G4S

Interim Management Statement Conference Call

6th November 2012

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Helen Parris, Director of Investor Relations

Nick Buckles, Chief Executive Officer

Trevor Dighton, Chief Financial Officer

QUESTIONS FROM

Jaime Brandwood, UBS

Daniel Patterson, SEB

Paul Checketts, Barclays Capital

Andy Grobler, Credit Suisse

David Hancock, Morgan Stanley

Analyst, Michael

Julian Cater, Conaccord Genuity

Introduction

Helen Parris, Director of Investor Relations
Thank you, good morning everyone and welcome to our Interim Management Statement Conference Call. In a moment Nick Buckles our CEO will take you through the key points of the statement for the year to date. Trevor Dighton our CFO will then make some brief comments on our financial position and then we'll open up the call for some Q&A.

As this is just an update on current trading we don't intend to get into a great amount of detail on specific countries or companies today. I'd now like to hand you over to Nick who'll give you a brief summary of today's statement.

Trading Update

Nick Buckles, Chief Executive Officer
Good morning everybody. As you'll know the last six months have been very challenging for the Group, but I'm pleased to be able to report that despite the challenges of the Olympic Games this summer we have remained focused on our business and our customers and I'm pleased to provide you with an update on our current trading.

As you can see from our statement this morning, excluding the London 2012 contract we have seen revenues growth 6.3% at constant exchange rates, 4.1% at actual exchange rates with the strength of sterling continuing to have quite a significant negative impact.

To highlight the extent of this impact the full year 2011 PBITA would have been around 12 to 15 million lower at current exchange rates.

We have seen a step in organic growth in our developed markets business and continue to see strong growth in our developing markets. Overall organic growth was good at 5.5% excluding the 2012 contract, with 4% in developed and developing markets continuing to grow strongly at 9%.

In Secure Solutions, the strongest performing businesses in developed markets in the first nine months continue to be the US and Canadian commercial businesses and the UK government business where we're now experiencing year to date double digit growth, with the comparatives getting easier and with obviously all the new contract ramping on.

In Europe the best performing countries were Austria, Finland, and Norway where organic growth ranged between 7 and 14%. But Eastern Europe continues to be challenging with further revenue declines in markets such as Romania down 7%, Hungary down 16% and Czech Republic down 11%.

Growth in developing markets Secure Solutions was lower than at the half year due to low growth in the Middle East region, this is entirely due to Iraq and Afghanistan. The outlook for the Middle East is more positive with improving trends, particularly in the UAE where we've had a number of recent contract wins in the Ports, Utilities and

Government sectors. So we do expect the Middle East double digit growth to return on 2013.

Outside of the Middle East, the other developing markets regions achieved close to double digit or higher growth, there was especially strong performances in LatAm in markets such as Argentina, Brazil, Ecuador and Peru, all of which grew around 20%.

In Cash Solutions we continue to deliver good organic growth of around 10% in developing markets, the businesses in the Middle East and Asia have all grown particularly well.

In developed markets Cash, organic growth was affected by the loss of the HSBC contract in the UK halfway through last year. But organic growth improved to around 3% in the third quarter after being minus six in the first half and we expect further improvements to growth and margins in 2013 as new contracts with RBS and Lloyds are still being rolled out, although we haven't seen the margin improvement in the second half that we did expect from these new contracts as there have been start-up costs involved in those.

Overall margins for the nine months were down three tenths, excluding the London 2012 contract, due mainly to contract start-up phasing in the UK government business and the previously mentioned problems we've had with the US government, particularly, business.

So that concludes our overall remarks on trading, I'd now like to hand you over to Trevor to talk about our financial position.

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Financial Position

Trevor Dighton, Chief Financial Officer
Thanks Nick. As at the full year and the half year our financial position remains strong and we've got significant current headroom from committed funds. As mentioned in the statement today our estimate of the loss on the London 2012 contract remains in the region of £50m.

We also still expect to have an exceptional charge of around another £10m in the second half of 2012 for the restructuring and related headcount reductions undertaken this year.

We spent £103m on acquisitions in the year to date with the most significant being the acquisition of Vanguarda, a leading security provider in Brazil. This significantly increases our position in this important developing market and we're very pleased to announce a major system contract Telebras, shortly after concluding the acquisition. We expect to spend around £120m in total on acquisitions for the full year.

With our continued focus on debtor management, cash flow also remains strong and we're on track to hit our cash conversion target of 85% of PBITA for the full year. Okay, I'll pass you back to Nick for some final remarks before opening the call for Q&A.

Final Remarks

Nick Buckles, Chief Executive Officer
Thanks Trevor. So the business has continued to achieve good underlying organic growth and it's a testament to the strength of the Group and its relationship with customers that we achieved a good performance, despite the issues around the Olympic Games.

Our underlying expectation is to maintain Group margins at around the 7% mark in the future, however in the short term, in the current economic environment, there is some gross margin pressure, particularly in Continental Europe. Our overhead restructuring plans were put in place earlier this year to offset this pressure and get the margin back towards 7% in 2013. We still believe we'll get close to that but conditions in Continental Europe and the US government market are likely to be an ongoing challenge.

That concludes our formal remarks so we'll now be happy to take your questions. So over to you for Q&A.

Questions and Answers

Telephone Operator
Thank you. Ladies and gentlemen if you do wish to ask a question on this call please press *1 on your telephone keypads now.

And we have a question coming from the line of Jaime Brandwood from UBS. Please go ahead.

Jamie Brandwood, UBS
Morning Nick, morning Trevor, just to start with can I ask about the cash flow which you say has remained strong. As I understood at the last Select Committee hearing there was this issue surrounding cash payments from the Olympics contract that you'd only received £90m out of the total expected revenues of I guess 230 something million. Is it still the case that you're waiting for those cash payments from LOCOG or have they now come through?

Trevor Dighton, Chief Financial Officer
We're still discussion the total finalisation of the Olympic contract and that we're treating as a sort of separate item. When I'm talking about cash flow generation I'm talking about the main business. Yeah the discussions with LOCOG are still continuing and we'll sort the out before the end of the year. But we're still finalising the actual billing so there's no point in sort of saying what invoice is still outstanding it's still a total discussion on the final outcome.

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Jamie Brandwood, UBS
But you are expecting that to be finalised before the year end.

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Trevor Dighton, Chief Financial Officer
Yeah we are.

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Jamie Brandwood, UBS
Okay and just on the organic growth, as you commented at the start you saw a bit of acceleration in developed markets and I guess a tiny bit of deceleration if we try and back out the Q3 in emerging markets, just to understand in the developed markets is the main source of the acceleration the acceleration in UK government and the reduced rate of decline in US government or is there anything else that's moving the dial in terms of that developed market organic growth?

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Nick Buckles, Chief Executive Officer
I think just to give you an idea of where the sort of trends are going, the UK Secure Solutions definitely picked up well, remember - and that's driven almost entirely by UK government where I mentioned double digit growth year to date now. So the five or six contracts we've taken on are obviously improving that and the comparative gets easier as court services dropped out at the end of August last year.

Commercial in the UK in pretty flat, you know as before. European Secure trending down slightly. Developing markets on Secure and Cash pretty much the same, still - you know apart from the Afghanistan, Iraq issues, you know double digit expected and still there. UK cash trending up as expected, Europe Cash trending down slightly because of all the - you know we still have the benefit in the first half from the Belgian situation. And they're pretty much the trends. So the one single figure which is driving increasing growth is the UK government really if you - you've pluses and minuses.

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Jamie Brandwood, UBS
But presumably North America Secure Solutions has improved a bit in Q3 just by virtue of reduced rate of year on year decline in US government?

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Nick Buckles, Chief Executive Officer
Not really because the commercial isn't going to be 13%.

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Jamie Brandwood, UBS
Okay that's perfect. And then just on the developed markets, is the reason for the slight slowdown in Q3 entirely to do with the shut down or termination of the Kabul Embassy contract?

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Nick Buckles, Chief Executive Officer
It's to do with Iraq and Afghanistan altogether yeah.

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Jamie Brandwood, UBS
Okay, all right perfect. And then just lastly in terms of the commentary around UK government, what's the situation at the moment on bids, prison bids, etc. What's your feeling about converting any bids before the year end?

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Nick Buckles, Chief Executive Officer
Well I think it's pretty well expected in the market that we expect the prison bids to be announced sometime this week.

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Jamie Brandwood, UBS
This week, okay.

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Nick Buckles, Chief Executive Officer
And you know we're still hopeful that our track record, particularly over the last 12 months were we did some pretty difficult start-ups actually and did them very well will hold us in good stead. We haven't got any insight to that at all, but we're pretty much in the same position as we were, the bid has been in, it's a good bid, and we hope to have a positive outcome. That's the only real major bid that we're expect to hear about I think even this year in terms of government.

Bedfordshire, Cambridgeshire and Hertfordshire we're still working through. Clearly that's going to be impacted by the elections, but if we get through that we're hopeful some - you know, for a positive decision towards the end of the year. But you know there's a couple of hurdles to overcome there.

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Jamie Brandwood, UBS
And just on the prisons, you've got seven bids out of the nine have been tendered is that right?

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Nick Buckles, Chief Executive Officer
Yeah.

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Jamie Brandwood, UBS
Thanks very much.

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Telephone Operator
Thank you. Our next question has come from the line of Daniel Patterson, from SEB. Please go ahead.

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Daniel Patterson, SEB
Good morning gentlemen. Just one question, I know this is a sort of recurring speculation in the market because yesterday we saw Mr Stanley Gold sending a letter to the Board of Brinks about the - he wants them basically to sell the company. What's your view on this, I mean would you be interested at all in looking at Brinks and what are your thoughts around this?

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Nick Buckles, Chief Executive Officer
I mean I always answer this question in the same way; we would always be interested in transactions which we believe would enhance our strategy and enhance shareholder value. But you know it's not something that's on our radar at the moment, we're still going to talk to shareholders over a period of time about major acquisitions. You know clearly after ISS we've got - you know a clear steer that that wasn't going to be our strategy in the short term. Brinks is an attractive business but you know as I've just said I think the whole issue around major transactions would be one that we need some time to talk to our shareholders about. And it's pretty fresh as well; it only came through yesterday didn't it.

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Daniel Patterson, SEB
Okay, I think that's clear. Just one follow up on the RBS and Lloyds contract, when do you expect them to be fully ramped so to speak?

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Nick Buckles, Chief Executive Officer
They pretty much are now, so we should see a little bit of improvement in the final quarter, and next year's budget will see some progression but probably not quite as great as we hoped, it hasn't really returned to previous levels in terms of profitability.

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Daniel Patterson, SEB
Okay, thank you.

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Telephone Operator
Thank you we currently have no further questions coming through, so just another reminder, please press *1 if you would like to ask a question.

We have a question from the line of Paul Checketts from Barclays Capital. Please go ahead.

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Paul Checketts, Barclays Capital
Morning, if I could just ask a question on the downgrade of your investment grade, I don't think there are, but can you just confirm that there are not implications for the interest level you'll be paying?

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Nick Buckles, Chief Executive Officer
Just before I pass you over to Trevor, I think what I would say is we're very pleased to see that S&P confirmed they expect us to continue to growth strongly, we're in a strong position in terms of organic growth and cash flow generation and we were described as strong. It sounds like the downgrade is more around the project management around the Olympics. But you know overall I think the report was very positive about us. But I'll pass you over to Trevor in terms of the detail of it.

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Trevor Dighton, Chief Financial Officer
Yeah, I mean my take is it's a bit of a reflection on the credit rating agencies continuing their trend of more stringent measurements I think, because the report health was quite strong. Absolutely not impact at all our borrowings; our current borrowings are not impacted at all. If we go out to the market for new borrowings it might impact by you know 20 basis points, but money is so cheap at the moment that it wouldn't make an awful lot of difference to it if we put another bond out shortly, which we might possibly do. So yeah no impact at all.

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Paul Checketts, Barclays Capital
Okay, and if we just move to the US government space, is there anything completed on Diego Garcia? And in the same vein of questioning I think you lost the Oak Ridge contract, is there weakness there generally rather than losing contracts is it more about the government reducing volumes on ongoing contracts?

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Nick Buckles, Chief Executive Officer
I mean the US government business as I mentioned at the half year has suffered from a number of factors. The main impact on profitability in the first half was the decline in the mine clearing business and that's also had an impact on the UK risk management business as well. So that was a big profit impact from the prior year.

The domestic, or you know the high level security business was really - has really suffered from re-bids in terms of pricing, but also reductions to services in existing contracts due to - I guess reduced threat levels and budget cuts. So that's been the underlying issue.

Oak Ridge which we've had for a number of years finishes this month, and that was really down to a sort of operational issue which emerged during July/August time, which we've now solved and sorted out with the primary contractor, but we are going to step out of that. And that's about $18m a year, but then we are going to start - the protest has been removed from Diego Garcia and that's going to start in March and that's about $45m to $50m a year. And although that's not US domestic business clearly that's where we're going to show it because it's run by the US government piece.

So the ongoing trends there are that we expect the organic growth to pick up in the second half, the first half will still be strongly negative, the margin is down at 1.5/2% anyway and we don't see that improving significantly. But hopefully with a new government elected there's a number of bids that we have in the pipeline and hopefully they'll be some decisions made there which will give us some new starts in the first half which we haven't budgeted for.

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Paul Checketts, Barclays Capital
If I could just follow up on your comments on margin Nick for next year, it sounds like 7% is probably going to be a bit of a stretch. What are your thoughts on - is it going to be flat, are we going to see 10, 20 basis points of improvement, how do you think it's going to pan through?

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Nick Buckles, Chief Executive Officer
You know this time of year is always a difficult time of year to make predictions, you know we don't typically make very firm predictions anyway. But I think it's fair to say the Continental Europe business is much tougher than we expected, in fact in probably each quarter it's got tougher as we've gone through the year. The US government piece is there and it will recover slightly, but not significantly. So our overall view is that the margin will be slightly better than this year, but it won't be back towards 7%, slightly better. And that's - this year's number if you strip out the Olympics basically.

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Paul Checketts, Barclays Capital
Okay, thanks very much.

Telephone Operator
Thank you. Our next question is coming from the line of Andy Grobler from Credit Suisse. Please go ahead.

Andy Grobler, Credit Suisse
Hi good morning, Paul actually asked most of my questions on margins. I just wanted to ask about Europe, you've mentioned that that has got incrementally tougher and that Eastern Europe is particularly challenging. What about within your sort of Western European operations in the Benelux and Scandinavia are there any areas in particular that have got - have become more challenging and where are those challenges, is it in terms of price, or cost, or volume?

Nick Buckles, Chief Executive Officer
It's really the continuing issue in places like Benelux and Scandinavia where you've got pretty consolidated markets, or very consolidated markets. There's not a lot of new business, there's no government outsourcing, nearly all the in-house guarding has been outsourced and so any work moving around just moves around on lower prices basically. So if you're replacing 10 to 15% of your business every year then it's going to be at significantly lower margins and that sort of impact comes through over time, because the pricing's dropped in the market basically.

And so that's why we sort of alluded to gross margin trimmed one or two percent off the overhead in Europe but then the gross margins have probably come down, not quite as much but similarly and that's the challenge we've got basically.

Andy Grobler, Credit Suisse
And do you think that change is a structural one; I mean are those pricing points going to be the norm for the next few years?

Nick Buckles, Chief Executive Officer
I think it depends what happens in the sort of general macroeconomic environment. In these countries, as you've seen in the past, have gone extremely well when there's good growth in the markets, 'cos the business grows and margins are improved with price increasing out stripping wage awards. But in a sort of ongoing recession which has lasted three or four years there now, customers are just used to getting lower prices basically. That will change once the economies start picking up.

Andy Grobler, Credit Suisse
Okay, thanks very much.

Telephone Operator
Thank you, our next question has come from the line of David Hancock from Morgan Stanley. Please go ahead.

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David Hancock, Morgan Stanley
Morning, yeah two from me please, one on acquisitions, does the tougher environment in Europe make the acquisition environment better rather than worse? And the second question is on the timing of the phasing of cost savings, how do you expect those to progress as we go through the rest of this year and into next year please?

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Nick Buckles, Chief Executive Officer
Yeah, I mean acquisitions as we've said previously we're really focusing on developing markets, typically we'd expect, you know half to two thirds of our spend to go into developing markets.

Europe would be more around capability building, you saw us recently buy a fire and safety business in Belgium. So there wasn't really a lot of acquisition thought or thinking going into Europe and indeed most of the companies that could be available are usually smaller manned security businesses. And although in the short term you can build incremental earnings through those types of acquisitions they've never really been on our radar. So it doesn't really impact our acquisition strategy.

In terms of the cost reductions we said at the half year we'd expect in a full year to deliver 30m plus. So in theory there should be another 15m coming through next year in terms of cost reductions, but clearly the point I alluded to in Europe has meant some of that has been eaten up in terms of margin. But we certainly don't see any other margin changes other than the Europe situation which I've already described.

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David Hancock, Morgan Stanley
Great, thank you.

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Telephone Operator
Thank you. Our next question has come from the line of Michael Lovell (?) from Con… Please go ahead.

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Michael Lovell (?)
Yes, hi I have two questions first if we turn the question around regarding acquisitions, are there any markets in Europe that you're thinking of leaving as you have done in the past in some countries?

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Nick Buckles, Chief Executive Officer
I mean our divestment strategy which we pushed up at the Capital Markets Day hasn't changed, there's four or five criteria. If we believe the businesses we own are not going to meet our long term margin targets that would be a decision point to decide whether should have a closer look at whether we should own that business. If there's another parent willing to pay an attractive premium for those businesses then clearly that would make it even better. If we don't think we can extract value from the business in terms of best practice sharing that would be another.

So I mean we run the rule across the businesses probably every half year and there's no businesses at the moment that we have that are creating a real concern in terms of profitability or strategic fit, but you know as we go through that exercise there will be some that come onto the agenda I'm sure.

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Michael Lovell (?)
Thanks, and the second question - I don't know what you said before but the healthcare reform in the US, given of course the election today in the US and what happens with that, but if we assume that the Obama care comes in place in 2014 how do you prepare for that or what can you do to prepare for that?

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Nick Buckles, Chief Executive Officer
Well our US government business is predominately cost plus and there's pass through costs in there anyway so we don't have an issue in that. In our US commercial business it really depends on the contract and what current schemes that our employees are in. And our view is that - if we have significant costs on some contracts, not all of them, from introducing the new schemes then we'll pass them onto customer.

I mean that's one thing I have to say our US business is going particularly well this year as I mentioned earlier, organic growth is dropping a little bit but it's still strongly double digit, margins are slightly improving and they do have extremely good relationships with their customers. And on a customer by customer basis which is the difference clearly between US, UK markets and Continental Europe you can make those negotiations side by side depending on your cost increases.

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Michael Lovell (?)
And you think the customers are going to accept you passing on that cost?

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Nick Buckles, Chief Executive Officer
It depends on the customer and the relationship and the degree of competition in those - in the different parts of the market. But in principle we've passed on, in my experience in the last five or six years, any cost increase that we've had in the US basically.

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Michael Lovell (?)
Okay, thank you.

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Telephone Operator
Thank you, we currently have no further questions coming through so just another reminder. Please press *1 if you would like to ask a question.

And we have a question from the line of Julian Cater from Conaccord Genuity. Please go ahead.

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Julian Cater, Conaccord Genuity
Good morning, I'd just like to ask a couple of questions on your comments on the Lloyds, RBS cash contracts. You've said that the start-up hadn't gone quite as well as you'd excepted, you'd incurred more costs, and then I think you later said you don't expect those contracts to achieve previous levels of profitability. Can you expand on those two comments please?

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Nick Buckles, Chief Executive Officer
Yeah, it wasn't quite what I said, it was nearly what I said so - so we lost about - I think about £15m revenue towards the back end of last year and then we had the hiatus between then and June time to take cost out leave cost in in order to start the contracts that we'd won which would more than replace those contracts. And basically - so that was one of the reasons that we feel the margins dropped in the first half. And then in theory we were going to put the business back on to the same sort of level in terms of gross margins and revenue very quickly by just replacing the business that we'd lost. But clearly things changed in the operation during those periods of time and they didn't just go onto the network as expected.

I mean operationally they've gone smoothly, there's no issues around the take on, it's just the fact that the gross margin - sort of you'd expect to generate quickly on those contracts hasn't come through quite as quickly but it will do.

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Julian Cater, Conaccord Genuity
So you will get back up to the sort of previous levels of gross margin on those contracts that you've seen historically?

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Nick Buckles, Chief Executive Officer
I mean it's not exactly that scientific on a network type business. I think what I also said earlier is I don't think the margin next year will return to the 2011 level for UK Cash, which I guess would be the sort of comparator, but it will be back up to a decent level.

Julian Cater, Conaccord Genuity
Okay, thank you.

Telephone Operator
Ladies and gentlemen just a final reminder, please press *1 if you would like to ask a question. We have no further questions coming through from the telephone lines.

Nick Buckles, Chief Executive Officer
Well thanks everybody for joining the call today and I look forward to seeing you all soon, so thank you very much.

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