

Chief Financial Officer's review

“We made good progress in 2017 and our core businesses delivered revenue growth of 3.2% and adjusted earnings growth of 5.7%.”



FOCUSED ON LONG-TERM DELIVERY

FINANCIAL HIGHLIGHTS

STATUTORY RESULTS^e

Revenue

£7.8bn +3.1%

(2016: £7.6bn)

Adjusted PBITA

£491m +6.5%

(2016: £461m)

Earnings^c

£236m +19.2%

(2016: £198m)

Final dividend

6.11p +5.0%

(2016: 5.82p)

Net debt: Adjusted EBITDA^d

2.4x

(2016: 2.8x)

Resulting in a total dividend of

9.70p +3.1%

(2016: 9.41p)

CORE BUSINESSES^aRevenue ^{KPI}

£7.4bn +3.2%

(2016: £7.2bn)

Adjusted PBITA ^{KPI}

£496m +4.2%

(2016: £476m)

Adjusted Earnings^a ^{KPI}

£277m +5.7%

(2016: £262m)

Operating cash flow ^{KPI}

£527m -16.7%

(2016: £633m)

Chief Financial Officer's review

Introduction

	Statutory Results ^d			Core Businesses ^a		
	Actual Foreign Exchange Rates			Constant Foreign Exchange Rates		
	2017	2016	%	2017	2016	%
Revenue	£7,828m	£7,590m	+3.1	£7,427m	£7,195m	+3.2
Adjusted PBITA ^b	£491m	£461m	+6.5	£496m	£476m	+4.2
Adjusted PBITA ^b margin	6.3%	6.1%	–	6.7%	6.6%	–
Earnings ^c	£236m	£198m	+19.2	£277m	£262m	+5.7
Earnings Per Share ^c	15.2p	12.8p	+18.8	17.9p	16.9p	+5.9
Operating Cash Flow	£488m	£615m	(20.7)	£527m	£633m	(16.7)

a. See notes on page 44 for a reconciliation of group results.

b. Adjusted PBITA is explained and defined on page 35 in the basis of preparation of Alternative Performance Measures.

c. Earnings is defined as profit attributable to equity shareholders of G4S plc. Adjusted earnings and adjusted earnings per share (“EPS”) from core businesses exclude specific and other separately disclosed items, as explained on page 36, and are reconciled to statutory earnings and EPS on page 44.

d. Net debt to Adjusted EBITDA is an Alternative Performance Measure as defined on page 36 and is adjusted to exclude specific and separately disclosed items.

e. See page 136 for the basis of preparation of statutory results.

Chief Financial Officer's review *continued*

Basis of preparation

The following discussion and analysis on pages 38 to 50 is based on, and should be read in conjunction with, the consolidated financial statements, including the related notes, that form part of this annual report. The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU as explained on page 136.

Business Performance – statutory results

Statutory results at actual exchange rates	2017 £m	2016 £m	YoY
Revenue	7,828	7,590	3.1%
Adjusted profit before interest, tax and amortisation (Adjusted PBITA)	491	461	6.5%
<i>Specific items (net)</i>	(34)	(13)	
<i>Restructuring costs</i>	(20)	(12)	
<i>Profit on disposal/closure of subsidiaries/businesses</i>	74	7	
<i>Goodwill impairment</i>	–	(9)	
<i>Acquisition-related amortisation</i>	(10)	(32)	
Operating profit	501	402	24.6%
Interest costs (net)	(115)	(106)	8.5%
Profit before tax	386	296	30.4%
Tax	(128)	(76)	68.4%
Profit after tax	258	220	17.3%
Loss from discontinued operations	(6)	(3)	100.0%
Profit for the year	252	217	16.1%
Non-controlling interests	(16)	(19)	(15.8%)
Earnings (profit attributable to equity holders of the parent)	236	198	19.2%
EPS	15.2p	12.8p	18.8%
Operating cash flow	488	615	(20.7%)

Revenue

Revenue increased by 3.1% compared with the prior year statutory reported results presented at historical exchange rates. On a constant-currency basis, revenue decreased by 1.2%, reflecting a reduction in revenue from businesses identified for sale or closure of £335m primarily due to businesses disposals in the current and prior years including the Group's US Youth Services business and its business in Israel (see page 39 and note 17) in 2017. Revenue from onerous contracts was slightly higher than the prior year at £119m (2016: £115m). Excluding revenue from onerous contracts and from businesses identified for sale or closure, revenue grew by 3.2% at constant exchange rates.

Business performance is discussed in more detail by region on page 51.

Adjusted PBITA

Adjusted PBITA of £491m (2016: £461m) was up 6.5% including the benefits of exchange rate movements in the year. On a constant-currency basis, Adjusted PBITA increased 1.9% reflecting the strong performance of the Group in developed markets, improved product mix and the results of our on-going productivity programmes, partially offset by the weakness in the Middle East & India and a reduction in Adjusted PBITA from businesses held for sale or closure of £11m primarily due to business disposals in the current and prior years (see page 44). Excluding Adjusted PBITA from onerous contracts and businesses identified for sale or closure, Adjusted PBITA increased by 4.2% at constant exchange rates.

Net specific items

Specific items resulted in a net charge of £34m (2016: £13m), of which £19m (2016: £4m) primarily relates to the anticipated total losses over the next 15 to 20 years in respect of certain UK contracts. The net specific item charge also includes £6m relating to the estimated cost of settlement of subcontractor claims from commercial disputes in respect of prior years, and £9m relating mainly to the settlement of labour-related disputes in respect of prior years, in North America and Latin America. Specific items in 2016 included a £10m charge due to the revision of estimates relating to legacy acquisitions and labour claims in Latin America, £7m relating to commercial restructuring in Middle East & India, and a net £4m supplementary onerous contract provision primarily in respect of the Compass asylum seekers contract, all offset by an £8m credit relating mainly to the recovery of a legal claim in Europe and of certain disputed debtor balances in the UK.

Restructuring costs

The Group invested £20m (2016: £12m) in restructuring programmes during the year, mainly in the UK & Ireland and Europe regions as part of the multi-year strategic productivity programme being implemented across the Group, which is now drawing to a close. In addition, the Group incurred non-strategic severance costs of £10m (2016: £9m) which are included within Adjusted PBITA. Going forwards the Group has announced a three-year plan to 2020 to implement efficient organisational design and leaner processes, which is likely to require further restructuring investment.

Profit on disposal and closure of subsidiaries and goodwill impairment

As part of the portfolio programme, the Group realised a net profit of £74m (2016: £7m) relating to the disposal of a number of its operations including the businesses in Israel and Bulgaria, the US Youth Services business, the UK children's homes business and the Group's cash businesses in Peru and Paraguay. In 2016, the Group recorded a goodwill impairment charge of £9m in relation to businesses identified for sale or closure.

Acquisition-related amortisation

Acquisition-related amortisation of £10m (2016: £32m) is lower than the prior year as certain intangible assets recognised on a number of legacy acquisitions became fully amortised in 2016.

Net interest costs

Net interest payable on net debt was £92m (2016: £90m). The increase in 2017 was primarily due to a temporary increase in gross borrowings (matched by an increase in cash balances) following the issuance of a €500m Public Bond in November 2016 and a €500m Public Bond in June 2017 that were used mainly to re-finance the March and May 2017 debt maturities in addition to drawings under the Revolving Credit Facility. Net other finance costs of £12m (2016: £6m) increased compared with the prior year due to an additional £2m relating to discount unwound on provisions, a £2m charge in relation to overseas tax settlements, and a £2m indebtedness-related foreign exchange gain recognised in 2016.

The pension interest charge, related to the unwinding of discount in relation to long-term pension liabilities, was £11m (2016: £10m), resulting in a total net interest cost of £115m (2016: £106m).

Chief Financial Officer's review *continued*

Tax

The statutory tax charge of £128m (2016: £76m) for 2017 includes a tax charge of £92m (2016: £85m) on the adjusted profits of core businesses, as explained on page 46, a tax credit on onerous contracts of £4m (2016: £nil), a tax charge of £7m (2016: £2m) in respect of portfolio businesses, a net tax charge of £18m (2016: tax credit of £9m) in respect of acquisition-related amortisation and other separately disclosed items, and a tax charge of £19m (2016: £nil) in respect of the tax impact of the US tax reform (see page 49).

The Group's statutory tax charge represents an effective rate of 33% (2016: 26%) on profit before tax of £386m (2016: £296m). The effective tax rate is a function of a variety of factors, with the most predominant being the geographic mix of the Group's taxable profits and the respective country tax rates, profits arising on the disposal of certain subsidiaries being taxed at a higher rate, the recognition of, and changes in the value of, deferred tax assets and liabilities, permanent differences such as expenses disallowable for tax purposes, and irrecoverable withholding taxes.

The higher effective tax rate compared with the prior year is primarily driven by a one-off charge relating to the re-measurement and impairment of US deferred tax assets arising as a result of US tax reform (as explained on page 49), together with profits arising on the disposal of certain subsidiaries being taxed at a higher tax rate.

The effective tax rate on the Group's statutory profits was also significantly higher than the effective tax rate on the adjusted profits of core businesses (explained on page 46), primarily due to two non-core factors. Firstly, the impact of US tax reform, which is excluded from the tax charge on adjusted profits from core businesses, and secondly, as a result of profits arising on the disposal of certain subsidiaries being taxed at a higher rate.

Non-controlling interests

Profit attributable to non-controlling interests was £16m in 2017, a decrease from £19m for 2016. The decrease compared with the prior year reflects the non-controlling partners' share in the lower level of profitability of certain businesses in the Middle East & India region.

Profit for the year

The Group reported profit for the year attributable to equity holders of the parent ("statutory earnings") of £236m (2016: £198m), an increase of 19.2% compared with the prior year including the benefits of improved Adjusted PBITA, the profit on disposal of subsidiaries and the impact of foreign exchange movements. On a constant-currency basis, earnings increased by 14.0%.

Earnings per share

Statutory earnings per share increased to 15.2p (2016: 12.8p), based on the weighted average of 1,548m (2016: 1,546m) shares in issue. A reconciliation of the Group's statutory profit for the year to EPS is provided below:

	Statutory 2017 £m	Earnings per share	
		Statutory 2016 at actual exchange rates £m	Adjusted Statutory 2016 at constant exchange rates £m
Profit for the year	252	217	227
Non-controlling interests	(16)	(19)	(20)
Profit attributable to equity holders of the parent (earnings)	236	198	207
Average number of shares (m)	1,548	1,546	1,546
Statutory earnings per share	15.2p	12.8p	13.4p

Review of the Group's consolidated statement of financial position

Significant movements in the consolidated statement of financial position

Non-current loan notes were £1,486m (2016: £1,715m), reflecting the re-classification of certain US Private Placement notes repayable in July 2018 and the €500m Public Bond repayable in December 2018 as current liabilities, offset by the addition of the new €500m Public Bond issued in June 2017 and repayable in 2024.

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

- cash, cash equivalents and overdrafts are explained on page 41;
- net debt is analysed on page 50;
- provisions are analysed in note 33 on page 179; and
- retirement benefit obligations are explained on page 43.

Total equity

Total equity at 31 December 2017 was £854m (2016: £863m). The main movements during the year were: profit for the year of £252m (2016: £217m), other comprehensive losses of £47m (2016: income of £109m) which included a re-measurement gain on deferred retirement benefit schemes of £26m (2016: loss of £169m) as explained on page 43, an exchange loss on translation of foreign operations of £125m (2016: gain of £429m) and a gain from changes in the fair value of cash flow hedging financial instruments of £56m (2016: loss of £197m) and dividends paid in the year of £179m (2016: £162m).

The significant foreign currency gain of £228m (net of changes in fair value of cash flow hedging financial instruments) recognised in the consolidated statement of comprehensive income in the prior year was mainly as a result of the weakening of Sterling compared with the US dollar and Euro following the UK referendum result in June 2016. In 2017, Sterling strengthened compared with the US dollar, partially offset by a further weakening against the Euro, resulting in a net foreign exchange loss of £69m recognised in the Consolidated statement of comprehensive income for the year.

Review of the Group's cash flow and financing

Consolidated statement of cash flow

Net cash flow from operating activities of continuing operations was £488m (2016: £615m), a decrease compared with the prior year as the Group reverted to a more customary level of operating cash generation following the particularly strong performance in the prior year, net cash inflow from total operating activities was £402m (2016: £522m), net cash generated by investing activities was £81m (2016: net cash outflow of £18m), including £156m (2016: £82m) of net business disposal proceeds and net cash outflow from financing activities was £570m (2016: £307m). Cash, cash equivalents and overdrafts at 31 December 2017 were £571m (2016: £672m), a net decrease including the impact of exchange rate movements of £101m (2016: net increase of £284m). The Group's statutory cash flow is presented in full on page 135.

Net debt

The Group's net debt as at 31 December 2017 was £1,487m (December 2016: £1,670m). The Group's net debt to Adjusted EBITDA ratio improved to 2.4x (2016: 2.8x). A detailed reconciliation of movements in net debt is provided on page 50.

Net debt maturity

In May 2017, the Group's credit rating was affirmed by Standard & Poor's as BBB- (negative). As of 31 December 2017 the Group had liquidity of £1,571m (2016: £1,692m) comprising cash, cash equivalents and bank overdrafts of £571m (2016: £672m) and unutilised but committed facilities of £1bn (2016: £1bn). The Group issued a €500m Public Bond in June 2017 which matures in June 2024 and pays an annual coupon of 1.5%.

The next debt maturities are £44m and \$224m US Private Placement notes due in July 2018 and a €500m Public Bond due in December 2018. The Group has good access to capital markets and a diverse range of finance providers. Borrowings are principally in Sterling, US dollars and Euros, reflecting the geographies of significant operational assets and profits.

The Group's main sources of finance and their applicable rates as of 31 December 2017 are set out below:

Debt instrument/Year of issue	Nominal amount ^a	Issued interest rate	Post hedging average interest rate	Year of redemption and amounts (£m) ^b								Total
				2018	2019	2020	2021	2022	2023	2024		
US PP 2008	£44m	7.56%	7.56%	44								44
US PP 2007	US\$250m	5.96% – 6.06%	2.20%		107			78				185
US PP 2008	US\$298.5m	6.78% – 6.88%	6.90%	154		55						209
Public Bond 2012	€500m	2.63%	2.62%	417								417
Public Bond 2009	£350m	7.75%	7.75%		350							350
Public Bond 2016	€500m	1.5%	2.24%						448			448
Public Bond 2017	€500m	1.5%	3.21%								421	421
Revolving Credit Facility 2015 ^c	£1bn (multi-currency)	Undrawn	Undrawn									–
				615	457	55	–	78	448	421		2,074

a. Nominal debt amount, for fair value carrying amount see note 31.

b. Translated at exchange rates prevailing at 31 December 2017, or hedged exchange rates where applicable.

c. £964m of the original £1bn multi-currency revolving credit facility matures in January 2022, with the remainder maturing in January 2021. As at 31 December 2017 there were no drawings from the facility.

Chief Financial Officer's review *continued*

The Group's average cost of gross borrowings in 2017, net of interest hedging, was 4.1% (2016: 4.1%).

Financing and treasury activities

The Group's treasury function is responsible for ensuring the availability of cost-effective finance and for managing the Group's financial risk arising from currency and interest rate volatility and counterparty credit. Group Treasury is not a profit centre and is not permitted to speculate in financial instruments. The treasury department's policies are set by the board. Treasury is subject to the controls appropriate to the risks it manages, which are discussed in note 31 on pages 168 to 172.

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

Other information

Significant exchange rates applicable to the Group

The Group derives a significant portion of its revenue and profits in the currencies shown below, with their respective closing and average rates:

	As at 31 December 2017	At 2017 average rates	As at 31 December 2016	At 2016 average rates
£/US\$	1.3524	1.2964	1.2345	1.3558
£/€	1.1250	1.1453	1.1705	1.2265
£/South Africa Rand	16.7557	17.3187	16.9500	19.8742
£/India Rupee	86.3531	84.3570	83.8670	91.0371
£/Israel Shekel	4.6951	4.6484	4.7483	5.1912
£/Brazil Real	4.4794	4.1506	4.0165	4.7252

Applying December 2017 closing rates to the Group's statutory results for the year to 31 December 2017 would result in a decrease in revenue of 1.9% to £7,680m (for the year ended 31 December 2016: increase of 2.5% to £7,782m) and a decrease in Adjusted PBITA of 1.9% to £482m (for the year ended 31 December 2016: increase by 2.5% to £473m).

The weakening of average Sterling exchange rates compared with the prior year led to an increase in revenue of 4.5% and an increase in Adjusted PBITA of 4.7% as explained above. The impact of exchange rate movements reduced the Group's net debt by £21m compared with the prior year.

Dividend

In assessing the dividend, the board considers:

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

Following the achievement of the Group's leverage-reduction target, the directors propose a 5% increase in the final dividend to 6.11p (DKK 0.5097) per share (2016: 5.82p per share; DKK 0.5029) reflecting the board's confidence in the Group's performance and prospects. Our dividend policy is to increase the dividend in line with the long-term growth in earnings. The interim dividend was 3.59p (DKK 0.2948) per share and the total dividend, if approved, will be 9.70p (DKK 0.8045) per share, an increase of 3.1% compared with 2016 (for the year ended 31 December 2016, the interim dividend was 3.59p; DKK 0.3143 and the total dividend was 9.41p; DKK 0.8172).

The proposed dividend cover is 1.8x (2016: 1.8x) on adjusted earnings from core businesses.

Pensions

As at 31 December 2017 the net defined benefit pension obligation in the Consolidated statement of financial position was £381m (2016: £437m) of which £283m (2016: £341m) related to material funded defined benefit schemes. Net of related deferred tax balances, the Group's net pension obligation was £318m (2016: £368m).

The most significant of the Group's pension schemes is in the UK and accounts for over 88% (2016: 94%) of the Group's total material scheme obligations. The scheme has approximately 30,000 members and further details of the make-up of the scheme are given in note 32 on page 174.

	2017 £m	2016 £m
Scheme assets	2,345	2,339
Obligations	(2,595)	(2,659)
Net UK obligations	(250)	(320)

The reduction in the UK scheme net obligations reflected a decrease in the scheme obligations of £64m partially offset by an increase of £6m in the value of scheme assets. The decrease in the obligations is a result of the discount rate used for valuation purposes increasing to 2.55% (2016: 2.50%), the projected pension inflation rates decreasing to 3.2% (2016: 3.3%), and the payment of scheduled deficit repair contributions of £40m (2016: £39m) during the year. The Group will pay pension deficit repair contributions of £41m in 2018 in line with the agreed contribution schedule. The next funding valuation is due in 2018, following which future contributions will be subject to review and potential renegotiation.

Interest-rate risk and interest-rate swaps

The Group's investments and borrowings at 31 December 2017 were a mix of fixed rates of interest and floating rates of interest linked to LIBOR and EURIBOR.

The March 2007 and July 2008 private placement notes and the May 2009, December 2012, November 2016 and June 2017 public notes were all issued at fixed rates, whilst the Group's investments and bank borrowings were all at variable rates of interest linked to LIBOR and EURIBOR.

The Group's interest-risk policy requires Treasury to fix a proportion of its interest exposure on a sliding scale in US dollars, Sterling and Euro, using the natural mix of fixed and floating interest rates emanating from the bond and bank markets and by utilising interest-rate and cross-currency swaps. Part of the proceeds of the private placement and public notes have been swapped to floating interest rates, and accounted for as fair-value hedges, with a net gain in the hedges at 31 December 2017 of £14m (2016: net gain £27m). The market value of the pay-fixed receive-variable swaps and the pay-fixed receive-fixed cross-currency swaps outstanding at 31 December 2017, accounted for as cash-flow hedges and net-investment hedges, was a net asset of £59m (2016: net asset of £31m).

Foreign currency

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

At 31 December 2017, the Group's US dollar and Euro net assets were approximately 91% and 90% respectively, hedged by foreign currency debt. As at 31 December 2017, net debt held in US dollars and Euros, and in those currencies officially pegged to these two currencies, equated broadly to a ratio of 2.3x Adjusted EBITDA generated from these currencies (2016: 2.2x Adjusted EBITDA).

Tax policy

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

Corporate governance

The Group's policies regarding risk management and corporate governance are set out in the Risk management section on pages 60 to 65 and in the Corporate governance report on page 84.

Business performance – Alternative Performance Measures (APMs)

Basis of preparation

In the following review, to aid comparability, 2016 prior year results are presented on a constant-currency basis by applying 2017 average exchange rates, unless otherwise stated.

Summary Group results

Year ended 31 December 2017 (at 2017 average exchange rates)

£m	Core businesses ^a	Onerous contracts	Portfolio businesses ^b	Restructuring	Acquisition-related amortisation and other ^c	Statutory
Revenue	7,427	119	282			7,828
Adjusted PBITA ^a	496	–	(5)			491
Profit before tax	383	(19)	(7)	(20)	49	386
Tax	(92)	4	(7)	4	(37)	(128)
Profit after tax	291	(15)	(14)	(16)	12	258
Earnings ^d	277	(15)	(15)	(16)	5	236
EPS ^d	17.9p	(1.0)p	(1.0)p	(1.0)p	0.3p	15.2p
Operating cash flow ^e	527	(13)	(7)	(19)	–	488

Year ended 31 December 2016 (at 2017 average exchange rates)

£m	Core businesses ^a	Onerous contracts	Portfolio businesses ^b	Restructuring	Acquisition-related amortisation and other ^c	Adjusted statutory ^f
Revenue	7,195	115	617			7,927
Adjusted PBITA ^a	476	–	6			482
Profit before tax	375	–	1	(13)	(52)	311
Tax	(90)	–	(3)	3	9	(81)
Profit after tax	285	–	(2)	(10)	(43)	230
Earnings ^d	262	–	(3)	(10)	(42)	207
EPS ^d	16.9p	–	(0.2)p	(0.6)p	(2.7)p	13.4p
Operating cash flow ^e	633	(10)	10	(18)	–	615

Year ended 31 December 2016 (at 2016 average exchange rates)

£m	Core businesses ^a	Onerous contracts	Portfolio businesses ^b	Restructuring	Acquisition-related amortisation and other ^c	Statutory
Revenue	6,896	112	582			7,590
Adjusted PBITA ^a	455	–	6			461
Profit before tax	354	–	1	(12)	(47)	296
Tax	(85)	–	(2)	2	9	(76)
Profit after tax	269	–	(1)	(10)	(38)	220
Earnings ^d	247	–	(2)	(10)	(37)	198
EPS ^d	16.0p	–	(0.1)p	(0.6)p	(2.4)p	12.8p
Operating cash flow ^e	633	(10)	10	(18)	–	615

- Results from core businesses, presented at constant exchange rates other than for operating cash flow, exclude results from portfolio businesses identified for sale or closure and from onerous contracts. For the Group's 2017 results, continuing businesses have been renamed 'core' businesses to provide a clear distinction from the Group's statutory results from continuing operations. In addition, PBITA has been renamed 'Adjusted PBITA' to reflect the exclusion of specific and separately disclosed items set out on page 35. Core businesses and Adjusted PBITA are defined and calculated in exactly the same way as continuing businesses and PBITA were previously defined and calculated. The basis of preparation of results of core businesses and an explanation of Alternative Performance Measures, including Adjusted PBITA, are provided on page 35.
- Portfolio businesses that remain part of the Group, having not yet been sold or closed, contributed £158m revenue (2016: £167m at 2017 average exchange rates; £155m at 2016 average exchange rates) and a loss of £9m to Adjusted PBITA (2016: loss of £21m at 2017 average exchange rates; £20m at 2016 average exchange rates).
- Other includes net specific items (other than those presented within onerous contracts), net profit on disposal/closure of subsidiaries/businesses, the results of discontinued operations and, in 2016, goodwill impairment. The associated tax impact of these net specific items is recorded within the tax charge within "other". In addition, tax-specific charges or credits, such as those arising from changes in tax legislation which have a material impact, and which are unrelated to net specific items, are also included within the tax charge within "other". The full accounting policy regarding specific and other separately disclosed items is provided on page 36.
- Earnings is defined as profit attributable to equity shareholders of G4S plc. Adjusted Earnings and Adjusted Earnings per share ("EPS") from core businesses exclude specific and other separately disclosed items, and likewise the tax impact of those specific and other separately disclosed items and the impact of tax-specific charges or credits unrelated to those specific and other separately disclosed items, as explained on page 36. Adjusted Earnings and Adjusted EPS from core businesses are reconciled to statutory earnings and statutory EPS above.
- Operating cash flow is defined on page 36 and is stated after pension deficit contributions of £40m (2016: £39m) and for the year ended 31 December 2016 is presented at 2016 average exchange rates. Operating cash flow from core businesses is reconciled to the Group's movements in net debt on page 50. Statutory operating cash flow is net cash flow from operating activities of continuing operations.
- The 'adjusted statutory' figures represent the comparative 2016 statutory results translated at 2017 average exchange rates (other than for operating cash flow) but should not be considered as or used in place of the Group's statutory results.

Results from core businesses

At 2017 average exchange rates (other than operating cash flow)	2017 £m	2016 £m	YoY %
Revenue	7,427	7,195	3.2%
Adjusted profit before interest, tax and amortisation (Adjusted PBITA ^a)	496	476	4.2%
Adjusted PBITA ^a margin	6.7%	6.6%	+10b.p.
Interest	(113)	(101)	11.9%
Adjusted profit before tax ^a	383	375	2.1%
Tax	(92)	(90)	2.2%
Adjusted profit after tax ^a	291	285	2.1%
Non-controlling interests	(14)	(23)	(39.1)%
Adjusted earnings ^a (profit attributable to equity holders of the parent)	277	262	5.7%
Adjusted EPS ^a	17.9p	16.9p	5.9%
Operating cash flow ^{a,b}	527	633	(16.7)%

a. Alternative Performance Measures ("APMs") for core businesses are explained on pages 35 and 36 and are reconciled to the Group's statutory results on page 44.

b. Operating cash flow for 2016 is shown at actual 2016 exchange rates.

Revenue

At £2.7bn, emerging markets' revenues increased 1.5% on the prior year, with growth in all regions except for Middle East & India, and represented 37% of Group revenue (2016: 37%). Developed markets' revenues were 4.3% higher than the prior year with 6.0% growth in North America, 3.9% in Europe and 2.1% in UK & Ireland. Revenue from Cash Solutions was up 2.3% on 2016 and from Secure Solutions was up 3.4% on 2016.

Adjusted PBITA

Adjusted PBITA of core businesses of £496m (2016: £476m) was up 4.2%. This growth reflects the strong performance of the Group in developed markets, improved product mix and the results of our on-going productivity programmes, partially offset by the weaker trading in the Middle East & India. Overall, the Adjusted PBITA margin increased to 6.7% (2016: 6.6%) with improvements delivered in six out of the seven regions.

Interest

Net interest payable on net debt from core businesses was £90m (2016: £85m). The increase in 2017 was primarily due to a temporary increase in gross borrowings (matched by an increase in cash balances) following the issuance of a €500m Public Bond in November 2016 and a €500m Public Bond in June 2017 that were used mainly to re-finance the March and May 2017 debt maturities in addition to drawings on the Revolving Credit Facility. Net other finance costs of £12m (2016: £6m) increased compared with the prior year due to an additional £2m relating to discount unwound on provisions, a £2m charge in respect of overseas tax settlements, and a £2m indebtedness-related foreign exchange gain recognised in 2016.

The pension interest charge, related to the unwinding of the discount in relation to long-term pension liabilities, was £11m (2016: 10m), resulting in a total net interest cost of £113m (2016: £101m).

Tax

A tax charge of £92m (2016: £90m) was incurred on the adjusted profits of core businesses of £383m (2016: £375m) which represents an effective tax rate of 24% (2016: 24%). The effective tax rate is a function of a variety of factors, with the most predominant being the geographic mix of the Group's taxable profits and the respective country tax rates, the recognition of, and changes in the value of, deferred tax assets and liabilities, permanent differences such as expenses disallowable for tax purposes, and irrecoverable withholding taxes.

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

Non-controlling interests

Profit from core businesses attributable to non-controlling interests was £14m in 2017, a decrease from £23m for 2016, reflecting the non-controlling partners' share of the lower level of profitability of certain businesses in the Middle East & India region.

Adjusted profit for the year ("adjusted earnings") – core businesses

The Group generated adjusted profit from core businesses attributable to equity holders ("adjusted earnings") of £277m (2016: £262m), an increase of 5.7% for the year ended 31 December 2017.

Adjusted earnings per share

Adjusted earnings per share from core businesses increased to 17.9p (2016: 16.9p), based on the weighted average of 1,548m (2016: 1,546m) shares in issue. A reconciliation of adjusted profit for the year from core businesses to Adjusted EPS is provided below:

	Adjusted earnings per share – core businesses		
	2017 £m	2016 at constant exchange rates £m	2016 at actual exchange rates £m
Adjusted profit for the year from core businesses	291	285	269
Non-controlling interests	(14)	(23)	(22)
Adjusted profit attributable to equity holders of the parent (earnings)	277	262	247
Average number of shares (m)	1,548	1,546	1,546
Adjusted earnings per share – core businesses	17.9p	16.9p	16.0p

Onerous contracts

The Group's onerous contracts generated revenues of £119m (2016: £115m) for the year ended 31 December 2017. The Group recognised additional provisions of £19m (2016: £4m), classified as specific items, primarily related to the anticipated total losses over the next 15 to 20 years in respect of certain UK contracts. It is expected that around 60% of the Group's total provision for onerous customer contracts of £62m will be utilised by the end of 2020.

Portfolio operations

The Group made further progress with its portfolio management programme in the year. This programme has greatly improved the Group's strategic focus and has also generated approximately £510m in disposal proceeds in relation to the 38 businesses sold up to 31 December 2017. Disposals in the year include the Group's businesses in Israel and Bulgaria, its cash businesses in Peru and Paraguay, the US Youth Services business and the UK children's homes business, generating total gross proceeds of £166m. Since the year end, and up to the date of this report, a further three businesses have been sold, generating additional gross proceeds of £9m. The portfolio programme is considered to be substantially complete at 31 December 2017. Since 30 June 2017 there have been no changes to the portfolio businesses other than the completion of some minor disposals. Going forwards no further transfers into or out of the portfolio businesses will occur.

2017 core business^a reconciliation

The table below reconciles 2017 results from core businesses as they would have been presented based on the core businesses classified as such in 2016 to 2017 results from core businesses as presented in the 2017 results.

Results from core businesses For the year ended 31 December 2017	2017 Results based on 2016 core businesses £m	New onerous contracts in 2017 ^b £m	Onerous contracts re-classified to core businesses in 2017 ^c £m	Businesses re-classified to portfolio in 2017 ^d £m	Businesses re-classified from portfolio in 2017 ^e £m	2017 Results based on 2017 core businesses £m
Revenue						
Africa	457	–	–	–	–	457
Asia Pacific	736	–	–	–	–	736
Latin America	700	–	–	(7)	–	693
Middle East & India	845	–	–	–	–	845
Emerging markets	2,738	–	–	(7)	–	2,731
Europe	1,356	–	–	–	–	1,356
North America	2,006	–	–	–	–	2,006
UK & Ireland	1,251	(5)	73	–	15	1,334
Developed markets	4,613	(5)	73	–	15	4,696
Total revenue	7,351	(5)	73	(7)	15	7,427
Adjusted PBITA						
Africa	46	–	–	–	–	46
Asia Pacific	65	–	–	–	–	65
Latin America	29	–	–	–	–	29
Middle East & India	58	–	–	–	–	58
Emerging markets	198	–	–	–	–	198
Europe	104	–	–	–	–	104
North America	123	–	–	–	–	123
UK & Ireland	118	–	–	–	2	120
Developed markets	345	–	–	–	2	347
Total Adjusted PBITA before corporate costs	543	–	–	–	2	545
Corporate costs	(49)	–	–	–	–	(49)
Total Adjusted PBITA	494	–	–	–	2	496
Earnings	276	–	–	–	1	277
Operating cash flow^f	532	–	(6)	(1)	2	527

a. See basis of preparation on page 44.

b. In 2017 the performance of an additional contract in the UK & Ireland, previously categorised within core businesses, has deteriorated such that it is now considered onerous. We have therefore reported the results of this contract in onerous contracts in 2017 and have re-presented the 2016 results accordingly.

c. In 2017 the performance of three UK & Ireland contracts previously categorised as onerous has improved such that they are no longer onerous. We have therefore reported the results of these contracts in core businesses in 2017 and have restated the 2016 results accordingly.

d. Also in 2017, we determined that the Group would exit three minor operations in Latin America, and the results of these businesses are therefore reported within portfolio businesses in 2017, with the 2016 results re-presented accordingly overleaf.

e. In 2017, the performance of a business in the UK & Ireland, previously categorised within portfolio operations, improved such that the Group formally concluded to retain it. We have therefore reported the results of this business in core businesses in 2017 and re-presented the 2016 comparatives accordingly.

f. Operating cash flow is stated after pension deficit contributions of £40m and is shown at actual 2016 exchange rates.

Re-presentation of prior year results from core businesses^a

The table below reconciles revenue and Adjusted PBITA from core businesses as reported previously to the re-presented prior year revenue and Adjusted PBITA from core businesses.

Results from core businesses For the year ended 31 December 2016	As previously reported £m	Onerous contracts re-classified to core businesses in 2017 ^b £m	Businesses re-classified to portfolio ^c £m	Businesses re-classified from portfolio ^d £m	Re-presented at 2016 exchange rates £m	Exchange rate movements £m	Re-presented at 2017 exchange rates £m
Revenue							
Africa	422	–	–	–	422	9	431
Asia Pacific	679	–	–	–	679	36	715
Latin America	621	–	(9)	–	612	43	655
Middle East & India	842	–	–	–	842	48	890
Emerging markets	2,564	–	(9)	–	2,555	136	2,691
Europe	1,224	–	–	–	1,224	81	1,305
North America	1,817	–	–	–	1,817	75	1,892
UK & Ireland	1,218	70	–	12	1,300	7	1,307
Developed markets	4,259	70	–	12	4,341	163	4,504
Total revenue	6,823	70	(9)	12	6,896	299	7,195
Adjusted PBITA							
Africa	42	–	–	–	42	1	43
Asia Pacific	57	–	–	–	57	3	60
Latin America	23	–	(1)	–	22	2	24
Middle East & India	76	–	–	–	76	5	81
Emerging markets	198	–	(1)	–	197	11	208
Europe	85	–	–	–	85	6	91
North America	111	–	–	–	111	4	115
UK & Ireland	110	–	–	2	112	–	112
Developed markets	306	–	–	2	308	10	318
Total Adjusted PBITA before corporate costs	504	–	(1)	2	505	21	526
Corporate costs	(50)	–	–	–	(50)	–	(50)
Total Adjusted PBITA	454	–	(1)	2	455	21	476
Earnings	246	–	–	1	247	15	262
Operating cash flow^e	638	(6)	(1)	2	633	–	633

a. See basis of preparation on page 44.

b. In 2017 the performance of three UK & Ireland contracts previously categorised as onerous has improved such that they are no longer onerous. The results of these contracts are therefore reported in core businesses in 2017 and the 2016 results re-presented accordingly.

c. In 2017 we determined that we would exit three minor operations in Latin America and the results of these businesses are therefore reported in portfolio businesses in 2017 and the 2016 results re-presented accordingly.

d. Also in 2017, the performance of a business previously reported as a portfolio business in UK & Ireland has improved, and management formally concluded that this business will be retained. The results of this business are therefore reported in core businesses in 2017 and the 2016 results re-presented accordingly.

e. Operating cash flow is stated after pension deficit contributions of £39m and is shown at actual 2016 exchange rates.

Restructuring

The Group invested £20m (2016: £13m) in restructuring programmes during the year, mainly in the UK & Ireland and Europe regions, relating to the multi-year strategic productivity programme being implemented across the Group which is now drawing to an end. In addition, the Group incurred non-strategic severance costs of £10m (2016: £9m) which are included within Adjusted PBITA from core businesses. Going forwards the Group has announced a three-year plan to 2020 to implement efficient organisational design and leaner processes, which is likely to require further restructuring investment.

Acquisition-related amortisation, specific and separately disclosed items

	2017 £m	2016 at constant exchange rates £m	2016 at actual exchange rates £m
Net specific items	(15)	(14)	(13)
Net profit on disposal/closure of subsidiaries/businesses	74	5	7
Goodwill impairment	–	(9)	(9)
Acquisition-related amortisation	(10)	(34)	(32)
Acquisition-related amortisation, specific and separately disclosed items before tax	49	(52)	(47)
Tax charges arising on acquisition-related amortisation, specific and separately disclosed items	(18)	9	9
Tax impact of US Tax Cuts and Jobs Act	(19)	–	–
Acquisition-related amortisation, specific and separately disclosed items after tax	12	(43)	(38)
Loss from discontinued operations	(6)	(3)	(3)
Non-controlling interests' share of acquisition-related amortisation, specific and separately disclosed items	(1)	4	4
Total acquisition-related amortisation, specific and separately disclosed items – impact on earnings	5	(42)	(37)

Net specific items

Specific items resulted in a net charge of £15m (2016: £14m) comprising £6m related to the estimated cost of settlement of subcontractor claims from commercial disputes in respect of prior years, and £9m related mainly to the settlement of labour-related disputes in respect of prior years in North America and Latin America. Specific items in 2016 included an £11m charge due to the revision of estimates relating to legacy acquisitions and labour claims in Latin America, £7m relating to commercial restructuring in Middle East & India, and a net £4m supplementary onerous contract provision primarily in respect of the Compass asylum seekers contract, all offset by an £8m credit relating mainly to the recovery of a legal claim in Europe and of certain disputed debtor balances in the UK.

Profit on disposal and closure of subsidiaries/businesses and goodwill impairment

As part of the portfolio programme, the Group realised a net profit of £74m (2016: £5m) relating to the disposal of a number of the Group's operations including the Group's businesses in Israel and Bulgaria, the US Youth Services business, the UK children's homes business and the Group's cash businesses in Peru and Paraguay. The Group recorded a goodwill impairment charge in the prior year of £9m in relation to businesses to be sold or closed.

Acquisition-related amortisation

Acquisition-related amortisation of £10m (2016: £34m) is lower than the prior year as certain intangible assets recognised on a number of legacy acquisitions became fully amortised in 2016.

Tax charges arising on acquisition-related amortisation, specific and other separately disclosed items

Tax charges arising on acquisition-related amortisation, specific and other separately disclosed items of £18m (2016: tax credit of £9m) relate primarily to the disposal of subsidiaries in the United States, Peru and Paraguay.

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

On 22 December 2017, the US tax legislation known as the Tax Cuts and Jobs Act was signed into law by the US President and introduced significant changes in US tax laws with effect from 1 January 2018. As this legislation is considered to be substantively enacted as at 31 December 2017, any tax effects of the legislation arising in 2017 have been taken into account.

For 2017, the changes in legislation resulted in a separately disclosed one-off charge to the income statement of £19m arising from the re-measurement and impairment of deferred tax assets due to the reduction in the US Federal tax rate, and from the impairment of foreign tax credits which are no longer expected to be recovered in future periods against foreign source income.

On the basis of information currently available and from analysis completed since the legislation was enacted, the above are likely to be the most significant impacts for the Group. However, as more detailed analysis and future legislative guidance become available, it is possible that the Group may be further impacted in the current and subsequent years by the legislative changes.

Chief Financial Officer's review *continued*

Reconciliation between statutory operating profit and net debt

A reconciliation between operating profit as presented in the Group's Consolidated income statement to movement in net debt is presented below with 2017 amounts presented at actual rates for the year and the prior year amounts presented at 2016 average exchange rates.

	2017 £m	2016 £m
Operating profit	501	402
Adjustments for non-cash and other items (see page 135)	40	126
Net working capital movement	(53)	87
Net cash flow from operating activities of continuing operations (page 135)	488	615
Adjustments for:		
Restructuring spend	19	18
Cash flow from continuing operations	507	633
<i>Analysed between:</i>		
<i>Core businesses</i>	527	633
<i>Onerous contracts</i>	(13)	(10)
<i>Portfolio businesses</i>	(7)	10
Investment in the business		
Purchase of fixed assets, net of disposals	(104)	(107)
Restructuring investment	(19)	(18)
Disposal of subsidiaries/businesses	156	82
Acquisition of subsidiaries	(1)	(1)
Net debt in disposed/acquired entities	(11)	(15)
New finance leases	(3)	(7)
Net investment in the business	18	(66)
Net cash flow after investing in the business	525	567
Other uses of funds		
Net interest paid	(78)	(96)
Tax paid	(86)	(84)
Dividends paid	(179)	(162)
Purchase of own shares	(10)	–
Cash used by discontinued operations	–	(9)
Transactions with non-controlling interests	(16)	(2)
Other	6	8
Net other uses of funds	(363)	(345)
Net decrease in net debt before foreign exchange movements	162	222
Net debt at the beginning of the year	(1,670)	(1,782)
Effect of foreign exchange rate fluctuations	21	(110)
Net debt at the end of the year	(1,487)	(1,670)

Cash flow from continuing operations before restructuring spend was £507m (2016: £633m). Cash outflow from portfolio businesses held for sale or closure was £7m (2016: £10m inflow), and cash outflow from onerous contracts was £13m (2016: £10m), both of which were excluded from operating cash flows for core businesses. Operating cash flow from core businesses reduced to £527m (2016: £633m) as the Group reverted to a more customary level of operating cash generation following the particularly strong performance in the prior year.

The Group invested £104m (2016: £107m) in net capital expenditure and received net proceeds of £156m (2016: £82m) from the disposal of businesses. The Group made no significant acquisitions during the year.

Net cash inflow after investing in the business was £525m (2016: £567m). The Group's net cash outflow after investing in the business, financing, tax, dividends and pensions was £162m (2016: inflow of £222m).

The Group's net debt as at 31 December 2017 was £1,487m (December 2016: £1,670m).

Tim Weller

Chief Financial Officer