholder funds in restructuring programmes. We've put in place a global procurement team. We have more than 30,000 vehicles on the road every day, we've got telematics and route planning now installed, that programme is complete. We're putting IT systems in to build on our lean process design I mentioned the UK pilot that will take up all of this year. And we hope that we will go into operational phase next year. And this is producing benefits, self-evidently in our UK and Ireland Cash business, but also in India which we've not talked about before and I'll spend just a few moments on this.

This was a programme led by Mel Brooks and our COO Rajeev down in Delhi. On the left hand side you have a schematic of what the business looked like before we started this programme. Four zone heads, 14 regional heads, 132 branches, no P&L accountability in the branch. Manual scheduling of a workforce of 130,000 FTEs, numerous processes and governance controls, it didn't look the same in one region compared with another region, and each branch had their own system and process.

We've simplified the management structure, created seven hubs, 85 branch heads, every branch manager has a P&L, we've used an in house developed system to automate scheduling Satin system. That again - the learning from developing that system - we're not saying by any means it's cutting edge, but it's a vast improvement from manually scheduling; we're going to take the learning from that and put it into our UK pilot, standardised processes and we've brought in new talent, people in our

sales team and we're seeing the benefits of this. The productivity and profitability of our India business over the last 24 months has been transformed.

If we can do this in India, 130,000 FTEs we can certainly do it in other countries and we have a programme now called Javelin which is aimed at replicating this success in other parts of the Group. And we've sent the leader, Mel Brooks down to Africa to do the same again.

I am going to on that - I think high note pause and hand over to Himanshu who is going to take us through the financials and then I'll return for a minute and then we'll got to Q&A.

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Financial Results

Himanshu Raja, Chief Financial Officer
Thank you Ashley. Good morning everyone and welcome again. As Ashley has pointed out we've continued to make substantial progress in 2015 on our continuing businesses. And at the same time we've continued to actively and effectively manage both legacy contract, as well as legacy accounting issues.

You will have seen from this morning's release that we took the opportunity with the new auditors PwC for FY'15 to conduct a very comprehensive review of reporting and accounting across the Group, which resulted in a restatement of our 2014 numbers.

The results presented today reflect these restatements with 2014 and 2015 all presented and accounted for on a like for like basis in both the statutory and the underlying results. The full details are in the release and I'm happy to give a tutorial for anyone who'd like to go through them. The disclosures are quite extensive as is the nature of these things. But the key point is that the restatements do not affect the future cash generation of the Group. So with that let me turn to the full year results.

Revenue for the full year was up 4% to £6.4bn. Our emerging markets grew at 8.6%, as Ashley has explained and as expected the UK was down, but this was more than offset by the growth in North America of 5.8%, and Europe which posted a 2.6% increase on the same period last year.

The first half growth was 2.5% and the growth in the second half accelerated to 5.4%, with all regions except Latin America growing faster in the second half than in the first and Latin America posted a very respectable 9% growth.

Our PBITA was £427m, up 5% year on year, and an operating margin of 6.6% up ten basis points year on year. There was a modest FX impact of 3.8%, in 2015 from the strengthening of sterling against the euro and emerging market currencies, partly offset by the stronger dollar. If you use the February spot rates our 2015 PBITA would have been £21m higher.

The underlying interest charge was £100m, £19m lower than 2014, benefiting from lower interest charges on swaps fixed to floating debt and we also repaid $150m bond in July 2015, which had a 6.43% coupon.

Our pension interest charge was £10m lower, benefitting from a lower IS19 pension deficit.

On tax our effective tax rate was 24% and I expect the tax rate to stay at around the same level for 2016.

On NCI as I flagged at the half year that I expected NCIs to be at around £27m, they came in at £22m, those businesses continue to perform well. The difference is simply attributable to the change in FX.

Our earnings were up 14% to £227m, with underlying earnings per share of 14.7 pence.

You will have seen the cash from continuing operations was £460m and was down 13%, principally a function of growth in Q4, as well as a temporary increase in working capital which has reversed in the first two months of 2016. Our resulting OCF conversion was 108%.

In summary against a background of global economic uncertainty the underlying results show the resilience of the Group in terms of geography, service line and customer segment that Ashley has taken you through.

Turning now to the total results slide which shows the reconciliation of our statutory results and the underlying results are set out on page 3 of today's release. Our reported revenue was £6.9bn and PBITA was £390m. Net earnings were £8m which includes the losses on business identified for sale or closure, the investment in restructuring, the impact of legacy onerous contracts and the goodwill and impairment in respect of historic acquisitions. And I'm going to spend a few minutes just taking you through each of those in turn.

Ashley has already mentioned we have identified a further 38 businesses earmarked for sale or closure, with revenues of £430m and operating losses of £35m, which flow through to statutory earnings in 2015. For the avoidance of doubt those do not include the further businesses identified today with revenues of £400m, which will come out of discontinued at the half year.

The restructuring costs are £44m, relate mainly to investment programmes in the second half of 2015, to address organisational efficiency in Latin America, in Africa, in Asia and North America, and we saw some of these benefits coming through in 2015 and expect a full year effect in 2016 and I've got some more detail on those later on in the presentation.

On exceptionals we've taken the pre-tax charge of £65m on onerous contracts, which I'll also cover in more detail on the next slide and a net £5m from the re-measurement of provisions from the balance sheet reviews in 2013 and 2014.

This year we're able to complete that exercise and took a charge of £17m, which was offset by £12m of pension related gains. And you'll know that both debits and credits of an exceptional nature go below the line.

Again with the help of the new auditors, PwC, we've now drawn a line in the sand on the review of the assets and liabilities that began in 2013. All future charges will go to underlying earnings, unless they're individually material and warrant calling out. So continuing down the results, we made a profit on the sale of £12m, principally relating to the sale of our IPS business and our Secure Archiving business in Austria. And finally you see non-cash amortisation and impairment of goodwill of £106m, in respect of legacy acquisitions and businesses that are in the process of being sold or ceased.

So let me go to onerous contracts in a little bit more detail. The chart here ties into the release and the notes in the release, we started the year with opening provisions of £47, in the year the £65m charge relates principally to two previously identified contracts, Compass what was signed in 2012 and an FM contract signed under a PFI framework that was signed in 2015 and which has 22 more years to run.

We also reached settlement on a number of contracts. Let me cover Compass in a little bit more detail. The Compass provision is calculated through the end of the current contract which runs for a term of five years, ending on the first of September 2017, the way we've arrived at those calculations is to use the latest available forecast from the customer, plus our own best estimate of the cost of accommodating service users.

The increase in the Compass provision is £20m, bring the carry forward provision to £31m. You'll know in this contract the customer has the option to extend the contract to 2019 and our best estimate of the incremental provision would be £57m. And this has been disclosed in today's release as a contingent liability. And when you do the maths, roughly £1.5m run rate per month, the increase arises from the compound growth in service users for that additional two years, as well as the growing cost of accommodating those additional service users.

There remains of course £45m of additional charges which arise from the re-measurement of eight previously identified contracts, the largest one of which is this PFI contract. It's a small annual loss but clearly extends over 22 years.

During the year we utilised £28m of provisions, of which Compass was £17m, bringing the total charges on the Compass contract to date to £48m, £31m carried forward but £17m utilised to date.

We also had a modest reversal of a million pounds, which also went through exceptionals.

We of course continue to actively and effectively manage these legacy contracts, they are important to the company and we are committed to fulfilling our obligations under those contracts. From an accounting perspective of course we'll keep the level of provision under review as circumstances change.

You'll be aware of the very significant changes we've made in our financial and risk management framework since 2013. We have a more rigorous contract review process in terms of the contract at pre-bid, at bidding, through mobilisation and in life review. And you know I personally perform a financial review of our largest 200 contracts on a quarterly basis and you can see the progression there of the annualised review that we cover.

Specifically also you'll know that we've significantly strengthened our financial and risk management capability within the Group. And in 2015 we further invested in strengthening the capability in Africa with the new regional finance director and we brought in new finance directors in many of the countries across that region.

We continue to have a strong focus on working capital management, again a subject I'll return to. And we operate a single pool of capital where all investment opportunities, including revenue and restructuring need to deliver a greater than 10% post-tax internal rate of return. And for restructuring we also look for a payback in three years or less. We're extremely disciplined about monitoring the payback and returns on our restructuring programmes.

This sets out the progress since 2013 of those restructuring programme where we've made substantial progress in tackling inefficiency and overheads. We started out in the UK and then Europe, moved to North America, AME and Latin America. And our 2015 programmes are on track and we expect to see full year benefits flowing through in 2016. We've invested £110m over three years, delivering annualised cost savings of around £30m.

Let me now turn to cash flow and net debt. The full movement on net debt is shown in the slide, starting with the year end net debt of £1.6bn, which is after the effect of 2014 restatements. The cash generated from our continuing operations was £460m, which was impacted by the higher working capital which reversed in 2016.

We invested £131m in capex and finance leases, the £46m restructuring outflow was in respect of the previously announced restructuring, and then we received gross proceeds of £14m from the disposals and had an out flow of £20m in acquisition and that principally was in respect of a legacy earn out settlement in Latin America, you'll know our current acquisitions are very modest bolt-ons that drive both contribution and are accretive to earnings.

Just turning to the right hand side of the chart and the use of funds of £399m. We paid interest of £91m. Our cash tax was at £102m and that included £25m in respect of payments in advance for ongoing discussions with tax authorities and timing differences. I expect the cash tax for 2016 to be in the region of £80m to £90m.

We paid £44m in pension payments under our existing pension deficit repair plan, which was in line with the payment profile. And we're presently in discussion with the trustees with respect of the triennial review when we expect that to be agreed in the second half of 2016.

Our dividends paid to equity and minority shareholders were £174m and that also included some one time payments of £8m by way of catch up. And we finished the year with net debt of £1.782bn.

Really to distil all of that down on this slide you can see the principal movements in net debt really arose from the outflow of working capital of £69m which was attributable to the accelerated growth in Q4, as well as the transition to the shared service centre. The transition to the shared service centre, the practicalities of that were that we paid down our suppliers earlier but we also had a disruption in our collection efforts. And I'm pleased to say our teams around the world have followed through on the Q4 growth and brought in the receivables. I'm pleased also to report that the shared service centre in the UK has bedded down and we've seen the reversal of that working capital outflow occur in 2016.

I mentioned then the £33m of one off, both on tax and on the dividend payments. And last but not least there was a translation effect of £36m of cash and cash equivalents from the strengthening of sterling, and a net movement of £5m of other.

I should add here, and Ashley talked about this, of course you'll remember that our operating cash flow also includes the cash outflows from onerous contracts, and that was £28m which flows through our underlying operating cash flow from continuing operations.

Let's turn to financing and liquidity. We have strong liquidity and access to unutilised and committed funds - uncommitted funds around £700m. I mentioned that in July 2015 we repaid a $150m tranche of debt bearing interest of around 6.43. And earlier in the year as you know we refinanced our

revolving credit facility, extending maturity to 2021 with improved pricing, terms and conditions. Our net debt to EBITDA finished the year at 3.3 times.

We do expect to get net debt to EBITDA of 2.5 times or lower over the next 12 to 24 months from the improvement in working capital, further financial progress and from the £250m to £350m of proceeds from our continuing portfolio management programme.

As you know our practice is not to guide on forward margins, but to report on the progress on margin at each reporting date. And the progress has been steady with margins improving since 2013 from 6.3% to 6.5% in 2014, to 6.6% in 2015. These are all on a like for like basis and exclude all businesses being sold or being discontinued.

Let me hand you back to Ashley.

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Conclusion

Ashley Almanza, Chief Executive Officer
Thank you Himanshu.

So just to sum up and end where we started. As you look at where G4S is today in its transformation programme I think it's very important to look at the three distinct components. The portfolio that we're restructuring and the businesses that are leaving the Group, the legacy contracts which we must and will manage efficiently and will over time diminish in importance, and most importantly the continuing operations in which we're investing and creating long term value and we're pleased to see returns coming from the investment in our continuing business.

That performance I think is reflected in today's results and the momentum that we saw in the second half of the year has carried forward into the first two months of the year giving us confidence in the outlook for 2016. The combination of improving performance from our continuing operations and the cash from our portfolio programme, these two things together will help us to drive net debt down to 2.5 times and below. And we've set, or recommended I should say, the final dividend be held flat on the prior year, and driving debt down will be a priority. No change in our long term dividend policy, but we're going to hold the dividend while we drive debt down. Those are the key messages.

Himanshu and I would be happy now to take any questions that you may have.

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Questions and Answers

Ashley Almanza, Chief Executive Officer
When asking a question can I ask you please, as we have people online joining this by webcast, to give your name and your affiliation. And I think Helen we have the ability to take questions online as well?

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Sylvia Foteva, Deutsche Bank
Hi, good morning. Three questions please. First on the disposal, obviously the balance sheet reaching 2.5 times is very much dependent on the 250 to 350 so could you be specific about kind of how you arrived at the estimates of how much you can achieve from selling the businesses, and whether you are in discussions already?

Second question on organic growth, obviously you talk about an acceleration in Q4, if I take your 2.9% organic and compare that to the 2.2 in the first half take away some of your big contracts which were obviously rolling off or the losses annualising in Q1, it doesn't look like it's necessarily accelerated very much in the second half so maybe it would be helpful if you just could provide kind of Q3, Q4 run rate.

And then finally on working capital, out of the 69 how much was relating to the shared service centre please? Thank you.

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Ashley Almanza, Chief Executive Officer
Okay thank you Sylvia. I'm going to ask Himanshu in a moment to answer your questions on organic growth and working capital. Let me answer your question on disposals and portfolio, our portfolio programme.

I think the first thing I'd say is obviously we've been working on this portfolio programme for two years now, since November 2013, and I think over that time we've become better at understanding what we have to get through to get the business separated up and out of the portfolio. That's being principally led by our regional heads and Søren Lundsberg who's in the audience today. And so I think with that track record of having sold 28 businesses, generated £281m of proceeds we're in a better position to look forward and take a view on that.

I think our estimates are prudent. I think if you do some arithmetic on what we've sold so far and what sort of contribution that we're making to the Group and then you compare that to the businesses, and we're not giving you the contribution obviously and won't, but I think we've tried to be prudent in our estimate and we've put a range on it. But I think those are good estimates.

We've had approaches on a number of these businesses and we are in discussions on some but not all of these businesses, but at least on three of those four additional businesses we've had approaches. And on a number of those we're in discussions. I think that's as much as I'm going to say today. Look forward to giving you an update at the half year.

Himanshu, could you please take the question on organic growth and then working capital shared service centre?
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Himanshu Raja, Chief Financial Officer
Morning Sylvia, deal with the working capital one first. The growth in working capital from Q4 growth was around £45m and the balance to the £69m arose from the change in the shared service centre. As I said both of those have reversed in the first two months of 2016.

On organic growth we don't disclose, as you know, quarter on quarter but we did see that acceleration come through in the second half, both in emerging markets as well as in developed markets. The one region that did not accelerate H1 to H2 which I've already mentioned was Latin America, that still grew at 9% in the second half, and the overall headline growth was 2.5% growth in H1 and 5.4% in H2. And you got the numbers right, it was roughly 2.2 we reported in the first half and the 2.9 we're reporting today.

You'll know and Helen can help you offline, we've got a number of things coming in and out, the anniversary of the Manus contract, Ashley mentioned in the UK the effect of the Tesco contract as well as the effect of EM coming out of our numbers. And Helen can help you offline with those.

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Rob Plant, JP Morgan
Morning. The businesses that you've disposed of to date have been loss making. The ones that are scheduled for disposal are probably more profitable. Is there an element of you would like to get the debt down and therefore make disposals, or all four are non-core?

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Ashley Almanza, Chief Executive Officer
No. I think the - well the primary driver of our portfolio programme has been and remains to improve our strategic, commercial and operational focus. It is true that we've tackled and wanted to tackle the loss making businesses earlier for obvious reasons. I would say actually looking back we didn't do that fast enough. I think some of the loss making businesses we could have tackled earlier and got them out of the portfolio earlier. So no, it's not - I mean clearly it's helpful, very helpful, that we're releasing capital as well and that will go towards reducing our net debt, but the primary driver here is strategic focus.

And I think if you look at these businesses it shouldn't be I would hope a surprise to our shareholders that those are the sorts of businesses that we are selling. But you're right; they are typically more profitable than the businesses we've sold to date. Take for example our utilities business, this is a very good business. It will never be material. I mean I say with all respect to the team who have done a fantastic job; it's never going to be a huge part of the company. It's reached, in our hands, its natural limit but it would be we believe very valuable in the hands of another owner. And I think you can make the same comment about all four of those businesses. And I think that's why again I think our estimates are reasonably prudent around the proceeds to be realised.

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Himanshu Raja, Chief Financial Officer
I might just add actually there if I may the 250 to 350 will also get a contribution from the 38 businesses, the long tail, that we're managing our way through. So there will be contribution to the proceeds from those also.
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Andy Chu, Nomura

Good morning. Three questions if I may please. Firstly in terms of your opening comments Ashley you mentioned, and in the statement actually you mentioned, a pretty good start to the year, so I wondered if you could give us a flavour in any sort of quantitative metric, maybe organic growth, as to how the first two months of this year have started?

Secondly, you mentioned sort of 4% to 6% demand for your services. Could you actually sort of just clarify what that actually means? Is that an organic growth sort of range medium term?

And then lastly on the contingent liability of £57m on the Compass contract, I'm surprised that you haven't taken that as a sort of hard provision given I guess you talk a lot about being conservative around accounting, I think if I'm right in saying circa for example of taking that all the way through to the end of the contract in 2019? Thank you.

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Ashley Almanza, Chief Executive Officer

Thanks very much. I'll ask Himanshu in a moment to comment on the sort of technical accounting around the onerous contract provision, but I think there's another dimension to your question which goes beyond technical accounting. And it is true I think to say that others have gone long and deep on this one and probably catered for every eventuality.

As we sit here today the contract ends in August 2017. That's what the contract says and that's when it ends. There is an option to extend but that option has not been exercised. So I'm sure there are accountants in the room that if you could find five they'd give you five different answers to what the correct accounting is. We've debated this at length and it's been through, I'm sure you can imagine, auditors and audit committees and so on and we think this is the clearest way to explain to our shareholders what the situation is. We absolutely have a contract that will run to August 2017 and we do not know. Two weeks ago I think, a week or two weeks ago, the senior officials from the Home Office were in front of the Home Affairs Committee and they said they hadn't decided yet. So if they haven't decided I think it would be - and we took the view it would be premature for us to decide. But the number is there so it's not like we're - you know people can make their minds up I guess. But I'll let Himanshu in a moment come back to that.

Start to the year, you wanted some numbers, cash flow Himanshu has talked about and we've seen the working capital unwinding so I think we're pleased about that. We need to keep our foot on that and make sure that we continue to drive better working capital performance. But the outflow that was on Himanshu's chart I think is largely reversed. And organic growth I will say better than the second half that Sylvia calculated and mentioned earlier. That's as far as we'll go on that. We're two months in. Good start but we've got another ten to run so we're not going to get over our skis on this one, we're pleased with the start that we've had but we recognise there's a way to go.

4% to 6%, yeah that is exactly a medium term organic growth rate that we think our pipeline, our business will support going forward. Have we done the - ?

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Himanshu Raja, Chief Financial Officer
Simply the accounting follows the contract position which is that the contract has not been extended and that's why we've given full disclosure, were it to be extended, of what the financial impact would be.

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Ashley Almanza, Chief Executive Officer
The other thing I should have said was we did underestimate the volumes, there's no question. We had a very sharp increase in volumes between November and January. And you may look at other suppliers and say they were more conservative, they had better judgement, they had a better crystal ball, but there are quite a lot of moving parts in this equation actually. The number of people coming into the country is not necessarily the number of people that you end up with. That's not actually the most important factor always in the number of people that you have in your contract. The rate at which they're processed through the system is a very important factor. And the other crucial factor is the rate at which local authorities make new accommodation available, because if they don't you have to put them in temporary accommodation and that's more expensive so that's where we stand.

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Gideon Adler, Redburn
I've got three please. Firstly on minimum wage you've given some guidance around the impacts on the UK business in 2016, but have you thought further out what the effect could be on the UK profitability?

Secondly on the annualised effect of your cost saving programme, £30m, how much of that are you reinvesting in 2016? You flagged at the half year last year that roughly that went back into the business in 2015.

And lastly just on the PFI contract, could you just explain in a bit more detail what's happened with that and the logic of the number you've put out there today?

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Ashley Almanza, Chief Executive Officer
Okay so I'll ask Himanshu to comment on the minimum wage. On the recycling of benefits we said in November 2013 that after two years this programme would become progressively self-funding and that is indeed the case. So we would expect more of that benefit to flow through. We were I think actually reinvesting, until the second half of last year, more than we were taking out and we would expect more of that to drop to the bottom line so our restructuring spend we want to bed in the restructuring that we've already done. Our restructuring spend will be lower this year and we will lose the anniversary effect of the investments that we've made in sales and business development and procurement. So that spend was ramping up and then obviously year on year the delta gets a lot smaller.

The area that we want to continue investing are those that I mentioned, sales, business development and product and service innovation, and we'll strike the right balance but I think our statement from before stands which is more and more of this will go to the bottom line.

The PFI contract has I think another 22 years to run. It's a facilities management contract with Churchill Hospital. The annual losses are quite modest but obviously it runs for 22 years and under

the accounting standard you've got to book all 22 years in the current year. We're in active dialogue with the customers to how we can make their contract more sustainable, commercially sustainable, and we'll have to see how we get on with those discussions and give you an update at the half year.

Minimum wage, Himanshu?

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Himanshu Raja, Chief Financial Officer
Gideon on the minimum wage all of our early engagements with customers have been very positive and constructive which is where the 1% to 2% comes from. A lot of the contracts as you know we have very high retention rates and close customer relationships, so one dialogues the pass through of the living wage, and also of the related differentials because that's really the unknown factor and all our experience says that large and medium sized customers alike are very receptive to passing on those costs. So as you look out to 2016 and '17 our working assumptions are in line with that experience which is they'll be low single digit million impact but not material to the Group as a whole and not material either to the UK business.

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Ashley Almanza, Chief Executive Officer
I mentioned in the presentation that we're piloting this year the introduction of new core operating systems into our Secure Solutions business. And the point really is we apart from improving operational reliability and customer service, the other objective is to reduce our costs and improve our competitive position in the marketplace because UK living wage obviously affects everybody in the UK, and UK is broadly speaking a compliant market. Not all of the markets we operate in are populated with compliant competitors, but in general the UK is a compliant market meaning that all of our competitors will be exposed to the same thing.

I think the variable that everyone is grappling with is what is the knock on effect on let's say supervisors when the minimum wage - the living wage I should say comes in. And the other effect which I think is unknown is the degree to which the market as the whole will change the composition of the workforce because there's obviously, unusually I think in UK legislation, there's an age bright line I think age 25. So that will start to I think across the industry, not necessarily G4S, affect the composition of the workforce. But at least a 1% to 2% in 2017 I'd say. We would hope to more than offset, in fact aim not hope to more than offset that progressively with our Javelin project to put all of our UK Solutions businesses on a common, automated platform.

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Paul Checketts, Barclays Capital
Morning. I've got three as well please. The first is on cash again. What is the cash drag in the year coming for the onerous contracts and restructuring please?

And the second question relates to the cash business. Can you give us a sense of how the organic growth is progressing in emerging markets and developed?

And then the last is a sort of more thematic one. If I watch this presentation today it comes across like everything is going quite well and you're fairly content with progress, and yet the shares have lost more than 30% of their value over the last year. And so clearly the market is not quite as relaxed

about it. Could you perhaps, you know looking back, maybe explain to us what you think has been harder, what hasn't gone as well? Thanks.

. . . .

Ashley Almanza, Chief Executive Officer
Thanks Paul. I'll ask Himanshu to comment on the organic growth rates of our cash businesses in emerging and developed markets in a moment. Cash drag very quickly, onerous contracts I think Himanshu mentioned £20m to £30m a year for the next two years. And restructuring £10m to £15m this year. The all is well impression that you - perception rather that you picked up, we have noticed that the share price is down. I think clearly that's something that does concern us, we care about our shareholders and it hurts them and we're very concerned about that of course, as you would expect.

I think one of the reasons, not the only reason but one of the important reasons and you can see this by looking at other companies in our sector who have substantial emerging market exposure, so you know a third to 40% of our revenues in any year come from emerging markets. Three years ago that was seen I think in capital markets as a very desirable and attractive thing in this company. I think right now that's not seen as a positive, and if you look at other stocks in our sector with similar emerging market exposure you'll see that they've also come off of the order of magnitude same amount. Conversely those with 5% emerging market exposure and heavy exposure in Europe and North America for example have done rather well. Their share price has gone in the other direction.

It would be I think complacent for us to take the convenient view that that's the only reason; you know it's nothing to do with us. I think for sure the legacy contracts have turned out to be worse than we or anyone else anticipated. I don't take the view that that's gone extremely well. I take the view that it's been incredibly tough. Since we raised capital with a placing we've paid over £200m to the government, the UK government. Now I'd be kidding you if I said that I knew that at the time. So that has not gone well. Am I content that the management team has done as good a job as could be done wrestling with those legacy contracts? We could always have done better; for sure we could have done better. But I don't think £230m of cash paid to the UK government could have been £100m, not a chance, whoever was running this company.

I think the important thing is that we've changed the way in which we do business and around major contracts. I mean that contract was approved by a business unit, that just can't happen today, it's not possible. There was no peer review; there was no Group investment committee, no risk committee. So every major contract now goes through a peer review and I'm utterly, utterly confident that none of these legacy contracts, if they appeared today before us, would get to bidding. I've said this before, our two single biggest contract opportunities globally in the last 18 months we declined to bid on, although the customers calling executives including me in the company asking us to come back in, we declined.

So - and I think by the way that's also reflected in our organic growth rates and I think we may see this across the industry as a whole. I think in some markets the industry, and not only the industry but I won't go beyond that, but the industry became obsessed with top line growth and every new contract was another 5p on the share price and so on. It's crazy, the risk reward balance was not right.

So no, I mean I don't want to give the impression that it's all been plain sailing, sunny weather, wind at our backs, not at all. It's been hard work and not everything has gone as well as we had hoped. And in particular the legacy contracts have consumed a vast amount of cash, a huge amount of management time, but I am positive about the company's position and its prospects. I won't shrink

from that, I think these contracts are important today but they are diminishing importance and in two years time hopefully, possibly four, they will be receding in the rear view mirror. In the meantime we're not going to do any more of them. And we are seeing, for the businesses that we will carry forward, these businesses are performing better than they were performing before. We have better people in place running these businesses. That's the first step you have to take care of, have a clear strategy and good people and we've got both of those things. And these businesses are doing better.

So if you detect a bit of confidence and optimism when I present you're right, I am confident about our position and our prospects. But I'm not at all complacent about the share price and the effects on our shareholders, not for a minute. I mean that's - we're here to serve our customers, look after our employees and serve our shareholders, deliver them a return. It's quite simple; those are the three things that we have to take care of, very important.

Oh yeah - Cash businesses.

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Himanshu Raja, Chief Financial Officer
Organic growth Gideon in the Cash businesses, it's a different picture for emerging markets from developed markets. On developed markets we saw really strong progress in Europe and in North America. Europe driven by the GSN contract that we've spoken about previously in the Netherlands, North America a real driver on the CASH360 that Ashley talked about. And in the UK first half to second half as the loss of Tesco anniversaries out, then we saw progression in the second half.

On the emerging markets we saw modest slowdown in Asia and the Middle East and in Latin America really reflecting the tougher climate in those markets.

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Ashley Almanza, Chief Executive Officer
And in particular in Asia Middle East that business includes our global secure logistics business also known as G4Si which typically moves bullion and other valuables between international markets and across the board that trade has come off in the last 12 months. I think the other point I would make is if - I don't know if this is in the detail but our UK and Ireland Cash business held up well despite the loss of the Tesco contract, those two businesses turned in flat profits and we think we'll make further progress this year on the bottom line in those businesses.

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George Gregory, Exane BNP Paribas
Just one from me please. Your credit rating, given the plans and initiatives you'd laid out, are you confident that you'll be able to maintain your investment grade credit rating going forward please?

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Ashley Almanza, Chief Executive Officer
Thanks George. I wish I was the arbiter of that question and I'm not. So the rating agencies will decide. I think all of you are well aware of the stance of rating agencies in current markets. I used to be in the oil business and the oil service business so I keep an eye on that and you can see rating agencies' posture has changed a bit. I don't think we can really - it wouldn't be appropriate for me to second guess what decisions they are going to come to. We have a good dialogue with S&P which

we maintain periodically through Himanshu and Nigel our treasurer. So we can't really comment on that.

What we can talk about is our plan. And it's crystal clear that cash generation and getting our net debt down is a priority, an absolute priority. And I think we've gone through a period of two years plus where we've invested very heavily in the company. We've done that deliberately but we've put a lot of cash in. As I said a moment ago we also had to write some rather large cheques for our government along the way. That didn't include our annual tax bill by the way, that was just on the onerous contracts. So we've written a few big cheques on onerous contracts and now we've got to really get focused on cash generation.

And one of the things that we've done at management instance is we've changed the incentive plan to put more weight on operating cash generation in the business units and all the way through the regions and the executive. Everyone has got more reason to focus on monthly cash generation. So I think we can be confident that we're doing the right things and we've got a good plan to get to where we want to be. The investment grade credit rating will be a decision someone else takes I'm afraid.

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George Gregory, Exane BNP Paribas
And perhaps just following up on that, in the eventuality that the rating agency decided to downgrade you, would you seek to further repair your balance sheet at this stage or would you opt to run with higher interest cost? How do you currently see that sort of roadmap today?

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Ashley Almanza, Chief Executive Officer
No, I think our plan has been something we've worked on carefully. It's in our view a good plan, a robust plan, and we would not change the plan. I think the - Himanshu can comment on what the incremental - I think the incremental interest in 2016 would be less than £10m.

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Himanshu Raja, Chief Financial Officer
Yeah it would be about £5m or £6m because the step up on the coupon only occurs at the anniversary of the next interest payment which would be May and December, so there'd just be a part year effect. And before you got to 2017 then we have clear plans in place and improving financial strength on the balance sheet.

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Helen Parris, Director of Investor Relations
Thank you. I've got a couple of quick questions that have been emailed in. Himanshu could you talk about the level of financial costs, I think interest costs, for '16 and a few words on capex going forward?

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Himanshu Raja, Chief Financial Officer
Yeah happy to do that. I think I said in my presentation I expect interest costs to be in the region of £80m to £90m. We don't get the opportunity to redeem the higher bearing debt till late '17, '18 and

'19 so we expect interest to be in the £80m to £90m range. On capex, capex is a function of continued revenue growth. We did around £131m this year. If you're modelling the capex impact I'd expect to see between £100m and £125m for 2016.

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Helen Parris, Director of Investor Relations
Thank you. Then the four new businesses added to the disposal programme, could you comment on their profitability?

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Himanshu Raja, Chief Financial Officer
The businesses have a combined revenue of around £400m, that's in today's release. I'm not going to give a precise number as to the profitability of those businesses, I think that was Sylvia's question at the opening question. But they tend to carry a slightly higher PBITA margin than the overall Group PBITA margin of 6.6%.

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Ashley Almanza, Chief Executive Officer
While we're going to the next person let me just correct one of my earlier comments. We've provided £230m on onerous contracts. We've written cheques for about £150m so that's the cash impact. I think I said £200m.

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Ed Steele, Citigroup
Morning all. Two questions. In note seven of the accounts your gross margin disclosure shows you're down 130 basis points year on year. Obviously that's a statutory number rather than your underlying number, so could you give us the underlying number ex the strip outs please?

And then secondly your portfolio businesses that you've stripped out of the underlying numbers seem to have revenue down 24% year on year. I appreciate there's probably a bit of FX in there and maybe some of them have been sold during the year that may have affected it, what was the underlying organic picture there please?

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Ashley Almanza, Chief Executive Officer
The underlying what, sorry?

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Ed Steele, Citigroup
Organic shrinkage through revenue.

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Ashley Almanza, Chief Executive Officer
I think that second question we'll probably have to get back to you offline and post that on our website. I'll ask Himanshu to address your gross margin question. But I think in your second

question you're identifying something which probably, and Rob was picking up on earlier, which I think again to Paul's question, not everything has gone brilliantly. I think we are pleased with progress overall with the transformation, not with the share price. But we could have sold some of those businesses earlier because if you look at them year on year they got worse, not better. On the other hand some of the businesses that we kept and invested in and turned around, got better year on year so we had a bit of both. We'll come back to you I think and we'll put on the website the answer to your second question. On the first question, gross margin, Himanshu?

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Himanshu Raja, Chief Financial Officer
Ed as you know it's not our practice to disclose underlying gross profit progression. The statutory disclosures that you've seen there are a function of FX as you identify, of investments that we make as well as restructuring benefits which vie between the cost of sales line where we do branch rationalisation and clearly on G&A.

The productivity programmes that we run, I can't see Ed that's why I'm searching - oh you're right at the back, sorry I've got a light just there, thank you. The productivity programmes that we run around DLE and telematics are all about mitigating the effect on gross margin pressure, together with price increase programmes to offset wage inflation. And then the overhead rationalisation programmes are about protecting the bottom line. And you'll have seen overall we increased the net PBITA margin by ten basis points from 6.5 to 6.6, but it's not a split that we give out.

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Ashley Almanza, Chief Executive Officer
But just to add to that, you can tell from I think the results and also from the presentation there are two areas where gross margin did go backwards for sure, and that was UK and Europe. And if you look at the reasons for that in the UK I think I mentioned that we had two large contracts which were - well both big in revenue terms but also well above our Group average margins. That was electronic monitoring which came to an abrupt end for reasons well known, and our Tesco contract. And then in Europe in both the Netherlands and in Hungary we had above average margin contracts. In aviation, cash handling and systems projects all of which came to an end during the latter half of 2014 and we therefore caught the anniversary effect. So GM did go backwards in that, and those are two obviously big parts of the overall component.

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Ed Steele, Citigroup
So it would probably be fair to say that you expect a lesser movement next year as it stands today?

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Ashley Almanza, Chief Executive Officer
As it stands today yes. We are not again complacent about this; we don't assume that if we do nothing gross margins will stand still. We have to invest in productivity, technology in order to maintain gross margins. It's a competitive world out there. But yes we would hope to see less of a movement next year Ed.

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Kean Marden, Jefferies

Morning gentlemen. I've got two if I may, one just developing on George's point earlier. So Himanshu I'm wondering are you aware of how S&P would treat the OCP provision. Would they treat that as something they would strip out or would they look at the number basically after that sort of £20m to £30m reduction? And I suppose in your previous discussions with them how they would treat some of the other specific items that you've detailed on slide 29?

And secondly on the bid pipeline, I think I'm correct at the interims you gave us some additional disclosure which looked at the development of the pipeline during July and August. So I think we moved up from about £6bn in June to a higher number which I think from memory at the time was sort of £7bn plus. The numbers you disclosed for December add up to about 5.7 so maybe if you can give us some insight into where some of the momentum might have come out of the business, particularly if we see anyone who is looking at emerging markets at the moment.

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Ashley Almanza, Chief Executive Officer

Himanshu will take your questions on rating. On pipeline I'd make two comments. We obviously had £1.2bn of wins, new contracts, so that's get and grown, that excludes keeps. If you add keeps then you can double the number. But get and grow wins of £1.2bn, they came out of the pipeline. And the second thing is, as I mentioned in my presentation, we're getting better at qualifying the pipeline early, so taking opportunities. We're very happy that we've got hunter gatherers who go out and collect opportunities, but what we want to avoid is investing too much money on pursuing those opportunities for too long and then pulling out just before bid. So I think those are the factors, our wins and the fact that we're getting better at qualifying the pipeline. And I would not be uncomfortable to see that pipeline become more focused still as we move forward so long as we were confident that we were pruning opportunities out rather than there being a lack of opportunity in the marketplace. And it's the latter at the moment.

Credit rating?

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Himanshu Raja, Chief Financial Officer

Yeah on the S&P question essentially what the process S&P go through is to seek to normalise the effect of the specific items. I'm sure you know from other conversations. So they'll both be adjusting the net debt for the impact of operating leases as well as they'd be seeking to normalise we mentioned today the Churchill contract, the OCP provision includes the details of the Churchill contract for 22 years and therefore they'll seek to normalise the effect of both the net debt liability side as well as arrive at a normalised adjusted EBITDA measure.

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Ashley Almanza, Chief Executive Officer

We give them the cash flow on those provisions, that's what they're interested in.

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Ed Steele, Citigroup

Maybe you can give is to us as well.

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Ashley Almanza, Chief Executive Officer
He said 20 to 30 a year I think.

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Rajesh Kumar, HSBC
Just following up on the UK living wage point you made earlier when you said 1% to 2% impact. Was that on sales, on margin? If you could clarify that it would be quite helpful.

And also clarifying the 4% to 6% organic growth guidance. When you say 4% to 6% organic growth guidance does it include all the disposals and the new base organic growth on top of that, or does it include the statutory revenue and organic growth on top?

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Ashley Almanza, Chief Executive Officer
Thank you Rajesh. I'll asking Himanshu to comment on the living wage. We're obviously looking at our continuing operations on our guidance so we get a like for like comparison rather than the statutory basis. On living wage?

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Himanshu Raja, Chief Financial Officer
1% to 2% of the UK PBITA so you'll see -

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Ashley Almanza, Chief Executive Officer
Profit.

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Himanshu Raja, Chief Financial Officer
Yeah.

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Allen Wells, Morgan Stanley
Morning. Two very quick ones from me. I notice you put some helpful slides and some case studies in the slide pack. The one I was looking at was the Indian restructuring. Obviously it's a big business. There's not a great deal of detail on there in terms of numbers for us to help - what does it actually mean. I'm wondering if you could give us an example of some of these actions that you've taken. How has that helped out in terms of growth in the region? What have margins been doing? Just some flavour on that would be really, really helpful.

And then the second quick question just particularly on Europe. Some of your sort of competitors, peers in the main guiding area have talked about some tailwinds from the migration crisis and some of the terrorist activity in the region. How has that impacted your business? Are you seeing additional

work coming in through sort of policing and securing both on a government side or on a corporate side where there's additional demand?

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Ashley Almanza, Chief Executive Officer

So India first. Over a two year period operating profit is up by more than a third and we know that wouldn't have happened if we'd just left it to continue. And when we look at the bottom line in cash generation a one third improvement on the base of - more than one third improvement. So hopefully that gives a bit of quantifiable context.

Europe tailwinds, we have had inbound requests to provide service, immigration services, including border protection and custody of refugees and asylum seekers. In most cases we've turned those down. We've had also requests to provide security for rather than to hold people in custody, to protect them in northwest Europe and we have taken on some of that business. It's quite modest at the moment. There's ongoing demand for it, there probably will be further demand for that given what is happening in northwest Europe, but that's the guiding principle at the moment that we're happy to provide security for refugees and asylum seekers on mainland Europe, but not run border protection or custodial facilities particularly in those areas where large numbers of asylum seekers are now gathering, i.e. south eastern Europe. We've turned those down.

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Allen Wells, Morgan Stanley

And the rationale, was that reputation or was that more risk around the contracts and the way that the customer was looking to structure them?

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Ashley Almanza, Chief Executive Officer

It was not the contract structure. It was first and foremost operational risk, looking at the operational risk and were we comfortable that we could look after those people, and reputation risk follows from that, but it was first and foremost operational risk.

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Helen Parris, Director of Investor Relations

I have a couple of the Danish analysts asking me if we've got any update on our Copenhagen listing.

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Ashley Almanza, Chief Executive Officer

Søren are you able to - the question is update on - ongoing is the answer. Slightly more technical process than I think was envisaged, so ongoing. It's still something that we think makes sense but we obviously want to do it in a way which is respectful of all of the shareholders, particularly the retail shareholders. So we're working our way through that patiently and carefully.

Would you care to add to that Søren?

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Søren Lundsberg-Nielsen, Group General Counsel

That's fine.

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Ashley Almanza, Chief Executive Officer
Okay thank you very much.

I think we have come to the end. Can I thank you very much for coming along and for engaging and we look forward to seeing you at the half year. Thanks very much indeed.

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