G4S

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Results Highlights

Nick Buckles, Chief Executive Officer
Good morning everybody, everyone's over that side and I'm on this side. Welcome to the G4S Preliminary Results Presentation. What we're going to take you through today, I'm going to give you a quick overview of the results for the year, Trevor is going to go into more detail on the financials, and then I'm going to come back and talk about the trading/business review for the year, but also take the opportunity to give you a strategy update reaffirm our commitment to security, a security focused strategy going forward, looking at some of the internal projects we have underway and also talk about acquisitions and disposals. And we'll then have Q&A first of all from the floor and then from the wires.

So moving on straight to the results highlights, what you can see here over five years, but indeed today we're announcing our 7th consecutive year of underlying revenue profit earnings and dividend growth. In the last five years you can see on these slides, revenue has gone from just over £4bn to £7.5bn, operating profits have doubled to £530m, EPS up from around 14 to 22.8 and our dividends have doubled, so continued success coming into 2011.

Then in terms of the actual results this year, good underlying organic growth of 4.5%, as you can see we were slightly lower in the second half than the first half. But we're very confident of the momentum into 2012, we've got about 2 to 3% organic growth start-ups in the first quarter alone.

We have discontinued some businesses, Trevor will talk about that, but on a like for like basis revenue is up to £7.5bn. New Markets still going very strong, underlying profits up 2%, margins slightly down compared to the like for like from 7.2 down to 7.1%. We hit our cash flow target of 85% after having a tough first half, particularly with the US government, EPS up 6%, as I say the seventh consecutive year of earnings growth and confident enough to up the dividend up - 8% recommendation.

We also made an acquisition in Brazil towards the end of last year for around £60m, but for the vendor confidentiality reasons we can't say any more about it at the moment, but clearly we will come Capital Markets Day in May.

So without further ado I'd like to pass you to Trevor to talk about the financials.

Financial Summary

Trevor Dighton, Chief Financial Officer
Thanks Nick and good morning everybody. Before I start I just want to remind you how the slides work, they show the year we're reporting on, 2011, against the prior year 2010, which has been restated for current year discontinued businesses, which I'll come to later. Also, 2010 is shown at current year, that's the 2011 exchange rates.

Okay, as you saw on the highlights slide our total turnover in 2011 went up by nearly 5% to £7.5bn, with almost all of this being organic growth. Turnover growth in the

Secure Solutions part of the business was 5.6%. Growth in Cash Solutions was 1% and although this was better than the 1% decline in 2010 this business, at least in developed markets remains affected by the continuing low interest rate environment, reducing our customers' needs for the efficient circulation of cash.

Over the past five years turnover growth was 68% in total with 78% in Secure Solutions and 33% in Cash Solutions. The greater part of our acquisition activity in this time has been in the Secure Solutions.

Looking at total turnover geographically developing markets continue to show good levels of top line growth at over 10%, including some impact from our acquisition in Brazil made during 2010. Growth in Europe is nearly 3% compared to a 1% decline in 2010. Growth in North America is only 2% due to the declines in turnover in the US Government and Canadian Cash business.

Over five years it is a 226% growth in development markets from 22% of Group turnover in 2007 to 30% in 2011 that stands out.

Looking in more detail at current year organic growth developing markets continue to show good growth at 9% in total, in spite of being negative in the Middle East due to the ending of the support contract for the US Military in Iraq late last year.

Secure Solutions grew by 5%, including 4% in Europe and Cash Solutions by 2%, which includes 9% from developing markets. PBITA has increase by 2.1% in 2011 to £531m on a margin that is 0.1% lower than last year. The margin in Secure Solutions was maintained at the prior year level with an improvement in Europe offset by a decline in North America. The 9% fall in Cash Solutions PBITA is a result of a 1.2 percentage point fall in the margin, primarily driven by service reductions in the UK and Romania. However the overall margin in Cash Solutions was still 10.5% due to very strong cost control measures, mitigating the effect of the top line reductions.

The margin has been maintained very steadily around the 7% mark for the past five years.

PBITA in 2011 increased by 7% in developing markets and 2% in Europe, but declined by 5% in North America. Again, what is very noticeable on the longer term view is that developing markets have doubled since 2007 and is now 34% of total Group profits.

The P&L in total looks like this, in this slide the prior year is at 2010 exchange rate, so it agrees with what is published in our announcement. PBITA in 2011 is £531m as we've already seen and interest of £99m is slightly higher than last year. We're expecting a similar level of interest costs in 2012.

The goodwill impairment review process applies very high discount rates to some of our markets and this has resulted in a £13m impairment of goodwill in Greece, which is included in the amortisation line.

The costs of the aborted ISS deal are shown separately here as a net pension interest credit which is a book keeping entry rather than a real cash benefit. The IASB is changing the way this number is calculated from 2013, but we've always excluded it from our performance measures and will continue to do so. Discontinued operations are detailed later. The tax charge is analysed at the bottom and you can see the effective tax rate on the real numbers has come down again to 22%. The total tax charge is £56m and profit after tax £198m.

And this shows the gradual progression of the effective tax rate over the years down to its current level of 22%, as we have worked on eliminating fiscal inefficiencies. We will continue to work on efficient tax structures, but we don't expect any further sustainable reductions in the effective rate.

I said I'd come back to discontinued businesses. As you may have seen in the announcement we're going to be reviewing our portfolio a little more aggressively and businesses which are non-core, or we can't get to minimum performance standards, or they permanently present serious operational difficulties we'll be exiting. Nick will talk a lot more about this later.

We've made a start on this already and have disposed of, or are in the process of disposing of the Cash Solutions business in Sweden, the UK risk assessment business in Afghanistan and our businesses in Russia.

The EPS slide shows the impact from currency exchange rate movements between 2010 and 2011. At constant FX rates we are 2% ahead of 2010 at PBTA. Tax pre amortisation is below last year due to the further reduction in the effective rate, at £94m. Non-controlling interests which is the new name for minorities have reduced to £17m as we've bought out some of our partner's shares, so EPS is up to 22.8 pence per share, an increase of 6% at constant FX and 4% at actual rates.

The balance sheet is not vastly different from last year. Goodwill is £2.5bn, net assets decreased by £80m including a £65m FX impact and a £73m actuarial pension impact, which are both booked through reserves.

One of our key financial ratios is net debt to EBITDA. I've said before that we are comfortable with up to about 2.5 times, it's increased in 2010, partly due to acquisition spend right that the end of the year. But at 2.4 times it remains within our target and it will come down again over 2012.

Operating cash flow shows capex in continued operations of £138m, this is only 105% of depreciation for 2011, the tight control on spending on capex continues. The working capital outflow was £73m, very similar to last year with debtor days increasing slightly in a difficult cash collection environment. Overall cash generation reached our target level of 85% of PBITA.

We then show the reconciliation of operating cash back to the IFRS statutory presentation with all the normal adjustments. Tax paid was slightly lower than 2010 and the additional pension payments include £6m for the closure of our Irish scheme. The other cash flow item that needs further explanation - sorry the other line, the other items that needs further explanation it includes £37m from the disposal of our business to Consumer Systems Activities in Norway. This transaction generated a gain - a profit of £33m. This was one of a number of substantial one off items booked in to PBITA this year.

Offsetting items include a bad debt incurred with a government backed customer in the US, restructuring costs across our Cash Solutions businesses as they adjusted to lower turnover levels and one offs in the Middle East with asset impairment in the UAE and the military exit from Iraq. There are various smaller one off pluses and minuses and the net impact of all of these is pretty well zero. We take all of these one offs into the trading results.

This is the rest of the reconciliation back to statutory with all the normal adjustments, the capex figure includes discontinued capex, net acquisitions cash spend was £145m, I'll come onto this later. And this slide shows the history of our operating cash generation, it's been at or above our target of 85% of PBITA every year from 2006 onwards and this is through very differing global economic circumstances from high growth to recession.

Our main acquisitions in the year were the purchase of an FM business in Brazil at the end of the year that Nick mentioned, a number of small to medium acquisitions added to our capabilities in the UK and various smaller developing market bolt-ons. The spend shown here includes deferred costs on current year acquisitions, and for this reason doesn't quite match with the cash paid shown in the earlier slide which includes the current year settlement of prior period deferred acquisition costs.

There were also some buy outs of non-controlling interest, taking the total investment to £157m in 2011.

Dividends, we have a policy of increasing dividends broadly in line with earnings, which allows some flexibility. As we've seen EPS increased by 4% on actual exchange rates in the year and 6% at a constant exchange basis, we are however recommending a dividend increase of 8% to 8.53 pence in total for the year, which we believe to be appropriate given the Group's growth opportunities and cash generation. Dividend cover is now 2.7 times. If this dividend is approved growth in dividends in the five years between 2007 and 2011 will be 72%.

As usual there have been significant swings in the pension deficit calculation all through the year, the calculation at the 31st of December has gone up by £30m to £295m before tax, or approximately £212m after tax.

Asset returns haven't quite kept pace with liability increases which have largely been driven by changing financial assumptions.

On the 5th of July we closed the UK scheme to future accruals in order to limit the Group's exposure to possible future growth in pension liabilities. This doesn't impact the current deficit calculations.

The Group's funding profile looks like this with headroom of £767m; this includes a €575m facility which we haven't actually drawn down on but is part of our headroom. This is available until the end of 2012, but we intend to replace this with a public bond issue. The main RCF is in place until 2016. Okay that's the financials so now back to Nick for the business review.

Business Review & Strategy Review

Nick Buckles, Chief Executive Officer
Thanks Trevor. So before we go on and talk about strategy let's have a look at the business overview, firstly Secure Solutions. Great organic growth, despite the loss of two major contracts in the year you'll recall in the government sector in the UK, still managed to do 5% organic growth. Margins held overall at 7%, you can see some regional variations which I'll come back onto. But basically underlying profits were 11% up in Europe, down in North America, and about 6 or 7% up in developing markets. There was a 2% exchange rate hit, but overall profits were indeed up 7% on a like for like basis, so a good performance on Secure Solutions.

If we then move on to Europe first and the UK and Ireland just reaffirming the fact that we did lose two major contracts in the year which reduced the base by 10%, despite that we still grew 5% overall, so we recovered very strongly during the year.

Margin improvement is mainly down to the turnaround in Ireland where we had a heavily loss making business in 2010 and that's certainly into positive territory in 2011. In the Commercial business in the UK strong double digit growth from the Telereal and the start-up of the Olympics contract. And of course into this year we're very much looking forward to the Olympics contract, we will now be supplying around 10,000 staff, training and supporting about 23,000 staff, and we still expect the revenues roughly to be around £200m with margins slightly below the Group level. But that will be very heavily weighted towards the second half. And at the moment we've actually got a project management office working on the Olympics contract with 1,000 staff in Canary Wharf, so a huge amount of investment has gone into getting that contract underway.

In terms of new starts in the year, which are actually going to start in 2012 but were won in 2011, we've got Scottish Courts started 1st of January. We've got the 380 sites on facilities management for the Ministry of Justice - they've just started. We've got two Compass regions starting. We've got Oakwood Prison starting on the 1st of April. And I should give a mention to our very smooth start up that we had at Birmingham in the first public to private prison in the 1st of October, that went extremely well. And of course the ground breaking contract we're going to be starting for Lincolnshire Police in the summer. So excluding the Olympics we've got about £180m of start-ups a year in the 1st six months in the UK; so excellent contract win momentum for that business.

And just to touch on the pipeline for the UK, in the Justice section we're looking at probation services and court fines. In the Home Office looking at police outsourcing, clearly West Midlands and Surrey are coming to market, that's a major opportunity and still nine or so police forces in the LPS framework we've already signed. And in terms of the Department of Work and Pensions extending the Work Programme and a major contract called PIP which is around medical assessments coming to market. So we see a lot of opportunity certainly, real opportunities as well as the ones we've already started.

Moving on to Europe, overall organic growth better than expected, came in around 3%, really driven by very strong growth in Belgium from winning the airport under commission, and also a little bit in Sweden.

Eastern Europe has been a problem in 2010, it's got better in 2011, we're just about flat in terms of revenue year on year whereas we're heavily negative in 2010, so that's starting to improve but still quite tough.

The whole margin improvement really is down to turning the loss making business in Sweden around where that was in a significant loss making position, now 3% positive. Well on its way to our 5% target.

Greece, as you'd expect was tough on the Secure Solutions side, revenue down 22%. We lost the airports, but we did get paid which was important and we have recently won the US Embassy in Greece. So growth certainly starting to come back a little bit there.

And it's important to also say that we didn't have any major issues on pay v. pricing in Europe, that's the big challenge every year particularly in the developed sector of Europe. No problems this year and none expected for 2012.

Moving on to North America, a mixed performance I would say, Commercial is going very well, it had 7% growth in the year, Commercial Manned Security, we're expecting very strong double digit growth this year, we had a good start to the year in 2012 with the win of General Motors, a couple of other major contracts and also an extension to the Bank of America contract and margins are holding up well as well in the Commercial business, so a very good performance expected there and a good performance in the year.

The US Government Classified business had a very poor second half, really driven by - in the primarily federal spending cuts which affected the core domestic business, but more so the expeditionary overseas business which does mine clearly. The budget really dried up completely and we were left with quite a lot of resources sitting idle in a number of hostile territories. So we had quite a big margin hit in the second half on the US government which really didn't come through that strongly in the numbers so far, but that's really where you can see the margin coming down.

We certainly expect that to get better in the second half of this year as we're taking cost out but the first half will be a bit problematic and also the whole outlook for US government is still fairly muted. But I say very strong on the Commercial side, a little more muted on the government side, on the classified section, but then on local government still lots of opportunities coming through in our Commercial business.

And of course in the medium term we're quite excited about the opportunities that Aviation Security could bring us now legislation's been passed allowing foreign companies to bid through a Foci structure and of course we've got a Foci structure in place already to be able to do that.

In Canada around 7% growth, the CATSA contract only started right at the end of the year, we would expect Canada to be around 30 to 40% organic growth with that contract coming through this year.

Moving on to developing markets overall, very good strong double digit organic growth if we strip out the US exit from Iraq, US military exit which affected our Classified business. There is some margin decline overall but we're not concerned about that, that's not an underlying issue that's some specific issues this year, so we don't expect that to continue.

Looking at the individual regions, Asia was down mainly because of two areas, one was bid costs, put a large bid team together to try and win the Wiri bid in New Zealand which we failed on unfortunately but the cost are in the P&L. And the floods in Thailand actually affected both the Security and the Cash business over that period of time we were unable to operate. India is strong in terms of margin progression but the organic growth has slowed slightly there because we're much more selective on the type of work we're winning.

Moving on to the Middle East, organic growth decline entirely due to the Iraq situation underlying is still double digit ex-Iraq. Picking out some highlights, Qatar, Egypt and Yemen all grew 20% plus and all at very good margins. And the only problem area we've had in the UAE really has been the Emirate of Dubai whereas Trevor mentioned we've had some asset impairment, but also we've had an issue where legislation was brought in doubling wage rates which we then instigated which then the competition didn't follow and the legislation was reversed. So we've got some pay v. pricing issues in the UAE which we are working through, in Dubai, but the rest of the UAE is going pretty well.

Moving on to Africa, organic growth 8%, South Africa is certainly improving, we've had negative organic growth there for the last 18 months but we're certainly picking up there now. Some very strong performances from Djibouti, really driven by pirating - anti-piracy operations, Morocco, Tanzania and Guinea and we've invested quite a bit in development resource in Africa, we've exited the year in double digit and we expect good double digit growth this year.

Moving on to Latin America, as per the competition it's a very strong growth region at the moment, we're growing 20% organically, our margin's up also to 8% which is great. Highlights really Venezuela, Colombia, Argentina - very driven by inflation there, I think organic growth was around 40% but very driven by inflation. As Trevor mentioned we have acquired a facilities services company in Brazil but it's still, as I mentioned, confidential but we will focus on Brazil at the Capital Markets Day.

Which really brings us on to the Cash Solutions division - organic growth overall positive, 2% really driven by developing markets. But what we've taken the decision to do early part of this year was actually incorporate the Cash Solutions division businesses, there was only about seven or eight of them, into the regional structure but falling out of that restructure as well some of that divisional structure has been kept as a Service Excellence Centre for Cash Solutions. So Security, IT and Operational Best Practice is still run as a Service Excellence Centre but the actual line management now reports into the regional structure.

The main rationale for that is building on the customer relationships we have in developed markets, the account management structure, to be able to actually bring the cash services business more effectively to our customer base and get cross selling more effectively. Secondly to get cost synergies at a country level around back office, and thirdly we have saved around £4m a year through that incorporation of the Cash Division at Group level. And we think as well over time it will lead to much better best practice sharing throughout the 70 odd Cash Solutions business we have in the group. And down to this we do expect organic growth to improve this year on Cash Solutions, certainly positive in developed markets lower single digit and double digit in developing.

Moving on to the individual businesses. First of all in Europe which overall did see the largest margin downturn, nearly all that margin downturn in Europe is due to the UK business basically. There's some other ups and downs in Romania, Belgium, etc, but the margin downturn is almost entirely down to the UK. In the UK we saw minus 7% organic growth, two major contracts went on ATM's, one to a competitor that was HSBC, the other Santander which is the A&L ATM's went in-house. So that did really impact the second half with the revenue coming off the top line and a big impact on the bottom line.

But the good news is we have more than replaced all this revenue, probably another £5m on top which will be starting between now and May, mainly financial institution but also retail so we certainly will expect a very big pick up in the second half on the Cash Solutions which is currently significantly down on where it was first half of last year.

We've also got a number of cost saving plans running through that business currently in addition to the ones that we ran last year. And also on the UK we have started to have conversations again with the banks about outsourcing off the back of our new account management structure.

In terms of G4Si our international valuables business, that grew by 15% top line and bottom line off the back of heavy investment in minerals worldwide. And in Ireland although still negative on organic growth we did have help from the start-up of the An Post contract.

Moving on to Europe, all aware of our very strong performance in Belgium where we took a large number of banks on, 30% growth, Turkey similarly 30% growth. In Sweden as Trevor mentioned we've exited that market, it's the old adage three into two doesn't go and the final straw really was the banks got together and put a commoditised ATM network together and we lost a large part of that business to the third player. So basically it was a structural unprofitable business and we managed to exit with positive cash but with a loss on disposal.

Romania, following the loss of the Romanian Post we're now in the process, we've redeployed about 250 vehicles, where there are now 250 to redeploy first three months of this year, we're well on track to do that. And actually the highlight of Greece was the Cash Services business where profit improved and revenue improved due to increased cash activity.

Canada, not a great story, margins slightly down, negative organic growth but we have renewed all our contracts for this year, it's relatively stable, there will be some synergies from bringing the business together in Canada and we're still very much targeting a 5% margin in 2012.

Developing markets, excellent performance on Cash, 9% growth, 12% margins maintained and that's despite some quite big margin downturns in Saudi Arabia and South Africa through cash losses and robberies. They've now been sorted so we should see an improvement this year in terms of margin and growth. And you can see the highlights there, Qatar, Colombia, Malaysia, Hong Kong, Indonesia and Morocco, all good performances this year.

Which really brings us on, so that's the conclusion really of the trading and that brings us on to where we are on strategy particularly post IFS.

You'll recall this slide, this is the growth expectations in the Security market through to 2019 so you can see a big pick-up in growth expected from '14 onwards, particularly driven by developing markets, it's on this chart really where we're seeing 50% of the global Security market coming from developing markets so no reason why we can't aspire to that ourselves. And this was about 16% of the overall Facilities Services market but still a very large market in its own right.

And we've updated the expectation on go forward nominal GDP in brackets on the right hand side so developing markets much the same but developed markets down really in the light of new economic data, but still growth expected. So off the back of that sort of nominal GDP growth we still are very confident with our go forward organic growth projections.

But moving on, following IFS we wanted to provide clarity on Facilities Services and where it fits into our strategy going forward and remember that 90% of the overall services are still bought on a single service basis i.e. 10% are bought on an integrated basis. That Integrated Services market is growing quicker so clearly over time that 90% single service is declining but clearly in different degrees in different markets, so still a very large market on a single service basis.

On Integrated Facilities, self-delivery is definitely the key for delivering cost savings so we don't want to get into a thin management layer managing a number of sub-contractors we think self-delivery is key. And a great example of that and sort of mitigation for that thought is that the Lincolnshire Police contract were actually 95% self-delivery so a very big self-delivered contract and that's really where we're delivering the synergies and cost savings for the customers.

In terms of countries, the UK is a must in terms of FM development; particularly on the government side you can see so much opportunity on Integrated Facilities Management on government contracts so we have to build capability there. And potentially in the US government space particularly in overseas developments in time and we have got a building and facilities capability in our US Classified business.

So they're the major developed markets we'll be focusing on but then really to focus attention on the markets where we can really grow and be successful outside of Security as well as in Security then really Brazil, India and China have really got to be the target because most of the targets we'll be looking at there are multi service providers so they do Security and Facilities as a joint offering. And probably the quickest route into China is going to be through Facilities Management/Services so in developing markets definitely Brazil, India and China. We're going to continue to focus on sectors where security and safety and compliance are key.

Just to give you some facts on that, the three we've focussed on so far - Aviation, Oil and gas and Ports, have grown at a compound growth of 25% a year over the last three years since we focussed on them. So clearly from a fairly low base but definitely sectors worth focusing on and we'll bring those up to date at the Capital Markets Day. And so overall we think that Security as a standalone product line is a very sound proposition at least for the next five to ten years in nearly all markets but we have to be mindful of changes particularly in the UK and the US that we can adapt to those.

And finally in terms of integrating services even on the Securities side we have to be capable of providing a wide array of services and integrating as that's the only way we can really deliver long term cost benefits to customers.

So back to our definition we are a company, the world's leading security company, focusing on outsourcing of processes and facilities in security sectors particularly where security and safety threats are major. We are definitely a B2B and B2G company, not B2C, and so hence the sale of Norwegian B2C systems and other B2C businesses we have in the portfolio in time.

And probably in the bottom half of the chart what's becoming a more and more evident as we go through recessionary pressures over the last three years is our ability to consolidate and deliver cost savings to customers is the key differentiator, not suppressing margins but actually coming up with designs that deliver long term cost savings.

So in terms of focussing on Security, dividing the markets into developed and developing - developed is very much focussing on secure outsourcing and building capability in the US and UK particularly around Integrated Services, predominantly US and UK but then also capability building and security around consulting and sectors in all developed markets.

On the right hand side developing markets very much a multi service approach, building on Manned Security and Cash Solutions through acquisition in nearly all markets but also focusing on Facilities as well in Brazil, India and China because of the tremendous growth that's going to come out of the those markets in the next ten years and still with the intention and goal of having 50% of our revenues in developing markets by 2019.

In terms of key business objectives, very much internal to our organisation but going to have an impact in the medium term and we will talk about these more again at Capital Markets Day. A prolonged focus on organic growth is a very key driver for us and we're further investing in sectors and in international accounts. We're working on an operational global product delivery framework so we can deliver consistently across developed and developing markets in our core services. And thirdly, it's not really coincidental that we've been very successful in bidding in the last six months, we have put a lot of focus on our bid teams and our pipeline and we've rolled out Salesforce.com throughout the organisation so we're now very clear on all our £1m plus revenue opportunities over the next 18 months and the pipeline's looking pretty good.

In terms of focusing on margins we spend around £500m a year on external spend, non-people related, and we're working with an outside team of consultants to drive some procurement benefits through the organisation, something we haven't really focussed on significantly in the past.

In the short term project and overhead reviews already going through and driving down overheads on a month to month basis, really coming out of the thinking that we went through with the IFS deal and setting up back office functions in countries. And as I mentioned earlier, we're setting up three Service Excellence Centres, the Cash Solutions one is really half of what was the old Cash division. We're setting up Secure Solutions Centre and also a Care and Justice and what they'll be focusing on is making sure we're getting best practice driven out across the organisation on gross margin management around pricing and operational efficiencies. There's still a lot of underperforming businesses in the Group that we need to bring up to par.

Thirdly focussing on organisational design, we have incorporated the Cash Solutions division we thinks that's going to reap revenue and profit benefits as well as the short term cost benefit. We will be going through during the year an organisation design exercise to make sure every country has the relevant overheads for the level of business; we'll be working that through our central teams and ending up with a sort of structure where we can drive out costs in the medium term and have best practice shared.

And finally, although we've been very good on cash generation, focusing even further on month to month improvements particularly in working capital management, so a project on that. We certainly will go through these in more detail in May.

In terms of acquisitions still targeting 12.5% on the small deals within three years, less than that if they're very strategic or new country entrants, really reiterating what I said earlier in developing markets, anything really that adds value and that's high growth in terms of Manned Security and Cash Solutions, what drives outsourcing in those sectors and also picking up on the Brazil, India and China point.

Moving on to developed markets Facilities Services expansion in the UK and US but only on a small level, we're not going for big bang in terms of those two countries, and building capability. We expect to invest around £200m maybe £300m in some years out of our free cash flow of these acquisitions.

And just really to talk through the divestment strategy, we've always had one, you know we've exited quite a few unprofitable businesses over the last five years, France and Germany being two which we were very pleased we exited when we did. But a much more active divestment strategy, I've mentioned B2C, we've got about £100m of revenue left throughout the group on B2C. There are some countries which have failed to meet our margin targets over three years at least and if we don't think they can meet them in the next three years they're going to be sale candidates particularly if you go to the last point and there's someone that can get synergies and are willing to pay a premium to buy those businesses.

If we can't get value out of the business or put value into the business we will look to divest. And of course the final one where we can't get a top two position in Cash we'll look to exit, so a much more rigorous process on a quarterly basis to target ourselves around divestments. Not huge in the scheme of the Group but much more active and you can see how we can build margins through that over time.

So looking at the actual investment attributes for the company. In terms of growth strong organic revenue growth going into 2012, even further enhanced by the Olympics. Great developing markets exposure, 30% going up to 50%. UK government outsourcing, not only are we very strong in it we're also in sectors which are very much looking to outsource at the moment, always grown stronger than nominal GDP and continuing to have a disciplined M&A to add to top and bottom line. In terms of resilience we have been very resilient through the recession, we're well diversified both by product, both service and geography. We're typically defensive in a number of the services we provide, structurally strong through the cycle and with 90% plus customer retention very strong revenue and profit visibility.

In terms of financial disciplines as I mentioned a number of internal initiatives under way around operational efficiency and margin expansion, continued focus on cash generation and coherent and disciplined M&A and a progressive dividend policy, that's really our investor story in a nutshell.

So moving on to the summary, a good performance in 2011, still a very tough economic backdrop out there, great new contract wins towards the end of the year so good organic growth. Strong robust business model, good with a very much Security focussed strategy. Contract phasing and mobilisation and some of the poorer performances we saw in the second half will impact margin in the first half of this year but we do expect margins to recover for the full year with the new contracts coming on and the business recovery in the US and the UK cash.

A focussed M&A programme as I've mentioned organic growth will definitely accelerate into 2012 above the underlying in 2011 and then be further improved by the Olympics contract. And finally focussing on financial disciplined coupled with the business model we have we're sure will continue to deliver superior returns.

I'm personally very excited about the opportunities we've got over the next 12 months or so. Lots of organic growth start up, lots of ways of improving the underlying business and all these will lead to continued success.

So thanks very much, now happy to take questions if I can speak.

Questions and Answers

Andrew Ripper, Merrill Lynch
Morning, I've got a couple if I may. First of all maybe starting with the Olympics, can you help us just understand in terms of how it might impact the UK numbers first half and second half this year in terms of the incremental revenue that 200m which I think's 150m more than last year, how does that phase first half, second half? And you mentioned that you got a 1,000 odd people working on the mobilisation now do you expect to make any money in the first half on the contract?

Nick Buckles, Chief Executive Officer
Yes I mean the revenue split and how much actual revenue we get is still open to debate, certainly on the core contract we're pretty certain how much it's going to be but what they call the halo work or the inbound work we're signing contracts almost on a weekly basis for that. But basically the underlying Olympics business is probably running at about £50m a year at the moment and will pick up an extra £150m in the second half roughly speaking.

In terms of how profit reflects itself it should be around the similar margin throughout that 12 month period this year because even the 1,000 strong project management office we've set up, we've put a margin on basically, the same sort of margin so almost the whole contract is on a cost plus basis basically pre sponsorship. So it should be relatively smooth in terms of the actual profit margin throughout the 12 months. That really covers the project management office point as well, so yes we're billing for it but it's very much a cost plus billing process.

Andrew Ripper, Merrill Lynch
Okay thank you. And then, not sure if this is Trevor or Nick, but looking at the UK numbers last year there was a big step up in profits in the second half and I think the margin was about 11%, was that largely due to the turnaround in Ireland? Can you clarify the drivers on UK margin second half and whether you'll get a sort of a follow through from that in 2012?

Nick Buckles, Chief Executive Officer
Yes I think the Ireland impact is certainly a large part of it, we're starting to see a much stronger performance second half this year v last year. But also there was small exit profits from some of the contracts we came out of that have contributed, so the Court Services finished in August and we had some, a couple of million of provisions to release on that contract basically, which you tend to have as you finish contracts off basically. The rest was just very good underlying performance in all the, like Care and Justice per se, the EM contract, the Prisons contracts, so good underlying trading basically.

Andrew Ripper, Merrill Lynch

Thank you. And then I've just got a couple of small ones, in terms of the sort of FS capability in the UK I think with Lincs Police, you've been partners particularly if it was an IT services component to that which I think it as Capgemini. Going forward have you sort of got a dual strategy bidding with partners to bring in expertise and/or adding capability through M&A and in terms of capability that you'd like to add, can you give us a sense of what that might be, is it cleaning/catering type stuff or different capabilities please?

Nick Buckles, Chief Executive Officer
Yes I think on the Lincolnshire Police contract it's worth reiterating we actually had a bit of a change of strategy mid tender of that. We were on a prime/almost a JV with an IT provider, we ended up providing 95% in the end so basically we're providing all services other than some software. So we're bringing in software from third parties but basically providing all other services because we basically felt we could deliver more efficiently ourselves basically. But there was also a difference on margin expectations between us and the IT providers as well which I think in terms of police outsourcing there's a much stronger blue collar and physical element to the work rather than IT and you've got to recognise that margins are going to be single digits rather than double digits when you're bidding for these types of contracts basically.

When you get into some of the very large police outsourcings that are coming in future we're still working through the stage one or stage zero process on those to decide whether we'll go it alone or go with partners basically, we've got to look at the whole scope and decide whether we need help or not. I think we're pretty confident we can deliver the whole thing but we will look at it a bit more detail on that because as the range gets broader they tend to get much more into our space rather than away from it basically when you get in to more active areas around investigation or scenes of crime it's closer to where we can deliver benefit.

Don't forget as well pre-Lincolnshire Police, one of the businesses we have which most people aren't aware of, we do have the temporary supply of police staff as a business, basically Police Services, so we've got about 10,000 ex-police on our books to provide temporary work around scenes of crime, investigations, etc, so it's part of what we've traditionally provided in the UK.

But in terms of the broader FM story, the area where we would probably like to get some capability to support something like the Ministry of Justice contracts, 380 sites, is multi-site engineering capability, hard FM capability, areas like cleaning and the soft services we're quite capable of supplying in house although multi-site is more difficult than large single site but the hard FM side is more difficult. But we're quite happy working with partners on that, it's not the fact that we have to find somebody but it would be useful if we could.

Andrew Ripper, Merrill Lynch
And just finally Trevor the £40m of the other cash outflow, I think you mentioned a bad debt in the US, some restructuring costs in Cash Solutions, can you just sort of clarify

what was in the £40m in terms of the breakdown of the different items. And then are you expecting additional restructuring costs in 2012?

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Trevor Dighton, Chief Financial Officer
Yes I think it probably needs a little bit more explanation as well, I did explain it in the presentation, we do avoid having an exceptional line, it's a bad habit I think to get in to to have an exceptional line and we usually take some one-offs, they're usually quite smallish one-offs into trading. And this year is a bit different in that we got some biggish ups and downs in trading but they do net off to pretty well zero. The big plus is the £33m profit that we made on disposing of our consumer business in Norway so we had a big plus.

And the minuses there's three similar size minuses, and I explained them in the presentation but they're basically one large debtor, we haven't given up on collecting it and we don't want it to sort of get publicly announced in detail who it is because we're still chasing them and we don't want them to see we've written it off.

The other area is the Cash Solutions business where we have had restructuring in quite a number of our businesses, this is redundancies, it's branch closures, it's a bit of asset write off, it's UK, it's some of the European businesses, a bid in Canada and that's around about the same figure of 10m.

And the third area is the Middle East and there are a couple of elements of that. In Iraq it did cost us money when the US pulled out over and above just the trading reductions in that there were some assets that we needed to write off. And then in the UAE we had quite a major issue really in Dubai, the economic deterioration in Dubai over a couple of years had sort of caught up with us. We changed the management there, they weren't really keeping on top of it and when we cleared out there were a few assets there that we needed to write off, there was some work in progress and some debtors. So there's a clearing up exercise as well as some redundancy costs in Dubai to sort out the UAE and in total that Middle Eastern experience cost us round about the same.

So the three £10m offset that sort of £33m positive as I say they're a bit bigger than normal but we do put them in trading because we don't want, I don't know if you remember Group 4 got a bit of a reputation for always having an exceptional and we don't want to get into that so they all go into the trading.

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Andrew Ripper, Merrill Lynch
And the restructuring in '12?

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Trevor Dighton, Chief Financial Officer
There could be some restructuring in '12. We are going to have some serious looks as Nick said about the operational efficiency and the way the whole thing works so there could be some restructuring but he also has mentioned that we will be divesting of a few businesses. So we will sort of keep them in line so we won't go overboard on the

restructuring until we know we've got something to cover the restructuring costs so we'll make a bit of profit on some disposals and that will cover any restructuring that we do in the year.

Rob Plant, JP Morgan
In the appendix on page 11, slide 11, you give the quarterly organic growth rates and getting my ruler out it looks as though you've achieved the lowest result in Q1, above average in Q2, Q3 and then it slipped a little bit in Q4 - any particular reason for that? And then thinking into 2012 you've spoken in your statement about doing better than the 4.5%, you also mentioned the start of the year Q1 you got 2 to 3% extra start-ups, should 4.5, could it be 5.5, could it be 6.5? Thanks.

Nick Buckles, Chief Executive Officer
In terms of the budget we're looking for it to be a lot higher than 4.5% pre Olympics. Month by month it varies quite a bit due to working days and so taking a month is not necessarily that representative. But we started the year pretty well, as I mentioned we've got some good start-ups coming through, some have already started, some are going to start in February/March and so we definitely are going to be higher than 4.5% going into the year and hopefully that will pick up during the year. And the Olympics, we'll be on top for the second half basically. Fourth quarter really was down to the Court Services coming out at the end of August that was the biggest impact during the fourth quarter.

Question
You touched on two areas that you found quite exciting for growth opportunities for 2012, just wondered if you could expand it in terms of timeline and opportunity basically around work programme and the US Aviation?

Nick Buckles, Chief Executive Officer
Yes, the UK government opportunities are obviously the ones that are very real and we're bidding on at the moment so the new Prison business, the Fines contract, PIP contract - all these we'll be bidding on during the year and a decision is expected during the year but won't start until next year basically. So I think UK government has definitely got the best deal flow that we can see in the short term.

Aviation in the US is more difficult because we were quite surprised actually that the legislation came through when it did and there's still quite a lot of political objection to outsourcing so I think that will take a little bit of time. But it's a huge market, probably around $3bn, a market which our legacy businesses have all had very strong performance in basically in the US so we should be very well positioned to win that once the operators get permission to come to the private sector.

There's nothing really imminent going to start in 2012 other than really the businesses we've already talked about because the lead time is such a long one.

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Question
So you mentioned expanded work programme as well?

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Nick Buckles, Chief Executive Officer
I mean I think we're alluding to there the fact there may be some failures along the way and we hope to take over their contracts that's really where we see the opportunities coming from.

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Question
And just finally have you had a debrief yet from Wiri, or any of you from your guys on the ground?

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Nick Buckles, Chief Executive Officer
Not at all no, not at all.

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Question - Andy
Morning Nick. I just wondered if you could just address a couple of questions. Firstly just on your new markets Secure Solutions business are there any specific headwinds we should think about in 2012 like for example the Kabul Embassy or anything like that that might be coming out?

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Nick Buckles, Chief Executive Officer
Yes that's probably the main one. We're still operating the US Embassy, Kabul through the US government business. It's likely, well it's been terminating for the last 18 months but of course we don't get full access to information from that business and they don't necessarily get full access from the client as to how long it might go but our best guess at the moment is probably the half year and that's about $60m or $70m a year basically. Apart from that I'm not aware of any other major contracts which are potentially coming off.

. . . .

Question - Andy
And from a margin perspective, obviously you mentioned some of the one off issues in Asia, do you expect those to sort of fully come out already in H1 or is it a case of, as you said for the group as a whole, we see some margin pressure in new markets in H1 but then you sort of make up for that in the second half?

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Nick Buckles, Chief Executive Officer
Cash Solutions should be better in the first half in developing markets, Secure Solutions probably about where we ended up basically so that will need to improve during the year.

. . . .

Question - Andy
And then just looking at some of the commentary you made at a broader Group level in terms of what sounded like potentially some cost savings to come from efficiency drives and what have you, suspect you'll give us more in May, but any initial sort of highlights that you can give us? I think you mentioned that, sorry if I missed a specific cost saving target in one area by combining the Cash Solutions businesses more closely with Secure Solutions, but anything more you can add on cost savings?

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Nick Buckles, Chief Executive Officer
No the only numbers I mentioned really was that we've saved around £4m by incorporating the Cash division into the regions and that we're going for a spend of £500m on external costs supplied into the group, ranging from IT through to vehicles, uniforms etc, we haven't put a number on the targeted reduction. We're really working through a number of different areas and whether we put a number on it when we come to May I think is still open to debate. But clearly what we're saying is that we've had a good couple of years in terms of growth, this year's going to be good in terms of organic growth but we need to get back to getting costs out of the organisation basically.

And going back to the question that Trevor answered from Andrew, we will have some restructure costs in the first half because we're really seriously going around an overhead reduction project basically, starting from the top and working its way down.

So we've been through the group costs, we've been through the regional costs and then we're going down through all the business units in the next three months. And that's the first phase; the second phase is procurement and actually getting the right sizing of the overheads in each and every business by the end of the year basically. So that's just the overhead level and clearly - the procurement will be at gross level, the rest is overhead level. And then around best practice we've still got businesses which are loss making or below our 5% target on Manned Security and 10% on Cash and we'll have plans in place to bring them up to par over the next two years as well.

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Question - Andy
You mentioned there wouldn't be a big part relative to group revenues but can you give us a rough quantification of the annual revenue that's kind of being reviewed as potentially up for disposal?

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Nick Buckles, Chief Executive Officer

Probably about £150m. There's one business we're in the process of selling in Eastern Europe which is in the discontinued but we don't want to name because we haven't finished the negotiation yet. So that's to give you an example where we didn't think we were strong enough in the market and someone else was willing to pay a premium basically.

. . . .

Question - Andy
One final question, the developed market Cash Handling business or Cash Solutions business, you're now talking about low single digit growth hopefully in FY12, have the margins there you feel now bottomed if we look at the H211 margin for developed Cash Solutions or is there still a further margin step down before we start to see some turnaround there?

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Nick Buckles, Chief Executive Officer
I mean the second half is always a lot better because of the way the insurance accruals work, etc. I think the underlying margin in the first half will be pretty much on a par with the underlying margin in the second half on a like for like basis. So it will still be down on last year clearly and then pick up in the second half.

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Ian Armstrong, Brewin Dolphin
Just a question about wage inflation and contract renewals, impact on 2012?

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Nick Buckles, Chief Executive Officer
Yes there are fortunately not too many contract renewals in 2012 across the whole group. Clearly from our new pipeline management system we can see what's on its way. The one contract we have recently found out we've lost is European Parliament in Belgium, not surprisingly after winning two, we've now lost one, that comes off I think in about May time, that's about £20m a year but wasn't particularly profitable, it's easy to say that but it really wasn't particularly profitable. So that's a major bid, apart from that there's nothing in the 12 months in terms of bidding against our own contracts basically.

In terms of pay and pricing, as I mentioned earlier there's some fairly substantial awards going through in places like Sweden. A cumulative one that's come through in Belgium after Saturday overtime's been introduced etc but we're confident we can pass those on and they're not huge businesses for us anyway, Holland's about 2.5% and we're going for about 3% price increase so we're not too concerned with that. So Europe wide okay and actually in Ireland we have managed to negotiate a pay decrease with the workforce there so not a big issue for us currently.

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Paul Checketts, Barclays Capital

Morning, on Cash Solutions in the UK Nick, can you maybe comment on how the competition is behaving on work. And the margins on new work what are they looking like on a like for like basis?

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Nick Buckles, Chief Executive Officer
Yes the UK Cash market on the retail side has been very competitive for the last two or three years price wise. Basically we've got a very large market share on financial institutions, you've a very heavy infrastructure, good trunking network, high insurance limits, good capacity to do financial institutions, retailing is a little lighter. And it's fair to say pricing on retail is lower than it was five if not ten years ago and has been for a couple of years. Having said that, our crews have reduced to one man crews on 80% of the fleet when they were only about 25% five years ago so cost base has come down as well.

So the pricing in retail has been very competitive, financial institution's still competitive and clearly with two major contracts switching in the last six months that's sort of created some market churn. But I think our view is going forward the prices will have to start rising particularly on the retail side because clearly they're below where they have been in the past and it's difficult to make double digit returns with pricing at the level it is but it all takes time and this is a very competitive market.

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Paul Checketts, Barclays Capital
And changing tack a little the Electronic Monitoring contract, when do you expect that will be re-tendered and it looks like they've split up the hardware and the monitoring aspects of it but grouped the regions together, how do you feel about that?

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Nick Buckles, Chief Executive Officer
Yes for those that aren't aware the EM contract, I think … is now out, long list being drawn up, it's basically four legs to the contract, there's the Telco contract for communications, there's the product supply which is the kit, there's monitoring and there's service basically and each of those four contracts will potentially go to one supplier. And currently you can't bid for the second section which is product and do service, we're obviously querying that in terms of logistics, for us there's huge synergies in actually being able to do two, three to four.

And so we're still working on the basis that we are going to provide an integrated contract as well as a standalone services contract basically. That process is going to unwind over the next nine months; I think the start date will probably be around April or June 2013.

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Paul Checketts, Barclays Capital
Finally, I'm sorry to be crude I guess people have hinted at this, as things stand what do you think the first half/second half split will look like in 2012?

Nick Buckles, Chief Executive Officer
Best estimate I guess is that profits will be roughly flat first half, roughly, and well up in the second half basically then you can sort of work through the margin issue on that basis.

Ed Steele, Citi
Morning, just one question on the divisional split please. Have the various one-offs that you've pulled out Trevor worked their way through the numbers in the divisions, for example £33m doesn't look like it's hit all in European Cash Services?

Trevor Dighton, Chief Financial Officer
We've taken all four of those into one line so that it doesn't confuse the actual performance of the individual elements.

Ed Steele, Citi
Thank you very much.

Nick Buckles
More questions from the floor? Got one on the lines please.

Telephone Operator
Thank you. We have a question from the line of Laurent Brunelle, from BNP Paribas, please go ahead.

Laurent Brunelle, Exane BNP Paribas
Yes good morning, two questions if I may. First regarding your M&A strategy, I know that you will focus on it during your Capital Markets Day, but can you say a word on your breaking … and when do you expect to get a licence to air it in Brazil and any thoughts on the Prosegur recent acquisition? And second when do you expect the negative mix effect in Cash Solutions - due to subdued growth to ease please?

Nick Buckles, Chief Executive Officer
I got the first one; I'll maybe come back on the second. First one Brazil we announced a Facilities Services acquisition which we have to remain, the vendor has asked us to remain confidential with - certainly by the time we get to Capital Markets Day in May we would expect to be able to announce our whole strategy around Security and Facilities

Services in Brazil so that's probably the easiest way to answer that question around licence, etc.

Second one the Prosegur acquisition in Brazil looks very good strategically to me, if one can buy a Cash Solutions business in any market and build market share and get it through competition the price almost is irrelevant because you get such tremendous synergies and pricing ability in those market places. So I don't know the details of it but I think strategically it's definitely a good move.

Well the impact from Cash Solutions, well the growth will be better this year as I mentioned and the second half margin we hope will be improved on the second half of this year. Thereafter it's really dependant on the ability to drive some outsourcing in the developed markets to get growth on the move again and also assuming that there's stability around the pricing in the markets we're in.

But if you break it down now in Cash Solutions in the UK we've talked about, we've got a very strong market position, Belgium and Holland very, very strong and Luxembourg. If they're in developed markets that's really our full repertoire other than Canada and Canada is a three way market, it is low margin but it's not too problematic. But then really you go into Eastern Europe and developing markets and you should start to see some good growth coming through. Okay?

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Laurent Brunelle, Exane BNP Paribas
Okay thank you very much.

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Nick Buckles
Thank you. Well if that's no further questions thanks very much for coming along and look forward to speaking to you all soon, thank you.

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